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)

PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Sales for the year ended 31 December 2019 amounted to approximately RMB22,665,272,000, representing an increase of approximately 8.2% when compared with the year of 2018. If excluding the retail business, it represents an increase of approximately 10.1% compared with last year.
- For the year ended 31 December 2019, percentage of sports wear products sales to total sales was approximately 72.0%. Sales of Sports wear products increased by approximately 14.3% when compared with the year of 2018.
- For the year ended 31 December 2019, percentage of casual wear products sales to total sales was approximately 23.8%. Sales of Casual wear products increased by approximately 4.3% when compared with the year of 2018.
- For the year ended 31 December 2019, percentage of lingerie wear products sales to total sales was approximately 3.5%. Sales of Lingerie wear products decreased by approximately 39.5% when compared with the year of 2018.
- Gross profit margin stood at approximately 30.3% in 2019, representing a decrease of 1.3 percentage points from last year. Gross profit for the year ended 31 December 2019 amounted to approximately RMB6,876,021,000, representing an increase of approximately 4.0% when compared with the year of 2018. If excluding the retail business, our gross profit margin should be approximately 30.8%, representing a slight decrease of 0.3 percentage points from last year.
- Profit attributable to owners of the parent for the year ended 31 December 2019 amounted to approximately RMB5,095,206,000, an increase of approximately 12.2% when compared with the year of 2018. If excluding the retail business, it represents an increase of approximately 14.1% compared with last year.
- Proposed to declare a final dividend of HK$1.00 per ordinary share together with interim dividend declared of HK$0.90 per ordinary share, the total dividend proposed to be declared for the year 2019 was HK$1.90 per ordinary share, representing an increase of approximately 8.6% when compared with HK$1.75 per ordinary share of 2018.

* *for identification purposes only*

The board of directors (the "**Board**", each a "**Director**") of Shenzhou International Group Holdings Limited ("**Shenzhou International**" or the "**Company**") is pleased to present the results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019, together with the comparative amounts for the corresponding year of 2018 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	4	**22,665,272**	20,950,205
Cost of sales		**(15,789,251)**	(14,336,181)
Gross profit		**6,876,021**	6,614,024
Other income and gains	4	**730,524**	709,239
Selling and distribution expenses		**(379,836)**	(708,485)
Administrative expenses		**(1,550,614)**	(1,449,696)
Other expenses		**(20,990)**	(18,808)
Finance costs	5	**(89,178)**	(61,049)
Share of profit of an associate		**5,816**	5,121
PROFIT BEFORE TAX	6	**5,571,743**	5,090,346
Income tax expense	7	**(613,207)**	(597,803)
PROFIT FOR THE YEAR		**4,958,536**	4,492,543
Attributable to:			
Owners of the parent		**5,095,206**	4,540,487
Non-controlling interests		**(136,670)**	(47,944)
		4,958,536	4,492,543
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For profit for the year		**RMB3.39**	RMB3.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**4,958,536**	4,492,543
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**181,263**	194,574
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**181,263**	194,574
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**181,263**	194,574
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**5,139,799**	4,687,117
ATTRIBUTABLE TO:		
Owners of the parent	**5,276,463**	4,735,048
Non-controlling interests	**(136,664)**	(47,931)
	5,139,799	4,687,117

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**9,592,314**	8,002,724
Right-of-use assets		**1,534,840**	–
Prepaid land lease payments		**–**	1,200,501
Intangible assets		**101,381**	99,674
Long-term time deposits at banks	*14*	**100,000**	–
Long-term prepayments		**1,850**	82,667
Investment in an associate		**18,181**	12,365
Deferred tax assets		**12,054**	13,696
Total non-current assets		**11,360,620**	9,411,627
CURRENT ASSETS			
Inventories		**5,282,405**	5,237,432
Trade and bills receivables	*10*	**3,648,810**	3,564,821
Prepayments and other receivables		**535,424**	659,955
Amounts due from related parties		**2,640**	2,625
Financial assets at fair value through profit or loss	*12*	**1,053,233**	–
Other financial assets	*13*	**200,000**	1,480,000
Pledged deposits	*14*	**–**	500,000
Bank deposits with an initial term of over three months	*14*	**4,710,830**	3,129,678
Cash and cash equivalents	*14*	**5,060,896**	3,565,916
Total current assets		**20,494,238**	18,140,427
CURRENT LIABILITIES			
Trade payables	*11*	**880,944**	812,687
Contract liabilities		**33,841**	24,161
Other payables and accruals		**1,179,725**	1,181,676
Amount due to a related party		**–**	1,882
Interest-bearing bank borrowings		**3,192,164**	2,434,391
Lease liabilities		**26,522**	–
Tax payable		**271,522**	464,829
Total current liabilities		**5,584,718**	4,919,626

	2019	2018
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**14,909,520**	13,220,801
TOTAL ASSETS LESS CURRENT LIABILITIES	**26,270,140**	22,632,428
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**776,414**	82,358
Lease liabilities	**123,214**	–
Deferred tax liabilities	**179,185**	95,791
Total non-current liabilities	**1,078,813**	178,149
NET ASSETS	**25,191,327**	22,454,279
EQUITY		
Equity attributable to owners of the parent		
Share capital	**151,200**	151,200
Reserves	**25,021,250**	22,147,538
	25,172,450	22,298,738
Non-controlling interests	**18,877**	155,541
Total equity	**25,191,327**	22,454,279

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, amendments to HKAS 19, amendments to HKAS 28 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings and other leasehold properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	1,451,306
Decrease in prepaid land lease payments	(1,200,501)
Decrease in prepayments, other receivables and other assets	(35,749)
Increase in total assets	215,056
Liabilities	
Increase in lease liabilities	215,056
Increase in total liabilities	215,056

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	**532,041**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(265,510)
	266,531
Weighted average incremental borrowing rate as at 1 January 2019	3.88%
Discounted operating lease commitments as at 1 January 2019	215,056
Lease liabilities as at 1 January 2019	**215,056**

(b) HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3. OPERATING 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

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**7,142,756**	6,312,412
European Union	**3,890,278**	3,795,982
Japan	**3,542,572**	3,236,002
United States of America	**3,475,427**	3,252,725
Other regions	**4,614,239**	4,353,084
	22,665,272	20,950,205

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

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**6,222,984**	5,087,674
Vietnam	**4,232,091**	3,883,814
Cambodia	**467,015**	261,167
Other regions	**308,295**	152,911
	11,230,385	9,385,566

The non-current asset information above is based on the locations of the assets and excludes long-term time deposits at banks, investment in an associate and deferred tax assets.

Information about major customers

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

	2019	2018
	RMB'000	*RMB'000*
Customer A	**6,780,535**	6,258,783
Customer B	**5,036,340**	3,989,895
Customer C	**4,501,484**	3,869,983
Customer D	**2,455,838**	2,118,771

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods – at a point in time	**22,665,272**	20,950,205

Revenue from contracts with customers

(i) The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of goods	**21,381**

(ii) Performance obligations

The Group's performance obligation is satisfied upon delivery or pick-up of the knitwear products and payment is generally due within 30 to 180 days from delivery.

	2019	2018
	RMB'000	*RMB'000*
Other income		
Government grants	**361,647**	335,572
Bank interest income	**281,845**	209,195
Other interest income from other financial assets	**966**	14,763
Other interest income from entrusted loans	**–**	15,253
Other interest income from financial assets at fair value through profit or loss	**–**	55,500
Rental income	**22,717**	17,378
	667,175	647,661
Gains		
Fair value gains on financial assets at fair value through profit or loss	**13,233**	–
Gain on disposal of items of right-of-use assets	**1,620**	–
Exchange gains, net	**48,496**	61,578
	63,349	61,578
	730,524	709,239

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Interest on bank borrowings	**80,987**	61,049
Interest on lease liabilities	**8,191**	–
	89,178	61,049

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019 *RMB'000*	2018 *RMB'000*
Cost of inventories sold	**15,782,021**	14,323,652
Depreciation of items of property, plant and equipment	**933,358**	838,683
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**84,596**	30,870
Amortisation of intangible assets	**12,695**	11,678
Minimum lease payments under operating leases	**–**	171,228
Lease payments not included in the measurement of lease liabilities	**61,294**	–
Auditor's remuneration	**3,331**	2,988
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**5,312,155**	4,842,575
Pension scheme contributions	**516,852**	435,922
Other benefits	**184,762**	171,699
	6,013,769	5,450,196

	2019	2018
	RMB'000	*RMB'000*
Foreign exchange differences, net	**(48,496)**	(61,578)
(Reversal)/provision for excess and obsolescence inventories	**(20,127)**	79,816
Bank interest income	**(281,845)**	(209,195)
Other interest income from other financial assets	**(966)**	(14,763)
Other interest income from entrusted loans	**–**	(15,253)
Other interest income from financial assets at fair value through profit or loss	**–**	(55,500)
Loss on disposal of items of property, plant and equipment	**10,730**	8,880
Fair value gains on financial assets at fair value through profit or loss	**(13,233)**	–
Gain on disposal of items of right-of-use assets	**(1,620)**	–

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019	2018
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**25,076**	34,247
Current overseas withholding tax	**4,418**	5,105
Current Mainland China corporate income tax ("**CIT**")	**498,677**	469,921
Deferred taxation	**85,036**	88,530
	613,207	597,803

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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The subsidiaries incorporated in the 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% (2018: 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. No provision for Cambodia income tax has been made as the subsidiaries either had no assessable profits arising in Cambodia or was entitled to an exemption from income tax during the year.

The subsidiary incorporated in Japan, under the Law of Taxation in Japan, is subject to income tax at a rate of 30% (2018: 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 year.

The subsidiaries incorporated in Vietnam, are subject to income tax at a rate of 20%. Under the laws and regulations of Vietnam, certain subsidiaries are entitled to enjoy a lower profits tax rate of 10%. Furthermore, certain subsidiaries are entitled to an exemption from income tax for four years and a 50% reduction for the nine years thereafter. No provision for Vietnam income tax has been made as the two subsidiaries were entitled to an exemption from income tax during the year.

No provision for Macao Complementary Tax has been made during the year, as the subsidiary incorporated in Macao is exempted from Macao Complementary Tax pursuant to Macao's relevant tax legislations.

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 year in accordance with the New CIT Law are subject to a tax rate of 25% on their assessable income. A subsidiary is qualified as a High-New Technology Enterprise ("**HNTE**"), and is entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2019.

A reconciliation between the tax expense and the product of accounting profit multiplied by the PRC's domestic tax rate for the tax years ended 31 December 2019 and 2018 is as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**5,571,743**	5,090,346
Tax at the statutory tax rate of 25% (2018: 25%)	**1,392,936**	1,272,587
Lower tax rates for specific jurisdictions or enacted by local authorities	**(853,791)**	(698,618)
Adjustments in respect of current tax of previous periods	**(7,185)**	(13,975)
Profits attributable to an associate	**(1,454)**	(1,280)
Income not subject to tax	**(1,299)**	(387)
Expenses not deductible for tax	**3,177**	2,257
Overseas withholding tax	**4,418**	5,105
Tax losses not recognised during the year	**76,906**	33,191
Utilisation of previously unrecognised tax losses	**(501)**	(1,077)
	613,207	597,803

8. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Interim – HK$0.90 (2018: HK$0.85) per ordinary share	**1,217,340**	1,115,083
Proposed final – HK$1.00 (2018: HK$0.90) per ordinary share	**1,346,587**	1,185,411
	2,563,927	2,300,494

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,503,222,397 (2018: 1,503,222,397) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 31 December 2018.

The calculation of basic and diluted earnings per share is based on:

Earnings

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**5,095,206**	4,540,487

Shares

	Number of shares	
	2019	2018
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation	**1,503,222,397**	1,503,222,397

Earnings per share

	2019	2018
	RMB	*RMB*
Basic and diluted	**3.39**	3.02

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade and bills receivables	**3,648,810**	3,564,821

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 Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bill receivables as at the end of the reporting period, based on the invoice date and net of nil loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within three months	**3,596,677**	3,339,865
Over three months	**52,133**	224,956
	3,648,810	3,564,821

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2019	2018
	RMB'000	*RMB'000*
Neither past due nor impaired	**3,590,370**	3,547,595
Less than three months past due	**34,955**	8,544
Over three months past due	**23,485**	8,682
	3,648,810	3,564,821

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience and forward-looking information, the directors of the Company were of the opinion that no provision for expected credit losses was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

At 31 December 2019, the trade and bills receivables were denominated in the following currencies:

	2019		2018	
	Original currency	**RMB equivalent**	Original currency	RMB equivalent
	in thousand	***RMB'000***	*in thousand*	*RMB'000*
USD	**305,808**	**2,133,375**	342,505	2,350,679
RMB		**1,515,435**		1,214,142
		3,648,810		3,564,821

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

11. TRADE PAYABLES

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

	2019	2018
	RMB'000	*RMB'000*
Within six months	**855,313**	789,836
Six months to one year	**12,653**	6,647
One year to two years	**6,094**	5,891
Over two years	**6,884**	10,313
	880,944	812,687

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

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	*RMB'000*
Financial products issued by financial institutions	**1,053,233**	–

The above financial products were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows were not solely payments of principal and interest. The applicable size test results in respect of the purchases of these financial products are all below 5% and thus these purchases are 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**").

13. OTHER FINANCIAL ASSETS

	2019	2018
	RMB'000	*RMB'000*
Financial products issued by financial institutions	**200,000**	1,480,000

As at 31 December 2019, certain of the financial products issued by financial institutions with a carrying amount of RMB200,000,000 (2018: RMB1,480,000,000) were stated at amortised cost. The financial products have terms of less than one year and have fixed annual return rate of 3.75% (2018: 4.3%). Pursuant to the underlying contracts or notices, these financial products are capital and return guaranteed. The applicable size test results in respect of the purchases of these financial products are all below 5% and thus these purchases are not subject to the notifiable transaction requirements under Chapter 14 of the Listing Rules.

14. CASH AND BANK BALANCES AND TIME DEPOSITS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances	**2,466,184**	2,815,916
Time deposits	**7,405,542**	4,379,678
	9,871,726	7,195,594
Less: Pledged deposits	**–**	(500,000)
Bank deposits with an initial term of over three months	**(4,710,830)**	(3,129,678)
Long-term time deposits at banks	**(100,000)**	–
Cash and cash equivalents	**5,060,896**	3,565,916

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately RMB911,024,000 (31 December 2018: RMB753,020,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and 36 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Cash and cash equivalents include bank deposits with original maturity of more than three months held by the Group. As at 31 December 2019, bank deposits with original maturity of more than three months, which can be withdrawn on demand without prior notice to banks, held by the Group were RMB460,000,000 (31 December 2018: Nil).

At 31 December 2018, certain of the Group's time deposits with an amount of RMB500,000,000 were pledged to secure bank loans granted to the Group. The time deposits have initial terms of more than one year and have fixed annual rates of return at 3.5%. These deposits have been matured during the year and no deposit was pledged as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS AND STRATEGIES

Business review

At the moment, the growth of global consumption demand for apparel products slows down and the ever-changing trading market becomes more complicated, thus driving the total production cost of enterprises upward generally. As a result, the industry suffers from the pressure of both insufficient demand and increasing costs. During the year under review, the Group managed to deliver satisfactory growth notwithstanding the adversities. The sales revenue and profit attributable to owners of the parent for 2019 increased by 8.2% and 12.2% respectively when compared with those for 2018. Where the impact of retail business is excluded, the sales revenue and profit attributable to owners of the parent for 2019 increased by 10.1% and 14.1% respectively when compared with those of 2018. The realised earnings per share is RMB3.39. During the year, the Group's efforts were mainly focused on enhancing its long-term competitiveness of its enterprises, mainly including (1) the expansion and effectiveness of overseas bases and the improvement of efficiency, (2) the further optimisation of resource allocation and energy consumption structure of domestic bases and (3) the accelerating compression and even withdrawal of its retail business.

During the year, the Group continued to expand the production scale of its overseas bases. The garment factory newly built in Vietnam commenced operation as scheduled smoothly and the labour headcount increased steadily as a result. The new garment factory is strategically located in the same industrial area as the fabric factory in Vietnam, thereby facilitating the integration of industrial chain, reducing the transportation cost and improving the utilisation rate of raw materials. In Phnom Penh of Cambodia, the construction of a new garment factory commenced in the first half of 2019. The project is well on track and is expected to be completed by the end of 2020 and commence production by stages in 2021. At the end of 2019, the Group commenced construction of another new garment factory in Vietnam, which will be assigned to serve a major client as a dedicated garment production factory. The production of the fabric factory in Vietnam has continued to expand, with its capacity of fabric production accounting for over 45% of the total capacity of the Group, thus ensuring sufficient upstream supply of fabrics for the expansion of overseas garment factories. Along with the expansion of the scale of overseas factories, the operation and management of these factories became mature and the production efficiency also improved significantly, thereby laying a solid foundation for the long-term development of the Group.

The Group intends to moderately increase the productivity of fabrics of domestic production bases to a certain extent so as to replace the fabrics imported from current overseas bases, thereby achieving the ultimate goal of attaining a balance between the upstream and downstream productivity of each overseas and domestic bases. This helps to speed up the delivery schedule and lower logistics cost. Accordingly, during the year, the Group arranged for the acquisition of land parcels which was necessary for the production of fabrics at its base located in Ningbo. Given the continuous technology advancement of production equipment in recent years, the water and energy consumption of domestic bases decreased continuously during the year, thus solving the problem arising from the governmental limitation on environment emission index following the increase in productivity of fabrics. Currently, all of our domestic bases are completely using natural gas as basic fuel, thus effectively alleviating the adverse impact on the atmosphere.

The Group has been engaged in retail business for many years but was unable to achieve satisfactory results. In order to further focus our management efforts on the apparels manufacturing business and to provide our clients with better services, the Group accelerated the scale-down of our retail business during the year. As at the end of 2019, all of our outlets directly under the retail business were closed. Despite the temporary adverse effect on the operating results for the year arising from the withdrawal from retail business, it is believed that this will be beneficial to improving the long-term competitiveness of the Group's apparels manufacturing business. Although the Group has withdrawn its retail business, it does not change the Group's expectation and optimism on the long-term demand of the domestic apparels consumption market.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the revenue had been approximately RMB22,665,272,000, which increased by approximately RMB1,715,067,000 from approximately RMB20,950,205,000 for the year ended 31 December 2018, with a growth rate of approximately 8.2%. Without taking into account the impact on revenue caused by the scale-down of retail business, revenue from the Group's manufacturing business increased by approximately 10.1% as compared with last year. The major reasons for increase of revenue were: (1) the order demands from major customers maintained an ideal growth; (2) the production capacity and productivity of the Group's overseas production bases further improved during the year.

The comparison of revenue analyzed as per production classification between 2019 and 2018 of the Group is as below:

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By Products						
Sports wear	**16,321,975**	**72.0**	14,275,643	68.1	2,046,332	14.3
Casual wear	**5,387,683**	**23.8**	5,167,355	24.7	220,328	4.3
Lingerie wear	**802,852**	**3.5**	1,328,006	6.3	(525,154)	(39.5)
Other knitwear	**152,762**	**0.7**	179,201	0.9	(26,439)	(14.8)
Total revenue	**22,665,272**	**100.0**	20,950,205	100.0	1,715,067	8.2

For the year ended 31 December 2019, revenue from sales of sportswear had been approximately RMB16,321,975,000, which increased by approximately RMB2,046,332,000 from approximately RMB14,275,643,000 for the year ended 31 December 2018 with a growth rate of approximately 14.3%. The sales growth of sportswear mainly came from the increasing demands for sportswear in the Mainland China market and USA market.

For the year ended 31 December 2019, revenue from sales of casual wear had been approximately RMB5,387,683,000, which increased by approximately RMB220,328,000 from approximately RMB5,167,355,000 for the year ended 31 December 2018 with a growth rate of approximately 4.3%. It was mainly attributed to the increasing procurement demands for casual wear in the Japanese market.

For the year ended 31 December 2019, revenue from sales of lingerie products had been approximately RMB802,852,000, which decreased by approximately RMB525,154,000 from approximately RMB1,328,006,000 for the year ended 31 December 2018 with a decline rate of approximately 39.5%. It was mainly attributed to the decreasing procurement demands for lingerie in the Japanese market.

The comparison of revenue analyzed as per market segmentation between 2019 and 2018 of the Group is as below:

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
As per market						
Europe	**3,890,278**	**17.2**	3,795,982	18.1	94,296	2.5
Japan	**3,542,572**	**15.6**	3,236,002	15.5	306,570	9.5
US	**3,475,427**	**15.3**	3,252,725	15.5	222,702	6.8
Others	**4,614,239**	**20.4**	4,353,084	20.8	261,155	6.0
Sub-total of international sales	**15,522,516**	**68.5**	14,637,793	69.9	884,723	6.0
Domestic sales	**7,142,756**	**31.5**	6,312,412	30.1	830,344	13.2
Total revenue	**22,665,272**	**100.0**	20,950,205	100.0	1,715,067	8.2

For the year ended 31 December 2019, revenue of the Group in the European market had been approximately RMB3,890,278,000, which increased by approximately RMB94,296,000 from approximately RMB3,795,982,000 for the year ended 31 December 2018 with a growth rate of approximately 2.5%. It was mainly attributed to the more stable consumption demands for sportswear in the European market.

For the year ended 31 December 2019, revenue of the Group in the Japanese market had been approximately RMB3,542,572,000, which increased by approximately RMB306,570,000 from approximately RMB3,236,002,000 for the year ended 31 December 2018 with a growth rate of approximately 9.5%. It was mainly attributed to the increasing procurement demands for casual wear and sportswear in the Japanese market.

For the year ended 31 December 2019, revenue of the Group in the US market had been approximately RMB3,475,427,000, which increased by approximately RMB222,702,000 from approximately RMB3,252,725,000 for the year ended 31 December 2018 with a growth rate of approximately 6.8%. It was mainly attributed to the increasing order demands for sportswear in the US market.

For the year ended 31 December 2019, revenue of the Group in other overseas markets had been approximately RMB4,614,239,000, which increased by approximately RMB261,155,000 from approximately RMB4,353,084,000 for the year ended 31 December 2018 with a growth rate of approximately 6.0%. It was mainly attributed to increasing garments exported to the Russian, Canadian and Australian markets.

For the year ended 31 December 2019, the revenue of the Group from the domestic market increased by approximately 13.2% as compared with last year. Among domestic revenue, revenue from apparels was approximately RMB6,909,320,000, which increased by approximately RMB807,861,000 from approximately RMB6,101,459,000 last year, with a growth rate of approximately 13.2%. Domestic market continued to be the single largest market and the fastest growing market of the Group, in particular the sportswear products which had an ideal growth in consumption demand.

Cost of sales and gross profit

For the year ended 31 December 2019, cost of sales of the Group had been approximately RMB15,789,251,000 (2018: RMB14,336,181,000). The gross profit margin of the Group in 2019 was approximately 30.3%, decreasing by approximately 1.3 percentage points than that of 31.6% in 2018. During the year, factors influencing gross profit margin were mainly attributed to: 1) the scale-down of the Group's retail business, due to which discounted sales were conducted to clean up inventory, and without taking into account the influence of the retail business, the gross profit margin of the manufacturing industry for the year was approximately 30.8%, representing a slight decrease of 0.3 percentage points as compared with last year; 2) the rise in labour costs and increase in average procurement prices of dyestuffs and chemicals during the year; and 3) increase in energy consumption costs due to adjustment of part of the energy structure.

Equity attributable to owners of the parent

As at 31 December 2019, the Group's equity attributable to owners of the parent amounted to approximately RMB25,172,450,000 (2018: RMB22,298,738,000), in which non-current assets was approximately RMB11,360,620,000 (2018: RMB9,411,627,000), net current assets of approximately RMB14,909,520,000 (2018: RMB13,220,801,000), non-current liability of approximately RMB1,078,813,000 (2018: RMB178,149,000) and equity attributable to non-controlling interests of approximately RMB18,877,000 (2018: RMB155,541,000). The increase in equity attributable to owners of the parent was mainly attributable to the increase in retained earnings for the year.

Liquidity and financial resources

For the year ended 31 December 2019, the net cash flow from operating activities of the Group was approximately RMB5,604,360,000, while it was approximately RMB4,118,732,000 in 2018. The cash and cash equivalent of the Group as at 31 December 2019 was approximately RMB5,060,896,000, in which approximately RMB911,024,000 was denominated in RMB, approximately RMB3,905,363,000 was denominated in US dollars ("**USD**"), approximately RMB202,877,000 was denominated in HK dollars ("**HKD**"), approximately RMB38,948,000 was denominated in Vietnamese dong, approximately RMB1,056,000 was denominated in Euro and the remaining balance was denominated in other currencies (2018: RMB3,565,916,000, in which approximately RMB753,020,000 was denominated in RMB, approximately RMB2,769,983,000 was denominated in USD, approximately RMB19,575,000 was denominated in HKD, approximately RMB18,150,000 was denominated in Vietnamese dong, approximately RMB1,668,000 was denominated in Euro, and the remaining balance was denominated in other currencies). The balance of bank borrowings was approximately RMB3,968,578,000 (2018: RMB2,516,749,000, of which the short-term bank borrowing was approximately RMB2,434,391,000, and long-term bank borrowing was approximately RMB82,358,000), of which the short-term bank borrowing was approximately RMB3,192,164,000, and long-term bank borrowing was approximately RMB776,414,000. The net cash of the Group as at 31 December 2019 (cash and cash equivalent less bank borrowing) was approximately RMB1,092,318,000, which increased by RMB43,151,000 from approximately RMB1,049,167,000 for the year ended 31 December 2018.

Equity attributable to owners of the parent amounted to approximately RMB25,172,450,000 (2018: RMB22,298,738,000). The Group had a good cash flow position and debt to equity ratio was 15.8% (which was calculated as percentage of total outstanding borrowings to equity attributable to owners of the parent) (2018: 11.3%). The major reason for the slight growth than the end of the previous year was the increase in debts in overseas subsidiary of the Group as a result of the expansion of production capacity.

As a part of the overall treasury management policies of the Group, the Group purchased financial products from licensed banks of China (including financial assets at fair value through profit or loss, other financial assets and fixed deposits) to maximize the return brought by idle money of the Group through legal and low-risk channel. The applicable size test about purchasing the financial products was lower than 5%, this purchase was therefore not subject to the notifiable transaction requirements under Chapter 14 of the Listing Rules. The purchase of the financial products was approved by the investment and lending committee established by the Board based on implementation of treasury management policies of the Company. Details of those financial products can be found in notes 12, 13 and 14 to the Financial Statements contained in this preliminary annual results announcement.

Pledge of assets of the group

As at 31 December 2019, the Group did not have any pledge of assets.

Financing costs and tax

For the year ended 31 December 2019, the financing cost had increased by approximately RMB28,129,000 to approximately RMB89,178,000 from approximately RMB61,049,000 for the year ended 31 December 2018, which was mainly attributed to a higher average loan balance as compared to last year and recognition of the interest expenses on lease liabilities of the Group for the year. The annual rate of USD borrowings of the Group was between 2.6% and 5.0% during the year (2018: USD annual borrowing rate was between 2.6% and 5.2%).

For the year ended 31 December 2019, the income tax expense of the Group was approximately RMB613,207,000, which increased by approximately RMB15,404,000 from approximately RMB597,803,000 for the year ended 31 December 2018, which was mainly attributed to the increase in the assessable profit of the Mainland China subsidiary of the Group for the year.

Exposure to foreign exchange

The exchange rate fluctuation had a certain influence on costs and operating profits of the Group as sales of the Group was mainly settled in USD and the procurement was mainly settled in RMB. Considering the current exchange rate fluctuation of USD to RMB, the Group adopted corresponding policies to hedge part of related exchange risk. The hedged amounts depend on USD earnings, procurement and capital expenditure of the Group, and market prediction of exchange rate fluctuation of USD to RMB.

In order to avoid decrease in value of future cash flows and volatility caused by any change to the exchange rate of RMB to USD, the Group had arranged certain amount of loans denominated in USD and loans denominated in HKD with linked exchange rate with USD. Amongst total bank loan as at 31 December 2019, the loan of approximately RMB1,276,978,000 was denominated in USD (calculated based on original currency of approximately USD183,048,000) and loan of approximately RMB1,791,600,000 was denominated in HKD (calculated based on original currency of HKD2,000,000,000) (31 December 2018: loan of approximately RMB702,449,000 was denominated in USD (calculated based on original currency of approximately USD102,350,000) and loan of approximately RMB1,314,300,000 was denominated in HKD (calculated based on original currency of HKD1,500,000,000)). The increased percentage of production capacity of the overseas production bases of the Group and increased market share in the domestic market apparently reduced the impact of exchange rate fluctuation of RMB to USD on the Group's business.

Employment, training and development

As at 31 December 2019, the Group employed approximately 85,700 employees in total. During the year, total labour costs (including administration and management staff) accounted for approximately 26.3% of sales of the Group (2018: 26.0%). The total staff cost as a proportion of the income increased by approximately 0.3 percentage points as compared with last year. The Group gave remunerations to employees based on their performance and qualifications as well as industrial convention and took regular review on remuneration policies. According to annual performance appraisal, employees would receive year-end bonuses and rewards. In addition, the Company would give rewards to employees or encouragement in other forms to promote individual growth of employees and career development. For example, the Group continued to provide trainings for employees to improve their skills, product knowledge and understanding of industrial quality standards. All new staff of the Group must attend introductory courses and all staff could also participate in various training courses.

Capital expenditure and capital commitment

During the year, total investment in property, plant and equipment as well as prepaid land lease payment of the Group was approximately RMB2,841,366,000, in which approximately 37% was used for purchasing production equipment, approximately 49% for construction and acquisition of new plant buildings as well as prepayment for land lease, and the remaining balance for procurement of other fixed assets.

As at 31 December 2019, the Group had contracted capital commitments of approximately RMB623,897,000 for procurement of land use right, property, plant and equipment, which were mainly financed with internal resources and bank borrowings.

Significant investments, acquisitions and disposals

In 2019, the Group established a new garment factory in Phnom Penh, Cambodia. The Company will invest approximately USD200,000,000 to build a downstream garment production facility in Cambodia (for processes including cutting, sewing, printing, embroidering, packaging and washing, etc.), which will be used for lease of land, construction of plant and staff quarters, construction of infrastructure, and purchase of machinery and equipment.

Meanwhile, the Group commenced construction of an garment production facility in Vietnam at the end of 2019. The Group will invest approximately USD100,000,000 for this new garment production facility.

Apart from this, the Company did not have significant investments, acquisitions and disposals during the year ended 31 December 2019. Please refer to the announcement of the Company dated 17 September 2018 and the Interim Report 2019 of the Company for the details of the project in Phnom Penh, Cambodia and dated 17 October 2019 for the details of the project in Vietnam.

Capital and liabilities ratio

As at 31 December 2019, capital and liability ratio of the Group was 15.8%, which was calculated by percentage of total outstanding loans to equity attributable to owners of the parent.

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities.

Future Prospects and Strategies

The COVID-19 virus has been spreading among a number of countries. Other than imposing a compulsory quarantine to restrict the movement of and interaction between people, it seems that there will not be an effective medical method to stop the epidemic in the foreseeable future. To prevent imported cases and the subsequent spread of COVID-19, the governments of most countries implemented certain specific control measures. The epidemic restricted the movement of and communication between people of different countries, and bringing a blow to cross border co-operation on multinational industrial chains. As a result, the total global trading volume decreased as the consumption demand was constrained. Some sectors were forced to close temporarily or to operate at a level far below their designed capacities, thus seriously affecting the global economy.

The supply chain of the global textile and apparel industry was heavily affected by the outbreak of COVID-19. In Mainland China, it was common to witness enterprises suffering from the delayed start of production activities and the lower-than-expected attendance rate of labourers returning to work initially after the Chinese New Year holiday, resulting in delayed delivery of part of orders of some enterprises. Due to the insufficient ancillary facilities for domestic industrial chains, the productivity of certain apparel manufacturing countries in Southeast Asia, for example Bangladesh, was affected by the shortage in supply of raw materials, such as fabric trims from China. Staff members of certain wholly foreign-owned enterprises were subject to restriction on entry to China and as a result management personnel failed to report for duty, thus jeopardising the normal operation of enterprises. Apparel industry is commonly labour intensive and additional costs were incurred to prevent viral spread. Besides, the consumption demand of retail business was decreased by the epidemic, which may bring problems about an under insufficient utilisation of capacity to the textile and apparel industry.

As affected by the recent COVID-19 outbreak continuously in Europe and America, global apparel retailing industry experienced a drop in sales in general. We also noted that part of the core clients of the Group has closed their physical shops in certain countries. While the development of the epidemic in those countries is still not certain, it is not practical for us to estimate the effect of the epidemic based on the revenue of the clients of the Group. At present, the utilization rate of the production capacity of the Group is still not significantly affected, however, the effect of the epidemic on our clients may eventually affect us, and as a result, if the situation of the outbreak is not improved, the Group's production capacity may experience underutilization for a period of time in the future.

The industry is operating under significantly increasing and tremendous pressure at the moment. However, we believe that the challenge will not last long. An enterprise's ability to develop mainly depends on its competitiveness in the industry. Accordingly, the Group will continue to attach great importance to the rational planning of its production bases, the vertical optimisation of its industrial chain, the consistent innovation of products and the adequacy of cash reserve. Despite this difficult period, the Group will pay special attention to the accumulation and enhancement of its enterprises' competitiveness so as to leverage on business opportunities arising from the latest round of industry integration.

The Group will further facilitate the sharing of resources between overseas production bases and domestic bases. Meanwhile, enhance overseas factories' ability to operate independently. The Group will also continue to optimise the vertically integrated production model of overseas bases, to establish and broaden the category of ancillary facilities of the local supply chain overseas, to reinforce the reserve of talent pool and shift system for Chinese management personnel assigned to overseas countries and to train and attract candidates with localised management and technological expertise. In addition, the Group will facilitate the process of internal data integration, particularly the sharing and optimisation in respect of research, development, innovation, production techniques, business management and data processing in daily operation.

The Group believes that the ability in enhancing efficiency and continuing to invest in environmental protection will become the major entry barrier and competitive advantage of the industry in the future. As a result, the Group will make every effort to further improve the usage efficiency of consumption of water and other resources so as to alleviate the adverse impact of production activities on the surrounding environment, to promote clean production throughout the entire production process and to ensure that end consumed products have feature of environmental protection. In the future, the Group will continue to optimise the structure of energy consumption and to increase the ratio of clean energy usage in its production activities, and will increase the usage of clean energy, including solar energy and wind energy, step by step whenever possible.

The Group considers our staff members as the most valuable and essential assets, and will sustain to improve their daily living facilities, to optimise their working environment and to establish a competitive compensation and fringe benefit system featuring a highly incentive scheme. The Group is also building several new staff dormitories in its domestic bases, providing better environment standard, living condition and ancillary facilities than the original dormitories. Furthermore, the Group intends to build more high quality staff dormitories and apartments in the future so as to phase out the old dormitories gradually. Ancillary facilities like staff dormitories will also be included in the Group's new factories in Cambodia in which central air conditioning system will be installed. It is widely believed that a stable, well-trained and competent working team is the most important element of an enterprise featuring high production efficiency and sound product quality. Also, ambitious talents with a proactive attitude are definitely the major key to consistent innovation and management upgrade of an enterprise.

Enterprises during the operation may encounter unknown adversities and risks anytime. What we can do is to strengthen our ability in accommodating to changes and to take a proactive role in pursuit for innovation and reformation. Given these abilities, enterprises will be able to maintain their organic growth and withstand adversity. The Group is committed to enhancing its sustainability so as to provide our customers with services of the best quality and to create the highest value for our shareholders.

EVENTS AFTER THE REPORTING PERIOD

From 31 December 2019 to the date of this announcement, there were no significant events after the reporting period which would have any material effect on the Group.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$1.00 (equivalent to approximately RMB0.90) per ordinary share for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on 10 June 2020. However, the proposed payment of the dividend shall be subject to approval by shareholders at the forthcoming annual general meeting (the "**AGM**") to be held on 28 May 2020 and subject to such approval having been obtained, the payment of such dividend is expected to be on or around 19 June 2020.

BOOK CLOSURE

The Register of Members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to establish the identity of the Shareholders who are entitled to attend and vote at the AGM, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

The Register of Members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, both dates inclusive, during such period no transfer of shares will be registered. In order to establish the identity of the Shareholders who are entitled to the said final dividend which will be resolved and voted at the AGM, all transfer forms, accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 June 2020.

CORPORATE GOVERNANCE

The Group's stated objective is to enhance its corporate value, focusing on the solid growth in net profit and consistently stable cash flow, to ensure the Group's long-term, sustainable development and to achieve sound returns for shareholders. The Group is committed to raising its corporate governance standards and increasing the transparency of its operations. Such objective will be achieved by constantly improving the quality of corporate governance of the Company through the provision of continuous training for Directors as well as staff and the appointment of external professional advisers.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2005. The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2019.

Terms of Reference of Board Committees

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company are regularly revised based on amendments to the Listing Rules and the CG Code. Such terms of reference and the list of Directors and their roles and functions are 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 arranged for continuous professional development on the update of the Listing Rules and the related legal and regulatory requirements for the Directors.

Independent non-executive directors

For the year ended 31 December 2019, the Board had complied with (1) the requirement that the board of a listed issuer must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules; (2) the requirement that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (3) the requirement that the number of independent non-executive directors must represent at least one-third of the Board under Rule 3.10A of the Listing Rules.

The Company has received written annual confirmation from each of its independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate governance functions

The Company 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 and reviewing and/or monitoring the policies and practices on corporate governance of the Group; training and continuous professional development of 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 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 AGM to be convened on 28 May 2020 to answer shareholders' questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

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

SECURITIES TRANSACTIONS OF DIRECTORS

The Company 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 ("**Securities Trading Code**"). A copy of the Securities Trading Code is provided to all Directors upon their appointment. Reminder 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 its 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, all Directors confirmed their strict compliance with the relevant provisions of the Securities Trading Code throughout the year ended 31 December 2019.

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

CHANGES TO INFORMATION OF DIRECTORS

During the twelve months ended 31 December 2019, 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 year ended 31 December 2019.

SHARE OPTION SCHEME

No share option scheme was operated by the Company as at 31 December 2019.

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.

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 for the year ended 31 December 2019 and as at the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee ("**Audit Committee**") in compliance with Rules 3.21 to 3.23 of the Listing Rules on 9 October 2005. As of the issuance of this announcement, the Audit Committee comprises four independent non-executive Directors, namely Mr. Jiang Xianpin, Mr. Chen Xu, Mr. Qiu Weiguo 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 financials 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 Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the provisions of the CG Code and are subject to amendments in response to the regulatory requirements from time to time (including the Listing Rules).

The Audit Committee has reviewed with the management and the external auditors of the Company this annual results and the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial statements matters including the review of the financial statements for the year ended 31 December 2019.

REMUNERATION COMMITTEE

The Company established the remuneration committee ("**Remuneration Committee**") in compliance with the CG Code on 9 October 2005. As of the issuance of this announcement, the Remuneration Committee comprises Mr. Ma Renhe, an executive Director, Mr. Chen Xu, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, three of them are independent non-executive Directors. Mr. Chen Xu 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 ("**Nomination Committee**") on 9 October 2005. For the year ended 31 December 2019, the Nomination Committee comprises Mr. Ma Jianrong, an executive director, Mr. Qiu Weiguo, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, three of them 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 diversity composition (including skills, knowledge and experience) of the Board and make recommendations to the Board for any proposed changes.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditors, Ernst & Young, certified public accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The annual report of the Company for the year ended 31 December 2019, which contains all the information required by the Listing Rules, will be sent to shareholders and published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.shenzhouintl.com) in due course and in any event before 30 April 2020.

ANNUAL GENERAL MEETING

The AGM will be held at 7th Floor, the Group's Office Building, No. 18 Yongjiang Road, Beilun District, Ningbo, Zhejiang Province, the PRC, on Thursday, 28 May 2020 at 10:00 a.m.. Notice of the AGM will be published and issued in due course.

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

Hong Kong, 23 March 2020

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe, Mr. Wang Cunbo and Ms. Chen Zhifen; and four independent non-executive Directors, namely Mr. Chen Xu, Mr. Jiang Xianpin, Mr. Qiu Weiguo and Mr. Zhang Bingsheng.