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SHENZHOU INTERNATIONAL GROUP HOLDINGS LIMITED

(申洲國際集團控股有限公司*)

(incorporated in the Cayman Islands with limited liability)

(stock code: 2313)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

- Sales for the six months ended 30 June 2021 amounted to approximately RMB11,368,606,000, representing an increase of approximately 11.1% as compared with the corresponding period of 2020.
- Percentage of sportswear products sales to total sales was approximately 71.0% for the six months ended 30 June 2021. Revenue from sale of sportswear products increased by approximately 7.4% as compared with the corresponding period of the previous year.
- Percentage of casual wear products sales to total sales was approximately 19.4% for the six months ended 30 June 2021. Revenue from sale of casual wear products increased by approximately 15.0% as compared with the corresponding period of the previous year.
- Percentage of lingerie products sales to total sales was approximately 6.9% for the six months ended 30 June 2021. Revenue from sale of lingerie products increased by approximately 25.6% as compared with the corresponding period of the previous year.
- Gross profit for the six months ended 30 June 2021 amounted to approximately RMB3,372,167,000, representing an increase of approximately 6.8% as compared with the corresponding period of 2020. Gross profit margin was approximately 29.7%, representing a decrease of 1.2 percentage points from approximately 30.9% of the corresponding period last year.
- Net profit attributable to owners of the parent for the six months ended 30 June 2021 amounted to approximately RMB2,226,278,000, representing a decrease of approximately 11.4% as compared with the corresponding period of 2020. The decrease in net profit was mainly due to the decrease in other income of non-operating nature and increase in exchange loss.
- Basic earnings per share were RMB1.48, representing a decrease of approximately 11.4% from RMB1.67 for the corresponding period of the previous year.
- The Board has resolved to declare an interim dividend of HK\$1.06 per share, which increases by approximately 17.8% as compared with 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 2021 (the “Reporting Period”), together with the comparative amounts for the corresponding period of 2020. 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 2021

		Unaudited	
		For the six months	
		ended 30 June	
		2021	2020
	<i>Notes</i>	<i>RMB’000</i>	<i>RMB’000</i>
REVENUE	4	11,368,606	10,233,778
Cost of sales	5	<u>(7,996,439)</u>	<u>(7,075,184)</u>
Gross profit		3,372,167	3,158,594
Other income and gains	6	298,768	587,851
Selling and distribution expenses	5	(73,926)	(75,575)
Administrative expenses	5	(953,356)	(817,070)
Other expenses	7	(66,831)	(15,778)
Finance costs	8	(51,501)	(62,861)
Share of profit of an associate		<u>4,843</u>	<u>2,778</u>
PROFIT BEFORE TAX		2,530,164	2,777,939
Income tax expense	9	<u>(304,326)</u>	<u>(288,960)</u>
PROFIT FOR THE PERIOD		<u>2,225,838</u>	<u>2,488,979</u>
Attributable to:			
Owners of the parent		2,226,278	2,512,399
Non-controlling interests		<u>(440)</u>	<u>(23,420)</u>
		<u>2,225,838</u>	<u>2,488,979</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<i>10</i>		
Basic			
– For profit for the period		<u>RMB1.48</u>	<u>RMB1.67</u>
Diluted			
– For profit for the period		<u>N/A</u>	<u>N/A</u>

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>2,225,838</u>	<u>2,488,979</u>
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	<u>(55,140)</u>	<u>81,685</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:	<u>(55,140)</u>	<u>81,685</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(55,140)</u>	<u>81,685</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>2,170,698</u>	<u>2,570,664</u>
ATTRIBUTABLE TO:		
Owners of the parent	2,171,140	2,594,045
Non-controlling interests	<u>(442)</u>	<u>(23,381)</u>
	<u>2,170,698</u>	<u>2,570,664</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>12</i>	10,674,226	10,166,819
Right-of-use assets	<i>12</i>	1,610,911	1,585,555
Intangible assets	<i>12</i>	106,539	105,047
Long-term time deposits at banks		1,810,000	1,410,000
Long-term prepayment	<i>15</i>	–	1,850
Investment in an associate		19,162	14,319
Equity investments designated at fair value through other comprehensive income		720	720
Deferred tax assets		16,738	13,601
Total non-current assets		14,238,296	13,297,911
CURRENT ASSETS			
Inventories	<i>13</i>	6,228,174	4,811,434
Trade and bills receivables	<i>14</i>	3,655,783	4,167,602
Prepayments and other receivables	<i>15</i>	897,207	957,660
Amounts due from related parties	<i>20b</i>	3,818	2,486
Financial assets at fair value through profit or loss		306,083	2,425,932
Bank deposits with an initial term of over three months		3,088,442	2,961,676
Cash and cash equivalents		10,294,661	8,227,060
Total current assets		24,474,168	23,553,850
CURRENT LIABILITIES			
Trade payables	<i>16</i>	1,150,761	1,059,836
Contract liabilities		35,447	6,607
Other payables and accruals	<i>17</i>	1,006,856	1,391,148
Amount due to a related party	<i>20b</i>	2,080	2,101
Interest-bearing bank borrowings		7,460,017	6,210,429
Lease liabilities		22,201	11,407
Tax payable		206,210	171,097
Total current liabilities		9,883,572	8,852,625
NET CURRENT ASSETS		14,590,596	14,701,225
TOTAL ASSETS LESS CURRENT LIABILITIES		28,828,892	27,999,136

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	387,211	397,874
Lease liabilities	121,616	103,921
Deferred tax liabilities	270,160	226,511
	<u>778,987</u>	<u>728,306</u>
Total non-current liabilities	<u>778,987</u>	<u>728,306</u>
Net assets	<u>28,049,905</u>	<u>27,270,830</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	151,200	151,200
Reserves	27,904,377	27,124,860
	<u>28,055,577</u>	<u>27,276,060</u>
Non-controlling interests	<u>(5,672)</u>	<u>(5,230)</u>
Total equity	<u>28,049,905</u>	<u>27,270,830</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 26 August 2021.

2. BASIS OF PREPARATION

These unaudited interim consolidated financial statements for the six months ended 30 June 2021 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 2020.

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 2020, 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 9, HKAS 39 and
HKFRS 7, HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 16

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

The nature and impact of the revised HKFRS is described below:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate. The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognize hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and United States dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") and the London Interbank Offered Rate ("LIBOR") as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The adoption of Amendment to HKFRS 16 did not have any impact on the financial position and performance of the Group.

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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	3,303,033	2,868,673
European Union	2,141,998	1,917,557
Japan	2,011,868	1,953,441
United States of America	1,759,824	1,451,164
Other regions	2,151,883	2,042,943
	<u>11,368,606</u>	<u>10,233,778</u>

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

(b) Non-current assets

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Mainland China	5,625,411	5,531,156
Vietnam	4,690,151	4,674,347
Cambodia	1,816,951	1,384,194
Other regions	259,163	269,574
	12,391,676	11,859,271

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, deferred tax assets and equity investments designated at fair value through other comprehensive income.

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	
	2021	2020
	RMB'000	RMB'000
Customer A	3,370,128	3,010,168
Customer B	2,442,494	2,005,573
Customer C	2,209,010	2,455,235
Customer D	1,503,570	1,078,248
	9,525,202	8,549,224

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	
	2021	2020
	RMB'000	RMB'000
Employee benefit expenses		
Wages and salaries	3,225,207	2,624,270
Retirement benefit contributions	308,910	175,816
Other benefits	146,672	115,171
	<u>3,680,789</u>	<u>2,915,257</u>
Depreciation, amortisation and impairment expenses	567,818	512,425
Changes in inventories of finished goods and work in progress	(1,330,017)	115,303
Raw materials and consumables utilized	5,182,282	3,672,310
Utilities expenses	476,373	361,873
Transportation expenses	98,357	86,541
Repair expenses	62,088	29,693
Donation	31,054	39,020
Taxation	27,728	23,017
Outsourcing	24,365	23,624
Operating lease expenses for properties	24,281	15,828
Charges for disposing pollutants	14,253	13,430
Inspection fees	11,009	9,323
Traveling expenses	10,188	36,037
Entertainment expenses	9,346	5,191
Other expenses	133,807	108,957
	<u>133,807</u>	<u>108,957</u>
Total cost of sales, selling and distribution expenses and administrative expenses	<u>9,023,721</u>	<u>7,967,829</u>

6. OTHER INCOME AND GAINS

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Government incentives	155,256	294,943
Bank interest income	104,304	162,329
Other interest income from other financial assets	–	945
Rental income	15,776	15,285
	<u>275,336</u>	<u>473,502</u>
Gains		
Fair value gains on financial assets		
at fair value through profit or loss	21,159	26,248
Gain on disposal of items of property, plant and equipment	2,080	–
Gain on disposal of items of right-of-use assets	193	48
Exchange gains, net	–	88,053
	<u>23,432</u>	<u>114,349</u>
	<u>298,768</u>	<u>587,851</u>

7. OTHER EXPENSES

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Exchange losses, net	60,168	–
Rental cost	6,663	6,477
Loss on disposal of items of property, plant and equipment	–	5,469
Loss on disposal of intangible assets	–	3,832
	<u>66,831</u>	<u>15,778</u>

8. FINANCE COSTS

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	48,670	59,978
Interest on lease liabilities	2,831	2,883
	<u>51,501</u>	<u>62,861</u>

9. INCOME TAX

The major components of income tax expenses for the six months ended 30 June 2021 and 2020 are:

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current Hong Kong profits tax	7,339	6,379
Current overseas withholding tax	1,074	1,744
Current Vietnam profits tax	51,288	22,851
Current Macao profits tax	97,635	–
Current Mainland China corporate income tax (“CIT”)	106,478	232,742
Deferred taxation	40,512	25,244
	304,326	288,960

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 2020: 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 2020/2021. The first HK\$2,000,000 (for the six months ended 30 June 2020: 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 2020: 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 period.

The subsidiary incorporated in Japan, under the Law of Taxation in Japan, is subject to income tax at a rate of 30% (for the six months ended 30 June 2020: 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.

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

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), the PRC subsidiaries as determined for the period in accordance with the New CIT Law are subject to a tax rate of 25% on their assessable income. 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 RMB2,226,278,000 (for the six months ended 30 June 2020: RMB2,512,399,000) and on the weighted average number of 1,503,222,397 (for the six months ended 30 June 2020: 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 2021 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 26 August 2021, the Board declared an interim dividend of HK\$1.06 per share (for the six months ended 30 June 2020: HK\$0.90 per share), totaling approximately HK\$1,593,416,000 (equivalent to approximately RMB1,325,881,000). 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 2021.

12. CAPITAL EXPENDITURES

	Property, plant and equipment	Right-of-use assets	Water use right	Software
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>74,723</u>	<u>12,409</u>	<u>–</u>	<u>3</u>
Closing net book amount at				
30 June 2020	<u><u>9,936,511</u></u>	<u><u>1,674,902</u></u>	<u><u>51,063</u></u>	<u><u>47,903</u></u>
Unaudited				
For the six months ended 30 June 2021				
Opening net book amount at				
1 January 2021	10,166,819	1,585,555	47,837	57,210
Additions	1,079,158	66,214	–	8,963
Disposals	(15,047)	(2,362)	–	–
Depreciation/amortisation	(526,811)	(33,537)	(3,225)	(4,245)
Exchange differences	<u>(29,893)</u>	<u>(4,959)</u>	<u>–</u>	<u>(1)</u>
Closing net book amount at				
30 June 2021	<u><u>10,674,226</u></u>	<u><u>1,610,911</u></u>	<u><u>44,612</u></u>	<u><u>61,927</u></u>

13. INVENTORIES

	Unaudited	Audited
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,290,540	1,194,287
Work in progress	2,750,546	2,217,369
Finished goods	2,296,400	1,499,560
	6,337,486	4,911,216
Provision	(109,312)	(99,782)
	6,228,174	4,811,434

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
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within three months	3,576,531	4,134,203
Over three months	79,252	33,399
	3,655,783	4,167,602

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

At 30 June 2021, the trade and bills receivables were denominated in the following currencies:

	Unaudited		Audited	
	30 June 2021		31 December 2020	
	Original currency <i>in thousand</i>	RMB equivalent <i>RMB'000</i>	Original currency <i>in thousand</i>	RMB equivalent <i>RMB'000</i>
US dollar	379,468	2,451,403	381,203	2,487,313
Renminbi		<u>1,204,380</u>		<u>1,680,289</u>
		<u>3,655,783</u>		<u>4,167,602</u>

15. PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Prepayments and deposits		
– Purchase of raw materials	189,429	258,974
– Purchase of items of property, plant and equipment	297,650	213,019
– CIT advance payment	42,059	85,372
– Rental deposits	36,831	34,998
– Others	20,707	24,137
VAT refund receivable and recoverable	153,557	190,097
Interest receivable	84,985	93,772
Other receivables	<u>71,989</u>	<u>57,291</u>
	<u>897,207</u>	<u>957,660</u>
Non-Current		
Long-term prepayment	<u>–</u>	<u>1,850</u>

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

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
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within six months	1,116,200	1,024,298
Six months to one year	14,386	12,158
One year to two years	10,681	13,953
Over two years	9,494	9,427
	<hr/> 1,150,761 <hr/>	<hr/> 1,059,836 <hr/>

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
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses	574,242	863,299
Payables for purchase of property, plant and equipment	40,239	58,788
Payables and guarantee deposits related to construction projects	82,047	81,600
Rental deposits	6,490	–
Other taxes payable	205,540	285,401
Others	98,298	102,060
	<u>1,006,856</u>	<u>1,391,148</u>

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	Audited
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:		
Acquisition of property, plant and equipment	789,834	915,096
Acquisition of land use right	–	16,405
	<u>789,834</u>	<u>931,501</u>

19. CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no significant contingent liabilities (at 31 December 2020: 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 2021 and 2020:

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	RMB'000	RMB'000
Lease of apparel production properties from Ningbo Shenzhou Properties Co., Ltd. (“Shenzhou Properties”)*	17,253	7,130
Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited (“Huaxi Packaging Company”)**	–	672
Printing service provided by Ningbo Avery Dennison Shenzhou Knitting and Printing Co., Ltd (“Ningbo Avery”)***)***	88,761	57,863
Sales and marketing services and general support services provided to Ningbo Avery***	6,989	4,301

* *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.*

*** *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	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Amounts due from related parties		
– Trade related		
Shenzhou Properties	167	173
Ningbo Avery	<u>3,651</u>	<u>2,313</u>
	<u>3,818</u>	<u>2,486</u>
Amounts due to a related party		
– Trade related		
Shenzhou Properties	<u>2,080</u>	<u>2,101</u>

(c) **Key management compensation**

	Unaudited	
	For the six months	
	ended 30 June	
	2021	2020
	RMB'000	RMB'000
Salaries and other short-term employee benefits	24,683	24,230
Post-employment benefits	<u>77</u>	<u>80</u>
	<u>24,760</u>	<u>24,310</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2021 and the notes thereto (the “Financial Statements”) contained in this announcement.

BUSINESS REVIEW

According to the statistics of the China Customs, the total export value of textile and clothing of China (including textile yarns, fabrics and finished products, as well as garments and apparel accessories, referred to the same as below) from January to June 2021 was approximately US\$140.09 billion, representing an increase of approximately 12.1% as compared with the corresponding period last year. Out of the total export value, the export value of textile products was approximately US\$68.56 billion, representing a year-on-year decrease of approximately 7.4%; the export value of apparel products was approximately US\$71.53 billion, representing a significant year-on-year increase of approximately 40.3%. From January to June 2021, the export value of apparel products from Mainland China to the United States (the “US”), 27 countries of the European Union (the “EU”), Japan and the United Kingdom (the “UK”) amounted to US\$17.49 billion, US\$13.91 billion, US\$6.94 billion and US\$2.94 billion respectively, representing a year-on-year increase of 65.2%, 30.4%, 14.2% and 54.7%, respectively. Given the satisfactory pandemic control in Mainland China and since the stability of the supply chain of apparel industry in China was significantly better than that of other countries engaged in the manufacturing of apparel products, the export value of China’s apparel products significantly increased during the period. In respect of the domestic apparel consumption market, according to the data released by the National Bureau of Statistics, out of the retail sales of products by enterprises above the designated quota from January to June 2021, the total retail sales of apparel, footwear, headwear and knitwear amounted to approximately RMB673.85 billion (including the total retail sales of apparel amounted to approximately RMB487.46 billion), representing a year-on-year increase of approximately 33.7% (a year-on-year increase of approximately 37.4% for apparel); the national online retail sales of products in the wearing segments increased by approximately 24.1% year-on-year. With the recovery and growth of the domestic economy and the lessened impact of the pandemic on consumption, the demand for apparel consumption in the domestic market also experienced a significant rebound.

According to the preliminary statistics of the Vietnam Customs, from January to June 2021, Vietnam's textile and apparel exports was approximately US\$15.31 billion, representing an increase of approximately 15.5% as compared with the corresponding period last year, and exports to the US, Japan and Korea amounted to approximately US\$7.61 billion, US\$1.57 billion and US\$1.24 billion, respectively. Exports to the US and Korea increased by 22.9% and 2.7%, respectively, as compared with the corresponding period last year, making the US the major export market for apparel products of Vietnam, while exports to Japan decreased by 4.5%. In addition, Vietnam exported approximately US\$1.48 billion and US\$270 million of textile and clothing to 27 EU countries and the UK, respectively, representing an increase of approximately 12.0% and 8.2%, respectively, as compared with the corresponding period last year. Vietnam exported approximately US\$2.4 billion of textile and clothing to members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), representing an increase of approximately 4.7% as compared with the corresponding period last year. Despite the insignificant growth, Vietnam's textile and clothing exports to countries that entered into major free trade agreements managed to increase. From January to June 2021, Vietnam's yarn exports amounted to approximately US\$2.64 billion, representing an increase of approximately 64.2% as compared with the corresponding period last year, of which the export to China accounted for approximately US\$1.43 billion, representing an increase of approximately 56.8% as compared with the corresponding period last year. From January to June 2021, the total value of fabrics imported from other countries in Vietnam amounted to approximately US\$7.29 billion, representing an increase of approximately 32.0% as compared with the corresponding period last year, of which the value of fabrics imported from Mainland China amounted to approximately US\$4.58 billion, representing an increase of approximately 39.4% as compared with the corresponding period last year and accounting for approximately 62.9% of the total value of imported fabrics of Vietnam. In addition, the value of fabrics imported from Korea and Taiwan amounted to approximately US\$910 million and US\$900 million, respectively, accounting for 12.5% and 12.3% of the total value of imported fabrics of Vietnam, respectively. The apparel industry in Vietnam still heavily relied on imported fabrics.

During the period, as the global spread of COVID-19 further amplified the impact on the apparel supply chain in a number of countries, overseas plants experienced production suspension or production cut for pandemic prevention and increased the expenses related to pandemic prevention. Furthermore, the relatively loose liquidity of US dollars resulted in exchange rate losses for export enterprises, as well as rising labor costs and raw material prices, thus exerting pressure on the profitability of enterprises.

From January to June 2021, the Group achieved sales revenue of approximately RMB11,368,606,000, representing an increase of approximately 11.1% as compared with the corresponding period last year, and gross profit of approximately RMB3,372,167,000, representing an increase of approximately 6.8% as compared with the corresponding period last year, both of which were the record high of the Group. Profit attributable to owners of the parent was approximately RMB2,226,278,000, representing a decrease of approximately 11.4% as compared with the corresponding period last year, which was mainly attributable to the substantial decrease in other income as a result of a decrease in incentives from the government, as well as an increase in exchange loss as compared with the corresponding period last year. During the period, the Group continued to facilitate the combination of overseas capacity expansion and domestic efficiency enhancement, and satisfactory results were seen accordingly. Overseas plants maintained their production activities along with the implementation of pandemic prevention measures, and the construction of new production capacity was progressing smoothly. In addition, the capacity utilization level of domestic plants improved significantly and a major renovation and transformation in the weaving process of domestic fabric plants was also started.

From April to May 2021, the Group's garment plants in Cambodia suspended production due to the severe pandemic, affecting the growth of garment production to a certain extent. Besides, the labour recruitment of new plants also slowed down. Fortunately, the Group arranged vaccination for most of its employees far before the local pandemic went the worst way, which effectively protected the health of local employees and created favourable conditions to resume production. During the suspension period, the Group strived to ensure the stability of employees' income and their safety against the pandemic, and provided new dormitories to local employees in need to avoid unnecessary mobility of employees. Currently, the civil works of the new garment plants in Cambodia and Vietnam have been preliminarily completed, which will benefit the next step of capacity expansion.

During the period, our plants in China increased the number of new employees, and the per capita output was further improved. The output of domestic plants increased significantly, of which the output of garments increased by approximately 30% as compared with the corresponding period last year. During the Chinese New Year, the Group introduced incentive policies to encourage non-local employees to stay in the local community for celebrating and get back to work earlier, which not only benefited the control on the pandemic but also increased the output of our plants. The increase in output of domestic bases effectively alleviated the capacity burden of overseas plants caused by the pandemic.

Upon the completion of technical renovation and upgrade of domestic production facilities for dyeing and finishing processes, the domestic weaving process also commenced renovation and transformation during the period. Through equipment upgrading and plant expansion, it will be more conducive to promoting the stability of product quality and reducing consumption of resources, as well as advancing the automation level of the production process and increasing the domestic supply of fabrics.

OPERATING RESULTS OF THE GROUP

Sales

For the six months ended 30 June 2021, the Group's sales amounted to approximately RMB11,368,606,000, representing an increase of approximately RMB1,134,828,000 or approximately 11.1% from approximately RMB10,233,778,000 for the six months ended 30 June 2020. During the period, the increase in the Group's sales revenue was mainly due to: 1) the decrease in the impact of the COVID-19 pandemic on global consumption demand, which led to a higher growth in the order demand for the Group; and 2) the expansion of the Group's capacity and the significantly higher capacity utilization rate as compared with the corresponding period.

The comparison of sales of the Group analyzed as per product category for the six months ended 30 June 2021 and the six months ended 30 June 2020 is as below:

	For the six months ended 30 June					
	2021		2020		Change	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
By product						
Sportswear	8,069,966	71.0	7,513,222	73.4	556,744	7.4
Casual wear	2,206,456	19.4	1,918,005	18.7	288,451	15.0
Lingerie wear	782,426	6.9	622,912	6.1	159,514	25.6
Other knitwear	309,758	2.7	179,639	1.8	130,119	72.4
Total sales	<u>11,368,606</u>	<u>100.0</u>	<u>10,233,778</u>	<u>100.0</u>	<u>1,134,828</u>	<u>11.1</u>

For the six months ended 30 June 2021, sales of sportswear products were approximately RMB8,069,966,000, representing an increase of approximately RMB556,744,000 or approximately 7.4% from approximately RMB7,513,222,000 for the six months ended 30 June 2020. The growth in sales of sportswear products mainly came from the increasing demand for sportswear in the European market and the US market.

Sales of casual wear products increased by approximately RMB288,451,000 or approximately 15.0% from approximately RMB1,918,005,000 for the six months ended 30 June 2020 to approximately RMB2,206,456,000 for the six months ended 30 June 2021, which was mainly attributable to the increase in demand for casual wear products in the market of China.

Sales of lingerie wear products increased by approximately RMB159,514,000 or approximately 25.6% from approximately RMB622,912,000 for the six months ended 30 June 2020 to approximately RMB782,426,000 for the six months ended 30 June 2021, which was mainly attributable to the increase in the procurement demand for lingerie wear products in the Japanese market.

Sales of other knitwear products increased by approximately RMB130,119,000 or approximately 72.4% from approximately RMB179,639,000 for the six months ended 30 June 2020 to approximately RMB309,758,000 for the six months ended 30 June 2021. The increase was mainly attributable to the revenue from mask products of approximately RMB211,618,000, representing an increase of approximately RMB97,972,000 as compared with approximately RMB113,646,000 of the corresponding period last year.

The comparison of sales of the Group analyzed as per market segmentation for the six months ended 30 June 2021 and the six months ended 30 June 2020 is as below:

	For the six months ended 30 June					
	2021		2020		Change	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
By market						
International sales						
Europe	2,141,998	18.8	1,917,557	18.7	224,441	11.7
Japan	2,011,868	17.7	1,953,441	19.1	58,427	3.0
US	1,759,824	15.5	1,451,164	14.2	308,660	21.3
Other markets	2,151,883	18.9	2,042,943	20.0	108,940	5.3
Sub-total of						
international sales	8,065,573	70.9	7,365,105	72.0	700,468	9.5
Domestic sales	3,303,033	29.1	2,868,673	28.0	434,360	15.1
Total sales	11,368,606	100.0	10,233,778	100.0	1,134,828	11.1

For the six months ended 30 June 2021, the Group's sales in the European market was approximately RMB2,141,998,000, representing an increase of approximately RMB224,441,000 or approximately 11.7% from approximately RMB1,917,557,000 for the six months ended 30 June 2020. During the period, the increase in the sales from the European market was mainly attributable to the increase in the procurement demand for sportswear in the European market.

For the six months ended 30 June 2021, the Group's sales in the Japanese market was approximately RMB2,011,868,000, representing an increase of approximately RMB58,427,000 or approximately 3.0% from approximately RMB1,953,441,000 for the six months ended 30 June 2020. The slight increase in sales in the Japanese market during the period was mainly attributable to the increase in demand for lingerie wear and casual wear and the decrease in demand for sportswear in the Japanese market.

For the six months ended 30 June 2021, the Group's sales in the US market was approximately RMB1,759,824,000, representing an increase of approximately RMB308,660,000 or approximately 21.3% from approximately RMB1,451,164,000 for the six months ended 30 June 2020. The recovery of sales in the US market was mainly due to the increase in demand for sportswear in the US market.

For the six months ended 30 June 2021, the Group's sales in other markets, including Korea, Russia and Taiwan, was approximately RMB2,151,883,000, representing an increase of approximately RMB108,940,000 or approximately 5.3% as compared with approximately RMB2,042,943,000 for the six months ended 30 June 2020. The increase in sales in other markets was mainly attributable to the increase in sales of casual wear and lingerie wear in these markets, such as Korea and Russia.

For the six months ended 30 June 2021, the Group's sales in the domestic market increased by approximately 15.1% as compared with the corresponding period last year. Among the domestic sales, garment sales amounted to approximately RMB3,218,954,000, representing an increase of approximately RMB433,052,000 or approximately 15.5% as compared with approximately RMB2,785,902,000 in the corresponding period last year, which was mainly attributable to the increase in demand for apparel consumption in the domestic market.

Cost of sales and gross profit

The cost of sales of the Group for the six months ended 30 June 2021 amounted to approximately RMB7,996,439,000 (for the six months ended 30 June 2020: approximately RMB7,075,184,000). For the six months ended 30 June 2021, the gross profit margin of the Group was approximately 29.7%, representing a decrease of 1.2 percentage points as compared with approximately 30.9% for the corresponding period last year. The main factors affecting the Group's gross profit margin were: 1) the average exchange rate of Renminbi against US dollar during the period increased by approximately 8.2% as compared with the corresponding period last year; and 2) the production of the plant in Cambodia was suspended for approximately one month due to the COVID-19 pandemic.

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

As at 30 June 2021, the Group's equity attributable to owners of the parent amounted to approximately RMB28,055,577,000 (31 December 2020: approximately RMB27,276,060,000), in which non-current assets were approximately RMB14,238,296,000 (31 December 2020: approximately RMB13,297,911,000), net current assets were approximately RMB14,590,596,000 (31 December 2020: approximately RMB14,701,225,000), non-current liabilities were approximately RMB778,987,000 (31 December 2020: approximately RMB728,306,000) and non-controlling interests were approximately RMB-5,672,000 (31 December 2020: approximately RMB-5,230,000). Changes in equity attributable to owners of the parent were mainly attributable to the fact that: 1) the Group's reserves were increased by operating profits; and 2) the reserves were decreased as a result of payment of final dividend for 2020 to owners of the parent during the period.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2021, net cash generated from the Group's operating activities amounted to approximately RMB1,720,608,000 (for the six months ended 30 June 2020: approximately RMB2,406,056,000). The Group's cash and cash equivalents as at 30 June 2021 amounted to approximately RMB10,294,661,000, of which approximately RMB969,318,000 was denominated in Renminbi, approximately RMB9,286,027,000 was denominated in US dollar, approximately RMB19,782,000 was denominated in VND, approximately RMB16,433,000 was denominated in Hong Kong dollar, approximately RMB1,130,000 was denominated in EUR and the balance was denominated in other currencies (31 December 2020: approximately RMB8,227,060,000, of which approximately RMB1,102,217,000 was denominated in Renminbi, approximately RMB6,495,183,000 was denominated in US dollar, approximately RMB17,305,000 was denominated in VND, approximately RMB16,858,000 was denominated in Hong Kong dollar, approximately RMB592,917,000 was denominated in EUR and the balance was denominated in other currencies). The balance of bank borrowings was approximately RMB7,847,228,000, including short term bank borrowings of approximately RMB7,460,017,000 and long-term bank borrowings of approximately RMB387,211,000 (31 December 2020: approximately RMB6,608,303,000, including short term bank borrowings of approximately RMB6,210,429,000 and long-term bank borrowings of approximately RMB397,874,000). As at 30 June 2021, the Group's net cash (cash and cash equivalents less bank borrowings) was approximately RMB2,447,433,000, representing an increase of approximately RMB828,676,000 as compared to the balance of approximately RMB1,618,757,000 as at 31 December 2020.

Equity attributable to owners of the parent amounted to approximately RMB28,055,577,000 (31 December 2020: approximately RMB27,276,060,000). The Group was in a healthy cash flow position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to owners of the parent) of approximately 28.0% (31 December 2020: 24.2%).

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

Finance costs and taxation

For the six months ended 30 June 2021, finance costs decreased by approximately RMB11,360,000 from approximately RMB62,861,000 for the six months ended 30 June 2020 to approximately RMB51,501,000, which was mainly due to the lowered average loan interest rate of the Group during the period as compared with the corresponding period last year.

For the six months ended 30 June 2021, the Group's income tax expense increased by approximately RMB15,366,000 from approximately RMB288,960,000 for the six months ended 30 June 2020 to approximately RMB304,326,000, which was mainly due to the fact that two wholly-owned subsidiaries of the Group previously entitled to the income tax exemption policy started to pay enterprise income tax during the period.

Foreign exchange exposure

As the Group's sales were mainly settled in US dollar and its purchases were mainly settled in Renminbi, the Group's costs and operating profit margin were affected by the fluctuation of exchange rates to a certain extent. The Group adopted a corresponding policy to hedge part of its foreign exchange risks in light of the existing fluctuations of exchange rate between US dollar and Renminbi. The amounts to be hedged depend on the Group's expectation on revenue, purchases and capital expenditure in US dollar, as well as the market forecast of fluctuations of the exchange rate of US dollar against Renminbi.

In order to avoid impairment and volatility in future cash flows due to any change in the exchange rate of Renminbi against US dollar, the Group made arrangement for an appropriate amount of borrowings denominated in US dollar as well as borrowings denominated in Hong Kong dollar which is pegged to US dollar. As at 30 June 2021, among the total bank borrowings, borrowings denominated in US dollar amounted to approximately RMB4,192,658,000 (approximately US\$649,008,000 based on the original currency), borrowings denominated in Hong Kong dollar amounted to approximately RMB1,414,570,000 (HK\$1,700,000,000 based on the original currency) (31 December 2020: borrowings denominated in US dollar amounted to approximately RMB3,527,582,000 (approximately US\$540,634,000 based on the original currency) and borrowings denominated in Hong Kong dollar amounted to approximately RMB1,430,720,000 (HK\$1,700,000,000 based on the original currency)). In addition, as at the date of this announcement, the Group entered into forward foreign exchange contracts with a number of banks, pursuant to which the Group will sell foreign exchange of US\$580,000,000 to these banks and receive the corresponding amount in Renminbi at an average settlement price of approximately RMB6.608 per US\$1 during the period between 31 December 2021 and 29 July 2022.

Employment, training and development

As at 30 June 2021, the Group had approximately 94,400 employees in total. During the period, the total costs for staff, including those for administrative and management staff, accounted for approximately 32.4% (for the six months ended 30 June 2020: approximately 28.5%) of the Group's sales. The Group determined the remuneration of its staff with reference to their performance, qualifications and industry practices, and the remuneration policy will be regular reviewed. Employees might receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. In addition, the Group also offered staff rewards or other forms of incentives to motivate their personal growth and career development. In order to upgrade our staff's skills, product knowledge and awareness of quality standard of the industry, the Group provided them with continuous trainings. All new employees of the Group were required to attend introductory courses, while there were also various types of training courses available for all employees.

Capital expenditure and capital commitments

For the six months ended 30 June 2021, the Group's total investment in property, plant and equipment, right-of-use assets and intangible assets amounted to approximately RMB1,107,087,000, of which approximately 43% was used for the acquisition of production facilities, approximately 51% was used for the construction and acquisition of new factory buildings and right-of-use assets and the balance was used for the purchase of other fixed assets and software.

As at 30 June 2021, the Group had contracted capital commitments of approximately RMB789,834,000 in connection with the acquisition and construction of properties, plants and equipment, which were mainly financed by the net proceeds from internal resources.

Material investments, acquisitions and disposals

As at 30 June 2021, the Group invested a total of approximately US\$240,000,000 in the new garment plant in Phnom Penh, Cambodia. Currently, over 90% of the project, including the construction of the plant and the dormitory, is completed, thus getting ready for labour recruitment and further expansion of production capacity. The expected total investment of the project is approximately US\$280,000,000, which will be mainly used for the construction of downstream garment facilities, including those for cutting, sewing, printing, embroidery, packaging and washing processes. The amount will be used for land leasing, construction of plants and staff quarters, construction of infrastructure and purchase of machinery and equipment. It is expected that the funding will mainly come from bank borrowings.

In addition, the Group commenced the construction of a garment production facility in Vietnam at the end of 2019. It is estimated that approximately US\$100,000,000 will be invested in this new garment production facility, and the amount will be used for land leasing, construction of plants and ancillary facilities and purchase of machinery and equipment. As at 30 June 2021, the accumulated investment was approximately US\$54,000,000, and the civil works of the new garment plant in Vietnam were substantially completed. The project is expected to be funded primarily by the cash reserve of the Group.

Other than that, the Group had no significant investment, acquisition and disposal during the six months ended 30 June 2021. For details of the project in Phnom Penh, Cambodia, please refer to the announcement dated 17 September 2018 and the Company's 2020 annual report. For details of the project in Vietnam, please refer to the announcement dated 17 October 2019.

Gearing ratio

As at 30 June 2021, the Group's gearing ratio was approximately 28.0%, based on the ratio of the balance of total outstanding borrowings to the equity attributable to owners of the parent.

Contingent liabilities

As at 30 June 2021, the Group had no significant contingent liability (31 December 2020: Nil).

FUTURE PROSPECTS AND STRATEGIES

At present, the impact of the COVID-19 pandemic on the global supply chain has further increased while some labour intensive manufacturing companies in Southeast Asian countries have suspended their production activities or cut their output due to the relatively low vaccination rate and the more infectious nature of the variant virus. Despite the recovery of global consumption demand for apparel, the short-term insufficient production capacity of the supply chain brought by the pandemic will affect brand owners' procurement plans and market placements. In light of the impact of the pandemic, brand owners are likely to adjust their procurement strategies, and will pay more attention to the regional layout of suppliers' production bases and the risk resistance of their supply chains.

Amid the dramatically worsening COVID-19 outbreak in Vietnam since mid July, the Vietnamese government has imposed social distancing measures since 19 July 2021. As at the date of this announcement, such social distancing measures are still in force. To cooperate with the anti-pandemic measures of the Vietnamese government, the operation of the Group's factory in Vietnam has been affected to a certain extent since 19 July 2021. According to our preliminary estimation, the overall production capacity of the Group as a whole for 2021 will be reduced by approximately 1% to 2% for every 14 days of anti-pandemic measures being implemented. For details, please refer to the announcements issued by the Group on 19 July and 2 August 2021.

Under the current operating environment, the Group will give priority to the stability and competitiveness of supply chains, and will further expand its production capacity and increase its market share with these initiatives. In particular:

The Group will further optimize the coordination between the supply chain's upstream and downstream processes in different bases to ensure that the supply chain of each base is relatively stable, and can respond quickly to customers' order needs and meet the requirements on certification of origin stipulated by the free trade agreement signed by the country in which we are operating so as to reduce the cost of import tariff borne by our customers.

The Group will further upgrade the level of production automation and management digitalization and strengthen the headquarters' remote management and control on overseas bases; meanwhile, the Group will accelerate the training of local management personnel, gradually reduce the proportion of our management personnel stationed in overseas countries and improve the independent operation ability of our overseas companies.

The Group will further expand the variety of new products, including strengthening the development of sports products with high indoor functionality; the Group will strengthen its service capabilities for existing customers, consolidate and enlarge its market share in existing customers, and at the same time optimize our customer structure and explore and secure high-quality new customers.

With respect to the business outlook for the second half of the year, the Group is optimistic about the demand for orders from customers. However, since the production capacity of the base in Vietnam has been undermined by the pandemic, the Group will strengthen its prevention control on the pandemic and maintain its work force to resume normal production capacity as soon as possible. In addition, it is expected that the fluctuation of the exchange rate of Renminbi against US dollar will be smaller in the second half of the year. Accordingly, the Group has locked the exchange rates for the settlement of certain transactions denominated in US dollar, and believes that the exchange rate will have positive impact on the financial results as compared with the corresponding period last year.

The impact of the pandemic will accelerate the further reshuffle of the textile and apparel industry, and leading enterprises with competitive edges will benefit from industry consolidation. The Group's future development will be focused on enhancing its competitiveness and expanding its production capacity, and will take advantage of the current favorable opportunities to further expand its production capacity, so as to get our strategic planning and implementation arrangements ready for capturing a larger market share.

EVENTS AFTER THE REPORTING PERIOD

There were no other important events affecting the Group that have occurred after 30 June 2021 and up to the date of this announcement.

DIVIDEND

During the reporting period, at the Company's annual general meeting held on 28 May 2021, the shareholders of the Company approved the payment of a final dividend of HK\$1.10 per share for the year ended 31 December 2020 to the shareholders whose names appeared on the register of members of the Company at the close of business on 10 June 2021. The dividend was paid by the Company on 22 June 2021 in cash.

The Board had resolved to declare an interim dividend of HK\$1.06 (equivalent to approximately RMB0.88) per share for the six months ended 30 June 2021 (for the six months ended 30 June 2020: 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 14 September 2021. The interim dividend is expected to be paid on or before 28 September 2021.

Closure of Register of Members

To ascertain shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from 10 September 2021 to 14 September 2021, 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 9 September 2021.

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 2021. 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 2020 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 2021 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 2021.

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 2021, 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 2021.

SHARE OPTION SCHEME

No share option scheme was adopted by the Company as at 30 June 2021.

THE BOARD

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

AUDIT COMMITTEE

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

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 2021.

REMUNERATION COMMITTEE

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

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

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

NOMINATION COMMITTEE

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

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, 26 August 2021

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