*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

# 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 2020

## HIGHLIGHTS

- Sales for the six months ended 30 June 2020 amounted to approximately RMB10,233,778,000, representing a decrease of 0.4% when compared with the corresponding period of 2019. Excluding the effect of the withdrawal from retail business, the revenue increased by 2.3% as compared with the same period last year.
- Percentage of sportswear products sales to total sales was approximately 73.4% for the six months ended 30 June 2020. Revenue from sale of sportswear products increased by approximately 2.0% when compared with the corresponding period of the previous year.
- Percentage of casual wear products sales to total sales was approximately 18.7% for the six months ended 30 June 2020. Revenue from sale of casual wear products decreased by approximately 19.2% when compared with the corresponding period of the previous year.
- Percentage of lingerie products sales to total sales was approximately 6.1% for the six months ended 30 June 2020. Revenue from sale of lingerie products increased by approximately 35.7% when compared with the corresponding period of the previous year.
- Gross profit for the six months ended 30 June 2020 amounted to approximately RMB3,158,594,000, representing a decrease of approximately 0.5% when compared with the corresponding period of 2019. Gross profit margin was approximately 30.9%, which was the same as the corresponding period of the previous year. Excluding the effect of the withdrawal from retail business, the gross profit margin decreased by approximately 0.6 percentage points as compared with the same period last year.
- Net profit attributable to owners of the parent for the six months ended 30 June 2020 amounted to approximately RMB2,512,399,000, representing an increase of approximately 4.0% when compared with the corresponding period of 2019, among which, the apportion of loss of approximately RMB23,859,000 (based on 51% equity interests) due to the withdrawal from the retail business (for the six months ended 30 June 2019: the apportion of loss from retail business was approximately RMB82,944,000) had been included. The profit attributable to owners of the parent for the period would have increased by approximately 1.5% if the impact of withdrawal from the retail business was excluded.
- Basic earnings per share were RMB1.67, representing an increase of approximately 3.7% from RMB1.61 for the corresponding period of the previous year.
- The Board had resolved to declare an interim dividend of HK$0.90 per share, which remains the same as the HK$0.90 per share for the corresponding period of the previous 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 2020 (the "Reporting Period"), together with the comparative amounts for the corresponding period of 2019. The interim results and interim financial statements have not been audited but have been reviewed by the Company's Audit Committee.

## INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2020*

| | | **Unaudited For the six months ended 30 June** | |
|---|---|---|---|
| | | **2020** | 2019 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **REVENUE** | *4* | **10,233,778** | 10,279,693 |
| Cost of sales | *5* | **(7,075,184)** | (7,104,814) |
| Gross profit | | **3,158,594** | 3,174,879 |
| Other income and gains | *6* | **587,851** | 501,919 |
| Selling and distribution expenses | *5* | **(75,575)** | (222,112) |
| Administrative expenses | *5* | **(817,070)** | (799,933) |
| Other expenses | *7* | **(15,778)** | (7,401) |
| Finance costs | *8* | **(62,861)** | (36,268) |
| Share of profit of an associate | | **2,778** | 2,816 |
| **PROFIT BEFORE TAX** | | **2,777,939** | 2,613,900 |
| Income tax expense | *9* | **(288,960)** | (277,334) |
| **PROFIT FOR THE PERIOD** | | **2,488,979** | 2,336,566 |
| Attributable to: | | | |
| Owners of the parent | | **2,512,399** | 2,416,027 |
| Non-controlling interests | | **(23,420)** | (79,461) |
| | | **2,488,979** | 2,336,566 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | *10* | | |
| **Basic** | | | |
| – For profit for the period | | **RMB1.67** | RMB1.61 |
| **Diluted** | | | |
| – For profit for the period | | **N/A** | N/A |

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2020*

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **PROFIT FOR THE PERIOD** | **2,488,979** | 2,336,566 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange gain on translation of foreign operations | **81,685** | 29,935 |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods: | **81,685** | 29,935 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **81,685** | 29,935 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **2,570,664** | 2,366,501 |
| **ATTRIBUTABLE TO:** | | |
| Owners of the parent | **2,594,045** | 2,445,961 |
| Non-controlling interests | **(23,381)** | (79,460) |
| | **2,570,664** | 2,366,501 |

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*As at 30 June 2020*

| | Notes | **Unaudited 30 June 2020 *RMB'000*** | Audited 31 December 2019 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *12* | **9,936,511** | 9,592,314 |
| Right-of-use assets | *12* | **1,674,902** | 1,534,840 |
| Intangible assets | *12* | **98,966** | 101,381 |
| Long-term time deposits at banks | | **991,590** | 100,000 |
| Long-term prepayment | *15* | **1,850** | 1,850 |
| Investment in an associate | | **20,959** | 18,181 |
| Deferred tax assets | | **11,888** | 12,054 |
| Total non-current assets | | **12,736,666** | 11,360,620 |
| **CURRENT ASSETS** | | | |
| Inventories | *13* | **5,201,264** | 5,282,405 |
| Trade and bills receivables | *14* | **3,413,828** | 3,648,810 |
| Prepayments and other receivables | *15* | **948,964** | 535,424 |
| Amounts due from related parties | *20b* | **2,348** | 2,640 |
| Financial assets at fair value through profit or loss | | **2,284,652** | 1,053,233 |
| Other financial assets | | **–** | 200,000 |
| Bank deposits with an initial term of over three months | | **4,818,265** | 4,710,830 |
| Cash and cash equivalents | | **5,978,246** | 5,060,896 |
| Total current assets | | **22,647,567** | 20,494,238 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *16* | **764,321** | 880,944 |
| Contract liabilities | | **8,392** | 33,841 |
| Other payables and accruals | *17* | **933,782** | 1,179,725 |
| Interest-bearing bank borrowings | | **5,651,275** | 3,192,164 |
| Lease liabilities | | **18,942** | 26,522 |
| Tax payable | | **162,488** | 271,522 |
| Total current liabilities | | **7,539,200** | 5,584,718 |
| **NET CURRENT ASSETS** | | **15,108,367** | 14,909,520 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **27,845,033** | 26,270,140 |

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2020*

| | Unaudited 30 June 2020 *RMB'000* | Audited 31 December 2019 *RMB'000* |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank borrowings | **1,106,488** | 776,414 |
| Lease liabilities | **118,878** | 123,214 |
| Deferred tax liabilities | **204,263** | 179,185 |
| Total non-current liabilities | **1,429,629** | 1,078,813 |
| **Net assets** | **26,415,404** | 25,191,327 |
| **EQUITY** | | |
| **Equity attributable to owners of the parent** | | |
| Share capital | **151,200** | 151,200 |
| Reserves | **26,268,708** | 25,021,250 |
| | **26,419,908** | 25,172,450 |
| **Non-controlling interests** | **(4,504)** | 18,877 |
| Total equity | **26,415,404** | 25,191,327 |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2020*

## 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 and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of knitwear products.

These unaudited interim consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand,except when otherwise stated. These unaudited interim consolidated financial statements have been approved for issue by the Board on 25 August 2020.

## 2. BASIS OF PREPARATION

These unaudited interim consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". These unaudited interim 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 2019.

## 3. 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 2019, 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 | *Definition of a Business* |
| Amendments to HKFRS 9,HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to HKFRS 16 | *Covid-19-Related Rent Concessions (early adopted)* |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material* |

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

    During the period ended 30 June 2020, no lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. Therefore, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

## 4. SEGMENT INFORMATION

For management purposes, the Group is organized 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** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **2,868,673** | 3,223,167 |
| Japan | **1,953,441** | 1,551,343 |
| European Union | **1,917,557** | 1,744,244 |
| United States of America | **1,451,164** | 1,532,246 |
| Other regions | **2,042,943** | 2,228,693 |
| | **10,233,778** | 10,279,693 |

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

### *(b) Non-current assets*

| | **Unaudited** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **5,395,431** | 6,222,984 |
| Vietnam | **4,930,070** | 4,232,091 |
| Cambodia | **1,082,730** | 467,015 |
| Other regions | **303,998** | 308,295 |
| | **11,712,229** | 11,230,385 |

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 total revenue are as follows:

| | **Unaudited For the six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Customer A | **3,010,168** | 3,258,405 |
| Customer B | **2,455,235** | 2,019,915 |
| Customer C | **2,005,573** | 1,939,598 |
| Customer D | **1,078,248** | 1,153,571 |
| | **8,549,224** | 8,371,489 |

## 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 | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Employee benefit expenses | | |
| Wages and salaries | **2,624,270** | 2,666,497 |
| Retirement benefit contributions | **175,816** | 237,779 |
| Other benefits | **115,171** | 85,346 |
| | **2,915,257** | 2,989,622 |
| Depreciation, amortisation and impairment expenses | **512,425** | 511,971 |
| Changes in inventories of finished goods and work in progress | **115,303** | (610,978) |
| Raw materials and consumables utilized | **3,672,310** | 4,257,283 |
| Utilities expenses | **361,873** | 425,185 |
| Transportation expenses | **86,541** | 83,369 |
| Donation | **39,020** | 42,788 |
| Traveling expenses | **36,037** | 23,103 |
| Repair expenses | **29,693** | 57,950 |
| Outsourcing | **23,624** | 88,050 |
| Taxation | **23,017** | 22,281 |
| Operating lease expenses for properties | **15,828** | 41,991 |
| Charges for disposing pollutants | **13,430** | 15,174 |
| Inspection fees | **9,323** | 5,795 |
| Entertainment expenses | **5,191** | 11,440 |
| Other expenses | **108,957** | 161,835 |
| Total cost of sales, selling and distribution costs and administrative expenses | **7,967,829** | 8,126,859 |

## 6. OTHER INCOME AND GAINS

| | Unaudited For the six months ended 30 June 2020 *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| **Other income** | | |
| Government incentives | **294,943** | 329,473 |
| Bank interest income | **162,329** | 112,479 |
| Other interest income from other financial assets | **945** | 29,581 |
| Rental income | **15,285** | 8,921 |
| | **473,502** | 480,454 |
| **Gains** | | |
| Fair value gains on financial assets at fair value through profit or loss | **26,248** | – |
| Gain on disposal of items of right-of-use assets | **48** | – |
| Exchange gains, net | **88,053** | 21,465 |
| | **114,349** | 21,465 |
| | **587,851** | 501,919 |

## 7. OTHER EXPENSES

| | Unaudited For the six months ended 30 June 2020 *RMB'000* | 2019 *RMB'000* |
|---|---|---|
| Loss on disposal of items of property, plant and equipment | **5,469** | 2,413 |
| Loss on disposal of intangible assets | **3,832** | – |
| Rental cost | **6,477** | 4,988 |
| | **15,778** | 7,401 |

## 8. FINANCE COSTS

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank borrowings | **59,978** | 32,214 |
| Interest on lease liabilities | **2,883** | 4,054 |
| | **62,861** | 36,268 |

## 9. INCOME TAX

The major components of income tax expenses for the six months ended 30 June 2020 and 2019 are:

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Current Hong Kong profits tax | **6,379** | 9,514 |
| Current Vietnam corporate income tax | **22,851** | – |
| Current overseas withholding tax | **1,744** | 2,310 |
| Current Mainland China corporate income tax ("CIT") | **232,742** | 216,210 |
| Deferred taxation | **25,244** | 49,300 |
| | **288,960** | 277,334 |

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 2019: 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 effective from the year of assessment 2019/2020. The first HK$2,000,000 (for the six months ended 30 June 2019: HK$2,000,000) 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 2019: 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 period.

The subsidiaries 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 2019: 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, 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 Macao Complementary Tax has been made during the period, 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 period 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, and is entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2019.

## 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 RMB2,512,399,000 (for the six months ended 30 June 2019: RMB2,416,027,000) and on the weighted average number of 1,503,222,397 (for the six months ended 30 June 2019: 1,503,222,397) ordinary shares in issue.

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the period.

## 11. DIVIDEND

Pursuant to resolution passed by the Board on 25 August 2020, the Board declared an interim dividend of HK$0.90 per share (for the six months ended 30 June 2019: HK$0.90 per share), totaling approximately HK$1,352,900,000 (equivalent to approximately RMB1,235,739,000). 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 2020.

## 12. CAPITAL EXPENDITURES

| | Property, plant and equipment *RMB'000* | Right-of-use assets *RMB'000* | Water use right *RMB'000* | Software *RMB'000* |
|---|---|---|---|---|
| **Unaudited** | | | | |
| **For the six months ended 30 June 2019** | | | | |
| Opening net book amount at 1 January 2019 | 8,002,724 | 1,451,305 | 60,738 | 38,936 |
| Additions | 1,028,214 | 168,074 | – | 5,868 |
| Disposals | (150,251) | – | – | – |
| Depreciation/amortisation | (464,117) | (41,640) | (3,225) | (2,989) |
| Exchange differences | 5,117 | 627 | – | – |
| Closing net book amount at 30 June 2019 | 8,421,687 | 1,578,366 | 57,513 | 41,815 |
| **Unaudited** | | | | |
| **For the six months ended 30 June 2020** | | | | |
| Opening net book amount at 1 January 2020 | **9,592,314** | **1,534,840** | **54,288** | **47,093** |
| Additions | **751,847** | **163,703** | **–** | **8,319** |
| Disposals | **(11,126)** | **(1,777)** | **–** | **(3,832)** |
| Depreciation/amortisation | **(471,247)** | **(34,273)** | **(3,225)** | **(3,680)** |
| Exchange differences | **74,723** | **12,409** | **–** | **3** |
| Closing net book amount at 30 June 2020 | **9,936,511** | **1,674,902** | **51,063** | **47,903** |

## 13. INVENTORIES

| | **Unaudited** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **1,103,283** | 1,070,080 |
| Work in progress | **2,140,050** | 2,233,058 |
| Finished goods | **2,059,420** | 2,081,715 |
| | **5,302,753** | 5,384,853 |
| Provision | **(101,489)** | (102,448) |
| | **5,201,264** | 5,282,405 |

## 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** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Within three months | **3,350,112** | 3,596,677 |
| Over three months | **63,716** | 52,133 |
| | **3,413,828** | 3,648,810 |

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

## 15. PREPAYMENTS AND OTHER RECEIVABLES

| | **Unaudited** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **Current** | | |
| Prepayments and deposits | | |
| – Purchase of raw materials | **381,808** | 61,891 |
| – Purchase of items of property, plant and equipment | **206,387** | 168,438 |
| – Rental deposits | **37,283** | 47,093 |
| – Others | **28,114** | 28,559 |
| VAT refund receivable and recoverable | **130,401** | 77,903 |
| Interest receivable | **109,922** | 83,339 |
| Other receivables | **55,049** | 68,201 |
| | **948,964** | 535,424 |
| **Non-Current** | | |
| Long-term prepayment* | **1,850** | 1,850 |

The carrying amounts of the prepayment and other receivables approximate to their fair values.

* *Long-term prepayment represent the payment for land use right.*

## 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 | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Within six months | **722,593** | 855,313 |
| Six months to one year | **24,852** | 12,653 |
| One year to two years | **9,672** | 6,094 |
| Over two years | **7,204** | 6,884 |
| | **764,321** | 880,944 |

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 |
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Accrued expenses | **681,619** | 810,223 |
| Payables for purchase of property, plant and equipment | **26,592** | 131,661 |
| Payables and guarantee deposits related to construction projects | **58,587** | 45,652 |
| Rental deposits | **6,305** | 9,758 |
| Other taxes payable | **69,647** | 85,531 |
| Others | **91,032** | 96,900 |
| | **933,782** | 1,179,725 |

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

## 18. COMMITMENTS

### Capital commitments

| | **Unaudited 30 June 2020** *RMB'000* | Audited 31 December 2019 *RMB'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Acquisition of property, plant and equipment | **637,193** | 617,291 |
| Acquisition of land use right | **–** | 6,606 |
| | **637,193** | 623,897 |

## 19. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (at 31 December 2019: Nil).

## 20. RELATED PARTY TRANSACTIONS

### (a) Continuing transactions with related parties

The Group had the following continuing significant transactions with its related parties, including directors and their associates and companies controlled by the controlling shareholder, for the six months ended 30 June 2020 and 2019:

| | **Unaudited For the six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Lease of apparel production properties from Ningbo Shenzhou Properties Co., Ltd. ("Shenzhou Properties")* | **7,130** | 3,699 |
| Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")** | **672** | 8,883 |
| Printing service provided by Ningbo Avery*** | **57,863** | 56,796 |
| Sales and marketing services and general support services provided to Ningbo Avery*** | **4,301** | 4,472 |

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

** *Huaxi Packaging Company is controlled by the relatives of one of the Company's executive directors. These transactions constitute continuing connected transactions of the Company during the report period but are fully exempt from the requirements under Chapter 14A of the Listing Rules as the applicable percentage ratios are all less than 0.1%.*

*** *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 purchases and lease from 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 30 June 2020** | Audited 31 December 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amounts due from related parties | | |
| – Trade related | | |
| Shenzhou Properties | **617** | 617 |
| Ningbo Avery | **1,731** | 2,023 |
| | **2,348** | 2,640 |

**(c) Key management compensation**

| | **Unaudited For the six months ended 30 June 2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries and other short-term employee benefits | **24,230** | 14,540 |
| Post-employment benefits | **80** | 74 |
| | **24,310** | 14,614 |

## MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the Group's unaudited interim consolidated financial statements for the six months ended 30 June 2020 and its notes ("Financial Statements") contained in this interim results announcement.

## BUSINESS REVIEW

According to statistical data from the China Customs, the total export value of Chinese textile and garment products (including textile yarns, fabrics and finished products as well as garments and apparel accessories, referred the same as below) from January to June 2020 was approximately US$125.19 billion, representing an increase of approximately 3.2% over the same period last year. Out of the total export value, the export value of textile products amounted to approximately US$74.10 billion, representing an increase of approximately 27.8% over the same period last year. The export value of apparel products amounted to approximately US$51.08 billion, representing a decrease of approximately 19.4% over the same period last year. From January to June 2020, the export value of apparel products from Mainland China to Europe, America and Japan amounted to US$14.75 billion, US$10.61 billion and US$6.08 billion respectively, representing a decrease of 16.0%, 30.1% and 11.8% respectively over the same period last year. Due to the coronavirus pandemic (the "COVID-19 Pandemic"), the export of pandemic prevention textiles such as masks has increased significantly, driving the overall growth of textile exports. In addition, consumers' outing activities have decreased and retail brands have closed some of their physical stores, which resulted in a sharp drop in garment exports. In terms of the domestic apparel consumption market, according to data released by the National Bureau of Statistics, out of the amount of retail sales of products manufactured by enterprises above designated quota from January to June 2020, total retail sales of apparels, footwear and headwear, and knitted products amounted to approximately RMB511.99 billion (including the total retail sales of apparels of approximately RMB360.91 billion), representing a year-on-year decrease of approximately 19.6% (year-on-year decrease of apparels was approximately 21.8%). In addition, the amount of retail sales of national online products in the wearing segment has seen a year-on-year decrease of approximately 2.9%. The consumption demand for apparel products in the domestic market has also fallen sharply, but has since picked up as the impact of the pandemic has been alleviated.

While the COVID-19 Pandemic affects consumer demand, the global supply chain is also affected. According to the preliminary statistics of the Vietnam Customs, from January to June 2020, the export value of Vietnam's textiles and apparels was approximately US$13.18 billion, representing a decrease of approximately 12.7% over the same period last year. In particular, the amount exported to the United States, Japan and South Korea was approximately US$6.19 billion, US$1.65 billion and US$1.21 billion respectively, representing a decrease of 12.0%, 7.2% and 13.1% over the same period last year respectively. From January to June 2020, Vietnam's import amount of fabrics from foreign countries was approximately US$5.52 billion, representing a decrease of approximately 15.9% over the same period last year. In particular, the amount of fabrics imported from China was approximately US$3.29 billion, accounting for approximately 59.6% of the total amount of imported fabrics, representing a decrease of approximately 13.3% over the same period last year. Vietnam's export amount of yarns was approximately US$1.61 billion, representing a decrease of approximately 20.7% over the same period last year. In particular, the amount exported to China was approximately US$0.91 billion, representing a decrease of approximately 21.2% over the same period last year. On 30 June 2020, the European Union and Vietnam signed the EU-Vietnam Free Trade Agreement, with effect from 1 August 2020, which will benefit Vietnam's export of apparel products to the European Union in the long term. However, since most of the fabrics needed for the production of apparel products in Vietnam currently rely on imports, the requirement on the place of origin pursuant to the Agreement will limit to a certain extent, the number of enterprises that can actually benefit from tariff preference. From January to June 2020, the amount of textile and garment products exported from Vietnam to the European Union (27 countries) was approximately US$1.32 billion, representing a decrease of approximately 17% over the same period last year.

During the period, due to the decline in consumer demand caused by the COVID-19 Pandemic, the production capacity of the global apparel industry chain was underutilized. Meanwhile, the product delivery of some enterprises was unstable due to issue with ancillary facilities in the industrial chain. In addition, the market demand was uncertain, which increased pressure on the purchasing and inventory management of retail brand customers. Industries from apparel manufacturing to retail are experiencing unprecedented difficulties and pressures.

From January to June 2020, the Group achieved sales revenue of approximately RMB10,233,778,000, representing a slight decrease of 0.4% over the same period last year, profit attributable to owners of the parent of approximately RMB2,512,399,000, representing an increase of approximately 4.0% over the same period last year, and earnings per share for the period of RMB1.67. In the current difficult operating environment, the Group's ability to maintain the basic stability of production and operation has highlighted the importance of enhancing competitiveness for the sustainable development of the Company. During the period, the following work has been carried out to better enhance the Group's ability to serve customers: the production capacity of overseas factories has been further expanded, and the management and operation have become more mature and stable; the Group has maintained close interaction and collaboration with brand customers and supply chain partners, and enhanced its ability to respond to uncertain changes; the Group is concerned about the interests of its employees, whose sense of belongings has promoted the improvement of corporate cohesion.

During the period, the expansion of the Group's overseas factories proceeded as planned, and there was no suspension of construction or adjustment of construction scale due to the COVID-19 Pandemic. The construction of phase 1 of the new garment factory in Phnom Penh of Cambodia has been completed and the factory is expected to start recruiting and be put into production in the third quarter of this year. The number of employees in the new garment factory in Vietnam's fabric base will continue to increase, enhancing the garment production capacity of Vietnam base. The fabric production capacity of Vietnam base has been further increased. The entire industrial chain layout in Vietnam has enabled the Group's garment exports to meet the requirement of the EU-Vietnam Free Trade Agreement on the place of origin. Due to the COVID-19 Pandemic, during the period, the interaction between personnel of the Group's domestic offices and overseas factories were almost interrupted. However, thanks to the completed auxiliary facilities in the industrial chain and the mature operation and management of overseas teams, overseas factories maintained normal production operations during the pandemic. Especially when production was temporally suspended due to the severe pandemic in Mainland China, overseas factories played a key role in ensuring the basic production capacity of the Group. At the same time, we should thank the overseas management team for their high professionalism, who returned to work before the end of the Chinese New Year holidays, ensuring the normal operation of the Company.

Affected by the COVID-19 Pandemic, the uncertainty of market demand and auxiliary facilities in the supply chain has increased, so the stability and rapid response capability of the supply chain are particularly important. The Group has maintained close communication with relevant parties upstream and downstream in the industry chain, and has fully utilized the Group's ability for short-term delivery. With the strong support of relevant suppliers, the Group has actively cooperated with customers to respond to market changes. During the period, the Group co-developed mask products based on customer needs and received good market feedback. In addition, the Group has worked with suppliers to overcome the difficulties, arranged payment for goods in a timely manner, and provided certain prepaid financial support for some cooperative suppliers.

Although the COVID-19 Pandemic has also had a certain impact on the utilization of the Group's capacity, the Group not only did not lay off employees, but also tried to ensure the stability of employees and was concerned about the interests of all employees. When the pandemic was under control in the PRC, the Group increased the number of chartered buses during the Chinese New Year to bring employees back to the Company from all over the country, and produced self-made masks to solve the shortage of pandemic prevention materials, which allowed rapid resumption of work and production. Additional allowances were provided to domestic employees for the month when they returned to work after the holiday. In addition, employees who took a break during quarantine due to the pandemic and employees from Hubei who failed to return to work in time will be paid as usual. In order to control the pandemic, the Group's canteen was changed to a set meal system and the dining subsidy was increased. Currently, the Group is building new employee dormitories in phases in its base in Ningbo to provide employees with better accommodation conditions. The first phase of the dormitory has been completed. It is in the renovation stage and will soon be put into use.

## OPERATION PERFORMANCE OF THE GROUP

### Revenue

For the six months ended 30 June 2020, the revenue of the Group was approximately RMB10,233,778,000, representing a decrease of approximately RMB45,915,000 or approximately 0.4% from approximately RMB10,279,693,000 for the six months ended 30 June 2019. During the period, the sales revenue of the Group recorded a slight decrease, mainly attributable to 1) a decrease in consumers' outing activities and the failure of customers' physical stores to operate normally due to the COVID-19 Pandemic, resulting in unsatisfactory market demand; 2) the Group's withdrawal from its retail business during the period. Excluding the effect of the withdrawal from retail business, the revenue from the Group's manufacturing business increased by approximately 2.3% as compared with the same period last year.

The comparison of revenue of the Group analyzed as per product category for the six months ended 30 June 2020 and the six months ended 30 June 2019 is as below:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **Changes** | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| **By products** | | | | | | |
| Sportswear | **7,513,222** | **73.4** | 7,369,014 | 71.7 | 144,208 | 2.0 |
| Casual wear | **1,918,005** | **18.7** | 2,373,614 | 23.1 | (455,609) | (19.2) |
| Lingerie | **622,912** | **6.1** | 458,900 | 4.5 | 164,012 | 35.7 |
| Other knitwear | **179,639** | **1.8** | 78,165 | 0.7 | 101,474 | 129.8 |
| Total revenue | **10,233,778** | **100.0** | 10,279,693 | 100.0 | (45,915) | (0.4) |

For the six months ended 30 June 2020, revenue from sales of sportswear products was approximately RMB7,513,222,000, representing an increase of approximately RMB144,208,000 or approximately 2.0% from approximately RMB7,369,014,000 for the six months ended 30 June 2019. The increase in revenue from sales of sportswear products was mainly attributable to an increase in the demand for sportswear from the European market.

Revenue from sales of casual wear products decreased by approximately RMB455,609,000 or approximately 19.2% from approximately RMB2,373,614,000 for the six months ended 30 June 2019 to approximately RMB1,918,005,000 for the six months ended 30 June 2020. Such decrease was mainly attributable to a decrease in casual wear sold to the US market and other markets, and the Group's withdrawal from its own retail business.

Revenue from sales of lingerie products increased by approximately RMB164,012,000 or approximately 35.7% from approximately RMB458,900,000 for the six months ended 30 June 2019 to approximately RMB622,912,000 for the six months ended 30 June 2020. Such increase was mainly attributable to the recovery of procurement demand for lingerie wear in Japanese market.

Revenue from sales of other knitwear products increased by approximately RMB101,474,000 or approximately 129.8% from approximately RMB78,165,000 for the six months ended 30 June 2019 to approximately RMB179,639,000 for the six months ended 30 June 2020. Such increase was mainly attributable to the inclusion of revenue from mask products amounting to approximately RMB113,646,000 in the revenue for the year.

The comparison of revenue of the Group analyzed as per market segmentation for the six months ended 30 June 2020 and the six months ended 30 June 2019 is as below:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **Changes** | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| **By market regions** | | | | | | |
| International sales | | | | | | |
| Japan | **1,953,441** | **19.1** | 1,551,343 | 15.1 | 402,098 | 25.9 |
| Europe | **1,917,557** | **18.7** | 1,744,244 | 17.0 | 173,313 | 9.9 |
| US | **1,451,164** | **14.2** | 1,532,246 | 14.9 | (81,082) | (5.3) |
| Others | **2,042,943** | **20.0** | 2,228,693 | 21.7 | (185,750) | (8.3) |
| Sub-total for international sales | **7,365,105** | **72.0** | 7,056,526 | 68.7 | 308,579 | 4.4 |
| Domestic sales | **2,868,673** | **28.0** | 3,223,167 | 31.3 | (354,494) | (11.0) |
| Total revenue | **10,233,778** | **100.0** | 10,279,693 | 100.0 | (45,915) | (0.4) |

For the six months ended 30 June 2020, the revenue of the Group from the Japanese market was approximately RMB1,953,441,000, representing an increase of approximately RMB402,098,000 or approximately 25.9% from approximately RMB1,551,343,000 for the six months ended 30 June 2019. During the period, the increase in revenue from the Japanese market was mainly attributable to an increase in the demand for lingerie wear and sportswear in the Japanese market.

For the six months ended 30 June 2020, the revenue of the Group from the European market was approximately RMB1,917,557,000, representing an increase of approximately RMB173,313,000 or approximately 9.9% from approximately RMB1,744,244,000 for the six months ended 30 June 2019. During the period, the increase in the revenue from the European market was mainly attributable to an increase in the procurement demand for sportswear in the European market.

For the six months ended 30 June 2020, the revenue of the Group from the US market was approximately RMB1,451,164,000, representing a decrease of approximately RMB81,082,000 or approximately 5.3% from approximately RMB1,532,246,000 for the six months ended 30 June 2019. The decline in the revenue from the US market was mainly attributable to a decrease in orders for casual wear from the US market.

For the six months ended 30 June 2020, the revenue of the Group from other markets including South Korea, Taiwan and Hong Kong was approximately RMB2,042,943,000, representing a decrease of approximately RMB185,750,000 or approximately 8.3% from approximately RMB2,228,693,000 for the six months ended 30 June 2019. The decrease in revenue from other markets was mainly attributable to a decrease in casual wear sold to markets such as South Korea and Taiwan.

For the six months ended 30 June 2020, the revenue of the Group from the domestic market decreased by approximately 11.0% as compared with the same period last year. Among domestic revenue, revenue from apparels was approximately RMB2,785,902,000, representing a decrease of approximately RMB351,245,000 or approximately 11.2% from approximately RMB3,137,147,000 for the same period last year. Such decrease was mainly attributable to the withdrawal of own retail business from the domestic market and the decline in revenue from sportswear products.

**Cost of sales and gross profit**

The cost of sales of the Group for the six months ended 30 June 2020 amounted to approximately RMB7,075,184,000 (for the six months ended 30 June 2019: approximately RMB7,104,814,000). The gross profit margin of the Group for the six months ended 30 June 2020 was approximately 30.9%, which was the same as the same period last year. Excluding the effect of retail business, the gross profit margin for the period decreased by approximately 0.6 percentage points over the same period last year. The main factors affecting the gross profit margin of the Group are: 1) an increase in the proportion of depreciation and amortization in total cost due to lower than expected capacity utilization rate; and 2) the payment of additional allowances during the pandemic, resulting in a higher proportion of labor cost in total cost during the period.

**Equity attributable to owners of the parent**

As at 30 June 2020, the Group's equity attributable to owners of the parent amounted to approximately RMB26,419,908,000 (31 December 2019: approximately RMB25,172,450,000). In particular, non-current assets were approximately RMB12,736,666,000 (31 December 2019: approximately RMB11,360,620,000), net current assets were approximately RMB15,108,367,000 (31 December 2019: approximately RMB14,909,520,000), non-current liabilities were approximately RMB1,429,629,000 (31 December 2019: approximately RMB1,078,813,000) and non-controlling interests were approximately RMB-4,504,000 (31 December 2019: approximately RMB18,877,000). The change in equity attributable to owners of the parent was mainly attributable to: 1) an increase in operating profit of the Group; and 2) a decrease in reserves resulting from the payment of final dividend of 2019 to owners of the parent during the period.

The net profit attributable to owners of the parent for the period was approximately RMB2,512,399,000, representing an increase of approximately RMB96,372,000 or approximately 4.0% as compared with approximately RMB2,416,027,000 for the same period last year. The net profit attributable to owners of the parent for the period includes the loss of the Group on exited retail business, the apportion of loss for which was approximately RMB23,859,000 based on 51% equity interest (for the six months ended 30 June 2019: the apportion of loss was approximately RMB82,944,000). The net profit attributable to owners of the parent for the period would have increased by approximately RMB37,287,000 or approximately 1.5% as compared with the same period last year if the loss of retail business was excluded.

**Liquidity and financial resources**

For the six months ended 30 June 2020, net cash generated from the Group's operating activities amounted to approximately RMB2,406,056,000 (for the six months ended 30 June 2019: approximately RMB2,258,576,000). Cash and cash equivalents of the Group as at 30 June 2020 amounted to approximately RMB5,978,246,000, of which approximately RMB1,395,402,000 was denominated in RMB, approximately RMB4,530,351,000 was denominated in USD, approximately RMB29,128,000 was denominated in Hong Kong dollar, approximately RMB19,588,000 was denominated in Vietnamese dong, approximately RMB1,534,000 was denominated in Euro, and the remaining balance was denominated in other currencies (31 December 2019: approximately RMB5,060,896,000, of which approximately RMB911,024,000 was denominated in RMB, approximately RMB3,905,363,000 was denominated in USD, approximately RMB202,877,000 was denominated in Hong Kong dollar, 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). The balance of bank borrowings was approximately RMB6,757,763,000 (31 December 2019: approximately RMB3,968,578,000, including short term bank borrowings of approximately RMB3,192,164,000 and long-term bank borrowings of approximately RMB776,414,000), including short term bank borrowings of approximately RMB5,651,275,000 and long-term bank borrowings of approximately RMB1,106,488,000. The net borrowings of the Group as at 30 June 2020 (bank borrowings less cash and cash equivalents) amounted to approximately RMB779,517,000 (31 December 2019: net cash (cash and cash equivalents less bank borrowings) amounted to approximately RMB1,092,318,000). Net cash decreased by approximately RMB1,871,835,000, which was mainly attributable to an increase in the Group's bank borrowings, as well as an increase in the investment arrangements for long-term bank deposits and principal-guaranteed wealth management products in order to increase the rate of return of the Group's funds.

Equity attributable to owners of the parent amounted to approximately RMB26,419,908,000 (31 December 2019: approximately RMB25,172,450,000). The Group was in a good cash flow position, with a debt to equity ratio (calculated based on the percentage of total outstanding borrowings over equity attributable to owners of the parent) of approximately 25.6% (31 December 2019: 15.8%).

As a part of overall treasury management policies of the Group, the Group purchased financial products from various 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 result of applicable size test about purchasing the financial products was lower than 5%, thus, this purchase was 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 to monitor the implementation of treasury management policies of the Group.

**Financing cost and tax**

The financing cost increased by approximately RMB26,593,000 from approximately RMB36,268,000 for the six months ended 30 June 2019 to approximately RMB62,861,000 for the six months ended 30 June 2020, which was mainly attributable to an increase in average loan balance of the Group during the period as compared with the same period last year.

The income tax expense of the Group increased by approximately RMB11,626,000 from approximately RMB277,334,000 for the six months ended 30 June 2019 to approximately RMB288,960,000 for the six months ended 30 June 2020, which was mainly attributable to the expiry of the tax exemption period of one of the Group's subsidiaries in Vietnam, and the start of payment of corporate income tax in 2020, which is the first year to pay such tax.

**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 expected revenue in USD, procurement and capital expenditure, as well as the market forecast of fluctuations in the exchange rate of USD against RMB in the market.

In order to avoid decrease in value of future cash flows and volatility caused by any change of exchange rate of RMB to 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 2020, loans of approximately RMB3,204,983,000 were denominated in USD (calculated based on original currency of approximately US$452,713,000) and loans of approximately RMB1,552,780,000 were denominated in HKD (calculated based on original currency of HK$1,700,000,000) (31 December 2019: loans of approximately RMB1,276,978,000 were denominated in USD (calculated based on original currency of approximately US$183,048,000) and loans of approximately RMB1,791,600,000 were denominated in HKD (calculated based on original currency of HK$2,000,000,000)). The further increase in the proportion of capacity of the Group's overseas production bases has significantly mitigated the impact of exchange rate fluctuations of RMB against USD on operations.

**Employment, training and development**

As at 30 June 2020, the Group employed approximately 85,100 employees in total. During the period, the total staff costs, including administrative and management staff, accounted for approximately 28.5% (for the six months ended 30 June 2019: approximately 29.1%) of the Group's sales amount. The Group remunerated its staff according to their performances, qualifications and industry practices, and conducted regular reviews of its remuneration policy. Employees may receive discretionary bonuses and monetary rewards based on their annual performance appraisals. In addition, the Group also offered staff rewards or other forms of incentives to motivate their personal growth and career development. For instance, the Group offered training to its staff continuously to enhance their technical and product knowledge as well as their understanding of quality standards in industry, and all of the new employees of the Group are required to attend an introductory course, while there are also various types of training courses available for all employees to attend.

**Capital expenditure and capital commitments**

For the six months ended 30 June 2020, the Group's total investment in property, plant and equipment, right-of-use assets and intangible assets amounted to approximately RMB923,869,000, of which approximately 38% was used for the acquisition of production equipment, approximately 58% was used for the construction and acquisition of new factory buildings and right-of-use assets, and the remaining balance was used for the purchase of other fixed assets and software.

As at 30 June 2020, the Group had contracted capital commitments of approximately RMB637,193,000 in connection with the acquisition and construction of property, plant and equipment, which will be mainly financed by net proceeds from the Group's internal resources.

**Significant investments, acquisitions and disposals**

As of 30 June 2020, the Group has accumulatively invested approximately US$110,000,000 in the new garment factory in Phnom Penh, Cambodia. At present, the first phase of the production buildings of this project is basically completed, including a warehouse, two production workshops and an auxiliary building ready for use. The main part of the office building and the dormitory for Chinese employees have been completed and are in the renovation stage. The first phase of the dormitory for Cambodian employees is expected to be put into use in October of this year. Approximately 50% of the second phase of the project, including six production workshops and three auxiliary buildings, has been completed. The second phase of the dormitory for Cambodian employees is expected to be completed in the second quarter of 2021. The first phase of the project is expected to start recruiting in the third quarter of this year after its supporting facilities are completed. The total investment of this project is expected to be approximately US$200,000,000, mainly for the construction of downstream garment facilities (including cutting, sewing, printing, embroidery, packaging and washing processes). Such amount will be used for lease of land, construction of plants and staff dormitories, construction of infrastructure, and purchase of machinery and equipment. It is expected that funds will mainly be from bank borrowings.

In addition, the Group started to construct a garment production facility in Vietnam at the end of 2019. The Group will invest approximately US$100,000,000 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 2020, the pile foundation construction of the new garment factory in Vietnam has been basically completed, with a cumulative amount of approximately US$13,000,000 invested.

Save as disclosed above, the Group did not have any significant investments, acquisitions and disposals during the six months ended 30 June 2020.

**Gearing ratio**

As at 30 June 2020, the Group's gearing ratio was approximately 25.6%, calculated based on the balance of the total outstanding borrowings to the equity attributable to owners of the parent.

### Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liability (31 December 2019: Nil).

## FUTURE PROSPECTS AND STRATEGIES

Due to the impact of the COVID-19 Pandemic, the global textile and apparel industry chain has suffered from more obvious operating pressures, such as declining market demand, incomplete industrial facilities, and rising production costs. Garment exporting countries such as Vietnam, Bangladesh and Cambodia have not been spared with low costs. The garment export value of these countries has all dropped significantly year-on-year, mainly due to the decline in demand, as well as the overall lower stability of supply chain, supporting capabilities and response capabilities of these countries. At present, due to the continuously tense relationship between China and the United States, the two largest economies, there are greater uncertainties in the changes in the trading environment. Therefore, enterprises in China are facing dual challenges of high costs and an unfavorable trading environment. Under the pressure of corporate profits and capital, the industry will further differentiate and integrate in the next few years.

The decline in consumer demand under the influence of the pandemic is only a phased phenomenon, and market demand will eventually usher in a rebound. Enterprises must consider not only coping with the continuous increase in costs, but also enhancing their ability to respond to changes and uncertainties in the operating environment in future development. While overcoming current operating difficulties and challenges, enterprises must also plan and arrange well for future development.

The Group will further enhance its competitiveness of the supply chain in the global industry, especially in terms of product innovation, rapid response capabilities and stability of the supply chain. On the basis of enhancing its own R&D capabilities, the Group will strengthen cooperation with professional institutions of higher learning in product R&D, talent support, etc. The Group will further optimize the self-supporting of the industrial chain of each production base, reduce the external dependence of the industrial chain, and obtain the supply chain cooperation from core suppliers in different bases.

The Group will strengthen the application of digital management to promote the improvement of management efficiency. Through digitalization of management and standardization of operating procedures, domestic bases can establish a shared management model for overseas factories, give play to the advantages of domestic bases in human resources, and reduce management pressure on overseas factories. Secondly, through the early warning function and real-time information feedback of digital management, the pertinence and prospectiveness of operation and management can be promoted, which can further enhance our ability to respond quickly to our business. As consumption on online platforms continues to rise, the Group will further improve the docking and exchange of information with customers and suppliers to achieve better interaction between production and the market.

The Group will further strengthen its sustainable development capabilities, promote the harmony between its development and surrounding environment, and lay the foundation for long-term development. The Group will continue to optimize the energy structure and increase the proportion of clean energy consumption under certain conditions. The Group will accelerate the renewal and transformation of production facilities in domestic factories, promote a more reasonable and orderly production layout, and continue to reduce the level of resource consumption. The Group will further promote production automation and lean production management to respond to rising costs with improved efficiency.

The Group strives for survival in crisis and seeks development amidst reforms. In the new round of industry integration, the Group will make more comprehensive preparations for future development, and further enhance its customer service capabilities, so as to gain a larger market share and create better returns for investors.

## EVENTS AFTER REPORTING PERIOD

There were no other important events affecting the Group that have occurred after 30 June 2020 and up to the date of this announcement.

## DIVIDEND

At the Company's annual general meeting held on 28 May 2020, the shareholders of the Company approved the payment of a final dividend of HK$1.00 per share for the year ended 31 December 2019 to the shareholders whose names appeared on the register of members of the Company at the close of business on 10 June 2020. The dividend was paid by the Company on 19 June 2020 in cash.

The Board had resolved to declare an interim dividend of HK$0.90 (equivalent to approximately RMB0.82) per share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: HK$0.90 per share) to the shareholders whose names appeared on the register of members of the Company at the close of business on 11 September 2020. The interim dividend is expected to be paid on or before 25 September 2020.

## 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 2020 to 11 September 2020, 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:30 p.m. on 8 September 2020.

## 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 2020. 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 2019 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 28 May 2020 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 2020.

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 2020, 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 2020.

## SHARE OPTION SCHEME

No share option scheme was adopted by the Company as at 30 June 2020.

## 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, 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 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 2020.

## 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, Mr. Chen Xu, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, three 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 on 9 October 2005. As at the date of this announcement, the Nomination Committee comprises Mr. Ma Jianrong, an executive Director, Mr. Qiu Weiguo, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, three independent non-executive Directors. Mr. Ma Jianrong was 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 2020

*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. Chen Xu, Mr. Jiang Xianpin, Mr. Qiu Weiguo and Mr. Zhang Bingsheng.*