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 2020

HIGHLIGHTS

- Sales for the year ended 31 December 2020 amounted to approximately RMB23,030,648,000, representing an increase of approximately 1.6% when compared with the year of 2019. If excluding the retail business that discontinued operation at the end of 2019, sales increased by approximately 3.7% compared with last year.

- For the year ended 31 December 2020, percentage of sports wear products sales to total sales was approximately 69.2%. Sales of sports wear products decreased by approximately 2.3% when compared with the year of 2019.

- For the year ended 31 December 2020, percentage of casual wear products sales to total sales was approximately 19.5%. Sales of casual wear products decreased by approximately 16.8% when compared with the year of 2019.

- For the year ended 31 December 2020, percentage of lingerie wear products sales to total sales was approximately 4.5%. Sales of lingerie wear products increased by approximately 28.7% when compared with the year of 2019.

* *for identification purposes only*

- For the year ended 31 December 2020, percentage of other knitwear products (mainly masks) sales to total sales was approximately 6.8%. Sales of other knitwear products significantly increased by approximately 931.9% when compared with the year of 2019.

- Gross profit margin stood at approximately 31.2% in 2020, representing an increase of 0.9 percentage points from last year. Gross profit for the year ended 31 December 2020 amounted to approximately RMB7,194,608,000, representing an increase of approximately 4.6% when compared with the year of 2019. If excluding the retail business that discontinued operation at the end of 2019, our gross profit margin still recorded an increase of 0.4 percentage points from last year.

- Net profit after tax for the year ended 31 December 2020 amounted to approximately RMB5,082,645,000, an increase of approximately 2.5% when compared with the year of 2019. The negative effect of RMB appreciation was included and the annual net loss on exchange difference in 2020 was approximately RMB482,594,000 (2019: net gain of approximately RMB48,496,000). Meanwhile, the loss of approximately RMB48,475,000 (2019: loss of approximately RMB280,456,000) from the retail business that discontinued operation at the end of 2019 was also included.

- Proposed to declare a final dividend of HKD1.10 per ordinary share, and together with interim dividend declared of HKD0.90 per ordinary share, the total dividend proposed to be declared for the year of 2020 was HKD2.00 per ordinary share, representing an increase of approximately 5.3% when compared with HKD1.90 per ordinary share of 2019.

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 2020, together with the comparative amounts for the corresponding year of 2019 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
REVENUE	*4*	**23,030,648**	22,665,272
Cost of sales		**(15,836,040)**	(15,789,251)
Gross profit		**7,194,608**	6,876,021
Other income and gains	*4*	**746,947**	730,524
Selling and distribution expenses		**(148,679)**	(379,836)
Administrative expenses		**(1,638,759)**	(1,550,614)
Other expenses		**(539,711)**	(20,990)
Finance costs	*5*	**(108,250)**	(89,178)
Share of profit of an associate		**6,270**	5,816
PROFIT BEFORE TAX	*6*	**5,512,426**	5,571,743
Income tax expense	*7*	**(429,781)**	(613,207)
PROFIT FOR THE YEAR		**5,082,645**	4,958,536
Attributable to:			
Owners of the parent		**5,106,736**	5,095,206
Non-controlling interests		**(24,091)**	(136,670)
		5,082,645	4,958,536
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted			
– For profit for the year		**RMB3.40**	RMB3.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020	2019
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**5,082,645**	4,958,536
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(420,816)**	181,263
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(420,816)**	181,263
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(420,816)**	181,263
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,661,829**	5,139,799
ATTRIBUTABLE TO:		
Owners of the parent	**4,685,936**	5,276,463
Non-controlling interests	**(24,107)**	(136,664)
	4,661,829	5,139,799

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**10,166,819**	9,592,314
Right-of-use assets		**1,585,555**	1,534,840
Intangible assets		**105,047**	101,381
Long-term time deposits at banks	*14*	**1,410,000**	100,000
Long-term prepayments		**1,850**	1,850
Investment in an associate		**14,319**	18,181
Equity investments designated at fair value through other comprehensive income		**720**	–
Deferred tax assets		**13,601**	12,054
Total non-current assets		**13,297,911**	11,360,620
CURRENT ASSETS			
Inventories		**4,811,434**	5,282,405
Trade and bills receivables	*10*	**4,167,602**	3,648,810
Prepayments and other receivables		**957,660**	535,424
Amounts due from related parties		**2,486**	2,640
Financial assets at fair value through profit or loss	*12*	**2,425,932**	1,053,233
Other financial assets	*13*	**–**	200,000
Bank deposits with an initial term of over three months	*14*	**2,961,676**	4,710,830
Cash and cash equivalents	*14*	**8,227,060**	5,060,896
Total current assets		**23,553,850**	20,494,238
CURRENT LIABILITIES			
Trade payables	*11*	**1,059,836**	880,944
Contract liabilities		**6,607**	33,841
Other payables and accruals		**1,391,148**	1,179,725
Amount due to a related party		**2,101**	–
Interest-bearing bank borrowings		**6,210,429**	3,192,164
Lease liabilities		**11,407**	26,522
Tax payable		**171,097**	271,522
Total current liabilities		**8,852,625**	5,584,718

	2020	2019
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**14,701,225**	14,909,520
TOTAL ASSETS LESS CURRENT LIABILITIES	**27,999,136**	26,270,140
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**397,874**	776,414
Lease liabilities	**103,921**	123,214
Deferred tax liabilities	**226,511**	179,185
Total non-current liabilities	**728,306**	1,078,813
NET ASSETS	**27,270,830**	25,191,327
EQUITY		
Equity attributable to owners of the parent		
Share capital	**151,200**	151,200
Reserves	**27,124,860**	25,021,250
	27,276,060	25,172,450
Non-controlling interests	**(5,230)**	18,877
Total equity	**27,270,830**	25,191,327

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 certain wealth management products and equity investments 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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 the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.

(d) 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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. During the year ended 31 December 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 significant impact on the financial position and performance of the Group.

(e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**7,322,624**	7,142,756
Japan	**4,795,807**	3,542,572
European Union	**3,679,117**	3,890,278
United States of America	**3,115,229**	3,475,427
Other regions	**4,117,871**	4,614,239
	23,030,648	22,665,272

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

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

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**5,531,156**	6,222,984
Vietnam	**4,674,347**	4,232,091
Cambodia	**1,384,194**	467,015
Other regions	**269,574**	308,295
	11,859,271	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 revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Customer A	**6,168,401**	6,780,535
Customer B	**5,717,403**	4,501,484
Customer C	**5,031,035**	5,036,340
Customer D	**2,572,198**	2,455,838

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods – at a point in time	**23,030,648**	22,665,272

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:

	2020
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of goods	**29,948**

(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.

	2020	2019
	RMB'000	*RMB'000*
Other income		
Government grants	**329,586**	361,647
Bank interest income	**314,150**	281,845
Other interest income from financial assets at fair value through profit or loss	**18,105**	–
Other interest income from other financial assets	**–**	966
Rental income	**31,118**	22,717
	692,959	667,175
Gains		
Fair value gains on financial assets at fair value through profit or loss	**53,940**	13,233
Gain on disposal of items of right-of-use assets	**48**	1,620
Exchange gains, net	**–**	48,496
	53,988	63,349
	746,947	730,524

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	RMB'000	*RMB'000*
Interest on bank borrowings	**102,918**	80,987
Interest on lease liabilities	**5,332**	8,191
	108,250	89,178

6. PROFIT BEFORE TAX

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

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold	**15,832,781**	15,782,021
Depreciation of items of property, plant and equipment	**974,479**	933,358
Depreciation of right-of-use assets	**65,509**	84,596
Amortisation of intangible assets	**13,878**	12,695
Lease payments not included in the measurement of lease liabilities	**10,787**	61,294
Auditor's remuneration	**3,452**	3,331
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**5,420,615**	5,312,155
Pension scheme contributions	**489,551**	516,852
Other benefits	**241,128**	184,762
	6,151,294	6,013,769

	2020	2019
	RMB'000	*RMB'000*
Foreign exchange differences, net	**482,594**	(48,496)
Reversal of excess and obsolete inventories	**(2,666)**	(20,127)
Bank interest income	**(314,150)**	(281,845)
Other interest income from financial assets at fair value through profit or loss	**(18,105)**	–
Other interest income from other financial assets	**–**	(966)
Loss on disposal of items of property, plant and equipment	**43,332**	10,730
Fair value gains on financial assets at fair value through profit or loss	**(53,940)**	(13,233)
Gain on disposal of items of right-of-use assets	**(48)**	(1,620)

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2020 and 2019 are:

	2020	2019
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**6,972**	25,076
Current overseas withholding tax	**4,606**	4,418
Current Vietnam profits tax	**67,484**	–
Current Macao profits tax	**2,042**	–
Current Mainland China corporate income tax ("**CIT**")	**302,898**	498,677
Deferred taxation	**45,779**	85,036
	429,781	613,207

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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, 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 HKD2,000,000 (2019: HKD2,000,000) of assessable profits of the Company is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The subsidiaries incorporated in the 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% (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 were 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% (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 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.

Pursuant to Macao's relevant tax legislations, Buddies Macao is exempted from Macao Complementary Tax during the current year. Master Macao, the other subsidiary incorporated in Macao, is subject to income tax at a rate of 12% of the accessible profits arising in Macao.

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "**New CIT Law**"), the PRC subsidiaries as determined for the year in accordance with the New CIT Law are subject to tax at a 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 2020 and 2019 is as follows:

	2020	2019
	RMB'000	*RMB'000*
Profit before tax	**5,512,426**	5,571,743
Tax at the statutory tax rate of 25% (2019: 25%)	**1,378,107**	1,392,936
Lower tax rates for specific jurisdictions or enacted by local authorities	**(1,044,705)**	(853,791)
Adjustments in respect of current tax of previous periods	**(16,675)**	(7,185)
Profits attributable to an associate	**(1,568)**	(1,454)
Income not subject to tax	**(29)**	(1,299)
Expenses not deductible for tax	**5,104**	3,177
Overseas withholding tax	**4,606**	4,418
Tax losses not recognised during the year	**105,446**	76,906
Utilisation of previously unrecognised tax losses	**(505)**	(501)
	429,781	613,207

8. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Interim – HKD0.90 (2019: HKD0.90) per ordinary share	**1,235,739**	1,217,340
Proposed final – HKD1.10 (2019: HKD1.00) per ordinary share	**1,391,623**	1,346,587
	2,627,362	2,563,927

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 Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 31 December 2019.

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

Earnings

	2020	2019
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**5,106,736**	5,095,206

Shares

	Number of shares	
	2020	2019
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

	2020	2019
	RMB	*RMB*
Basic and diluted	**3.40**	3.39

10. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade and bills receivables	**4,167,602**	3,648,810

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, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within three months	**4,134,203**	3,596,677
Over three months	**33,399**	52,133
	4,167,602	3,648,810

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

	2020	2019
	RMB'000	*RMB'000*
Neither past due nor impaired	**4,100,398**	3,590,370
Less than three months past due	**55,271**	34,955
Over three months past due	**11,933**	23,485
	4,167,602	3,648,810

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, the trade and bills receivables were denominated in the following currencies:

	2020		2019	
	Original currency	**RMB equivalent**	Original currency	RMB equivalent
	in thousand	***RMB'000***	*in thousand*	*RMB'000*
USD	**381,203**	**2,487,313**	305,808	2,133,375
RMB		**1,680,289**		1,515,435
		4,167,602		3,648,810

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:

	2020	2019
	RMB'000	*RMB'000*
Within six months	**1,024,298**	855,313
Six months to one year	**12,158**	12,653
One year to two years	**13,953**	6,094
Over two years	**9,427**	6,884
	1,059,836	880,944

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

	2020	2019
	RMB'000	*RMB'000*
Financial products issued by financial institutions	**2,425,932**	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

	2020	2019
	RMB'000	*RMB'000*
Financial products issued by financial institutions	**–**	200,000

As at 31 December 2019, the financial products were issued by financial institutions which were stated at amortised cost. Pursuant to the underlying contracts or notices, these financial products are capital and return guaranteed.

14. CASH AND BANK BALANCES AND TIME DEPOSITS

	2020	2019
	RMB'000	*RMB'000*
Cash and bank balances	**5,802,800**	2,466,184
Time deposits	**6,795,936**	7,405,542
	12,598,736	9,871,726
Less: Bank deposits with an initial term of over three months	**(2,961,676)**	(4,710,830)
Long-term time deposits at banks	**(1,410,000)**	(100,000)
Cash and cash equivalents	**8,227,060**	5,060,896

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to approximately RMB2,912,217,000 (31 December 2019: RMB4,441,024,000). 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 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 2020, bank deposits held by the Group with original maturity of more than three months, which can be withdrawn on demand without prior notice to banks, were RMB632,000,000 (31 December 2019: RMB460,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS AND STRATEGIES

Business review

Over the past year, the global spread of the COVID-19 pandemic caused a huge impact on economic activities and severely hit the global textile and apparel industry. While there was a noticeable decline in consumption demand in the market, the stability of the supply chain and the upstream and downstream supporting facilities along the industrial chain were affected. The production capacity of most manufacturing enterprises was not effectively utilized and the industry suffered from shrinking production capacity and even enterprise shutdowns. Since the beginning of the year, in order to alleviate the adverse impacts caused by the pandemic on business operations, the Group has adopted a number of response measures. The domestic bases quickly resumed operation and production at the beginning of the year, and the overseas factories have also commenced normal operations. During the year, the Group not only achieved stable and orderly business operations and obtained satisfying operating results, but also laid a solid foundation for sustainable development in the future. Looking back on the major works carried out during the year, the Group has made more remarkable progress in the following areas: the new production capacity of overseas bases was expanded as planned; the upgrade and modification of production facilities at the domestic bases were pressed ahead; its sustainable development capabilities were strengthened and the ability in adapting to market demand was further improved.

Despite the lower consumption demand and greater uncertainties of customer orders due to the impacts of the pandemic, the Group remains confident about the future development and the expansion of production capacity at the overseas bases has proceeded as originally planned. During the year, the production capacity of the fabric factory in Vietnam was further increased, and the actual fabric output of the base in Vietnam accounted for approximately 50% of that of the Group. The number of employees in the second garment factory in Vietnam increased from approximately 3,000 at the beginning of the year to approximately 6,400 at the end of the year. Through staff training and management improvement, the per capita output has risen significantly. The first phase of the project for the new garment factory in Cambodia was officially commissioned in October 2020 and recruited approximately 3,100 employees in aggregate by the end of the year. The infrastructure construction works of the second phase of the project for the new factory in Cambodia has been progressing smoothly. With successive delivery of new plants and the continuation of staff training, the new factory in Cambodia will release more garment production capacity. During the year, the production bases in Vietnam and Cambodia contributed nearly 40% of the garment production capacity of the Group.

The Group took advantage of the opportunity arising from some unused production capacity amid the pandemic to further upgrade and modify production facilities of the base in Ningbo, which enabled a more reasonable deployment of production pipelines and further enhancement of the automation level of the entire industry chain. In the second half of the year, the number of employees was relatively insufficient due to the better-than-expected order demand. In order to pacify the employees, the domestic bases substantially increased salaries of the employees. The business pressure brought by staff shortage and salary increase was better relieved by a significant improvement in per capita output at each production process. Although the appreciation of RMB against USD accelerated in the second half of the year, after excluding the impact of the retail business, the gross profit margin of the manufacturing business in the second half of the year still increased by 1.3 percentage points as compared with the same period last year. During the year, construction of the second administrative centre of the Group in Ningbo was successfully completed. The relevant business departments and information centre of the Group were relocated to such new venue, providing a better office environment for management and operation.

The Group's efforts in enlarging the scope of clean energy application and concern for the interests of all employees have further enhanced its sustainable development capabilities. During the year, the Group entered into a framework cooperation agreement for a distributed photovoltaic project with an energy service company under State Grid Corporation of China in Ningbo. A photovoltaic power station was built on the buildings' rooftops of the Group's base in Ningbo and the green electricity generated by the photovoltaic project was to be used by the Group. In addition, the Group conducted cooperation with a local wind energy development company, under which it was intended that the Group would use the electricity generated by such wind energy development company and was entitled to the environmental contribution index in terms of green energy. In December 2020, the Group struck the first "deal of green electricity" in Zhejiang Province with such wind energy development company, which was the first time that clean energy was consumed through a market-oriented mechanism in Zhejiang Province. The Group obtained a "certificate of green electricity deal" through the deal of purchasing electricity, which stimulated the market demand for clean energy. Despite the fact that the pandemic exerted pressure on its operation, the Group continued to increase its care for employees. Through establishment of new staff dormitories, improvement of life ancillary facilities, optimisation of canteen services and increase in meal allowances, the Group further improved the living and dining conditions of employees.

During the pandemic, the comprehensive advantages of the Group's supply chain were better manifested, especially the innovation capabilities, rapid response capabilities and stability of the supply chain. The progress achieved by the Group in automation and digitalization further improved its adaptation capabilities to market demand. Although there were restrictions on the travel of people between the headquarters and the overseas bases of the Group due to the effect of the pandemic, the Group was still able to maintain smooth business communication with customers by taking advantage of its advancement in digital management and the normal operation of overseas factories. The Group became less susceptible to fluctuations of market demand by developing new products. The newly developed mask products were favoured by consumers upon their launch. The sales revenue from the mask products alone amounted to approximately USD0.19 billion in the second half of the year. Taking into account the impacts brought about by the pandemic and the trading environment, the Group further optimized the matching between the production bases and the sales markets. The domestic bases would provide more products for the domestic market, while the overseas bases would provide customers with products and services under the most favourable trading environment.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, revenue was approximately RMB23,030,648,000, representing an increase of approximately RMB365,376,000 or approximately 1.6% from approximately RMB22,665,272,00 for the year ended 31 December 2019. The retail business of the Group discontinued operation at the end of 2019. 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 3.7% as compared with last year. The slowdown in revenue growth was primarily due to: (1) a decrease in overall consumption demand in the market due to the temporary suspension of its brand customers' offline retail stores in certain regions and the decreased outdoor shopping activities of consumers as a result of the COVID-19 pandemic; (2) the failure of the Group to recruit new employees for its domestic bases at the beginning of the year due to the effect of the pandemic and therefore a shortage of employees in the second half of the year, causing the Group to be unable to satisfy the order demands of all customers with its production capacity, despite the fact that order demands were shifted to domestic manufacturing enterprises due to the positive impacts brought by China's better control of the pandemic in the second half of the year.

The comparison of revenue analysed as per production classification between 2020 and 2019 of the Group is as below:

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
By Products						
Sports wear	**15,940,917**	**69.2**	16,321,975	72.0	(381,058)	(2.3)
Casual wear	**4,480,518**	**19.5**	5,387,683	23.8	(907,165)	(16.8)
Lingerie wear	**1,032,917**	**4.5**	802,852	3.5	230,065	28.7
Other knitwear	**1,576,296**	**6.8**	152,762	0.7	1,423,534	931.9
Total revenue	**23,030,648**	**100.0**	22,665,272	100.0	365,376	1.6

For the year ended 31 December 2020, revenue from sales of sportswear products was approximately RMB15,940,917,000, representing a decrease of approximately RMB381,058,000 or approximately 2.3% from approximately RMB16,321,975,000 for the year ended 31 December 2019. The decrease in revenue from sales of sportswear products was mainly attributable to a decrease in sportswear products sold to the US and European markets due to the effect of the COVID-19 pandemic.

Revenue from sales of casual wear products decreased by approximately RMB907,165,000 or approximately 16.8% from approximately RMB5,387,683,000 for the year ended 31 December 2019 to approximately RMB4,480,518,000 for the year ended 31 December 2020. Such decrease was mainly attributable to a decrease in casual wear sold to Japan and other markets including Taiwan and South Korean due to the effect of the COVID-19 pandemic. In addition, the Group completely withdrew from its own retail business at the beginning of the year, resulting in a year-on-year decrease in the revenue from sales of casual wear of approximately RMB459,000,000.

Revenue from sales of lingerie products increased by approximately RMB230,065,000 or approximately 28.7% from approximately RMB802,852,000 for the year ended 31 December 2019 to approximately RMB1,032,917,000 for the year ended 31 December 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 significantly increased by approximately RMB1,423,534,000, which is increased by approximately 9.3 times, from approximately RMB152,762,000 for the year ended 31 December 2019 to approximately RMB1,576,296,000 for the year ended 31 December 2020. Such increase was mainly attributable to the inclusion of revenue from new mask products amounting to approximately RMB1,411,836,000 in the revenue for the year. Without taking into account the impact of mask products, revenue from sales of other knitwear products increased by approximately 7.7% as compared with last year.

The comparison of revenue analysed as per market segmentation between 2020 and 2019 of the Group is as below:

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
As per market						
Japan	**4,795,807**	**20.8**	3,542,572	15.6	1,253,235	35.4
Europe	**3,679,117**	**16.0**	3,890,278	17.2	(211,161)	(5.4)
US	**3,115,229**	**13.5**	3,475,427	15.3	(360,198)	(10.4)
Other	**4,117,871**	**17.9**	4,614,239	20.4	(496,368)	(10.8)
Sub-total of international sales	**15,708,024**	**68.2**	15,522,516	68.5	185,508	1.2
Domestic sales	**7,322,624**	**31.8**	7,142,756	31.5	179,868	2.5
Revenue	**23,030,648**	**100.0**	22,665,272	100.0	365,376	1.6

For the year ended 31 December 2020, the revenue of the Group from the Japanese market was approximately RMB4,795,807,000, representing an increase of approximately RMB1,253,235,000 or approximately 35.4% from approximately RMB3,542,572,000 for the year ended 31 December 2019. Such increase was mainly attributable to an increase in the mask products sold to the Japanese market and an increase in the sale of lingerie wear during the year.

For the year ended 31 December 2020, the revenue of the Group from the European market was approximately RMB3,679,117,000, representing a decrease of approximately RMB211,161,000 or approximately 5.4% from approximately RMB3,890,278,000 for the year ended 31 December 2019. Such decrease was mainly attributable to a decrease in consumption demands for sportswear in the European market as a result of the spread of the pandemic.

For the year ended 31 December 2020, the revenue of the Group from the US market was approximately RMB3,115,229,000, representing a decrease of approximately RMB360,198,000 or approximately 10.4% from approximately RMB3,475,427,000 for the year ended 31 December 2019. Such decrease was mainly attributable to a decrease in consumption demands for sportswear in the US market as a result of the pandemic.

For the year ended 31 December 2020, the revenue from other overseas markets was approximately RMB4,117,871,000, representing a decrease of approximately RMB496,368,000 or approximately 10.8% from approximately RMB4,614,239,000 for the year ended 31 December 2019. Such decrease was mainly attributable to a decrease in garments exported to markets such as South Korea and Taiwan.

For the year ended 31 December 2020, the revenue of the Group from the domestic market increased by 2.5% as compared with last year. Among domestic revenue, revenue from apparels was approximately RMB7,130,404,000, representing an increase of approximately RMB221,084,000 or approximately 3.2% from approximately RMB6,909,320,000 last year. The Group withdrew from its own retail business during the year, which offset the revenue growth in the PRC market. However, as the pandemic in Mainland China subsided, the consumption demand for garments returned to normal and there was a satisfying growth in the sales of the Group to major customers in the PRC market.

Cost of sales and gross profit

For the year ended 31 December 2020, cost of sales of the Group was approximately RMB15,836,040,000 (2019: RMB15,789,251,000). The gross profit margin of the Group in 2020 was approximately 31.2%, up by approximately 0.9 percentage points from 30.3% in 2019. Without taking into account the impact of the retail business, the gross profit margin of the manufacturing industry for the year still increased by 0.4 percentage points as compared with last year. The key factors that influenced the gross profit margin for the year were: 1) there was a more rapid increase in labour costs during the year and the expenses related to pandemic prevention increased; 2) a rapid appreciation of RMB against the USD after May; and 3) the amortization of fixed costs was reduced by an increase in the production capacity of overseas factories as well as per capita output of domestic bases, which partially offset the pressure on profit.

Equity attributable to owners of the parent

As at 31 December 2020, the Group's equity attributable to owners of the parent amounted to approximately RMB27,276,060,000 (2019: RMB25,172,450,000), in which non-current assets were approximately RMB13,297,911,000 (2019: RMB11,360,620,000), net current assets were approximately RMB14,701,225,000 (2019: RMB14,909,520,000), non-current liability were approximately RMB728,306,000 (2019: RMB1,078,813,000) and equity attributable to non-controlling interests were approximately -RMB5,230,000 (2019: RMB18,877,000). 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 2020, the net cash flow from operating activities of the Group was approximately RMB5,754,570,000, while it was approximately RMB5,604,360,000 in 2019. The cash and cash equivalent of the Group as at 31 December 2020 was approximately RMB8,227,060,000, in which approximately RMB1,102,217,000 was denominated in RMB, approximately RMB6,495,183,000 was denominated in USD, approximately RMB17,305,000 was denominated in Vietnamese dong, approximately RMB16,858,000 was denominated in HK dollars, approximately RMB592,917,000 was denominated in Euro and the remaining balance was denominated in other currencies (2019: RMB5,060,896,000, in 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 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). The balance of bank borrowings was approximately RMB6,608,303,000 (2019: RMB3,968,578,000, of which the short-term bank borrowing was approximately RMB3,192,164,000, and long-term bank borrowing was approximately RMB776,414,000), of which the short-term bank borrowing was approximately RMB6,210,429,000, and long-term bank borrowing was approximately RMB397,874,000. The net cash of the Group as at 31 December 2020 (cash and cash equivalent less bank borrowing) was approximately RMB1,618,757,000, which increased by RMB526,439,000 from the balance of approximately RMB1,092,318,000 for the year ended 31 December 2019.

Equity attributable to owners of the parent amounted to approximately RMB27,276,060,000 (2019: 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 24.2% (2019: 15.8%), up by 8.4 percentage points as compared with the end of last year, which was primarily due to an increase in bank borrowings to finance the required fund of the new and expanded production capacity of the overseas bases of the Group.

As a part of the 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 channels. The results of applicable size tests for purchasing the financial products were lower than 5%. Thus, the purchases were not subject to the notifiable transaction requirements under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The purchase of such financial products was approved by the investment and lending committee established by the Board to monitor the implementation of treasury management policies of the Company. Please refer to notes 12, 13 and 14 to Financial Statements contained in this preliminary annual results announcement for details of such financial products.

Pledge of assets of the group

As at 31 December 2020, the Group did not have any pledge of assets.

Financing costs and tax

For the year ended 31 December 2020, the financing cost had increased by approximately RMB19,072,000 to approximately RMB108,250,000 from approximately RMB89,178,000 for the year ended 31 December 2019, which was mainly attributable to an increase in average loan balance of the Group during the year as compared with last year. The annual rate of USD borrowings of the Group was between 0.58% and 3.51% during the year (2019: USD annual borrowing rate was between 2.6% and 5.0%).

For the year ended 31 December 2020, the income tax expense of the Group was approximately RMB429,781,000, which decreased by RMB183,426,000 from approximately RMB613,207,000 for the year ended 31 December 2019, which was mainly because the overseas subsidiaries of the Group contributed a greater proportion of production capacity and was in a period subject to preferential income tax, while the PRC subsidiaries of the Group were affected by the significant appreciation of RMB against USD, which resulted in a decrease in the assessable profit of the Group in Mainland China.

Exposure to foreign exchange

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

In order to avoid any decrease and volatility in value of future cash flows caused by any change in exchange rate of RMB against USD, the Group has arranged certain amount of loans denominated in USD and loans denominated in HKD with linked exchange rate with USD. Amongst total bank borrowings as at 31 December 2020, loans of approximately RMB3,527,582,000 were denominated in USD (calculated based on original currency of approximately USD540,634,000) and loans of RMB1,430,720,000 were denominated in HKD (calculated based on original currency of HKD1,700,000,000) (31 December 2019: loans of approximately RMB1,276,978,000 were denominated in USD (calculated based on original currency of approximately USD183,048,000) and loans of approximately RMB1,791,600,000 were denominated in HKD (calculated based on original currency of HKD2,000,000,000)). The increased proportion of production capacity contributed by the overseas production bases of the Group and increased market share in the domestic sales market apparently reduced the impact of fluctuation in exchange rate of RMB against USD on the Group's business.

Employment, training and development

As at 31 December 2020, the Group employed approximately 89,100 employees in total. During the year, the total staff costs, including administrative and management staff, accounted for approximately 26.7% (2019: 26.3%) of the Group's sales amount. The total staff cost as a proportion of the income increased by approximately 0.4 percentage points as compared with last year. 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

During the year, the Group's total investment in property, plant and equipment, and prepaid land lease payment amounted to approximately RMB2,324,417,000, of which approximately 39% was used for the acquisition of production equipment, approximately 56% was used for the construction and acquisition of new factory buildings and prepaid land lease payment, and the remaining balance was used for the purchase of other fixed assets.

As at 31 December 2020, the Group had contracted capital commitments of approximately RMB931,501,000 in connection with the acquisition and construction of the land use right, property, plant and equipment, which will be mainly financed by internal resources and bank borrowings.

Significant investments, acquisitions and disposals

As of 31 December 2020, the Group has accumulatively invested approximately USD173,758,000 in the new garment factory in Phnom Penh, Cambodia. The production buildings in the first phase of this project (including a warehouse, two garment production workshops and an auxiliary building) were completed and put into operation. One garment factory, one auxiliary factory and one printing and embroidery factory in the second phase were completed and gradually put into operation. Moreover, three garment factories, one auxiliary factory and the administration building will be completed in the near future. The total investment of this project is expected to be approximately USD250,000,000, 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 the funds will mainly be obtained from bank borrowings.

In addition, the Group started to construct a garment production facility in Vietnam at the end of 2019. It is estimated that approximately USD100,000,000 will be invested in this new garment production facility. Such amount will be used for lease of land, construction of plants and supporting facilities, and purchase of machinery and equipment. For the year ended 31 December 2020, a cumulative amount of approximately USD29,830,000 has been invested, and the civil engineering work of the project is still in progress.

Apart from these, the Company did not have any significant investments, acquisitions and disposals during the year ended 31 December 2020. Please refer to the announcement dated 17 September 2018 and the Interim Report 2020 of the Company for the details of the project in Phnom Penh, Cambodia and the announcement dated 17 October 2019 for the details of the project in Vietnam.

Capital and liabilities ratio

As at 31 December 2020, the Group's capital and liabilities ratio was 24.2%, calculated based on the percentage of the total outstanding borrowings to the equity attributable to owners of the parent.

Contingent liabilities

As at 31 December 2020, the Group had no significant contingent liabilities.

Future Prospects and Strategies

The global spread of the COVID-19 pandemic caused tremendous impacts on the textile and garment manufacturing corporations in different countries. It is believed that as the pandemic will eventually be over, the trade landscape of textile and garment products will gradually return to what it was like before the pandemic. However, the pandemic also accelerated the upgrade and integration of the industry, which will face the following challenges in its future development: the manpower pressure across the world will continue to exist due to changes in the demographic structure and employment concept; the uncertainties surrounding the trade environment will continue to affect the global layout of the industry, especially when the trade conflict of two large countries US-China shows no apparent signs of improvement in the short term; there will be greater demand for innovative products in the market, and functional products related to environmental protection and healthcare will become more popular among consumers; brand customers will have high requirements on the response speed of the supply chain of manufacturers and they have to meet the needs of consumers for personalized products to a certain extent; human beings will have increasingly higher requirements on environmental protection in respect of their living environment. Some countries will continue to strengthen legislation on environmental protection, and the environmental protection concepts such as clean production and carbon neutrality will procure more enterprises to proactively include low-carbon practices in their production model.

We should draw up plans for post-pandemic development direction of the industry in advance, promote the transformation of the industry towards high-quality development, enhance the industry value chain with technology and innovation as the driving force, consolidate global resources and promote transnational industrial cooperation. In order to further enhance its competitive advantage in the industry, the Group will devote itself to the following works in its future development:

The Group will firmly promote the transformation of its production model based on the ideas of "deskilling, comfortability, automation and digitalisation". Requirements on the production skills of employees will be lowered and training hours for new employees will be reduced through continuous process improvement as well as development and application of production moulds. Working environment will be improved continuously and work intensity will be reduced for the sake of employees, with an aim to advocate a people-oriented culture and enable employees to have a work-life balance. Manpower pressure will be alleviated through headcount reduction and efficiency enhancement, which will be achieved through putting greater efforts into exploring the demand for and promoting the application of automatic equipment. The digital transformation of the industry will be pressed ahead. With optimum connection of information across the entire industry chain and fast response of upstream and downstream production capacity as the targets, the delivery cycle will be further shortened and production capacity will be utilised in the most effective way.

The Group will further optimize the matching between its production base layout and market demands in order to achieve simultaneous growth in both international and domestic markets and increase its share in the global market. Under the guiding policy of the government for encouraging expansion of domestic demand as well as the trend of domestic consumption upgrade, there is still enormous room for growth in the domestic market. Currently, China has joined the Regional Comprehensive Economic Partnership Agreement. In addition, the Chinese government also intends to accelerate the negotiation progress of the Free Trade Agreements between China, Japan and South Korea, and is actively considering to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, thus the improvement in regional trading environment is worth looking forward. However, the trading policies between the two countries, China and the United States, do not indicate obvious improvement at present, resulting in relatively high uncertainties in the global trading environment. The production base layout of the Group will be optimally planned by comprehensively considering changes in the trade environment and the best way to consolidate global resources.

Driven by product innovation, the Group will further improve the quality of its supply and promote product diversification. In particular, developing new products that are green, healthy, comfortable and functional is its main development direction with a view to facilitating and guiding the growth of consumption demand. With the gradual release of new production capacity, the Group will continue to improve its ability in providing comprehensive service for customers, increase the scale of business cooperation with its existing core customers, and consider introducing new customers where appropriate. By further improving and innovating the incentive and guarantee mechanism, comprehensively cultivating, recruiting and utilising talents, enhancing the cultivation of innovative, applied and skilled talents, and strengthening its motivation in product innovation, the Group will achieve value enhancement of the supply chain.

The Group will continue to strengthen its sustainable development capabilities and promote the harmony between high-quality industrial development and high-level protection of the ecological environment in order to procure the industry to follow a green and low-carbon development approach. In the next few years, through further optimising the energy consumption structure gradually, especially by increasing the proportion of clean energy consumption such as wind power and solar power, as well as continuously improving craft process and enhancing the industrial application of environmental protection equipment, the Group will promote resource conservation and recycling, enhance the efficiency of resource utilisation, improve the standard of clean production along the entire industry chain, and strive for reduction in carbon emissions year by year.

Only by innovation, mind change and long-term stability can the Group seize opportunities and seek for development. With a customer-centric approach and a goal of enhancing its corporate competitiveness, the Group is always committed to reinforcing its development foundation, facilitating industrial upgrade, guiding transformation of the industry towards high-quality development, working hard to provide better garment products for consumers and achieving greater corporate value for shareholders.

EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period that had significant impacts on the Group after 31 December 2020 and up to the date of this announcement.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HKD1.10 (equivalent to approximately RMB0.93) per ordinary share for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on 10 June 2021. 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 2021 and subject to such approval having been obtained, the payment of such dividend is expected to be on or around 22 June 2021.

BOOK CLOSURE

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, 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 Monday, 24 May 2021.

The register of members of the Company will be closed from Tuesday, 8 June 2021 to Thursday, 10 June 2021, 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 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 Monday, 7 June 2021.

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 2020.

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 2020, 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 or her 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 of the Company to be convened on 28 May 2021 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 2020.

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 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 year ended 31 December 2020.

SHARE OPTION SCHEME

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

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 2020 and as at the date of this announcement.

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 publication of this announcement, the Audit Committee comprises four independent non-executive Directors, namely Mr. Jiang Xianpin, Ms. Liu Chunhong, Mr. Liu Xinggao and Mr. Zhang Bingsheng. Mr. Jiang Xianpin is the chairman of the Audit Committee. His expertise in accounting, auditing and finance enables him to lead the Audit Committee. On 1 March 2021, Mr. Chen Xu and Mr. Qiu Weiguo resigned as members of the Audit Committee. Meanwhile, Ms. Liu Chunhong and Mr. Liu Xinggao were appointed as members of the Audit Committee with effect from 1 March 2021.

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 the 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 2020. During the year, the Audit Committee also met with the external auditors twice with full attendance, to discuss the audit procedures and accounting issues.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in compliance with the CG Code on 9 October 2005. As at the publication of this announcement, the Remuneration Committee comprises Mr. Ma Renhe, an executive Director, and Mr. Zhang Bingsheng, Mr. Jiang Xianpin and Ms. Liu Chunhong, who are independent non-executive Directors. On 1 March 2021, Mr. Chen Xu resigned as the chairman of the Remuneration Committee and Mr. Zhang Bingsheng was appointed to fill the vacancy. Hence, Mr. Zhang Bingsheng is the chairman of the Remuneration Committee. Meanwhile, Ms. Liu Chunhong was appointed as a member of the Remuneration Committee with effect from 1 March 2021.

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 publication of this announcement, the Nomination Committee comprises Mr. Ma Jianrong, an executive Director, Mr. Liu Xinggao, Mr. Jiang Xianpin and Mr. Zhang Bingsheng, who are independent non-executive Directors. Mr. Ma Jianrong is the chairman of the Nomination Committee. On 1 March 2021, Mr. Qiu Weiguo resigned as a member of the Nomination Committee. Meanwhile, Mr. Liu Xinggao was appointed as a member of the Nomination Committee with effect from 1 March 2021.

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 2020 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 of the results.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The annual report of the Company for the year ended 31 December 2020, 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 2021.

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 Friday, 28 May 2021 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, 29 March 2021

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.