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ZJLD

ZJLD Group Inc

珍酒李渡集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6979)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2023**

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended June 30, 2023, together with the comparative figures for the six months ended June 30, 2022 as below.

FINANCIAL HIGHLIGHTS

The following table sets forth our key financial data for the six months ended June 30, 2023, together with the comparative figures for the corresponding period in 2022 and the change (expressed in percentages).

	For the six months ended June 30,		Change (%)
	2023 (unaudited) (RMB'000)	2022 (unaudited) (RMB'000)	
Revenue	3,518,957	3,060,981	15.0
Gross profit	2,037,148	1,703,043	19.6
Profit attributable to equity shareholders of the Company for the period	1,584,899	524,674	202.1
Adjusted net profit (non-IFRS measure) ⁽¹⁾	802,519	657,638	22.0
Net cash generated from/(used in) operating activities	215,960	(665,341)	132.5
Net increase in cash and cash equivalents	4,190,228	1,835,756	128.3
Earnings per share			
– Basic earnings per share (RMB) ⁽²⁾	0.59	0.23	156.5
– Diluted earnings per share (RMB) ⁽³⁾	0.26	0.23	13.0

The following table sets forth certain of our key financial ratios for the six months ended June 30, 2023, together with the comparative figures for the corresponding period in 2022.

	For the six months ended June 30,	
	2023	2022
	(%)	(%)
Gross profit margin	57.9	55.6
Net profit margin	45.0	17.1
Adjusted net profit margin (non-IFRS measure) ⁽¹⁾	22.8	21.5

Notes:

- (1) For more details on the non-IFRS measures, please see the section headed “Non-IFRS Measures” in this announcement.
- (2) The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares. For more details, please see note 7(a) to the interim financial report set out in this announcement.
- (3) The calculation of diluted earnings per share is based on (a) the profit attributable to ordinary equity shareholders of the Company used in the basic earnings per share calculation, adjusted by the changes in fair value in financial instruments issued to an investor; and (b) the weighted average number of ordinary shares (diluted). For more details, please see note 7(b) to the interim financial report set out in this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading baijiu company in China devoted to offering premium baijiu products. 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, we were the fourth largest private-owned baijiu company in China, in terms of revenue in 2022.

We continued to benefit from the increasing popularity of sauce aroma baijiu across China, consumer preferences towards premiumization and market consolidation, to achieve sustainable and quality growth in the six months ended June 30, 2023. We had strategically focused on (i) continuing to implement our product optimization initiatives, including increasing the revenue contribution of deluxe baijiu products and that of baijiu products with a higher gross profit margin within the same price range; (ii) developing mid-range baijiu products to cater to demands for quality baijiu products at affordable prices in 2023; (iii) investing in resources to promote sell-through and sell-out; (iv) maintaining inventory held by our distributors at a healthy level; and (v) optimizing our distributor base, which together resulted in our growth in revenue and improvement in profitability as compared to the six months ended June 30, 2022.

Our Brands and Products

We primarily 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). We position our four baijiu brands to target different consumer preferences and geographic areas in China, with our product portfolio covering three aroma profiles (i.e. sauce aroma, mixed aroma and strong aroma) across different price ranges, with a focus at the premium and above baijiu market.

Zhen Jiu

Our flagship brand, *Zhen Jiu*, primarily targets sauce aroma baijiu lovers who crave for premium, quality sauce aroma baijiu products. *Zhen Jiu* focuses on premium sauce aroma baijiu products and strategically enhances its presence within the deluxe price range, in order to maintain the momentum for the brand's steady sales growth and continued premiumization. *Zhen Jiu* was the fifth largest sauce aroma baijiu brand in China in terms of revenue in 2022, according to Frost & Sullivan. For the six months ended June 30, 2023, *Zhen Jiu* generated approximately 65.5% of our revenue.

Since its launch, *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 the Zhen 30 Series and Zhen 15 Series which achieved great market acceptance and international recognition. For example, Zhen 30 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 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. *Zhen Jiu* also continues to introduce new product series and sub-brands to increase market penetration. For example, in June 2022, we successfully launched a new sub-brand, *Ying Shan Hong* (映山紅), which mainly focuses on mid-range markets and utilizes predominantly online sales channels to reach its target customers. In the first half of 2023, we have launched three new package-free baijiu products (光瓶酒) within the deluxe and premium price ranges, namely *Zhen 15 Series – Gold Medal Commemorative Edition* (珍十五•金獎紀念酒), *Zhen 30 Series – Grand Gold Medal Commemorative Edition* (珍三十•大金獎紀念酒) and *1988 Vintage Baijiu* (1988 年份酒), as the iconic products of our package-free baijiu product line.

Li Du

Li Du is a thriving brand featuring premium and above mixed aroma baijiu products, which has gained great success and has significant growth potential. Our *Li Du* products distinguish themselves from the other baijiu products by their signature taste and fine quality, unique immersive marketing approach stemming from the traditional Chinese culture, and premium brand positioning and operation. With these features, *Li Du* has gained a strong foothold in its base market, Jiangxi, and is strategically expanding its geographic reach across China to support its incremental and long-term growth. *Li Du* was the fifth largest mixed aroma baijiu brand in China in terms of revenue in 2022, according to Frost & Sullivan. For the six months ended June 30, 2023, *Li Du* generated approximately 13.9% of our revenue.

It 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. On April 27, 2023, *Li Du*, together with six other leading baijiu companies, jointly applied for Chinese baijiu to be included in China's tentative list of world cultural heritage.

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). *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

Xiang Jiao is a regional leading premium baijiu brand in Hunan, with strong brand awareness and entrenched channel penetration in local market, which lays the groundwork for the brand's long-term sustainable development. Originally established in 1957, *Xiang Jiao* was synonymous with the rich cultural heritage of baijiu-making in Hunan and awarded the title of Hunan Provincial Governor Quality Award in 2012 and China Well-known Trademark in 2012. At *Xiang Jiao*, we offer a wide range of premium and deluxe 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). Particularly, 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. *Xiang Jiao* generated approximately 12.6% of our revenue for the six months ended June 30, 2023.

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 the brand *Kai Kou Xiao*, or "A Big Smile" in English, because we aspire to spread the joyfulness of life through our baijiu products. 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, which establishes the foundation for the brand's long-term sustainable development. At *Kai Kou Xiao*, we mainly offer strong aroma baijiu products targeting the mid-range market, represented by Kai Kou Xiao 20 (開口笑酒二十), Kai Kou Xiao 15 (開口笑酒十五) and Kai Kou Xiao 9 (開口笑酒九). *Kai Kou Xiao* generated approximately 6.3% of our revenue for the six months ended June 30, 2023.

Product Development

Baijiu production technique is a precious national heritage of China, and 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 June 30, 2023, our product development team consisted of 210 employees, among whom a vast majority have a bachelor's degree or above. Our product development team is spearheaded by a technical committee consisting of 28 recognized baijiu experts with extensive industry experience, among whom nine 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. Under our collaboration agreements with the third-party institutions, we retain the proprietary right to any jointly developed patents.

Production Facilities

We selectively locate all of our production facilities for sauce aroma baijiu in Guizhou's Zunyi region, a place that is widely considered ideal for making fine sauce aroma baijiu in China, to secure the unique texture and taste of our *Zhen Jiu* products. According to Frost & Sullivan, *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 by the end of 2022.

As of June 30, 2023, we had seven production facilities in operation in China. 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. Furthermore, our production facilities are equipped with advanced facilities and equipment to streamline and optimize the entire production process. Automated production lines at a number of our production facilities are installed.

In the past years, we have accumulated sufficient base liquor inventory to support a rapid growth of our premium and deluxe baijiu products. Sizable base liquor production capacity and accumulation of base liquor inventory have always been our strategic focus and core competitiveness. With the continuous expansion of our production capacity, we would be able to (i) reserve sufficient base liquor with long aging and storage duration to continuously enrich our premium and deluxe product offerings and strengthen our competitiveness in the premium and above baijiu markets in the future; (ii) provide sufficient high-quality base liquor to support the current rising market demand of our premium and above baijiu products; and (iii) gradually replace the third-party base liquor distilleries with our own production capacity so as to improve our gross profit margin.

Sales Channels

We have developed a multi-channel strategy which caters to the needs of different consumer segments and allows us to constantly expand our consumer outreach. We gained access to our target consumers through a nationwide network of distributors, consisting of (i) distribution partners, who primarily purchase our baijiu products from us and subsequently distribute them to sub-distributors, such as supermarkets and tobacco and liquor stores, and end consumers; (ii) store partners, with whom we collaborate to develop our single-brand featured stores, in which they not only sell our baijiu products, but also offer immersive, engaging consumer experience through versatile events; and (iii) retailers, including tobacco and liquor stores, retail partners, restaurants and supermarkets which sell our products directly to end consumers. Additionally, we also have dedicated direct sales force organized by brand and geographic areas who primarily serve end consumers and corporate customers and operate our online stores on various e-commerce platforms in China.

The following table sets forth the number of distributors involved in each type of distribution channel as at December 31, 2022 and June 30, 2023, respectively.

	As at June 30, 2023	As at December 31, 2022
Distribution partners	2,811	2,678
Featured stores	1,071	1,074
Retailers	3,016	2,866
Total	6,898	6,618

Digital Infrastructure

We adopted digital infrastructure 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. 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 of our business on a real-time basis.

We have utilized digital operation tools, coupled with a comprehensive set of inventory management policies, to optimize our inventory levels. For example:

- *Channel Master (渠道通)* is a Weixin applet applied during the sales process to improve the transparency of the 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 our analysis, monitoring and verification of transactions in the distribution process.
- We developed a QR code system which enables more efficient control and management of distribution channels. A QR code is assigned to each baijiu product and the whole distribution process can be recorded by scanning the QR code. This enables our marketing managers to promptly identify any possible misconducts during the sales process based on checking and analysis of the records for the expected distribution area, which significantly reduces labor costs while strengthening the control and management of distributors. 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 and consequently monitor the inventory level of our distributors throughout the entire distribution process.

Business Updates

We have dedicated commercial efforts in promoting the development of our baijiu product lines in parallel with our commitment to environmental sustainability. We have been introducing a range of products that are in green packaging or are outer-packaging-free, leading the industry's sustainable packaging practice. In the first half of 2023, we have launched three new package-free baijiu products within the deluxe and premium price ranges, namely *Zhen 15 Series – Gold Medal Commemorative Edition (珍十五•金獎紀念酒)*, *Zhen 30 Series – Grand Gold Medal Commemorative Edition (珍三十•大金獎紀念酒)* and *1988 Vintage Baijiu (1988 年份酒)*. These new products, together with *2012 Real Vintage Baijiu (2012 真實年份酒)* which was launched in October 2022, formed the core of our package-free baijiu product line. Our unique and competitive deluxe and premium package-free baijiu products had contributed to *Zhen Jiu's* revenue growth and brand enhancement in the first half of 2023. We also expect the package-free baijiu product line to keep contributing to our revenue growth in the second half of 2023.

During the Reporting Period, we sought to empower our distributors and promote sell-through and sell-out by (i) making substantial efforts to optimize our existing distributor network; (ii) deploying resources to facilitate our distribution partners to expand their sub-distribution network and to accelerate their product turnover, so as to enhance sell-through; (iii) vigorously developing our collaboration with retail partners which primarily focus on selling our premium and above products, to increase our revenue contribution per distributor in our retailer distribution channel; and (iv) optimizing our resource allocation to invest in promoting purchase and consumption by end consumers, in order to improve sell-out.

We had also continued to further increase our overall production capacity progressively to satisfy market demand by expanding our existing production facilities and constructing new production facilities. As at June 30, 2023, we obtained the land certificate for a parcel of land located in Zunyi, Guizhou, with an aggregate gross site area of approximately 96,775 square meters for the expansion of our *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) production facility. In the second half of 2023, the expansion of this production facility is expected to increase our annual production capacity of sauce aroma base liquor by 2,400 tons. In addition, we are building a new base liquor storage facility *Zhen Jiu* (Bai Yan Gou) (白岩溝) comprising seven base liquor storerooms, which is expected to be completed by the end of 2023. As at June 30, 2023, we had also completed our planned construction of one new production facility *Li Du* (*Zheng Jia Shan*) (鄭家山) which had been put into operation with a designed production capacity of 5,000 tons base liquor per year. This new production facility is situated in Lidu, Jiangxi, with an aggregate gross floor area of 373,570 square meters, part of which remains unutilized and therefore allows room for further expansion. We had also expanded the designed production capacity of one existing production facility *Xiang Jiao* (*Jiang Bei*) (江北) by 4,400 tons base liquor per year. Our increased production capacity has allowed us to gradually increase our production of base liquor, which in turn reduces our need to source from third-parties.

We are a devoted promoter of traditional Chinese baijiu culture and actively involve in showcasing baijiu as China's unique cultural heritage. To this end, we co-sponsored the Second National Industrial Heritage Summit (第二屆國家工業遺產峰會) cum "Guobao Lidu" 2023 Chinese Baijiu for World Cultural Heritage Forum ("國寶李渡" 2023 中國白酒申遺論壇) with the Industrial Culture Development Center of the Ministry of Industry and Information Technology (工業和信息化部工業文化發展中心), the Art Exhibitions China (中國文物交流中心), the Department of Industry and Information Technology of Jiangxi Province (江西省工業和信息化廳) and the People's Government of Nanchang Municipality (南昌市人民政府), which took place in Nanchang, Jiangxi Province in April 2023. We, together with six other leading baijiu companies, jointly applied for Chinese baijiu to be included in China's tentative list of world cultural heritage on April 27, 2023. On the same day, we launched *Li Du Wang* (*The One Among A Thousand*) (李渡王(千里挑一)), the commemorative edition for this joint application.

On April 27, 2023, the Shares of the Company were successfully listed on the Main Board of the Stock Exchange, creating a milestone for the Group and laying a solid foundation for our future development.

OUTLOOK

In the second half of 2023, we believe we are well positioned to further increase our market share in the sauce aroma baijiu market and premium and above baijiu market to drive our sustainable growth. Specifically, we will continue to implement our product optimization approach, adopt various marketing tactics to drive sell-through and sell-out, streamline and enhance our distributor network as well as monitor our distributors' sales performance and inventory level.

Specifically speaking, to fully capture the market opportunities presented by the premiumization and market consolidation trend in the baijiu market, we will continue to (i) expand our premium and above product portfolio, which is in line with our premiumization strategy; (ii) boost the revenue contribution from baijiu products with a higher gross profit margin within the same price range; (iii) allocate resources to increase our baijiu production capacity, including the continued expansion of our two existing production facilities, namely *Zhen Jiu* (Zhao Jia Gou) (趙家溝) and *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍). In the second half of 2023, the expansion of *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) is expected to be partially completed with an additional production capacity of 2,400 tons base liquor per year; and (iv) advance our multichannel sales network with immersive promotion strategy. With our continuous optimization of our sales network and distribution channels, our emphasis on end-to-end marketing and our efforts to optimize our product mix and cost structure, we strive to maintain our healthy growth and improve our profitability this year.

Looking forward, the Group remains confident in the long-term development of China's baijiu industry and the Group's business in the second half of 2023, driven by the continuous trends of premiumization, rising of sauce aroma baijiu and market consolidation.

FINANCIAL REVIEW

Revenue

We offer a wide selection of baijiu products with diverse aroma profiles, and generate revenue from selling them through a nationwide network of distributors and our direct sales channels. Our revenue increased by 15.0% from RMB3,061.0 million for the six months ended June 30, 2022 to RMB3,519.0 million for the six months ended June 30, 2023.

Revenue by Baijiu Brand

The following table sets forth a breakdown of our sales volume, average selling price and revenue in absolute amounts and as percentages of the total revenue by baijiu brand, for the six months ended June 30, 2022 and 2023, respectively.

	For the six months ended June 30,							
	2023		2022		2023		2022	
Sales Volume	Revenue	Average Selling Price	% of Total Revenue	Sales Volume	Revenue	Average Selling Price	% of Total Revenue	
(tons)	(unaudited) (RMB'000)	(RMB'000/ton)	(%)	(tons)	(unaudited) (RMB'000)	(RMB'000/ton)	(%)	
<i>Zhen Jiu</i>	6,423	2,305,867	359.0	65.5	6,650	2,007,262	301.8	65.6
<i>Li Du</i>	1,053	489,224	464.6	13.9	904	419,102	463.6	13.7
<i>Xiang Jiao</i>	726	441,990	609.2	12.6	631	376,652	596.9	12.3
<i>Kai Kou Xiao</i>	1,782	221,003	124.0	6.3	1,908	207,575	108.8	6.8
Others *	3,269	60,873	18.6	1.7	2,857	50,390	17.6	1.6
Total	13,253	3,518,957	265.5	100.0	12,950	3,060,981	236.4	100.0

Note: consisting primarily of baijiu products under the brand *Shao Yang*.

For the six months ended June 30, 2023, all of our four major baijiu brands had experienced revenue growths.

- Our revenue generated from *Zhen Jiu* increased by 14.9% from RMB2,007.3 million for the six months ended June 30, 2022 to RMB2,305.9 million for the six months ended June 30, 2023 primarily due to (i) the growth in revenue generated from products in the deluxe and mid-range and below price ranges; (ii) the expansion of sales network and the increased number of distributors; and (iii) the improvement in revenue contribution per distributor within our sales channels comprising distribution partners and retailers.
- Our revenue generated from *Li Du* increased by 16.7% from RMB419.1 million for the six months ended June 30, 2022 to RMB489.2 million for the six months ended June 30, 2023 primarily due to (i) the growth in revenue generated from products in the premium and mid-range and below price ranges and (ii) its nationwide sales network expansion.

- Our revenue generated from *Xiang Jiao* increased by 17.3% from RMB376.7 million for the six months ended June 30, 2022 to RMB442.0 million for the six months ended June 30, 2023 primarily due to the surge in revenue generated from products in the deluxe and premium price ranges represented by our *Long Jiang* series.
- Our revenues from *Kai Kou Xiao* increased by 6.5% from RMB207.6 million for the six months ended June 30, 2022 to RMB221.0 million for the six months ended June 30, 2023 primarily due to the continuous enhancement of sales channel.

Revenue by Price Range

The following table sets forth a breakdown of our revenue in absolute amounts and as percentages of the total revenue by price range for the six months ended June 30, 2022 and 2023, respectively.

	For the six months ended June 30,			
	2023		2022	
	Revenue	% of Total	Revenue	% of Total
	(unaudited)	Revenue	(unaudited)	Revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Deluxe	925,953	26.3	701,557	22.9
Premium	1,267,692	36.0	1,271,415	41.5
Mid-range and below	1,325,312	37.7	1,088,009	35.5
Total	<u>3,518,957</u>	<u>100.0</u>	<u>3,060,981</u>	<u>100.0</u>

Note: Any discrepancies in this table between the total and sums of amounts are due to rounding.

For the six months ended June 30, 2023, we have continued to optimize our product portfolio and expand our deluxe product offerings:

- Our revenue generated from deluxe baijiu products increased by 32.0% from RMB701.6 million for the six months ended June 30, 2022 to RMB926.0 million for the six months ended June 30, 2023 primarily due to the surge in revenue generated from deluxe products under *Zhen Jiu*, most prominently represented by the standard version Zhen 30 (珍三十) and the deluxe package-free baijiu products such as *Zhen 30 Series – Grand Gold Medal Commemorative Edition* and *2012 Real Vintage Baijiu*.
- Our revenue generated from premium baijiu products was RMB1,267.7 million for the six months ended June 30, 2023, which is generally in line with the result for the six months ended June 30, 2022. We had been refining our premium price range products by strategically cutting down several non-core products and customized products so as to focus more on developing the core product series in the premium price range.

- Our revenues from mid-range and below baijiu products increased by 21.8% from RMB1,088.0 million for the six months ended June 30, 2022 to RMB1,325.3 million for the six months ended June 30, 2023 primarily due to the increase in revenue generated from mid-range baijiu products under *Zhen Jiu* and *Li Du*. In the first half of 2023, apart from the continuous premiumization of our product offerings, we have also devoted efforts to the development of *Zhen Jiu*'s mid-range baijiu products, in order to cater to demands for quality baijiu products at affordable prices. Starting in the first half of 2023, we have also been progressively developing certain mid-range baijiu products under *Li Du* in a strategic manner, in order to gradually broaden *Li Du*'s product matrix to support its scale expansion.

Revenue by Sales Channel

The following table sets forth a breakdown of our revenue in absolute amounts and as percentages of the total revenue by sales channels for the six months ended June 30, 2022 and 2023, respectively.

	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Revenue (<i>unaudited</i>) (RMB'000)	% of Total Revenue (%)	Revenue (<i>unaudited</i>) (RMB'000)	% of Total Revenue (%)
Distributors	3,092,934	87.9	2,757,464	90.1
Direct sales	426,023	12.1	303,517	9.9
Total	<u>3,518,957</u>	<u>100.0</u>	<u>3,060,981</u>	<u>100.0</u>

The Group primarily sells baijiu products through a nationwide network of distributors as well as via direct sales team. The revenue generated from distributors increased by 12.2% from RMB2,757.5 million for the six months ended June 30, 2022 to RMB3,092.9 million for the six months ended June 30, 2023. Meanwhile, the revenue generated from direct sales increased by 40.4% from RMB303.5 million for the six months ended June 30, 2022 to RMB426.0 million for the six months ended June 30, 2023.

Cost of Sales

Our cost of sales primarily consisted of (i) cost of production materials, including cost of raw materials, depreciation and amortization and employee compensation for our personnel responsible for baijiu production, (ii) cost of packaging materials used to produce our baijiu products, (iii) tax and surcharges, primarily consumption tax charged in connection with sales of our baijiu products, and (iv) transportation cost, mainly representing logistics expenses for delivery of our baijiu products.

Our cost of sales increased by 9.1% from RMB1,357.9 million for the six months ended June 30, 2022 to RMB1,481.8 million for the six months ended June 30, 2023, which is generally in line with our overall business growth.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 19.6% from RMB1,703.0 million for the six months ended June 30, 2022 to RMB2,037.1 million for the six months ended June 30, 2023. Our gross profit margin increased to 57.9% for the six months ended June 30, 2023 from 55.6% for the six months ended June 30, 2022 primarily due to our continuous efforts in (i) optimizing our product mix through increasing the revenue contribution from our deluxe products and improving the revenue contribution of the products with a higher gross profit margin within the same price range; and (ii) gradually replacing the use of third-party base liquor with those of our own as our production capacity expands. The unit cost of the base liquor procured from third-party distilleries is generally higher than that of the base liquor in similar quality and type produced by our own production facilities.

Gross Profit and Gross Profit Margin by Baijiu Brand

The following table sets forth a breakdown of our gross profit in absolute amounts and as percentages of revenue, or gross profit margin, by baijiu brand for the six months ended June 30, 2022 and 2023, respectively.

	For six months ended June 30,			
	2023		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(<i>unaudited</i>)	(%)	(<i>unaudited</i>)	(%)
	(RMB'000)		(RMB'000)	
<i>Zhen Jiu</i>	1,337,147	58.0	1,104,656	55.0
<i>Li Du</i>	336,413	68.8	289,421	69.1
<i>Xiang Jiao</i>	266,267	60.2	225,049	59.7
<i>Kai Kou Xiao</i>	93,945	42.5	82,178	39.6
Others *	3,376	5.5	1,739	3.5
Total	2,037,148	57.9	1,703,043	55.6

Note: consisting primarily of baijiu products under the brand *Shao Yang*.

- Our gross profit from *Zhen Jiu* increased by 21.0% from RMB1,104.7 million for the six months ended June 30, 2022 to RMB1,337.1 million for the six months ended June 30, 2023. Our gross profit margin from *Zhen Jiu* increased to 58.0% for the six months ended June 30, 2023 from 55.0% for the six months ended June 30, 2022 primarily due to (i) the increase in the revenue contribution from our deluxe baijiu products, (ii) the increase in revenue contribution from the products with a higher gross profit margin within the same price range, and (iii) the optimization in cost of production materials as a result of the gradual replacement of the use of third-party base liquor with our own as our production capacity expands.
- Our gross profit from *Li Du* increased by 16.2% from RMB289.4 million for the six months ended June 30, 2022 to RMB336.4 million for the six months ended June 30, 2023. Our gross profit margin from *Li Du* is 68.8% for the six months ended June 30, 2023, generally in line with our gross profit margin for the six months ended June 30, 2022.

- Our gross profit from *Xiang Jiao* increased by 18.3% from RMB225.0 million for the six months ended June 30, 2022 to RMB266.3 million for the six months ended June 30, 2023. Our gross profit margin from *Xiang Jiao* is 60.2% for the six months ended June 30, 2023, generally in line with our gross profit margin for the six months ended June 30, 2022.
- Our gross profit from *Kai Kou Xiao* increased by 14.3% from RMB82.2 million for the six months ended June 30, 2022 to RMB93.9 million for the six months ended June 30, 2023. Our gross profit margin from *Kai Kou Xiao* increased to 42.5% for the six months ended June 30, 2023 from 39.6% for the six months ended June 30, 2022 primarily due to higher average selling price for the six months ended June 30, 2023.

Gross Profit and Gross Profit Margin by Price Range

The following table sets forth a breakdown of our gross profit and gross profit margin by price range for the six months ended June 30, 2022 and 2023, respectively.

	For six months ended June 30,			
	2023		2022	
	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)
Deluxe	651,299	70.3	458,654	65.4
Premium	827,549	65.3	817,470	64.3
Mid-range and below	558,300	42.1	426,919	39.2
Total	2,037,148	57.9	1,703,043	55.6

As we continued to implement our premiumization strategy, we also focused on improving the revenue contribution of the products with a higher gross profit margin within the same price range which resulted in increasing gross profit margin across all price ranges, especially for deluxe baijiu products.

Selling and Distribution Expenses

Our selling and distribution expenses consisted of (i) advertisement expenses relating to our advertisements placed across different media channels, such as television and radio, airport and railway stations and online channels, as well as relating to our other online and offline marketing and promotion activities, (ii) employee compensation, representing salaries, welfare and bonuses for our sales and distribution personnel, (iii) travel and office expenses incurred by our sales and distribution personnel, and (iv) others, such as depreciation and amortization allocated to selling and distribution activities.

Our selling and distribution expenses increased by 18.7% from RMB682.1 million for the six months ended June 30, 2022 to RMB809.3 million for the six months ended June 30, 2023. This was primarily due to the increase in employee compensation from RMB287.8 million for the six months ended June 30, 2022 to RMB381.5 million for the six months ended June 30, 2023, representing a year-over-year growth of 32.5%. This was primarily attributable to the rising sales personnel headcount as a result of an one-off mass recruitment of sales personnel in the second half of 2022 in preparation of our sales expansion and development for the coming years.

Administrative Expenses

Our administrative expenses consist of (i) employee compensation, representing salaries, welfare and bonuses for our administrative staff, (ii) office and maintenance expenses, including business development costs, repair and maintenance expenses, utilities charges and other office expenses, (iii) depreciation and amortization allocated to administrative activities, (iv) professional service fees, consisting primarily of costs associated with third-party consulting and professional services in our ordinary course of business, (v) listing expenses relating to the Global Offering, and (vi) others.

Our administrative expenses increased by 40.7% from RMB167.3 million for the six months ended June 30, 2022 to RMB235.5 million for the six months ended June 30, 2023. This was primarily due to (i) the increase in employee compensation of RMB22.6 million primarily attributable to the rising administrative staff headcount and (ii) the increase in listing expenses of RMB19.4 million as a result of settlement of professional service fees in connection with the Global Offering during the six months ended June 30, 2023.

Other Income

Our other income consists of (i) government grants, representing subsidies and benefits received from local governments in China, (ii) interest income on bank deposits and loans to third parties, (iii) net income from sales of by-products and semi-finished products, such as lees and packaging materials, which were produced or left over during the course of baijiu production, (iv) fees from distributors for breach of contracts, (v) net losses on disposal of property, plant and equipment, and (vi) others.

Our other income increased by 63.8% from RMB29.3 million for the six months ended June 30, 2022 to RMB47.9 million for the six months ended June 30, 2023.

Finance Costs

Our finance costs consist of (i) interest expenses on lease liabilities related to plant and buildings leased for own use and (ii) interest expenses of bank and other borrowings.

Our finance costs decreased by 87.9% from RMB21.0 million for the six months ended June 30, 2022 to RMB2.5 million for the six months ended June 30, 2023. This was primarily due to the repayment of a short-term borrowing in the second half of 2022, thereby resulting in a decrease in interest expenses on bank and other borrowings.

Income Tax

Our income tax expenses increased by 22.7% from income tax expenses of RMB214.8 million for the six months ended June 30, 2022 to income tax expenses of RMB263.7 million for the six months ended June 30, 2023 primarily due to (i) the increase in our profits before taxation generated from our operations and (ii) that the changes in fair value in financial instruments issued to an investor were not subject to tax.

Profit for the Period

Our profit for the period increased by 202.1% from a net profit of RMB524.7 million for the six months ended June 30, 2022 to a net profit of RMB1,584.9 million for the six months ended June 30, 2023.

Non-IFRS Measures

To supplement our consolidated financial statements that are presented in accordance with IFRS, we also use adjusted net profit (non-IFRS measure) and adjusted net profit margin (non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit (non-IFRS measure) and adjusted net profit margin (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS.

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	(RMB'000,	(RMB'000,
	except	except
	percentages)	percentages)
Profit attributable to equity shareholders of the Company for the period	1,584,899	524,674
<i>Add:</i>		
Listing expenses ⁽¹⁾	32,535	13,185
Changes in fair value in financial instruments issued to an investor ⁽²⁾	(814,915)	119,779
Adjusted net profit (non-IFRS measure)	<u>802,519</u>	<u>657,638</u>
Adjusted net profit margin (non-IFRS measure)	22.8%	21.5%

Notes:

- (1) Listing expenses relate to the Global Offering of the Company.
- (2) Changes in fair value in financial instruments issued to an investor arise from the changes in the fair value of our Series A Preferred Shares and warrants issued to Zest Holdings II Pte. Ltd. in connection with its pre-IPO investments in the Company. These changes in financial instruments are non-cash in nature. The warrants were terminated in June 2022 and accordingly we no longer recognize any change in the fair value thereof. Upon completion of the Listing, the Series A Preferred Shares have been automatically converted into ordinary shares of the Company, and no profit or loss due to changes in the financial instruments will be recognized. As a result, this adjusted item no longer exists after the Listing.

Our adjusted net profit for the six months ended June 30, 2023 increased by 22.0% to RMB802.5 million as compared with RMB657.6 million for the six months ended June 30, 2022. Our adjusted net profit margin increased to 22.8% for the six months ended June 30, 2023 from 21.5% for the six months ended June 30, 2022.

Liquidity and Capital Resources

During the six months ended June 30, 2023, we had funded our cash requirements principally from cash generated from our business operations and net proceeds from the Global Offering. Our net cash generated from operating activities for the Reporting Period was approximately RMB216.0 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include the changes in fair value in financial instruments issued to an investor, depreciation expenses and interest income and expenses.

As at June 30, 2023, we had cash at bank and on hand of approximately RMB6,090.9 million (as at December 31, 2022: RMB1,683.4 million). As at June 30, 2023, our borrowings amounted to approximately RMB36.6 million (as at December 31, 2022: RMB36.6 million). These borrowings are repayable within one year or on demand, and are unsecured and unguaranteed non-interest bearing loans which are recognized in the consolidated statements of financial position using the effective interest method. All of our borrowings are denominated in RMB.

Gearing Ratio

As at June 30, 2023, gearing ratio (calculated as net debt divided by total capital) was not applicable to our Group due to our net cash surplus position.

Contingent Liabilities

As of June 30, 2023, the Group had no material contingent liabilities.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals or significant investments during the six months ended June 30, 2023.

Future Plan for Material Investments or Capital Assets

As at the date of this announcement, save as disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Group has no future plan for material investments or capital assets.

Pledge of Assets

As of June 30, 2023, none of the Group’s assets was subject to any encumbrance, mortgage, lien, charge or pledge.

Capital Expenditure

For the six months ended June 30, 2023, our total capital expenditure was approximately RMB564.5 million, compared to approximately RMB699.2 million for the six months ended June 30, 2022. Our capital expenditure primarily included our purchase of fixed assets and land use rights. We intend to fund our future capital expenditures with financial resources available to us, including our existing cash balance, cash generated from our operation activities, our available banking facilities and net proceeds from the Global Offering.

Foreign Exchange Exposure

During the six months ended June 30, 2023, the Group conducted its business in China with the transactions settled in Renminbi. The functional currency of the Group's subsidiaries in the PRC is RMB. There is a natural hedge mechanism in place during the course of its respective business operation and the impact of the foreign exchange risk is low, therefore no financial instruments for hedging purposes are considered necessary. To enhance overall risk management, the Group will continue to keep track of the foreign exchange risk and take prudent measures to mitigate exchange risk, and take appropriate action where necessary.

Employees

As of June 30, 2023, we had 11,044 full-time employees (as at December 31, 2022: 10,976 employees).

The staff costs, including salaries, wages and other benefits as well as contributions to defined contribution retirement plans, were approximately RMB576.5 million for the six months ended June 30, 2023. We continue to 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, and design and offer targeted training programs for employees at various positions.

The Post-IPO Equity Incentive Plan was approved by way of shareholders' resolution on April 11, 2023, with effect from the Listing Date. The purpose of this plan is to incentivize and reward eligible participants for their contribution to the Group and to align their interests with that of the Company, so as to encourage them to work towards enhancing the value of the Company. The principal terms of the Post-IPO Equity Incentive Plan are summarized in the section headed "Statutory and General Information – D. Post-IPO Equity Incentive Plan" in Appendix IV to the Prospectus. No options or share awards had been granted or agreed to be granted under the Post-IPO Equity Incentive Plan from the Listing Date and up to June 30, 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2023 – unaudited

(Expressed in Renminbi (“RMB”))

	Note	Six months ended June 30	
		2023	2022
		RMB'000	RMB'000
Revenue	4	3,518,957	3,060,981
Cost of sales		<u>(1,481,809)</u>	<u>(1,357,938)</u>
Gross profit	4	2,037,148	1,703,043
Other income		47,910	29,253
Selling and distribution expenses		(809,317)	(682,086)
Administrative expenses		(235,456)	(167,321)
Impairment loss on trade receivables		<u>(4,063)</u>	<u>(2,578)</u>
Profit from operations		1,036,222	880,311
Finance costs	5(a)	(2,547)	(21,021)
Changes in fair value in financial instruments issued to an investor	14	<u>814,915</u>	<u>(119,779)</u>
Profit before taxation	5	1,848,590	739,511
Income tax	6	<u>(263,691)</u>	<u>(214,837)</u>
Profit attributable to equity shareholders of the Company for the period		1,584,899	524,674
Other comprehensive income for the period (after tax)			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements into presentation currency		<u>398,589</u>	<u>(412,944)</u>
Total comprehensive income attributable to equity shareholders of the Company for the period		<u>1,983,488</u>	<u>111,730</u>
Earnings per share			
– Basic (RMB)	7	<u>0.59</u>	<u>0.23</u>
– Diluted (RMB)	7	<u>0.26</u>	<u>0.23</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At June 30, 2023 – unaudited***(Expressed in RMB)*

	Note	June 30, 2023 <i>RMB'000</i>	December 31, 2022 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	4,184,315	3,775,286
Deferred tax assets		50,972	37,703
		<u>4,235,287</u>	<u>3,812,989</u>
Current assets			
Inventories	9	5,525,302	5,138,510
Trade and bills receivables	10	202,818	179,782
Prepayments, deposits and other receivables		94,757	130,354
Income tax recoverable		56,018	113,806
Cash at bank and on hand	11	6,090,940	1,683,448
		<u>11,969,835</u>	<u>7,245,900</u>
Current liabilities			
Trade payables	12	768,290	1,045,530
Other payables and accruals	13	3,232,891	3,400,271
Bank and other borrowings		36,600	36,600
Lease liabilities		19,360	28,024
Current taxation		119,906	61,560
		<u>4,177,047</u>	<u>4,571,985</u>
Net current assets		<u>7,792,788</u>	<u>2,673,915</u>
Total assets less current liabilities		<u>12,028,075</u>	<u>6,486,904</u>

	Note	June 30, 2023 RMB'000	December 31, 2022 RMB'000
Non-current liabilities			
Lease liabilities		30,289	37,164
Financial instruments issued to an investor	14	–	10,253,755
Deferred tax liabilities		14,465	11,199
		<u>44,754</u>	<u>10,302,118</u>
NET ASSETS/(LIABILITIES)		<u>11,983,321</u>	<u>(3,815,214)</u>
CAPITAL AND RESERVES			
Share capital		43	30
Reserves		11,983,278	(3,815,244)
TOTAL EQUITY/(TOTAL EQUITY – DEFICIT)		<u>11,983,321</u>	<u>(3,815,214)</u>

NOTES

(Expressed in RMB unless otherwise indicated)

1 Review of results

The interim results set out in this preliminary announcement do not constitute the Group's condensed interim financial statements for the six months ended June 30, 2023 but are extracted from those financial statements.

The condensed interim financial statements comprise those of ZJLD Group Inc ("the Company") and its subsidiaries (together, the "Group").

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included in the interim report to be sent to shareholders. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee with no disagreement.

2 Basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands on September 24, 2021. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on April 27, 2023. The Group are principally engaged in the making, production and sales of baijiu products.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Changes in accounting policies

(a) *New and amended IFRSs*

The Group has applied the following new and amended IFRSs issued by the IASB to this interim financial report for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Revenue and segment reporting

(a) Revenue

The Group is principally engaged in the making, production and sales of baijiu products.

Further details regarding the Group's principal activities are disclosed in Note 4(b). Revenue disaggregated by major brands of baijiu products is as follows:

	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
Zhen jiu	2,305,867	2,007,262
Li Du	489,224	419,102
Xiang Jiao	441,990	376,652
Kai Kou Xiao	221,003	207,575
Others	60,873	50,390
	<hr/>	<hr/>
Total	3,518,957	3,060,981
	<hr/> <hr/>	<hr/> <hr/>

All of the revenue of the Group is generated from sales of baijiu products in the People's Republic of China (the "PRC") and is recognized at a point in time during the current period.

The Group's customer base is diversified. During the current period, there is no single customer with whom transactions has exceeded 10% of the Group's revenue.

(b) Segment reporting

The Group manages its businesses by brands of baijiu products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments.

- Zhen Jiu: this segment engages in the making, production and sales of baijiu products under the brand "Zhen Jiu".
- Li Du: this segment engages in the making, production and sales of baijiu products under the brand "Li Du".
- Xiang Jiao: this segment engages in the making, production and sales of baijiu products under the brand "Xiang Jiao".
- Kai Kou Xiao: this segment engages in the making, production and sales of baijiu products under the brand "Kai Kou Xiao".
- Others: this segment engages in the making, production and sales of baijiu products under the brand "Shao Yang" and other brands.

(i) Segment results

For the purposes of assessing segment performance and allocating resources, the Group's most senior executive management monitors the results attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and direct expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred during the current period. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income, selling and distribution expenses, administrative expenses, impairment loss on trade receivables, finance costs, changes in fair value in financial instruments issued to an investor, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance during the current period is set out below.

	Six months ended June 30, 2023					
	Zhen Jiu	Li Du	Xiang Jiao	Kai Kou	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	<u>2,305,867</u>	<u>489,224</u>	<u>441,990</u>	<u>221,003</u>	<u>60,873</u>	<u>3,518,957</u>
Reportable segment gross profit	<u>1,337,147</u>	<u>336,413</u>	<u>266,267</u>	<u>93,945</u>	<u>3,376</u>	<u>2,037,148</u>
	Six months ended June 30, 2022					
	Zhen Jiu	Li Du	Xiang Jiao	Kai Kou	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	<u>2,007,262</u>	<u>419,102</u>	<u>376,652</u>	<u>207,575</u>	<u>50,390</u>	<u>3,060,981</u>
Reportable segment gross profit	<u>1,104,656</u>	<u>289,421</u>	<u>225,049</u>	<u>82,178</u>	<u>1,739</u>	<u>1,703,043</u>

(ii) *Reconciliation of reportable segment profit or loss*

	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
Total reportable segment gross profit	2,037,148	1,703,043
Other income	47,910	29,253
Selling and distribution expenses	(809,317)	(682,086)
Administrative expenses	(235,456)	(167,321)
Impairment loss on trade receivables	(4,063)	(2,578)
Finance costs	(2,547)	(21,021)
Changes in fair value in financial instruments issued to an investor	814,915	(119,779)
Consolidated profit before taxation	<u>1,848,590</u>	<u>739,511</u>

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
(a) Finance costs		
Interest expense on bank and other borrowings	837	19,398
Interest expense on lease liabilities	1,710	1,623
	<u>2,547</u>	<u>21,021</u>
	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
(b) Staff costs		
Salaries, wages and other benefits	527,453	405,976
Contributions to defined contribution retirement plans	49,038	37,589
	<u>576,491</u>	<u>443,565</u>
	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
(c) Other items		
Depreciation expenses:		
– property, plant and equipment	99,957	40,377
– right-of-use assets	24,880	14,226
	<u>124,837</u>	<u>54,603</u>
Expenses in connection with the listing of the Company's shares (excluding RMB164,723,000 charged to equity for the six months ended June 30, 2023 and RMB9,399,000 recognized as prepayment as at June 30, 2022)	32,535	13,185
Cost of inventories	904,167	880,734
	<u>904,167</u>	<u>880,734</u>

6 Income tax

Taxation in the consolidated statement of profit or loss represents:

	Six months ended June 30	
	2023	2022
	RMB'000	RMB'000
Current taxation	273,694	243,896
Deferred taxation	(10,003)	(29,059)
	<u>263,691</u>	<u>214,837</u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the current period (six months ended June 30, 2022: 16.5%).

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate at 25% during the current period (six months ended June 30, 2022: 25%).

7 Earnings per share

(a) Basic earnings per share

The basic earnings per share for the six months ended June 30, 2023 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB1,584,899,000 and the weighted average of 2,667,957,000 ordinary shares in issue, comprising:

- (i) 2,329,859,750 ordinary shares, taken into account the share subdivision of 46,597,195 ordinary shares in issue on April 11, 2023, as if the above total of 2,329,859,750 ordinary shares were outstanding throughout the six months ended June 30, 2023;
- (ii) 490,699,800 ordinary shares issued on April 27, 2023 by initial public offering; and
- (iii) 450,771,500 preference shares, which were re-designated to ordinary shares on a one-for-one basis upon the completion of the initial public offering of the Company on April 27, 2023.

The basic earnings per share for the six months ended June 30, 2022 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB524,674,000 and the weighted average of 2,329,860,000 ordinary shares, taken into account the share subdivision of 46,597,195 ordinary shares in issue on April 11, 2023, as if the above total of 2,329,860,000 ordinary shares were outstanding throughout the six months ended June 30, 2022.

The calculation of the weighted average number of ordinary shares for the six months ended June 30, 2023 and 2022 are as follows:

	Six months ended June 30	
	2023	2022
	'000	'000
Issued ordinary shares at January 1	46,597	46,597
Effect of share subdivision	2,283,263	2,283,263
Effect of shares issued by initial public offering	176,218	–
Effect of re-designation of preference shares	161,879	–
	<u>2,667,957</u>	<u>2,329,860</u>
Weighted average number of ordinary shares at June 30	<u>2,667,957</u>	<u>2,329,860</u>

(b) Diluted earnings per share

The diluted earnings per share for the six months ended June 30, 2023 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB769,984,000 and the weighted average of 2,956,849,000 ordinary shares (dilutive).

There were no dilutive shares during the six months ended June 30, 2022.

The calculation of the adjusted earnings and weighted average number of ordinary shares (diluted) for the six months ended June 30, 2023 and 2022 are as follows:

	Six months ended June 30 2023 RMB'000
Profit for the period attributable to equity shareholders of the Company	1,584,899
Changes in fair value in financial instruments issued to an investor	<u>(814,915)</u>
Profit for the period attributable to equity shareholders of the Company (dilutive)	<u><u>769,984</u></u>
	Six months ended June 30 2023 '000
Weighted average number of ordinary shares at June 30	2,667,957
Effect of dilutive preference shares	<u>288,892</u>
Weighted average number of ordinary shares (diluted) at June 30	<u><u>2,956,849</u></u>

8 Property, plant and equipment

(a) Right-of-use assets

During the six months ended June 30, 2023, the Group recognized the additions to right-of-use assets of RMB121,172,000 (six months ended June 30, 2022: RMB128,965,000).

(b) Acquisitions and disposals of owned assets

During the six months ended June 30, 2023, the Group acquired items of property, plant and equipment (other than right-of-use assets) with a cost of RMB412,744,000 (six months ended June 30, 2022: RMB604,326,000). Items of property, plant and equipment (other than right-of-use assets) with net book value of RMB50,000 were disposed of during the six months ended June 30, 2023 (six months ended June 30, 2022: RMB1,373,000), resulting in a loss on disposal of RMB50,000 (six months ended June 30, 2022: RMB587,000).

9 Inventories

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Raw materials and packaging materials	349,249	291,803
Work in progress and maturing inventories	4,291,113	3,793,366
Finished goods	<u>884,940</u>	<u>1,053,341</u>
	<u><u>5,525,302</u></u>	<u><u>5,138,510</u></u>

10 Trade and bills receivables

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Trade receivables	185,440	127,552
Less: loss allowance	(13,029)	(8,966)
	<u>172,411</u>	<u>118,586</u>
Bills receivables	30,407	61,196
	<u>202,818</u>	<u>179,782</u>

(a) Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivable, based on the invoice date and net of loss allowance, is as follows:

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Less than 3 months	117,850	97,530
More than 3 months but less than 6 months	42,624	10,219
More than 6 months but less than 12 months	11,937	10,837
	<u>172,411</u>	<u>118,586</u>

The balances of bills receivables represent bank acceptance notes received from customers with maturity dates of less than six months at the end of the reporting period. Trade receivables are usually due within 30 days from the date of billing, where credit periods of one month to one year are granted to certain large customers.

11 Cash and cash equivalents

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Cash at bank and on hand	6,090,874	1,683,382
Restricted bank deposits	66	66
	<u>6,090,940</u>	<u>1,683,448</u>
Cash at bank and on hand in the consolidated statement of financial position	6,090,940	1,683,448
Less: restricted bank deposits	(66)	(66)
	<u>6,090,874</u>	<u>1,683,382</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>6,090,874</u>	<u>1,683,382</u>

The Group's operation in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

12 Trade payables

As of the end of the reporting period, the aging analysis of trade payables, based on the invoice date, is as follows:

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Within 1 year	762,453	1,039,299
1 to 2 years	5,580	6,142
2 to 3 years	257	89
	<u>768,290</u>	<u>1,045,530</u>

13 Other payables and accruals

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Accruals for sales rebates	639,644	713,472
Accruals for advertisement expenses	80,139	62,594
Payables for staff related costs	176,132	172,307
Other taxes payables	64,549	119,131
Payables for construction and purchases of property, plant and equipment	327,571	348,833
Payables for costs incurred in connection with the listing of the Company's shares	4,400	15,368
Distributions/dividends payables	102,893	144,766
Others	60,433	32,529
	<u>1,455,761</u>	<u>1,609,000</u>
Financial liabilities measured at amortized cost	1,777,130	1,791,271
Receipts in advance from customers	<u>3,232,891</u>	<u>3,400,271</u>

14 Financial instruments issued to an investor

	At June 30, 2023 RMB'000	At December 31, 2022 RMB'000
Measured at fair value		
– Series A Preference Shares	<u>–</u>	<u>10,253,755</u>

In 2021 and 2022, the Company entered into various agreements with Zest Holdings II Pte. Ltd. (the “Series A Preferred Shareholder”). Pursuant to these agreements, the Series A Preferred Shareholder agreed to purchase an aggregate of 9,015,430 preference shares (subsequently sub-divided into 450,771,500 preference shares on April 11, 2023) at a total consideration of USD800,000,000 (equivalent to approximately RMB5,253,950,000).

Pursuant to these agreements, the Group is required to fully or partially redeem the preference shares upon the request from the Series A Preferred Shareholder or required to distribute 30% of the distributable profits upon the occurrence of certain triggering events as stipulated in these agreements. These terms and conditions are beyond the Company's control, and accordingly, the Group has recognized financial liabilities at amounts equivalent to the maximum exposure the Group can be required to settle arising from these obligations.

In addition, the Series A Preferred Shareholder can convert the preference shares into an equal number of ordinary shares in the Company at anytime during the life of preference shares. This conversion option is embedded in the preference shares, and are recognized and remeasured at fair value, and presented as part of the carrying amounts of the preference shares. Upon the listing of the Company's shares on April 27, 2023, the Series A Preferred Shareholder converted all of the preference shares into the Company's ordinary shares.

The movements of the financial liabilities arising from the preference shares during the current period are set out below:

	2023 RMB'000
At January 1	10,253,755
Change in fair value through profit or loss	(814,915)
Conversion into ordinary shares of the Company upon listing	(9,298,709)
Exchange adjustments	(140,131)
	<hr/>
At June 30	–
	<hr/> <hr/>

15 Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended June 30, 2023 (six months ended June 30, 2022: RMBNil).

OTHER INFORMATION

Interim Dividend

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2023.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to June 30, 2023.

Events after the Reporting Period

The Company has been selected and will be included as a constituent stock of the Hang Seng Composite Index, one of the benchmark indexes of the Stock Exchange, with effect from September 4, 2023. For further details, please refer to the voluntary announcement published by the Company on August 18, 2023. Save for the aforementioned, there are no important events affecting the Group that have occurred after June 30, 2023 and up to the date of this announcement.

Use of Proceeds From the Global Offering

The Shares were listed on the Stock Exchange on April 27, 2023. The net proceeds received from the Global Offering (after deduction of the underwriting fees and commissions and other estimated related expenses payable by us in connection with the Global Offering) was approximately HK\$4,990.0 million.

As at June 30, 2023, the net proceeds utilized was approximately HK\$762.4 million and the remaining net proceeds was approximately HK\$4,227.6 million. The Company intends to continue to utilize the remaining net proceeds in the future for the purposes as set out in the Prospectus. The table below sets out the planned usage of the net proceeds from the Global Offering and actual usage as at June 30, 2023:

Use of proceeds	Allocation (%)	Net proceeds from the Global Offering (HK\$ in million)	Utilized amount as at June 30, 2023 (HK\$ in million)	Unutilized amount as at June 30, 2023 (HK\$ in million)	Expected timeline for fully utilizing the unutilized amount ⁽¹⁾
Construction and development of production facilities	55	2,744.5	498.8	2,245.7	By December 31, 2027
Brand building and market promotion	20	998.0	222.5	775.5	By December 31, 2027
Expansion of sales channels	10	499.0	35.1	463.9	By December 31, 2027
Business automation and digitalization transformation	5	249.5	6.1	243.4	By December 31, 2027
Working capital and general corporate purposes	10	499.0	-	499.0	By December 31, 2027
Total	100%	4,990.0	762.4	4,227.6	

Notes:

- (1) The expected timeline for utilization of the unutilized proceeds disclosed above is based on the best estimation from the Board in accordance with latest information as at the date of this announcement.
- (2) Any discrepancies in this table between the total and sums of amounts are due to rounding.

Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code and the Company has adopted the code provisions of the CG Code as its own code of corporate governance.

The Board is of the view that the Company has complied with all code provisions as set out in the CG Code from the Listing Date to June 30, 2023.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding the transactions of securities of the Company by its Directors and the relevant employees who would likely possess inside information of the Company. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Model Code from the Listing Date to June 30, 2023.

Audit Committee

The Board has established the Audit Committee, which consists of two independent non-executive Directors, namely Mr. LI Dong (chairperson of the Audit Committee) and Ms. YAN Jisheng, and one non-executive Director, namely Mr. SUN Zheng. The Audit Committee has reviewed the unaudited financial results of the Group for the six months ended June 30, 2023, and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

Review of Interim Financial Information

The interim financial report for the six months ended June 30, 2023 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.zjld.com). The interim report for the six months ended June 30, 2023 will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our Shareholders and business partners for their continued support, and to our employees for their dedication and hard work.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”	ZJLD Group Inc 珍酒李渡集團有限公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on September 24, 2021
“Director(s)”	the director(s) of the Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an independent third party of the Company
“Global Offering”	has the meaning ascribed to it in the Prospectus
“Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries from time to time
“HK\$” or “HK dollar”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of Shares on the Main Board of the Stock Exchange on April 27, 2023
“Listing Date”	April 27, 2023, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Post-IPO Equity Incentive Plan”	the equity incentive plan adopted by the Company on April 11, 2023, the principal terms of which are set out in the section headed “Statutory and General Information — D. Post-IPO Equity Incentive Plan” in Appendix IV of the Prospectus

“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus issued by the Company on April 17, 2023 in connection with the Hong Kong public offering of the Shares
“Reporting Period”	six months from January 1, 2023 to June 30, 2023
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Series A Preferred Shares”	series A preferred shares of US\$0.0001 each in the share capital of the Company prior to the share subdivision approved by the Shareholders on April 11, 2023
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of US\$0.000002 each
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Zhen 15 Series”	include multiple versions catering to the consumers preference with the standard version Zhen 15 (珍十五) as the core offering
“Zhen 30 Series”	include multiple versions catering to the consumers preference with the standard version Zhen 30 (珍三十) as the core offering
“%”	per cent.

By Order of the Board
ZJLD Group Inc
Mr. WU Xiangdong
Executive Director and Chairman of the Board

Hong Kong, August 23, 2023

As at the date of this announcement, the Board comprises Mr. Wu Xiangdong, Mr. Yan Tao, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng Kwong Chue Paul, as executive Directors; Mr. Sun Zheng as non-executive Director; and Mr. Yung Tse Kwong Steven, Mr. Li Dong and Ms. Yan Jisheng, as independent non-executive Directors.