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SHENZHOU INTERNATIONAL GROUP HOLDINGS LIMITED

(申洲國際集團控股有限公司 *)

(incorporated in the Cayman Islands with limited liability)

(stock code: 2313)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS

- Sales for the six months ended 30 June 2022 amounted to approximately RMB13,592,789,000, representing an increase of approximately 19.6% as compared with the corresponding period of 2021.
- Percentage of sportswear products sales to total sales was approximately 78.6% for the six months ended 30 June 2022. Revenue from sale of sportswear products significantly increased by approximately 32.4% as compared with the corresponding period of the previous year.
- Percentage of casual wear products sales to total sales was approximately 15.4% for the six months ended 30 June 2022. Revenue from sale of casual wear products decreased by approximately 5.4% as compared with the corresponding period of the previous year.
- Percentage of lingerie products sales to total sales was approximately 4.5% for the six months ended 30 June 2022. Revenue from sale of lingerie products significantly decreased by approximately 22% as compared with the corresponding period of the previous year.
- Gross profit for the six months ended 30 June 2022 amounted to approximately RMB3,065,607,000, representing a decrease of approximately 9.1% as compared with the corresponding period of 2021. Gross profit margin was approximately 22.6%, representing a decrease of 7.1 percentage points from approximately 29.7% of the corresponding period last year.
- Net profit attributable to owners of the parent for the six months ended 30 June 2022 amounted to approximately RMB2,366,616,000, representing an increase of approximately 6.3% as compared with the corresponding period of 2021.
- Basic earnings per share were RMB1.57, representing an increase of approximately 6.1% from RMB1.48 for the corresponding period of the previous year.
- The Board has resolved to declare an interim dividend of HK\$1.06 per share, which is consistent with the corresponding period last year.

* for identification purposes only

The board (the “Board”) of directors (the “Directors”) of Shenzhou International Group Holdings Limited (“Shenzhou International” or the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 (the “Reporting Period”), together with the comparative amounts for the corresponding period of 2021. The interim results and interim financial statements have not been audited but have been reviewed by the Company’s Audit Committee.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		Unaudited For the six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
REVENUE	4	13,592,789	11,368,606
Cost of sales	5	<u>(10,527,182)</u>	<u>(7,996,439)</u>
Gross profit		3,065,607	3,372,167
Other income and gains	6	946,689	298,768
Selling and distribution expenses	5	(124,736)	(73,926)
Administrative expenses	5	(1,002,415)	(953,356)
Other expenses	7	(6,637)	(66,831)
Finance costs	8	(103,557)	(51,501)
Share of profits and losses of associates		<u>(6,543)</u>	<u>4,843</u>
PROFIT BEFORE TAX		2,768,408	2,530,164
Income tax expenses	9	<u>(400,724)</u>	<u>(304,326)</u>
PROFIT FOR THE PERIOD		<u>2,367,684</u>	<u>2,225,838</u>
Attributable to:			
Owners of the parent		2,366,616	2,226,278
Non-controlling interests		<u>1,068</u>	<u>(440)</u>
		<u>2,367,684</u>	<u>2,225,838</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic and diluted for profit for the period		<u>RMB1.57</u>	<u>RMB1.48</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>2,367,684</u>	<u>2,225,838</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss)		
that may be reclassified to profit or loss		
in subsequent periods:		
Exchange differences:		
Exchange differences on translation		
of foreign operations	<u>334,146</u>	<u>(55,140)</u>
Net other comprehensive income/(loss)		
that may be reclassified to profit or loss		
in subsequent periods:	<u>334,146</u>	<u>(55,140)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
FOR THE PERIOD, NET OF TAX	<u>334,146</u>	<u>(55,140)</u>
TOTAL COMPREHENSIVE INCOME		
FOR THE PERIOD	<u>2,701,830</u>	<u>2,170,698</u>
ATTRIBUTABLE TO:		
Owners of the parent	2,700,762	2,171,140
Non-controlling interests	<u>1,068</u>	<u>(442)</u>
	<u>2,701,830</u>	<u>2,170,698</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	12	11,577,454	11,130,174
Right-of-use assets	12	1,751,006	1,574,134
Intangible assets	12	113,324	110,288
Long-term time deposits at banks		960,000	1,710,000
Long-term prepayments	15	221,056	331,018
Investments in associates		594,155	600,698
Equity investment designated at fair value through other comprehensive income		720	720
Deferred tax assets		116,026	165,433
Total non-current assets		15,333,741	15,622,465
CURRENT ASSETS			
Inventories	13	7,877,717	6,635,605
Trade and bills receivables	14	4,768,262	3,501,551
Prepayments and other receivables	15	683,806	653,052
Amounts due from related parties	20b	3,620	3,616
Financial assets at fair value through profit or loss		3,976,851	2,413,823
Pledged deposits		–	3,501,015
Bank deposits with an initial term of over three months		4,008,251	3,113,156
Cash and cash equivalents		6,809,218	6,687,623
Total current assets		28,127,725	26,509,441
CURRENT LIABILITIES			
Trade payables	16	1,393,334	1,386,514
Contract liabilities		7,000	6,630
Other payables and accruals	17	1,324,910	1,586,053
Amounts due to related parties	20b	13,197	84
Interest-bearing bank borrowings		9,602,269	10,212,171
Lease liabilities		27,832	25,919
Tax payable		478,510	315,060
Total current liabilities		12,847,052	13,532,431
NET CURRENT ASSETS		15,280,673	12,977,010
TOTAL ASSETS LESS CURRENT LIABILITIES		30,614,414	28,599,475

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	360,403	376,508
Lease liabilities	98,369	106,870
Deferred tax liabilities	371,299	333,034
Total non-current liabilities	830,071	816,412
Net assets	29,784,343	27,783,063
EQUITY		
Equity attributable to owners of the parent		
Share capital	151,200	151,200
Reserves	29,619,591	27,619,379
	29,770,791	27,770,579
Non-controlling interests	13,552	12,484
Total equity	29,784,343	27,783,063

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL INFORMATION

Shenzhou International Group Holdings Limited (“the Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 23 June 2005. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The company’s shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 24 November 2005.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of knitwear products.

These unaudited interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board on 25 August 2022.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2021.

3. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3
Amendments to HKAS 16

Amendments to HKAS 37
*Annual Improvements to
HKFRSs 2018-2020*

Reference to the Conceptual Framework

*Property, Plant and Equipment: Proceeds before Intended
Use*

Onerous Contracts – Cost of Fulfilling a Contract

Amendments to HKFRS 1, HKFRS 9, Illustrative Examples
accompanying HKFRS 16, and HKAS 41

None of these amendments had a material impact on the financial position or performance of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and there is one reportable operating segment: the manufacture and sale of knitwear products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) *Revenue from external customers*

	Unaudited For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
European Union	3,326,629	2,141,998
Mainland China	3,220,794	3,303,033
United States of America	2,720,531	1,759,824
Japan	1,632,574	2,011,868
Other regions	2,692,261	2,151,883
	13,592,789	11,368,606

The revenue information above is based on the delivery destinations of the products.

(b) Non-current assets

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Mainland China	6,386,369	6,181,279
Vietnam	4,728,288	4,636,652
Cambodia	2,303,146	2,083,262
Other regions	245,037	244,421
	13,662,840	13,145,614

The non-current assets information above is based on the locations of the assets and excludes long-term time deposits at banks, investments in associates, equity investments designated at fair value through other comprehensive income and deferred tax assets.

Information about major customers

Revenue from major customers which individually accounts for 10% or more of the Group's total revenue are as follows:

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	RMB'000	RMB'000
Customer A	4,438,550	3,370,128
Customer B	2,536,214	2,209,010
Customer C	2,412,399	2,442,494
Customer D	1,870,335	1,503,570
	11,257,498	9,525,202

5. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses		
Wages and salaries	3,600,922	3,225,207
Retirement benefit contributions	344,538	308,910
Other benefits	173,472	146,672
	<u>4,118,932</u>	<u>3,680,789</u>
Depreciation, amortisation and impairment expenses	678,163	567,818
Changes in inventories of finished goods and work in progress	(1,302,973)	(1,330,017)
Raw materials and consumables utilized	6,869,498	5,182,282
Utilities expenses	706,017	476,373
Transportation expenses	161,353	98,357
Outsourcing	122,743	24,365
Taxation	58,001	27,728
Repair expenses	41,829	62,088
Operating lease expenses for properties	21,789	24,281
Charges for disposing pollutants	12,670	14,253
Inspection fees	8,981	11,009
Entertainment expenses	5,876	9,346
Traveling expenses	4,771	10,188
Donation	2,057	31,054
Other expenses	144,626	133,807
	<u>11,654,333</u>	<u>9,023,721</u>
Total cost of sales, selling and distribution costs and administrative expenses	<u>11,654,333</u>	<u>9,023,721</u>

6. OTHER INCOME AND GAINS

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Government incentives	162,598	155,256
Interest income	119,356	104,304
Rental income	16,150	15,776
Dividend income from equity investments at fair value through other comprehensive income	109	–
	298,213	275,336
Gains		
Fair value gains, net:		
Derivative instruments		
– transactions not qualifying as hedges	7,882	–
Financial assets at fair value through profit or loss		
– mandatorily classified as such	22,750	21,159
Gain on disposal of items of property, plant and equipment	614	2,080
Gain on disposal of items of right-of-use assets	–	193
Foreign exchange gains, net	617,230	–
	648,476	23,432
	946,689	298,768

7. OTHER EXPENSES

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange losses, net	–	60,168
Rental cost	<u>6,637</u>	<u>6,663</u>
	<u>6,637</u>	<u>66,831</u>

8. FINANCE COSTS

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	100,866	48,670
Interest on lease liabilities	<u>2,691</u>	<u>2,831</u>
	<u>103,557</u>	<u>51,501</u>

9. INCOME TAX

The major components of income tax expenses for the six months ended 30 June 2022 and 2021 are:

	Unaudited For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current Hong Kong profits tax	21,421	7,339
Current overseas withholding tax	1,047	1,074
Current Vietnam profits tax	40,858	51,288
Current Cambodia profits tax	81	–
Current Macao profits tax	89,399	97,635
Current Mainland China corporate income tax (“CIT”)	160,246	106,478
Deferred taxation	87,672	40,512
	400,724	304,326

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for the Company which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (for the six months ended 30 June 2021: HKD2,000,000) of assessable profits of the Company is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The subsidiaries incorporated in the British Virgin Islands (“BVI”) are not subject to income tax as these subsidiaries do not have a place of business (but only a registered office) or carry on any business in the BVI.

The subsidiaries incorporated in the Kingdom of Cambodia, are subject to income tax at a rate of 20% (for the six months ended 30 June 2021: 20%). Under the laws and regulations of Cambodia, certain subsidiaries are entitled to an exemption from income tax for the first four profit-making years.

The subsidiary incorporated in Japan, under the Law of Taxation in Japan, is subject to income tax at a rate of 30% (for the six months ended 30 June 2021: 30%) of the assessable profits arising in Japan. No provision for income tax has been made as the subsidiary had no assessable profits arising in Japan during the period.

The subsidiaries incorporated in Vietnam, are subject to income tax at a rate of 20%. Under the laws and regulations of Vietnam, two subsidiaries are entitled to enjoy a lower profits tax rate of 10% in the first fifteen years after their establishment. Furthermore, one is entitled to an exemption from income tax for four years ended 31 December 2019 and a 50% reduction for the nine years from 1 January 2020. The other is entitled to an exemption from income tax for four years ended 31 December 2020 and a 50% reduction for the nine years from 1 January 2021.

Pursuant to Macao's relevant tax legislations, the subsidiaries incorporated in Macao are subject to income tax at a rate of 12% of the accessible profits arising in Macao.

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), the PRC subsidiaries as determined for the period in accordance with the New CIT Law are subject to a tax rate of 25% on their assessable income. And the qualified High-New Technology Enterprise ("HNTE") is entitled to a concessionary rate of income tax at 15%. The recognition period of HNTE qualification of a subsidiary has expired on 31 December 2021, and is currently reapplying.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic

The calculation of earnings per share attributable to ordinary equity holders of the parent for the period is based on the consolidated profit attributable to owners of the parent of approximately RMB2,366,616,000 (for the six months ended 30 June 2021: RMB2,226,278,000) and on the weighted average number of 1,503,222,397 (for the six months ended 30 June 2021: 1,503,222,397) ordinary shares in issue.

(b) Diluted

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and the six months ended 30 June 2021.

11. DIVIDEND

Pursuant to resolution passed by the Board on 25 August 2022, the Board declared an interim dividend of HKD1.06 per share (for the six months ended 30 June 2021: HKD1.06 per share), totaling approximately HKD1,593,416,000 (equivalent to approximately RMB1,362,689,000). This declared dividend is not reflected as a dividend payable in this condensed interim consolidated financial information, but will be reflected as an appropriation of reserve for the year ending 31 December 2022.

12. CAPITAL EXPENDITURES

	Property, plant and equipment <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	Water use right <i>RMB'000</i>	Software <i>RMB'000</i>
Unaudited				
For the six months ended				
30 June 2021				
Opening net book amount at				
1 January 2021	10,166,819	1,585,555	47,837	57,210
Additions	1,079,158	66,214	–	8,963
Disposals	(15,047)	(2,362)	–	–
Depreciation/amortisation	(526,811)	(33,537)	(3,225)	(4,245)
Exchange differences	(29,893)	(4,959)	–	(1)
	<u>10,674,226</u>	<u>1,610,911</u>	<u>44,612</u>	<u>61,927</u>
Closing net book amount at				
30 June 2021	<u>10,674,226</u>	<u>1,610,911</u>	<u>44,612</u>	<u>61,927</u>
Unaudited				
For the six months ended				
30 June 2022				
Opening net book amount at				
1 January 2022	11,130,174	1,574,134	41,386	68,902
Additions	823,660	176,308	–	11,630
Disposals	(3,551)	–	–	–
Depreciation/amortisation	(634,440)	(35,125)	(3,225)	(5,373)
Exchange differences	261,611	35,689	–	4
	<u>11,577,454</u>	<u>1,751,006</u>	<u>38,161</u>	<u>75,163</u>
Closing net book amount at				
30 June 2022	<u>11,577,454</u>	<u>1,751,006</u>	<u>38,161</u>	<u>75,163</u>

13. INVENTORIES

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Raw materials	1,522,526	1,567,062
Work in progress	3,620,438	3,065,628
Finished goods	<u>2,886,946</u>	<u>2,138,783</u>
	8,029,910	6,771,473
Provision	<u>(152,193)</u>	<u>(135,868)</u>
	<u><u>7,877,717</u></u>	<u><u>6,635,605</u></u>

14. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit with credit terms of within six months. Overdue balances are reviewed regularly by senior management. The ageing analysis of trade and bills receivables is as follows:

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Within three months	4,635,462	3,477,609
Over three months	<u>132,800</u>	<u>23,942</u>
	<u><u>4,768,262</u></u>	<u><u>3,501,551</u></u>

The carrying amounts of trade and bills receivables approximate to their fair values.

As at 30 June 2022, the trade and bills receivables were denominated in the following currencies:

	Unaudited		Audited	
	30 June 2022		31 December 2021	
	Original	RMB	Original	RMB
	currency	equivalent	currency	equivalent
	<i>In thousand</i>	<i>RMB'000</i>	<i>In thousand</i>	<i>RMB'000</i>
USD	581,487	3,902,590	363,918	2,320,229
RMB		<u>865,672</u>		<u>1,181,322</u>
		<u>4,768,262</u>		<u>3,501,551</u>

15. PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Prepayments and deposits		
– Purchase of raw materials	161,426	113,822
– CIT advance payment	–	14,094
– Rental deposits	38,104	36,184
– Others	50,092	69,606
VAT receivable and recoverable	218,743	231,797
Interest receivable	141,380	112,320
Other receivables	<u>74,061</u>	<u>75,229</u>
	<u>683,806</u>	<u>653,052</u>
Non-Current		
Long-term prepayment*		
– Land use rights	88,802	84,360
– Purchase of items of property, plant and equipment	<u>132,254</u>	<u>246,658</u>
	<u>221,056</u>	<u>331,018</u>

None of above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of the financial assets included in prepayments and other receivables approximate to their fair values.

* *Long-term prepayments represent the prepayments for land use rights and purchase of property, plant and equipment.*

16. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the period, based on the invoice date, is as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Within six months	1,373,765	1,359,690
Six months to one year	5,006	7,796
One year to two years	3,947	8,432
Over two years	10,616	10,596
	<u>1,393,334</u>	<u>1,386,514</u>

The trade payables are non-interest-bearing. The carrying amounts of the trade payables approximate to their fair values.

17. OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses	804,724	1,023,779
Payables for purchase of property, plant and equipment	88,335	69,425
Payables and guarantee deposits related to construction projects	98,175	119,984
Other taxes payable	256,323	279,795
Others	77,353	93,070
	<u>1,324,910</u>	<u>1,586,053</u>

The carrying amounts of other payables and accruals approximate to their fair values. Other payables are non-interest-bearing.

18. COMMITMENTS

Capital commitments

	Unaudited	Audited
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:		
Acquisition of property, plant and equipment	424,581	495,007
Acquisition of land use right	52,220	49,717
Acquisition of an equity investment	—	112,590
	<u>476,801</u>	<u>657,314</u>

19. CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no significant contingent liabilities (at 31 December 2021: Nil).

20. RELATED PARTY TRANSACTIONS

(a) Continuing transactions with related parties

The Group had the following continuing significant transactions with its related parties, including associates, directors and their associates and companies controlled by the controlling shareholder, for the six months ended 30 June 2022 and 2021:

	Unaudited For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Lease of apparel production properties from Ningbo Shenzhou Properties Co., Ltd. ("Shenzhou Properties")*	17,253	17,253
Purchase of raw material yarns from Anhui Huamao Group Company Limited ("Huamao Group")**	232,924	N/A
Printing service provided by Ningbo Avery Dennison Shenzhou Knitting and Printing Co., Ltd ("Ningbo Avery")***	80,444	88,761
Sales and marketing services and general support services provided to Ningbo Avery***	6,328	6,989

* *Shenzhou Properties is controlled by one of the Company's executive directors.*

** *Huamao Group is the associate of the Group and is considered to be a related party of the Group. The Group acquired 21.05% equity share of Huamao Group in December 2021 and the transactions with Huamao Group since January 2022 constituted related party transactions. This transaction does not constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

*** *Ningbo Avery is an associate of the Group and is considered to be a related party of the Group. This transaction does not constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

The transactions with the related parties were made according to the published prices and conditions offered by the related companies to their major customers.

(b) Outstanding balances with related parties

The Group had the following balances with its related parties:

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Amounts due from related parties		
– Trade related		
Shenzhou Properties	167	167
Ningbo Avery	3,453	3,449
	<u>3,620</u>	<u>3,616</u>
Amounts due to related parties		
–Trade related		
Ningbo Avery	209	84
Huamao Group	12,988	7,397*
	<u>13,197</u>	<u>7,481</u>

* As at 31 December 2021, the balance due to Huamao Group, a related party of the Group, was presented in trade payables.

(c) Key management compensation

	Unaudited	
	For the six months	
	ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries and other short-term		
employee benefits	25,046	24,683
Post-employment benefits	78	77
	<u>25,124</u>	<u>24,760</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 and the notes thereto (the “Financial Statements”) contained in this announcement.

BUSINESS REVIEW

According to the statistics of the China Customs, the total export value of textile and clothing of China (including textile yarns, fabrics and finished products, as well as garments and apparel accessories, referred to the same as below) from January to June 2022 was approximately US\$156.49 billion, representing an increase of approximately 11.7% as compared with the corresponding period last year. Out of the total export value, the export value of textile products was approximately US\$76.32 billion, representing an increase of approximately 11.3% as compared with the corresponding period last year; the export value of apparel products was approximately US\$80.17 billion, representing an increase of approximately 12.0% as compared with the corresponding period last year. From January to June 2022, the export value of apparel products from Mainland China to the United States (the “US”) and 27 countries of the European Union (the “EU”) amounted approximately to US\$19.30 billion and US\$15.90 billion respectively, representing an increase of 14.6% and 19.6% as compared with the corresponding period last year, respectively; the export value of apparel products to Japan and the United Kingdom (the “UK”) amounted to US\$6.45 billion and US\$2.69 billion respectively, representing a decrease of 5.2% and 5.0% as compared with the corresponding period last year, respectively. In respect of the domestic apparel consumption market, according to the data released by the National Bureau of Statistics, out of the retail sales of products by enterprises above the designated quota from January to June 2022, the total retail sales of apparel amounted to approximately RMB446.26 billion, representing a decrease of approximately 8.0% as compared with the corresponding period last year; the national online retail sales of products in the wearing segments representing an increase of approximately 2.4% as compared with the corresponding period last year. With the impact of the pandemic, the demand for apparel consumption in the domestic market recorded a significant decrease for the first half of the year. However, the long-term growing trend in demand remains unchanged and there is ample room for growth for apparel consumption in China.

According to the preliminary statistics of the Vietnam Customs, from January to June 2022, Vietnam's textile and apparel exports was approximately US\$18.53 billion, representing an increase of approximately 20.8% as compared with the corresponding period last year, and exports to the US, Japan and Korea amounted to approximately US\$9.33 billion, US\$1.67 billion and US\$1.37 billion, respectively, representing an increase of 22.6%, 6.2% and 9.8%, respectively, as compared with the corresponding period last year, with the US being the single largest export market for apparel products of Vietnam, as it is accounted for approximately 50% of exports of these products. In addition, Vietnam exported approximately US\$2.08 billion and US\$380 million of textile and clothing to 27 EU countries and the UK, respectively, representing an increase of approximately 41.1% and 38.9%, respectively, as compared with the corresponding period last year. Vietnam exported approximately US\$2.85 billion of textile and clothing to members of the CPTPP, representing an increase of approximately 18.5% as compared with the corresponding period last year. The adverse effect of the pandemic on the apparel supply chain of Vietnam has essentially been eliminated, with its rapid growth in exports, especially to the markets of Europe and the US, being recovered. From January to June 2022, Vietnam's yarn exports amounted to approximately US\$2.78 billion, representing an increase of approximately 5.0% as compared with the corresponding period last year, of which the export to China accounted for approximately US\$1.31 billion, representing a decrease of approximately 8.4% as compared with the corresponding period last year. From January to June 2022, the total value of fabrics imported from other countries to Vietnam amounted to approximately US\$7.95 billion, representing an increase of approximately 9.1% as compared with the corresponding period last year, of which the value of fabrics imported from Mainland China amounted to approximately US\$5.10 billion, representing an increase of approximately 11.1% as compared with the corresponding period last year and accounting for approximately 64.1% of the total value of imported fabrics of Vietnam. In addition, the value of fabrics imported from Taiwan and Korea amounted to approximately US\$960 million and US\$930 million, respectively, accounting for 12.1% and 11.7% of the total value of imported fabrics of Vietnam, respectively. The domestic supply ratio of fabrics for apparel industry in Vietnam has gradually increased.

Currently, many countries have eased their pandemic containment measures. While the symptoms of COVID-19 have generally been regressed, the global infection rate has increased in further, imposing greater pressure on Mainland China in containing the pandemic in response to imported cases. During the period, the pandemic has spread across the country, with issues such as production suspension of supply chain and disruption of logistics and transportation occurred in some of the areas, strongly impacting the stability of supply chain. Additionally, prices of raw materials such as cotton yarn have increased significantly, so do the costs of energy including natural gas, electricity, etc. The supply chain of overseas countries has essentially been recovered as the pandemic preventive measures are eased.

From January to June 2022, the Group achieved sales revenue of approximately RMB13,592,789,000, representing an increase of 19.6% as compared with the corresponding period last year; profit attributable to owners of the parent was approximately RMB2,366,616,000, representing an increase of 6.3% as compared with the corresponding period last year; and gross profit has decreased by approximately 9.1% to approximately RMB3,065,607,000 as compared with the corresponding period last year, which was mainly attributable to the significant increase in production costs during the period, while the adjustment in sales price is unable to offset the increase in costs, as well as the pandemic outbreak in Ningbo bases in January 2022, causing production suspension for approximately half a month and the increase in pandemic preventive expenses. Despite the effects of rising costs and disruption by the pandemic, the Group remains focused on strengthening the industrial basis for future development and strives to enhance its competitiveness in the industry. During the period, the construction of new production capacity was completed on time and the size of employees continued to expand; green and low-carbon operation was being promoted with increased utilization of clean energy; the scope of automatic facilities application has been broadened and the empowered management has been digitalized.

During the period, the construction of new production capacity of the Group was completed on time. The daily production capacity of the Vietnam fabric factory has raised to 400 tons after expansion, which further secured the supply of fabrics to overseas garment factories. The construction of the new garment factory in Cambodia was progressing well. Up to the end of June 2022, the new garment factory had approximately 14,000 employees, whose improvement in efficiency was satisfactory. The civil project and the installation of equipment in more than half of the production workshops of the new garment factory in Vietnam has completed, and more staff will be engaged gradually. Additionally, the overseas plants in Vietnam and Cambodia have eliminated the adverse effect by the pandemic as productions and operations have been recovered.

The Group promoted green and low carbon activities in further, including reducing the consumption of resources and optimizing energy structure. The Group established a reclaimed water recycling project at the fabric factory in Vietnam, which has a daily processing capability of 5,000 tons and has commenced operation in July 2022. The project promotes the recycling of resources and reduces sewage discharge. During the period, the application of the rooftop solar power photovoltaics project in Ningbo base expanded in further, with self-supplied electricity reaching approximately 3,000 MW, representing an increase of 72% as compared with corresponding period of last year. Moreover, the rooftop solar power project of the Group's new garment factory in Cambodia has commenced construction. It is expected that the supply of green electricity can reach approximately 50% of the total charge of the new garment factory after the construction is completed.

The Group continuously expand the production and application scope of automatic facilities, with simultaneous promotion in domestic and overseas bases comprehensively for both upstream and downstream processes. During the period, the Group has engaged various software development companies, assisting in the digitalization transformation of the Group, in order to enhance the decision-making efficiency of management and level of refinement. The commencement of automation and digitalization work improves the productivity per capita of employees, reduces their workload and optimizes the responsiveness of the supply chain.

OPERATING RESULTS OF THE GROUP

Sales

For the six months ended 30 June 2022, the Group's sales amounted to approximately RMB13,592,789,000, representing an increase of approximately RMB2,224,183,000 or approximately 19.6% from approximately RMB11,368,606,000 for the six months ended 30 June 2021. During the period, the increase in the Group's sales revenue was mainly due to: 1) the further expansion of the Group's capacity and the growth in customers demand during the period; and 2) the rise in raw material prices and energy cost, causing the increase in unit price for sales as compared with the corresponding period of last year.

The comparison of sales of the Group analyzed as per product category for the six months ended 30 June 2022 and the six months ended 30 June 2021 is as below:

	For the six months ended 30 June					
	2022		2021		Change	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
By product						
Sportswear	10,687,190	78.6	8,069,966	71.0	2,617,224	32.4
Casual wear	2,087,944	15.4	2,206,456	19.4	(118,512)	(5.4)
Lingerie wear	610,462	4.5	782,426	6.9	(171,964)	(22.0)
Other knitwear	207,193	1.5	309,758	2.7	(102,565)	(33.1)
Total sales	<u>13,592,789</u>	<u>100.0</u>	<u>11,368,606</u>	<u>100.0</u>	<u>2,224,183</u>	<u>19.6</u>

For the six months ended 30 June 2022, sales of sportswear products were approximately RMB10,687,190,000, representing an increase of approximately RMB2,617,224,000 or approximately 32.4% from approximately RMB8,069,966,000 for the six months ended 30 June 2021. The growth in sales of sportswear products mainly came from the increasing demand for sportswear selling in the European market and the US market.

Sales of casual wear products decreased by approximately RMB118,512,000 or approximately 5.4% from approximately RMB2,206,456,000 for the six months ended 30 June 2021 to approximately RMB2,087,944,000 for the six months ended 30 June 2022, which was mainly attributable to the decrease in demand for casual wear products in the markets of China and Japan.

Sales of lingerie wear products decreased by approximately RMB171,964,000 or approximately 22.0% from approximately RMB782,426,000 for the six months ended 30 June 2021 to approximately RMB610,462,000 for the six months ended 30 June 2022, which was mainly attributable to the decrease in the procurement demand for lingerie wear products in the Japanese market.

Sales of other knitwear products decreased by approximately RMB102,565,000 or approximately 33.1% from approximately RMB309,758,000 for the six months ended 30 June 2021 to approximately RMB207,193,000 for the six months ended 30 June 2022. The decrease was mainly attributable to the revenue from mask products of approximately RMB109,815,000, representing a decrease of approximately RMB101,803,000 as compared with approximately RMB211,618,000 of the corresponding period last year.

The comparison of sales of the Group analyzed as per market segmentation for the six months ended 30 June 2022 and the six months ended 30 June 2021 is as below:

	For the six months ended 30 June					
	2022		2021		Change	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
By market						
International sales						
Europe	3,326,629	24.5	2,141,998	18.8	1,184,631	55.3
US	2,720,531	20.0	1,759,824	15.5	960,707	54.6
Japan	1,632,574	12.0	2,011,868	17.7	(379,294)	(18.9)
Other markets	2,692,261	19.8	2,151,883	18.9	540,378	25.1
Sub-total of						
international sales	10,371,995	76.3	8,065,573	70.9	2,306,422	28.6
Domestic sales	3,220,794	23.7	3,303,033	29.1	(82,239)	(2.5)
Total sales	13,592,789	100.0	11,368,606	100.0	2,224,183	19.6

For the six months ended 30 June 2022, the Group's sales in the European market was approximately RMB3,326,629,000, representing an increase of approximately RMB1,184,631,000 or approximately 55.3% from approximately RMB2,141,998,000 for the six months ended 30 June 2021. During the period, the increase in the sales from the European market was mainly attributable to the increase in the procurement demand for sportswear in the European market.

For the six months ended 30 June 2022, the Group's sales in the US market was approximately RMB2,720,531,000, representing an increase of approximately RMB960,707,000 or approximately 54.6% from approximately RMB1,759,824,000 for the six months ended 30 June 2021. Such increase was mainly attributable to the increase in demand for sportswear in the US market.

For the six months ended 30 June 2022, the Group's sales in the Japanese market was approximately RMB1,632,574,000, representing a decrease of approximately RMB379,294,000 or approximately 18.9% from approximately RMB2,011,868,000 for the six months ended 30 June 2021. Such decrease was mainly attributable to the decrease in orders for lingerie wear and casual wear in the Japanese market.

For the six months ended 30 June 2022, the Group's sales in other markets, including Korea, Canada and Australia, was approximately RMB2,692,261,000, representing an increase of approximately RMB540,378,000 or approximately 25.1% as compared with approximately RMB2,151,883,000 for the six months ended 30 June 2021. The increase in sales in other markets was mainly attributable to the increase in sales of sportswear in these markets, such as Australia and Mexico.

For the six months ended 30 June 2022, the Group's sales in the domestic market decreased by approximately 2.5% as compared with the corresponding period last year. Among the domestic sales, garment sales amounted to approximately RMB3,131,308,000, representing a decrease of approximately RMB87,646,000 or approximately 2.7% as compared with approximately RMB3,218,954,000 in the corresponding period last year, which was mainly attributable to the decrease in demand for orders of international brands in the market of Mainland China. Meanwhile, the increase in demand for orders of domestic brands has offset the fluctuation of the Group's sales in the market of China.

Cost of sales and gross profit

The cost of sales of the Group for the six months ended 30 June 2022 amounted to approximately RMB10,527,182,000 (for the six months ended 30 June 2021 approximately RMB7,996,439,000). For the six months ended 30 June 2022, the gross profit margin of the Group was approximately 22.6%, representing a decrease of 7.1 percentage points as compared with approximately 29.7% for the corresponding period last year. The main factors affecting the Group's gross profit margin were: 1) the significant increase in the costs of factors such as raw materials and energy, and the adjustment in selling prices is incapable of offsetting the adverse effect brought by the increase in costs; and 2) the production base of the Group in Ningbo has temporarily suspended production in January 2022 due to the impact of the COVID-19 pandemic.

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

As at 30 June 2022, the Group's equity attributable to owners of the parent amounted to approximately RMB29,770,791,000 (31 December 2021: approximately RMB27,770,579,000), in which noncurrent assets were approximately RMB15,333,741,000 (31 December 2021: approximately RMB15,622,465,000), net current assets were approximately RMB15,280,673,000 (31 December 2021: approximately RMB12,977,010,000), non-current liabilities were approximately RMB830,071,000 (31 December 2021: approximately RMB816,412,000) and non-controlling interests were approximately RMB13,552,000 (31 December 2021: approximately RMB12,484,000). Changes in equity attributable to owners of the parent were mainly attributable to the fact that: 1) the Group's reserves were increased by operating profits; and 2) the reserves were decreased as a result of payment of final dividend for 2021 to owners of the parent during the period.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2022, net cash generated from the Group's operating activities amounted to approximately RMB546,198,000 (for the six months ended 30 June 2021: approximately RMB1,720,608,000). The Group's cash and cash equivalents as at 30 June 2022 amounted to approximately RMB6,809,218,000, of which approximately RMB1,006,943,000 was denominated in Renminbi, approximately RMB5,752,013,000 was denominated in US dollar, approximately RMB24,720,000 was denominated in VND, approximately RMB22,811,000 was denominated in Hong Kong dollar, approximately RMB1,009,000 was denominated in EUR and the balance was denominated in other currencies (31 December 2021: approximately RMB6,687,623,000, of which approximately RMB1,360,631,000 was denominated in Renminbi, approximately RMB4,286,417,000 was denominated in US dollar, approximately RMB981,439,000 was denominated in EUR, approximately RMB29,781,000 was denominated in Hong Kong dollar, approximately RMB26,689,000 was denominated in VND and the balance was denominated in other currencies). The balance of bank borrowings was approximately RMB9,962,672,000 (31 December 2021: approximately RMB10,588,679,000, including short term bank borrowings of approximately RMB10,212,171,000 and long term bank borrowings of approximately RMB376,508,000), including short term bank borrowings of approximately RMB9,602,269,000 and long-term bank borrowings of approximately RMB360,403,000. As at 30 June 2022, the Group's net borrowings (bank borrowings less cash and cash equivalents) was approximately RMB3,153,454,000, representing a decrease of approximately RMB747,602,000 as compared to the balance of approximately RMB3,901,056,000 as at 31 December 2021.

Equity attributable to owners of the parent amounted to approximately RMB29,770,791,000 (31 December 2021: approximately RMB27,770,579,000). The Group was in a healthy cash flow position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to owners of the parent) of approximately 33.5% (31 December 2021: 38.1%), representing a decrease of 4.6 percentage points as compared with the end of last year. In addition to cash and cash equivalents, the Group also held other deposit financial assets of approximately RMB8,945,102,000 as at 30 June 2022, which can be used as the source of capital for debt adjustment.

As part of the Group's general treasury management policies, the Group purchased financial products (including financial assets at fair value through profit or loss and time deposits) from a number of licensed banks in China to maximise the return from the Group's idle funds through a legal channel with low risks. The results of the applicable size test about the purchase of these financial products were all below 5% and therefore these purchases were not subject to the notifiable transaction requirements under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The purchase of such financial products was approved by the investment and lending committee established by the Board, which aimed at monitoring the implementation of treasury management policies of the Group.

Finance costs and taxation

For the six months ended 30 June 2022, finance costs increased by approximately RMB52,056,000 from approximately RMB51,501,000 for the six months ended 30 June 2021 to approximately RMB103,557,000, which was mainly due to the increase in the extent of borrowings during the period as compared with the corresponding period of last year, and the increase in loan interest rate of USD due to the increase in interest rate of USD.

For the six months ended 30 June 2022, the Group's income tax expense increased by approximately RMB96,398,000 from approximately RMB304,326,000 for the six months ended 30 June 2021 to approximately RMB400,724,000, which was mainly due to the increase in the percentage of profit within the Group from the subsidiaries of the Group with higher tax rates.

EXPOSURE TO FOREIGN EXCHANGE

As the Group's sales were mainly settled in USD, while its procurement was mainly settled in RMB, the Group's costs and operating profit margin were affected by exchange rate fluctuations to a certain extent. The Group adopted corresponding policies in light of the existing fluctuations of exchange rate between USD and RMB to hedge against certain risk exposure in respect of foreign exchange. The amount applied for hedging depends on the Group's revenue, procurement and capital expenditure in USD, as well as the market forecast of fluctuations in the exchange rate of USD against RMB.

In order to avoid any decrease and volatility in value of future cash flows caused by any change in exchange rate of RMB against USD, the Group has arranged certain amount of loans denominated in USD and loans denominated in HKD with linked exchange rate with USD. Amongst total bank borrowings as at 30 June 2022, loans of approximately RMB2,691,912,000 were denominated in USD (calculated based on the original currency of approximately USD401,095,000) and loans of RMB2,180,760,000 were denominated in HKD (calculated based on the original currency of HKD2,550,000,000) (31 December 2021: loans of approximately RMB4,368,760,000 were denominated in USD (calculated based on the original currency of approximately USD685,220,000) and loans of approximately RMB1,389,920,000 were denominated in HKD (calculated based on the original currency of HKD1,700,000,000)). In addition, as at 30 June 2022, the Group still possessed certain outstanding forward foreign exchange contracts, pursuant to which, the Group contracted to sell foreign exchange of USD710,000,000 to various banks and receive corresponding amounts in Renminbi at an average settlement price of approximately RMB6.7613 per USD1.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2022, the Group had approximately 105,100 employees in total. During the period, the total costs for staff, including those for administrative and management staff, accounted for approximately 30.3% (for the six months ended 30 June 2021: approximately 32.4%) of the Group's sales. The Group determines the remuneration of its staff with reference to their performance, qualifications and industry practices, and the remuneration policy will be regular reviewed. Employees might receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. In addition, the Group also offered staff rewards or other forms of incentives to motivate their personal growth and career development. In order to upgrade our staff's skills, product knowledge and awareness of quality standard of the industry, the Group provided them with continuous trainings. All new employees of the Group were required to attend introductory courses, while there were also various types of training courses available for all employees.

Capital expenditure and capital commitments

For the six months ended 30 June 2022, the Group's total investment in property, plant and equipment, right-of-use assets and intangible assets amounted to approximately RMB1,011,598,000, of which approximately 52% was used for the acquisition of production facilities, approximately 41% was used for the construction and acquisition of new factory buildings and right-of-use assets and the balance was used for the purchase of other fixed assets and software.

As at 30 June 2022, the Group had contracted capital commitments of approximately RMB476,801,000 in connection with the acquisition and construction of properties, plants and equipment, which were mainly financed by the net proceeds from internal resources.

Significant investments, acquisitions and disposals

As of 30 June 2022, the Group invested a total of approximately US\$314,000,000 in the new garment plant in Phnom Penh, Cambodia. Currently, most of the plant and dormitory of the Phnom Penh new garment project have been completed and being put into operation. As of 30 June 2022, approximately 14,000 employees were recruited for the new factory.

In addition, the Group started to construct a garment production facility in Vietnam at the end of 2019. It is estimated that approximately US\$100,000,000 will be invested in this new garment production facility. Such amount will be used for lease of land, construction of plants and supporting facilities, and purchase of machinery and equipment. As of 30 June 2022, the accumulated investment was approximately US\$70,000,000, and the civil works of the new garment plant in Vietnam were substantially completed, with half of the installation work of equipment being completed and employees being recruited gradually as necessary. The project is expected to be funded primarily by the cash reserve of the Group.

Other than that, the Group had no significant investment, acquisition and disposal during the six months ended 30 June 2022. For details of the project in Phnom Penh, Cambodia, please refer to the announcement dated 17 September 2018 and the Company's 2021 annual report. For details of the project in Vietnam, please refer to the announcement dated 17 October 2019 and the Company's 2021 annual report.

Gearing ratio

As at 30 June 2022, the Group's gearing ratio was approximately 33.5%, based on the ratio of the balance of total outstanding borrowings to the equity attributable to owners of the parent.

Contingent liabilities

As at 30 June 2022, the Group had no significant contingent liability (31 December 2021: Nil).

FUTURE PROSPECTS AND STRATEGIES

For the first half of 2022, the export values of textile and apparel products of China continued to grow. However, the Group is unoptimistic about the export conditions in the future. The growth of exports for the first half of the year included factors regarding increase in prices raised by the increase in raw material prices, and is not solely attributable to the increase in export volume; the inflation rates of major economies remain at high levels, suppressing the growth in consumption demand. Moreover, the COVID-19 pandemic has impacted global logistics, extending the transportation time of overseas brand owners' certain products and intensifying the pressure of inventories, which in turn affecting the procurement volume of products during the corresponding quarter of next year. Additionally, the impact on the supply chains of other garment manufacturing countries has gradually diminished, and the manufacturing demands that had transferred to Mainland China due to the pandemic will returned back to overseas countries. As for the domestic market, the effect of consumption reduction brought by the pandemic is unlikely to intensify in further. However, the inventory pressure of the brand owners due to the sales performance below expectations still exists, leading to their more prudent procurement plans.

At present, the raw material prices record a slight decrease as compared with the previous high and yet fluctuating. The exchange rate of RMB against USD is also depreciated as compared with the corresponding period of last year. However, it is expected that from the second half of the year to the first half of next year, the textile and apparel industry will be affected by the decrease in utilization in capacity due to insufficient demand. The global pressure of inflation will continue, so as the profits of corporates. In a future period, the integration of the industry will accelerate, possibly causing the elimination of certain supply chain corporates due to the pressure of profitability and cash flow. The growth of new investments of the industry will also slowdown., while the recovery of demand for consumption and the contraction in the capacity of supply chain will affect the change in the contradiction between supply and demand in the future, giving rise to new development opportunities.

The key to future success is to enhance the competitiveness of the supply chain. On the basis of continuous improvement of cooperate sustainability, the Group will further strengthen the innovation of customers-oriented products; optimize the industrial chain layout of oversea bases; and pay more attention to the strategic planning and implementation of human resources needed for future corporate development.

The Group will facilitate the development of new products so as to fulfill the needs of customers for personalized, fashionable and environmental friendly products, as well as the requirements towards functional differentiation of apparel under different scenarios, especially the enhancement of diversity, functionality and refinement of new fabric development, as well as the comprehensive service capability to customers, in order to upgrade the scale of cooperation with new customers and furtherly enlarge its market share in core customers.

Through the new construction and expansion in recent years, the overseas bases of Vietnam and Cambodia have become important production capacity bases of the Group, and play an especially key role on fulfilling of order demands of customers in overseas markets. In the future, the Group will select competitive countries for the layout of new production bases when necessary, and concurrently enhancing the integrity in the procedural facilities of upstream and downstream industrial chain as well as the balance in capacity supply. The Group expects to shorten the delivery time of customers' orders in further while reducing logistic fees.

The planning and implementation of talent strategy are the keys to the sustainability of a corporate. On one hand, with the help of external resources, the Group enhances the awareness and capabilities of key managerial personnel in respect of human resources management through extensive further studies; at the same time, it requires every department to actively cooperate with the human resources department for its daily operation. The Group pays attention in the planning and implementation of talent strategy, and endeavours to train young talents for reservation, in order to provide support and security in human resources for the industrial globalization of the Group.

Despite that the Group is unoptimistic about the current demands of domestic and overseas markets, it expects that, however, the business prospects for the second half of the year can grow slightly as compared with the corresponding period of last year, while it is possible to record a temporary decrease in capacity utilization rate of domestic bases for the second half of the year. However, the effect of the pandemic will eventually fade. The Group remains positive on the growth potential of the China market, and will balance the needs of different customers in terms of capacity arrangement.

At present, the industry environment is ever-changing and unpredictable. The Group adheres to its aspiration on development strategy, to strengthen its industry foundation for corporate development, in order to enhance its integrated competitiveness among industry players and strive for better development in the future!

EVENTS AFTER THE REPORTING PERIOD

There were no other important events affecting the Group that have occurred after 30 June 2022 and up to the date of this announcement.

DIVIDEND

During the reporting period, at the Company's annual general meeting held on 30 May 2022, the shareholders of the Company approved the payment of a final dividend of HK\$0.57 per share for the year ended 31 December 2021 to the shareholders whose names appeared on the register of members of the Company at the close of business on 13 June 2022. The dividend was paid by the Company on 23 June 2022 in cash.

The Board had resolved to declare an interim dividend of HK\$1.06 (equivalent to approximately RMB0.91) per share for the six months ended 30 June 2022 (for the six months ended 30 June 2021: HK\$1.06 per share) to the shareholders whose names appeared on the register of members of the Company at the close of business on 14 September 2022. The interim dividend is expected to be paid on or before 28 September 2022.

Closure of Register of Members

To ascertain shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from 9 September 2022 to 14 September 2022, both days inclusive, during which period no transfer of the shares of the Company will be effected. To determine entitlement to the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:30 p.m. on 8 September 2022.

CORPORATE GOVERNANCE

On 9 October 2005, the Board adopted its own Code of Corporate Governance, which covers all of the code provisions and most of the recommended best practices of the Code On Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules.

The Company has complied with all the code provisions of the CG Code throughout the six months ended 30 June 2022. There have not been any material changes to the Company's corporate governance practices during the reporting period as compared with the information disclosed in the 2021 annual report.

Terms of Reference of Board Committees

The terms of reference for each Board committee and the list of Directors and their roles and functions have been published on the websites of the Company and the Stock Exchange, respectively.

Responsibilities of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills pursuant to the code provision A.6.5 set out in the CG Code. The Company has arranged for continuous professional development on the updates of the Listing Rules and the related legal and regulatory requirements for the Directors.

Corporate Governance Functions

The Company has adopted the terms of reference for corporate governance functions on 26 March 2012 in compliance with the code provision D.3 set out in the CG Code, effective from 1 April 2012. Pursuant to the terms of reference of the corporate governance functions, the Board shall be responsible for developing, reviewing and or monitoring the policies and practices on corporate governance of the Group; training and continuous professional development of the Directors and senior management and making recommendations; compliance with legal and regulatory requirements; the code of conduct and compliance manual (if any) applicable to employees and the Directors; and the Group's compliance with the CG Code.

Communications with shareholders

Pursuant to the code provision E.1.2 set out in the CG Code, the Company invited representatives of the external auditors of the Company to attend the annual general meeting of the Company held on 30 May 2022 to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

The Company has adopted a shareholders' communication policy and procedures for shareholders to propose a person for election as a Director with effect from 26 March 2012. Such policy and procedures are available on the website of the Company.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions (the "Securities Trading Code"). A copy of the Securities Trading Code is provided to all Directors on their appointment. Reminders will be issued twice a year, being 30 days prior to the Board meeting approving the Company's interim results and 60 days prior to the Board meeting approving the Company's annual results, reminding the Directors that they are not allowed to deal in the Company's securities prior to the announcement of results (the period during which the Directors are prohibited from dealing in shares) and that all transactions must comply with the Securities Trading Code. Upon specific enquiries on this matter, all Directors have confirmed their strict compliance with the relevant provisions of the Securities Trading Code throughout the six months ended 30 June 2022.

Senior management may possess unpublished price-sensitive information or inside information due to their positions in the Company, and hence, are required to comply with the dealing restrictions under the Securities Trading Code.

CHANGES TO INFORMATION OF DIRECTORS

During the six months ended 30 June 2022, there were no changes to the information which are required to be disclosed and has been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2022.

SHARE OPTION SCHEME

No share option scheme was adopted by the Company as at 30 June 2022.

THE BOARD

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The principal responsibilities of the Board include formulating the Group's business strategies and management objectives, supervising the management and evaluating of the effectiveness of management strategies.

AUDIT COMMITTEE

The Company established the Audit Committee in compliance with Rules 3.21 to 3.23 of the Listing Rules on 9 October 2005. As at the date of this announcement, the Audit Committee comprises four independent non-executive Directors, namely Mr. Jiang Xianpin, Ms. Liu Chunhong, Mr. Liu Xinggao and Mr. Zhang Bingsheng. Mr. Jiang Xianpin is the Chairman of the Audit Committee. His expertise in accounting, auditing and finance enables him to lead the Audit Committee.

The principal responsibilities of the Audit Committee are to conduct critical and objective reviews of the Group's financial and accounting practices, risk management and internal controls. These include determining the nature and scope of statutory audit, reviewing the Group's interim and annual accounts and assessing the completeness and effectiveness of the Group's accounting and financial controls.

The terms of reference of the Audit Committee are consistent with the recommendations as set out in "A Guide for Effective Audit Committee" published by the HKICPA and the provisions of the CG Code, and are updated and amended according to the relevant requirements from time to time.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed matters relating to auditing, risk management, internal control and financial statements, including a review of the unaudited financial statements for the six months ended 30 June 2022.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in compliance with the CG Code on 9 October 2005. As at the date of this announcement, the Remuneration Committee comprises Mr. Ma Renhe, an executive Director, and Mr. Zhang Bingsheng, Mr. Jiang Xianpin and Ms. Liu Chunhong, who are independent non-executive Directors. Mr. Zhang Bingsheng is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure for the Directors and senior management and on the establishment of a formal and transparent process for approving such remuneration policy. The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive directors and senior management. No Director will take part in any discussion on his or her own remuneration.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility, and job complexity are taken into account.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 9 October 2005. As at the date of this announcement, the Nomination Committee comprises Mr. Ma Jianrong, an executive Director, Mr. Liu Xinggao, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, who are independent non-executive Directors. Mr. Ma Jianrong is the chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are to identify candidates with suitable qualifications as Directors, select and nominate such candidates for directorship and provide recommendations to the Board accordingly; regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and make recommendations to the Board for any proposed changes.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The interim report of the Company containing all the information required by the Listing Rules will be sent to the shareholders of the Company and published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.shenzhouintl.com) in due course.

By Order of the Board
Shenzhou International Group Holdings Limited
Ma Jianrong
Chairman

Ningbo, PRC, 25 August 2022

As at the date of this announcement, the five executive directors of the Company are Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe, Mr. Wang Cunbo and Ms. Chen Zhifen; and the four independent non-executive directors are Mr. Jiang Xianpin, Mr. Zhang Bingsheng, Ms. Liu Chunhong and Mr. Liu Xinggao.