

Capital Spirits FAQ

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What is Capital Spirits?

Our goal at Capital Spirits is to share our passion about craft spirits to the world. We have 3 businesses that help us fulfill this goal:

- Capital Spirits Baijiu Bar: Focused on educating the public about the world of Baijiu. We serve educational tasting flights as well as our own line of award winning baijiu cocktails.
- The Distillery by Capital Spirits: Focused on educating the public about Western craft spirits. Distillery bar features micro batches of house distilled Gin, Vodka, Whiskey, and more. We also serve educational tasting flights for craft rum, gin, bourbon, vodka and more.
- Capital Spirits, LTD consulting – our b2b arm of the business focused on helping producers and foreign brands navigate the market for Baijiu import and export.

BAIJIU BAR

What is Capital Sprits (Baijiu Bar)?

Capital Spirits (est. Aug 2014) is the world's first bar dedicated to Baijiu and craft liquor. Come taste by the glass and discover the distinctive hand-picked stock of Baijiu, craft Chinese beers, lesser known fine spirits from around the world, and specialty cocktails by an award winning Beijing bartender / Mixologist.

Capital Spirits also features small batches of house distilled spirits crafted under the expertise of co-founder Matthias Heger who over the past three years has developed the award winning German vodka WESTKORN (available at the bar).

Nestled within an historic Hutong in a restored shop house designed by international Greek architect Anna Pipilis, Capital Spirits features period furnishings for a relaxing environment with a taste of Old Beijing.

Still not convinced about Baijiu? Let Capital Spirits' expert staff passionately take you on a journey of Baijiu flights and finally discover the real spirit of China.

Who is involved in the bar? What's your background?

Capital Spirits was founded by four partners who have day jobs/businesses but are passionate about spirits and enjoy sharing their appreciation for craft liquors plus a full time bar manager.

Matthias Heger over the past three years has developed an award winning German vodka named WESTKORN, which is also on the menu at capital spirits. His expertise in distilling and refining will certainly add to the quality of capital spirits' house brands.

Simon Dang used to brew beer in college and is now an advertising and PR executive who will be helping broaden enthusiasts far and wide learn about Capital Spirits' unique offerings.

Johannes Braun is a former mixologist who now works in the corporate world but is eager to get back behind the bar and create new cocktails from Chinese and home-made spirits.

Bill Isler is a serial entrepreneur in China, including several successful startups including a popular rooftop bar in San Li Tun, gallery space in 798 and is currently working on a beef and cattle business in China.

David Putney is the bar's full time bar manager. He's a new addition to the bar and brings deep experience in spirits and liquor (used to run a liquor shop in the USA) and is also the daily face of the bar. An accomplished bartender / mixologist and a baijiu expert, is exactly the friendly bartender you'd expect in a warm and personal bar such as Capital Spirits.

The idea of a craft spirits bar preceded our focus on Baijiu. Given Matthias' background in distilling, Bill's interest in developing western-style spirits made in China, Simon's desire to open a bar in a lesser known Hutong near GuiJie, and Johannes's interest in mixology, a hard-alcohol focused bar in a Hutong location was a natural fit.

Why the focus on Baijiu?

It was not until attending Derek Sandhaus's book talk at the Bookworm in March 2014, where Bill saw great interest in Baijiu from a foreign crowd that the focus on Baijiu came about. Given our interest in spirits and our ability to present them to a western audience, where westerners can comfortably discover, learn and appreciate Baijiu by the glass, rather than spending a long evening (and painful day thereafter) at a Chinese banquet and being forced them to drink more than they wish.

If you are a foreigner, it's also a great way to enhance your Chinese cultural understanding at Capital Spirits and impress your Chinese friends with your broad knowledge of the different types of Baijiu.

(Bill) How did you personally become interested in Baijiu? What is your favorite style?

I was first exposed to Baijiu as a language student when, sitting at an outdoor BBQ restaurant, I was poured a shot from a bottle of 56% Red Star Erguotou by a gentleman at the adjacent table. Suffice it to say it was my first and last taste of Baijiu for the next 10 years despite spending most of those years in China.

The last 2-3 years have seen me spending a large amount of time working on a Black Angus beef cattle project in Hebei and Inner Mongolia (my day job and main business). Frequent Baijiu-fueled banquets with government and business associates have forced me to imbibe copious quantities of the elixir, and I have slowly acquired a taste for Strong Aroma Baijiu, though Light Aroma (in the style of the Erguotou that originally turned me off to Baijiu) is still not to my liking.

How many types of Baijiu will we stock and what is price? Unique bottles?

Initial count is around 40-50....no idea where we will end up because we seek to continuously acquire unique bottles of Baijiu from all over China, and unique international spirits from around the world. We plan to accomplish this in part through a program where customers can bring interesting bottles to us in exchange for bar credit greater than the bottle's retail value.

For now prices for a 10ml taster range from 10RMB for Guilin Sanhua Rice Aroma to 50RMB for Maotai Flying Fairy. Flights range from 30RMB for 3 rice aroma Baijiu to 180RMB for the Deluxe featuring Jiannanchun, Wuliangye, Yanghe Blue Dream and Maotai Flying Fairy.

So far Bill has a few bottles of Jiulongzui from Fengning, Hebei that he brought back from cattle country as well as snake liquor from Guangdong.

Why Baijiu flights?

Intro flights are a way to initiate new drinkers to Baijiu and then, given their reactions to the introduction, further explore targeted flights to see what styles and brands they prefer, empowering them to continue their Baijiu exploration. We foresee experienced and newly-converted Baijiu drinkers ordering small individual glasses based on what they have learned about their tastes through the flights. Flights are like training wheels, not the end goal but a necessary step on the journey.

The intro flight is priced at 40RMB and include 4 shots to cover the four major types of baijiu (rice, light, strong, and sauce).

Baijiu cocktails?

We will feature 5-8 Baijiu-based cocktails along with another 5-8 non-Baijiu cocktails. So far we have come up with a tweaked version of Jim Boyce and Fubar's Baijiu sour as well as a "Crab Island Iced Tea" which is, you guessed it, a Baijiu-based Long Island, and the Grey Pekinese (Greyhound with Baijiu).

Expected reaction to the Baijiu bar?

We opened the bar unofficially on Aug 2, 2014 and the overall feedback has all been very positive. We already have a few local customers from the neighborhood who come to drink beer, wine and cocktails simply because we are a comfortable bar near them, rather than for the Baijiu and craft spirits we carry. We're in an ideal spot between Sanlitun and Gulou, so a good way to start or end the evening depending on where you live.

Nonetheless we expect to successfully encourage many among the "neighborhood customers" to try Baijiu, and for maybe half of them to find some they like. A smaller but no less significant expected customer base is made up of those who come specifically for our unique offerings. Some of these will be long-term expats like myself who have acquired a taste for Baijiu, while I expect a large portion to be people from out of town who are interested in sampling the best of China's spirits while in Beijing. Many will be brought by locally-based friends while others will learn about us in guidebooks and the media.

We're proud to be listed in NY Times 36 Hours in Beijing, Conde Nast Traveller's Guide to Hutongs and win the Time Out Beijing Best Specialists Spirits Bar and New Comer Bar (Editor's Choice) 2014.

Who is the ideal baijiu drinker you would recommend targeting in foreign markets?

Based on our global research, the sophisticated young urban professional is the ideal audience. It's a sub-segment of the "Hipster" that's really interested in seeking new authentic experiences while staying away from mainstream products. They have high disposable income and are attracted to brands that can offer an interesting story - sometimes the more exotic, the better. They are also more inclined to be more culturally aware. For example, maybe they haven't been to China but they would know some cultural nuggets to navigate the menu at local hole in the wall Chinese restaurant packed with

Chinese locals. This group also helps define many trends, so if you can land your brand successfully with this group, you can have a bigger mass appeal as the trend builds.

How do you recommend reaching baijiu audiences?

Education. Firstly you need an attractive and interesting story about why your product matters - not just because it's the #1 selling China. Baijiu producers with a 7,000 year old legacy, unique distilling techniques, special ingredients, etc are all good ways for instance. But beyond the core story, our audience is also attracted to the latest trends, design style, etc. so it needs to be packaged nicely and stand out. Not necessarily spelled out but needs to have several layers of stories that can be spun out (ex: the monkey on Monkey 47 is Max from the Berlin Zoo which the founder helped rebuild during his tour in Germany). Finally social media is of course a key channel and we need to target the influencers of the influencers to kickstart the awareness.

What are the big changes in the domestic baijiu markets?

Government austerity programs have driven down consumption amongst the government officials who are the largest segment of baijiu drinkers. Counterfeit and tampering is also a big problem. Young demographics don't drink baijiu. Going abroad and rebranding could make a good story for the home market.

Is there an untapped baijiu market at home?

Baijiu is having problems reaching the young working professionals in Tier 1 & 2 Cities. They're are 21M strong, earn on average \$35K USD annually and will triple in numbers to 61M in 2023. They are the biggest segment of consumers in China with high disposable income but baijiu isn't a big part of their drinking, as they'd rather take up learning about wines, and western spirits. We know that they are an untapped market as 50% of our customers in our baijiu bar are local Chinese urban professionals who want to learn about Baijiu. They appreciate the fact that at our baijiu bar they can learn, taste and enjoy baijiu as it was originally meant to be rather than being forced to drink the same big brand or cheap corner store brands in large

quantities. Using education and providing a fun interesting experience is key.

How can retailers do-away with the perception of baijiu as unpalatable?

I won't disagree with you that some baijiu is really unpalatable but there's also many many types and brands that are really good. The challenge is that the most popular brands you get at your corner store or restaurant stocks are the light or strong aroma category of baijiu and if you're not prepared for the taste you might just give up on baijiu. **Education is key.** As a retailer, we offer flight tastings of the major categories of baijiu (rice, light, strong, and sauce) and explain each of the different flavors. Depending on which type you like, we have further flights so you can soon find your favorite baijiu brand. Cocktails are another way to go for those who aren't brave enough to try baijiu straight out of the bottle.

THE DISTILLERY

What's the story about The Distillery?

What is a better way to celebrate craft liquors than to produce your own?

We have opened a second bar called The Distillery by Capital Spirits. It's also in the same Hutong neighborhood.

The Distillery by Capital Spirits is Beijing's first bar and craft distillery. With its new custom built state of the art 100L copper fitted column still distillator, The Distillery is creating small batches of house distilled spirits such as London Dry style gins, vodkas, fruit based schnapps, and rums.

Our goal is to celebrate the heritage of Western spirit distillation with a Chinese twist. With our larger distillator and expanded space we are creating craft liquors using unique ingredients native to China and offering our products [as demonstration purposes] to our customers. As with the original Capital Spirits Baijiu Bar, The Distillery continues to offer the same tasting room concept with an expanded menu of liquor flights. Customers at The Distillery can learn, taste and discover flights of unique craft spirits of rum, gin and vodka from around the world.

Enjoy our house distilled spirits as well as classic cocktails such as Manhattans, Side Cars, Gin & Tonics, Tom Collins, Old Fashioned, and Martinis can be made with a variety of different gins, vodkas, rums and whiskeys from around the world. We stock a growing collection of over a dozen gins, as well as one of Beijing's best bourbon selections. All spirits also available in 15ml tasting pours served in professional "tulip" glasses besides in full servings or in cocktails. Tasting pours are 15-30RMB each to try some of the world's best spirits. We also feature draft beer from Arrow Factory Brewery and Slow Boat.

CONSULTING BUSINESS

Consulting?

Besides our 2 bars (Baijiu and Distillery), Capital Spirits LTD is also in the business of consulting for Baijiu for producers, importers and foreign brands looking to enter the China market.

Capital Spirits LTD is the leading professional consultancy dedicated to opening and growing new markets for baijiu around the world. Through our internationally recognized and award winning success at Capital Spirits Bar and Distillery in Beijing, we've identified and perfected how to build excitement and sell Baijiu to Western audiences. Our team of international professionals currently work with the full value chain of Baijiu including Chinese baijiu producers, China spirits distributors / exporters, major American and European importers, distributors, retailers and FB outlets in China and around the world. We offer consulting services in branding, marketing, sales channel development, product development and more.

Visit us at www.capitalspiritsltd.com