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 2021

HIGHLIGHTS

- Sales for the year ended 31 December 2021 amounted to approximately RMB23,845,006,000, representing an increase of approximately 3.5% when compared with the year of 2020.

- For the year ended 31 December 2021, percentage of sportswear products sales to total sales was approximately 73.9%. Sales of sportswear products increased by approximately 10.5% when compared with the year of 2020.

- For the year ended 31 December 2021, percentage of casual wear products sales to total sales was approximately 19.8%. Sales of casual wear products increased by approximately 5.4% when compared with the year of 2020.

- For the year ended 31 December 2021, percentage of lingerie wear products sales to total sales was approximately 4.4%. Sales of lingerie wear products increased by approximately 0.7% when compared with the year of 2020.

* *for identification purposes only*

- For the year ended 31 December 2021, percentage of other knitwear products (mainly masks) sales to total sales was approximately 1.9%. Sales of other knitwear products decreased by approximately 70.1% when compared with the year of 2020, which was mainly attributable to decreased sales of masks.

- Gross profit margin stood at approximately 24.3% in 2021, representing a decrease of 6.9 percentage points from last year. Gross profit for the year ended 31 December 2021 amounted to approximately RMB5,789,647,000, representing a decrease of approximately 19.5% when compared with the year of 2020.

- Net profit after tax for the year ended 31 December 2021 amounted to approximately RMB3,371,679,000, representing a significant decrease of approximately 33.7% when compared with the year of 2020. The main reason for that is, due to the impact of COVID-19 pandemic, there are unfavorable factors such as the production lines in Cambodia and Vietnam had suspended operation partially, while production costs, such as material and labour cost, increased, and the exchange rate of Renminbi has been strengthened during the year.

- Proposed to declare a final dividend of HKD0.57 per ordinary share, and together with interim dividend declared of HKD1.06 per ordinary share, the total dividend proposed to be declared for the year of 2021 was HKD1.63 per ordinary share, representing a decrease of approximately 18.5% when compared with HKD2.00 per ordinary share of 2020. The dividend payout ratio in 2021 was approximately 60.3%, representing an increase of approximately 9.2 percentage points when compared with approximately 51.1% for the year of 2020.

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 2021, together with the comparative amounts for the corresponding year of 2020 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
REVENUE	4	**23,845,006**	23,030,648
Cost of sales		**(18,055,359)**	(15,836,040)
Gross profit		**5,789,647**	7,194,608
Other income and gains	4	**570,482**	746,947
Selling and distribution expenses		**(231,658)**	(148,679)
Administrative expenses		**(1,978,495)**	(1,638,759)
Other expenses		**(189,887)**	(539,711)
Finance costs	5	**(144,036)**	(108,250)
Share of profits of associates		**7,263**	6,270
PROFIT BEFORE TAX	6	**3,823,316**	5,512,426
Income tax expenses	7	**(451,637)**	(429,781)
PROFIT FOR THE YEAR		**3,371,679**	5,082,645
Attributable to:			
Owners of the parent		**3,371,702**	5,106,736
Non-controlling interests		**(23)**	(24,091)
		3,371,679	5,082,645
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
For profit for the year		**RMB2.24**	RMB3.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**3,371,679**	5,082,645
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(141,942)**	(420,816)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(141,942)**	(420,816)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(141,942)**	(420,816)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,229,737**	4,661,829
Attributable to:		
Owners of the parent	**3,229,766**	4,685,936
Non-controlling interests	**(29)**	(24,107)
	3,229,737	4,661,829

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	**2021** **RMB'000**	2020 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**11,130,174**	10,166,819
Right-of-use assets		**1,574,134**	1,585,555
Intangible assets		**110,288**	105,047
Long-term time deposits at banks	*13*	**1,710,000**	1,410,000
Long-term prepayments		**331,018**	1,850
Investments in associates		**600,698**	14,319
Equity investments designated at fair value through other comprehensive income		**720**	720
Deferred tax assets		**165,433**	13,601
Total non-current assets		**15,622,465**	13,297,911
CURRENT ASSETS			
Inventories		**6,635,605**	4,811,434
Trade and bills receivables	*10*	**3,501,551**	4,167,602
Prepayments and other receivables		**653,052**	957,660
Amounts due from related parties		**3,616**	2,486
Financial assets at fair value through profit or loss	*12*	**2,413,823**	2,425,932
Pledged deposits	*13*	**3,501,015**	–
Bank deposits with an initial term of over three months	*13*	**3,113,156**	2,961,676
Cash and cash equivalents	*13*	**6,687,623**	8,227,060
Total current assets		**26,509,441**	23,553,850
CURRENT LIABILITIES			
Trade payables	*11*	**1,386,514**	1,059,836
Contract liabilities		**6,630**	6,607
Other payables and accruals		**1,586,053**	1,391,148
Amount due to a related party		**84**	2,101
Interest-bearing bank borrowings		**10,212,171**	6,210,429
Lease liabilities		**25,919**	11,407
Tax payable		**315,060**	171,097
Total current liabilities		**13,532,431**	8,852,625

	2021	2020
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**12,977,010**	14,701,225
TOTAL ASSETS LESS CURRENT LIABILITIES	**28,599,475**	27,999,136
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**376,508**	397,874
Lease liabilities	**106,870**	103,921
Deferred tax liabilities	**333,034**	226,511
Total non-current liabilities	**816,412**	728,306
NET ASSETS	**27,783,063**	27,270,830
EQUITY		
Equity attributable to owners of the parent		
Share capital	**151,200**	151,200
Reserves	**27,619,379**	27,124,860
	27,770,579	27,276,060
Non-controlling interests	**12,484**	(5,230)
Total equity	**27,783,063**	27,270,830

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 following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

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

(a) 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 ("**RFR**"). The 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 recognise 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 US dollars based on the Hong Kong Interbank Offered Rate ("**HIBOR**") and United States dollars based on the London Interbank Offered Rate ("**LIBOR**") as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. For the LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments 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 the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

(b) 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 Group has early adopted the amendment on 1 January 2021.The adoption of Amendment to HKFRS 16 did not have any impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2021	2020
	RMB'000	*RMB'000*
Mainland China	**7,568,345**	7,322,624
European Union	**4,732,599**	3,679,117
United States of America	**3,805,130**	3,115,229
Japan	**3,346,908**	4,795,807
Other regions	**4,392,024**	4,117,871
	23,845,006	23,030,648

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

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

	2021	2020
	RMB'000	*RMB'000*
Mainland China	**6,181,279**	5,531,156
Vietnam	**4,636,652**	4,674,347
Cambodia	**2,083,262**	1,384,194
Other regions	**244,421**	269,574
	13,145,614	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, investments in associates, equity investments designated at fair value through other comprehensive income and deferred tax assets.

Information about major customers

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

	2021	2020
	RMB'000	*RMB'000*
Customer A	**7,077,244**	6,168,401
Customer B	**4,931,209**	5,031,035
Customer C	**4,700,214**	5,717,403
Customer D	**3,336,767**	2,572,198

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods – at a point in time	**23,845,006**	23,030,648

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:

	2021
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of goods	**5,847**

(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.

	2021	2020
	RMB'000	*RMB'000*
Other income		
Government grants	**172,601**	329,586
Interest income	**224,496**	332,255
Rental income	**32,258**	31,118
	429,355	692,959
Gains		
Fair value gains, net:		
Derivative instruments		
– transactions not qualifying as hedges	**120,979**	–
Financial assets at fair value through profit or loss		
– mandatorily classified as such	**19,956**	53,940
Gain on disposal of items of right-of-use assets	**192**	48
	141,127	53,988
	570,482	746,947

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2021	2020
	RMB'000	*RMB'000*
Interest on bank borrowings	**138,317**	102,918
Interest on lease liabilities	**5,719**	5,332
	144,036	108,250

6. PROFIT BEFORE TAX

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

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold	**18,050,496**	15,832,781
Depreciation of items of property, plant and equipment	**1,073,788**	974,479
Depreciation of right-of-use assets	**66,882**	65,509
Amortisation of intangible assets	**15,446**	13,878
Lease payments not included in the measurement of lease liabilities	**38,376**	10,787
Auditor's remuneration	**3,535**	3,452
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**6,638,662**	5,420,615
Pension scheme contributions (defined contribution scheme)*	**639,276**	489,551
Other benefits	**289,473**	241,128
	7,567,411	6,151,294

	Notes	2021 RMB'000	2020 RMB'000
Foreign exchange differences, net		**173,213**	482,594
Impairment of inventories, net		**36,085**	(2,666)
Impairment of trade receivables, net		**1,371**	–
Impairment of other receivables, net		**(700)**	–
Fair value gains, net:			
Derivative instruments			
– transactions not qualifying as hedges	4	**(120,979)**	–
Financial assets at fair value through profit or loss			
– mandatorily classified as such	4	**(19,956)**	(53,940)
Interest income	4	**(224,496)**	(332,255)
Loss on disposal of items of			
property, plant and equipment		**2,178**	43,332
Gain on disposal of items of right-of-use assets	4	**(192)**	(48)

* *There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.*

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2021 and 2020 are:

	2021 RMB'000	2020 RMB'000
Current Hong Kong profits tax	**35,858**	6,972
Current overseas withholding tax	**3,144**	4,606
Current Vietnam profits tax	**62,652**	67,484
Current Cambodia profits tax	**2**	–
Current Macao profits tax	**196,692**	2,042
Current Mainland China corporate income tax ("**CIT**")	**198,598**	302,898
Deferred taxation	**(45,309)**	45,779
	451,637	429,781

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% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are 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% (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 but minimum tax on annual turnover at a tax rate of 1% pursuant to the Law of Taxation in Cambodia.

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

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

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

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 subsidiary is qualified as a micro and small company and entitled to a concessionary rate of income tax of 2.5%.

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 2021 and 2020 is as follows:

	2021	2020
	RMB'000	*RMB'000*
Profit before tax	**3,823,316**	5,512,426
Tax at the statutory tax rate of 25% (2020: 25%)	**955,829**	1,378,107
Lower tax rates for specific jurisdictions or enacted by local authorities	**(617,819)**	(1,044,705)
Additional deductible allowance for qualified research and development costs	**(46,859)**	–
Adjustments in respect of current tax of previous periods	**2,656**	(16,675)
Profits attributable to associates	**(1,816)**	(1,568)
Income not subject to tax	**(18)**	(29)
Expenses not deductible for tax	**15,396**	5,104
Overseas withholding tax	**3,144**	4,606
Tax losses not recognised during the year	**149,560**	105,446
Utilisation of previously unrecognised tax losses	**(8,436)**	(505)
	451,637	429,781

8. DIVIDENDS

	2021	2020
	RMB'000	*RMB'000*
Interim – HKD1.06 (2020: HKD0.90) per ordinary share	**1,325,881**	1,235,739
Proposed final – HKD0.57 (2020: HKD1.10) per ordinary share	**700,550**	1,391,623
	2,026,431	2,627,362

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,503,222,397 (2020: 1,503,222,397) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 31 December 2020.

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

Earnings

	2021	2020
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**3,371,702**	5,106,736

Shares

	Number of shares	
	2021	2020
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

	2021	2020
	RMB	*RMB*
Basic and diluted	**2.24**	3.40

10. TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade and bills receivables	**3,501,551**	4,167,602

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:

	2021	2020
	RMB'000	*RMB'000*
Within three months	**3,477,609**	4,134,203
Over three months	**23,942**	33,399
	3,501,551	4,167,602

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

	2021	2020
	RMB'000	*RMB'000*
Neither past due nor impaired	**3,446,440**	4,100,398
Less than three months past due	**47,953**	55,271
Over three months past due	**7,158**	11,933
	3,501,551	4,167,602

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:

	2021		2020	
	Original currency	**RMB equivalent**	Original currency	RMB equivalent
	in thousand	***RMB'000***	*in thousand*	*RMB'000*
USD	**363,918**	**2,320,229**	381,203	2,487,313
RMB		**1,181,322**		1,680,289
		3,501,551		4,167,602

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:

	2021	2020
	RMB'000	*RMB'000*
Within six months	**1,359,690**	1,024,298
Six months to one year	**7,796**	12,158
One year to two years	**8,432**	13,953
Over two years	**10,596**	9,427
	1,386,514	1,059,836

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

	2021	2020
	RMB'000	*RMB'000*
Financial products issued by financial institutions*	**2,292,844**	2,425,932
Derivative instruments – transactions not qualifying as hedges	**120,979**	–
	2,413,823	2,425,932

* *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. CASH AND BANK BALANCES AND TIME DEPOSITS

	2021	2020
	RMB'000	*RMB'000*
Cash and bank balances	**6,055,358**	5,802,800
Time deposits	**8,956,436**	6,795,936
	15,011,794	12,598,736
Less:		
Deposits pledged for foreign swap settlement*	**(2,990,959)**	–
Deposits pledged for short term bank loans**	**(510,056)**	–
Bank deposits with an initial term of over three months	**(3,113,156)**	(2,961,676)
Long-term time deposits at banks	**(1,710,000)**	(1,410,000)
Cash and cash equivalents	**6,687,623**	8,227,060

* *At 31 December 2021, time deposits of EUR414,277,538 (approximately RMB2,990,959,000) (31 December 2020:Nil) were restricted until certain foreign currency swaps held by the Group are settled, of which EUR62,117,313 (approximately RMB448,468,000) has been frozen until 20 January 2022 and EUR352,160,225 (approximately RMB2,542,491,000) has been frozen until 1 April 2022. These pledged deposits carried interest at fixed rate of 1.02% to 1.52%.*

** *Certain of the Group's time deposits with an amount of USD80,000,000 (approximately RMB510,056,000) (31 December 2020: Nil) were pledged to secured bank loans granted to the Group.*

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to approximately RMB3,170,631,000 (31 December 2020: RMB2,912,217,000). 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 and pledged deposits 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 2021, 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 2020: RMB632,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS AND STRATEGIES

Business review

During the year, the decrease in capacity utilization rate and the increase in production costs have exerted pressure on the Group's profitability, especially there was a significant decline in profitability in the second half of the year. In the second half of 2021, the Group achieved a gross profit of approximately RMB2,417,480,000, representing a decrease of approximately 40.1% as compared with the same period last year, and the gross profit margin decreased by 12.2 percentage points to approximately 19.4% as compared with the same period last year. Such decrease is mainly attributable to the combine effect of various factors, including: a drop in the Group's capacity utilization rate as a result of suspension of operation of the Group's fabric factory and garment factory of our Vietnam base in the second half of the year due to the pandemic; significant increase in raw material prices, especially cotton price increased at a faster pace in the second half of the year; rising labor costs; increase in energy prices and strong RMB. During the year under review, sustainable development of the enterprise continued to be our Group's main focus, we have invested more resources in employee care, capacity expansion, improvement and renovation, and efficiency enhancement, and have achieved good results.

Although the pandemic has exerted great pressure on the operation of enterprises, health and safety of our employees is always the Group's top priority. During the epidemic, the Group proactively implemented various epidemic prevention measures and actively cooperated with the local government on epidemic control. During overseas outbreak in 2021 and the outbreak happened in China in early 2022, the Group continued to pay wages to employees during production suspension to assure they have income to maintain a normal life amid the pandemic. Our Vietnam base was affected by the epidemic the longest time, besides distributing anti-epidemic materials to and arranging vaccination for our employees, the Group paid extra production subsidies and accommodation subsidies to working staff who were eligible to work pursuant to the government's epidemic prevention policies during the epidemic, and provided free meals, welfare materials and daily necessities to them. For Chinese employees stationed overseas, the Group introduced special allowance policies during the pandemic. In addition, the Group increased its investment in the construction of high-quality dormitories to further improve the living conditions of its employees. Despite the increase in labor costs in the short term, the care for employees has effectively improved the stability of employees, and helped us swiftly resume operation after the pandemic, and minimized the number of orders delayed as affected by the pandemic.

The Group's new garment factory projects in Cambodia and Vietnam continued to make progress, which has assured that we have enough capacity to support our business growth in the future. As of the end of 2021, the Group's new garment factory in Cambodia has more than 11,000 employees, and the production efficiency is gradually improving. The civil engineering work at our new garment factory in Vietnam has basically been completed and we have finished equipment installation for nearly half of the workshops, new staff recruitment will be started by stages. At present, the new reclaimed water recycling project at our fabric factory in Vietnam is under construction, which not only promotes the recycling of resources and reduces sewage discharge, but also provides resource for us to expand our fabric production capacity. It is expected that by the end of June 2022, the fabric production capacity of our Vietnam base is likely to increase to 400 tons per day, which can support the fabric demand of new garment factories overseas accordingly.

During the year, upgrade and improvement work at our fabric factories in China continued, which has significantly increased our fabrics production capacity and has also effectively alleviated the pressure on the Group's fabric production capacity during the time our Vietnam factories suspended production. In addition, through promoting the use of energy-saving equipment, improving our production process and enhancing our capacity utilization rate, the resource consumption level of our fabric factories in China has further decreased, especially the electricity, natural gas and steam consumption per output unit have decreased by approximately 10% year-on-year. At the same time, the Group further optimized our energy consumption structure, an addition of approximately 59,000 square meters of roofs were used for the construction of photovoltaic power generation project. In addition, we have purchased 15,000,000 kWh of green electricity from external parties through market transactions for production.

Although there was a decrease in the Group's overall production capacity utilization rate due to the suspension of operation of our overseas bases, the production efficiency of all production units of the Group continued to improve, especially the productivity per person of the major production processes in our domestic bases increased significantly as compared with last year. The following measures have contributed to the improvement of the Group's production efficiency: the use of more automated equipment and the improvement of equipment utilization rate; continuous upgrade and improvement of equipment; active cooperation with customers and promoting Design for Manufacturing (DFM) during product development stage, which can make the production of a product easier and shorten the production of each unit through refining the design of the product without compromising the functions, appearance and reliability of the product; encouraging and guiding all of our staff to participate in micro-innovation, which has brought great contribution to us when aggregate.

FINANCIAL REVIEW

Sales

For the year ended 31 December 2021, sales was approximately RMB23,845,006,000, representing an increase of approximately RMB814,358,000 or approximately 3.5% from approximately RMB23,030,648,000 for the year ended 31 December 2020. The increase in sales for the year was mainly attributable to the satisfactory growth in the Group's order demands and the expansion of the production capacity. However, as our fabric factory and garment factories in Vietnam, garment factories in Cambodia have temporarily suspended operation for some time as a result of the pandemic, the Group's production capacity utilization rate has decreased. In addition, unit price for order denominated in RMB also decreased as affected by strong RMB.

The comparison of sales breakdown by product categories between 2021 and 2020 of the Group is as below:

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By products						
Sportswear	**17,612,128**	**73.9**	15,940,917	69.2	1,671,211	10.5
Casual wear	**4,720,735**	**19.8**	4,480,518	19.5	240,217	5.4
Lingerie wear	**1,040,246**	**4.4**	1,032,917	4.5	7,329	0.7
Other knitwear	**471,897**	**1.9**	1,576,296	6.8	(1,104,399)	(70.1)
Total sales	**23,845,006**	**100.0**	23,030,648	100.0	814,358	3.5

For the year ended 31 December 2021, sales of sportswear products was approximately RMB17,612,128,000, representing an increase of approximately RMB1,671,211,000 or approximately 10.5% from approximately RMB15,940,917,000 for the year ended 31 December 2020. The increase in sales of sportswear products was mainly attributable to the recovery of demand for sportswear products in the US and European markets.

Sales of casual wear products increased by approximately RMB240,217,000 or approximately 5.4% from approximately RMB4,480,518,000 for the year ended 31 December 2020 to approximately RMB4,720,735,000 for the year ended 31 December 2021. Such increase was mainly attributable to the increase in sales of casual wear products in China and the US markets, which was offset by the decrease in sales in Japanese market.

Sales of lingerie products increased by approximately RMB7,329,000 or approximately 0.7% from approximately RMB1,032,917,000 for the year ended 31 December 2020 to approximately RMB1,040,246,000 for the year ended 31 December 2021. The revenue from sales of lingerie products remained stable and the major markets of such products were Japan and China.

Sales of other knitwear products decreased significantly by approximately RMB1,104,399,000 from approximately RMB1,576,296,000 for the year ended 31 December 2020 to approximately RMB471,897,000 for the year ended 31 December 2021. Such decrease was mainly attributable to the decrease in the sales of mask products to approximately RMB279,462,000 for the year, representing a decrease of approximately RMB1,132,374,000 as compared to that of previous year. Without taking into account the impact of mask products, revenue from other products increased by approximately 17.0% as compared with last year.

The comparison of revenue breakdown by markets between 2021 and 2020 of the Group is as below:

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By markets						
Europe	**4,732,599**	**19.8**	3,679,117	16.0	1,053,482	28.6
US	**3,805,130**	**16.0**	3,115,229	13.5	689,901	22.1
Japan	**3,346,908**	**14.0**	4,795,807	20.8	(1,448,899)	(30.2)
Others	**4,392,024**	**18.4**	4,117,871	17.9	274,153	6.7
Sub-total sales from international market	**16,276,661**	**68.2**	15,708,024	68.2	568,637	3.6
Sales from domestic market	**7,568,345**	**31.8**	7,322,624	31.8	245,721	3.4
Total sales	**23,845,006**	**100.0**	23,030,648	100.0	814,358	3.5

For the year ended 31 December 2021, the Group's sales in the European market was approximately RMB4,732,599,000, representing an increase of approximately RMB1,053,482,000 or approximately 28.6% from approximately RMB3,679,117,000 for the year ended 31 December 2020. Such increase was mainly attributable to the increase in sales of sportswear in the European market.

For the year ended 31 December 2021, the Group's sales in the US market was approximately RMB3,805,130,000, representing an increase of approximately RMB689,901,000 or approximately 22.1% from approximately RMB3,115,229,000 for the year ended 31 December 2020. Such increase was mainly attributable to the increase in sales of sportswear in the US market.

For the year ended 31 December 2021, the Group's sales in the Japanese market was approximately RMB3,346,908,000, representing a decrease of approximately RMB1,448,899,000 or approximately 30.2% from approximately RMB4,795,807,000 for the year ended 31 December 2020. Such decrease was mainly attributable to the significant decrease in the mask products exported to the Japanese market during the year.

For the year ended 31 December 2021, the Group's sales in other overseas markets was approximately RMB4,392,024,000, representing an increase of approximately RMB274,153,000 or approximately 6.7% from approximately RMB4,117,871,000 for the year ended 31 December 2020. Such increase was mainly attributable to the increase in garments exported to Australia, the UAE and other markets.

For the year ended 31 December 2021, the Group's sales in domestic market increased by approximately 3.4% as compared with last year. Among the sales of domestic market, sales from apparels was approximately RMB7,395,394,000, representing an increase of approximately RMB264,990,000 or approximately 3.7% from approximately RMB7,130,404,000 last year. The increase in the sales of domestic market was mainly attributable to the increase in sales of domestic brands.

Cost of sales and gross profit

For the year ended 31 December 2021, cost of sales of the Group was approximately RMB18,055,359,000 (2020: RMB15,836,040,000). The gross profit margin of the Group in 2021 was approximately 24.3%, representing a decrease of approximately 6.9 percentage points from approximately 31.2% in 2020. The significant decrease in gross profit margin for the year was mainly due to: 1) our fabric factory and garment factories in Vietnam, garment factories in Cambodia have temporarily suspended operation for some time as a result of the pandemic, resulting in a decrease in the Group's production capacity utilization rate, as well as an increase in expense related to the pandemic; 2) there was a significant increase in various production costs during the year, including raw materials such as yarn, energy and labour, while the selling price of the orders did not pass on the impact of cost increases in a timely manner; and 3) the Group's sales were mainly denominated in USD, and the continuous appreciation of RMB against USD had a negative impact on profit.

Equity attributable to owners of the parent

As at 31 December 2021, the Group's equity attributable to owners of the parent amounted to approximately RMB27,770,579,000 (2020: RMB27,276,060,000), in which non-current assets were approximately RMB15,622,465,000 (2020: RMB13,297,911,000), net current assets were approximately RMB12,977,010,000 (2020: RMB14,701,225,000), non-current liability were approximately RMB816,412,000 (2020: RMB728,306,000) and equity attributable to non-controlling interests were approximately RMB12,484,000 (2020: RMB-5,230,000). 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 2021, the net cash generated from the Group's operating activities was approximately RMB3,594,348,000, while it was approximately RMB5,754,570,000 in 2020. The cash and cash equivalents of the Group as at 31 December 2021 was approximately RMB6,687,623,000, in which approximately RMB1,360,631,000 was denominated in RMB, approximately RMB4,286,417,000 was denominated in USD, approximately RMB981,439,000 was denominated in Euro, approximately RMB29,781,000 was denominated in HK dollars, approximately RMB26,689,000 was denominated in Vietnamese dong and the remaining balance was denominated in other currencies (2020: 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 RMB592,917,000 was denominated in Euro, approximately RMB16,858,000 was denominated in HK dollars, approximately RMB17,305,000 was denominated in Vietnamese dong and the remaining balance was denominated in other currencies). The balance of bank borrowings was approximately RMB10,588,679,000 (2020: RMB6,608,303,000, of which the short-term bank borrowing was approximately RMB6,210,429,000, and long-term bank borrowing was approximately RMB397,874,000), of which the short-term bank borrowing was approximately RMB10,212,171,000, and long-term bank borrowing was approximately RMB376,508,000. The Group's net borrowings (bank borrowings less cash and cash equivalents) as at 31 December 2021 was approximately RMB3,901,056,000, while the Group recorded net cash (cash and cash equivalents less bank borrowings) of approximately RMB1,618,757,000 as at 31 December 2020, net borrowings increased by approximately RMB5,519,813,000, such increase was mainly attributable to part of our deposits being frozen temporarily which was classified as pledged deposits, as well as the increase in bank borrowings of the Group during the year, which was mainly used for the construction of new production capacity of overseas factories and the renovation and upgrade of domestic factories.

Equity attributable to owners of the parent amounted to approximately RMB27,770,579,000 (2020: RMB27,276,060,000). 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 38.1% (2020: 24.2%), up by 13.9 percentage points as compared with the end of last year. As at 31 December 2021, in addition to cash and cash equivalents, the Group also held other deposit financial assets of approximately RMB10,737,994,000, which can be used as the source of capital for debt adjustment.

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 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 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 and 13 to Financial Statements contained in this preliminary annual results announcement of the year for details of such financial products.

Pledge of assets of the Group

As at 31 December 2021, a fixed deposit equivalent to approximately RMB510,056,000 (original USD80,000,000) placed by the Group with a bank was pledged for a loan granted by a policy bank in China. Besides, we have contracted with a domestic bank to use deposit denominated in Euro amounted to approximately RMB2,990,959,000 (original Euro 414,277,538) to settle certain foreign exchange swap held by the Group, such portion of Euro amount has been frozen, of which RMB448,468,000 (original Euro 62,117,313) has been frozen until 20 January 2022 and RMB2,542,491,000 (original Euro 352,160,225) has been frozen until 1 April 2022. Other than that, we have no pledged or restricted asset.

Financing costs and tax

For the year ended 31 December 2021, our financing costs increased by approximately RMB35,786,000 to approximately RMB144,036,000 from approximately RMB108,250,000 for the year ended 31 December 2020, which was mainly attributable to the increase in the Group’s loans amount during the year as compared to last year.

For the year ended 31 December 2021, the income tax expense of the Group was approximately RMB451,637,000, which increased by approximately RMB21,856,000 from approximately RMB429,781,000 for the year ended 31 December 2020, which was mainly due to the decrease in profits of the Group's overseas subsidiaries as a result of the impact of the pandemic; our overseas subsidiaries were in preferential income tax period and enjoyed lower tax rate as compared with the average tax rate of the Group; and two of the Group's wholly-owned subsidiaries started to pay corporate income tax during the year, while they were exempted from tax during the previous year.

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 2021, loans of approximately RMB4,368,760,000 were denominated in USD (calculated based on the original currency of approximately USD685,220,000) and loans of RMB1,389,920,000 were denominated in HKD (calculated based on the original currency of HKD1,700,000,000) (31 December 2020: loans of approximately RMB3,527,582,000 were denominated in USD (calculated based on the original currency of approximately USD540,634,000) and loans of approximately RMB1,430,720,000 were denominated in HKD (calculated based on the original currency of HKD1,700,000,000)). In addition, as at 31 December 2021, the Group still possessed certain outstanding forward foreign exchange contracts, pursuant to which, the Group contracted to sell foreign exchange of USD540,000,000 to various banks and receive corresponding amounts in Renminbi at an average settlement price of approximately RMB6.6095 per USD1.

Employment, training and development

As at 31 December 2021, the Group employed approximately 95,820 employees in total. During the year, the total staff costs, including administrative and management staff, accounted for approximately 31.7% (2020: 26.7%) of the Group's revenue. The total staff costs as a proportion of the income increased by approximately 5 percentage points as compared with last year, which was primarily attributable to the temporary suspension of operation of overseas factories as affected by the pandemic, and that the Group had been paying salaries to employees during the production suspension period, and expatriate Chinese employees were entitled to special allowance during the pandemic. 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 were required to attend an introductory course, while there were 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 RMB2,187,942,000, of which approximately 55% was used for the acquisition of production equipment, approximately 39% was used for 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 2021, the Group had contracted capital commitments of approximately RMB657,314,000 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 at 31 December 2021, the Group has accumulatively invested approximately USD283,000,000 in the new garment factory in Phnom Penh, Cambodia. At present, the plant and dormitory of the new project in Phnom Penh are substantially completed and gradually put into operation. As at 31 December 2021, approximately 11,200 employees were recruited for the new factory.

In addition, the Group started to construct a garment production facility in Vietnam at the end of 2019. It is estimated that approximately 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. As at 31 December 2021, a cumulative amount of approximately USD62,000,000 has been invested, the civil works of the new garment factory in Vietnam were substantially completed. The new garment factory has two production workshops, among which the installation of equipment in one of the workshops has been completed and it will start recruiting new employees by stages. The project is expected to be funded primarily by the cash reserve of the Group.

In December 2021, Ningbo Ruiding New Materials Co., Ltd. (寧波瑞鼎新材料有限公司)("**Ningbo Ruiding**"), a wholly-owned subsidiary of the Company, entered into an equity transaction agreement with Anqing City Construction Investment and Development (Group) Company Limited (安慶市城市建設投資發展(集團)有限公司)("**Anqing City Construction**"), pursuant to which Ningbo Ruiding acquired 17.28% equity interests in Anhui Huamao Group Company Limited (安徽華茂集團有限公司)("**Huamao Group**") held by Anqing City Construction at a consideration of RMB480,000,000; in addition, Ningbo Ruiding entered into a share transfer agreement with Wuhan Dangdai Science & Technology Industries (Group) Company Limited (武漢當代科技產業集團股份有限公司)("**Wuhan Dangdai**"), pursuant to which Ningbo Ruiding acquired 3.77% equity interests in Huamao Group held by Wuhan Dangdai at a consideration of RMB104,722,200. The registration of the above equity transfer was completed on 28 December 2021, and Ningbo Ruiding holds total of 21.05% equity interests in Huamao Group. Huamao Group holds 46.40% equity interests in Anhui Huamao Textile Company Limited (安徽華茂紡織股份有限公司)("**Huamao Textile**"), a company incorporated in the PRC and listed on the Shenzhen Stock Exchange (stock code: 000850). As a result, the Group indirectly holds approximately 9.77% equity interests in Huamao Textile. Huamao Textile is principally engaged in the textile business and is one of the yarn suppliers of the Group.

Apart from these, the Company did not have any significant investments, acquisitions and disposals during the year ended 31 December 2021. Please refer to the announcement dated 17 September 2018 and the Interim Report 2021 of the Company for the details of the above project in Phnom Penh, Cambodia and the announcement dated 17 October 2019 and the Interim Report 2021 of the Company for the details of the above project in Vietnam. Please refer to the announcement dated 8 December 2021 of the Company for the details of the above acquisition of equity interests in Huamao Group.

Gearing Ratio

As at 31 December 2021, the Group's gearing ratio was 38.1%, calculated based on the ratio of the total outstanding borrowings to the equity attributable to owners of the parent.

Contingent liabilities

As at 31 December 2021, the Group had no significant contingent liabilities.

Future prospects and strategies

At present, the spreading of COVID-19 pandemic around the world has brought uncertainty to the stability of the supply chain, intensified geopolitical conflicts and the rise of trade protectionism has made the prospect of global economic recovery more uncertain. Developed economies have no choice but to start tightening their monetary policies amid inflation pressure, which has affected the recovery of consumption power and consumer confidence, thus increased the uncertainty of the growth of textile and apparel trade exports. The trade environment and cost differences has weakened the export competitiveness of China's products, which led to a shifting of demand from China to overseas countries. The global layout of the industrial chain and the cross-border collaboration of supply chain have become a trend in the development of the textile and garment industry, brand customers also establish global supply chain network to diversify procurement risks.

High-quality development and establishing global presence are the development strategies of the Group, which are also important initiatives to cope with the operating pressure faced by the industry. The Group's high-quality development focuses on quality and efficiency enhancement, innovation-driven development, energy conservation and emission reduction. For establishing global presence, it refers to build up a production model that with domestic bases as the core and use overseas bases as support, which will help to enlarge the market share of the Group.

Increasing automation, optimization of production process and improvement of production efficiency not only can set us from the constraints of labor and other essential resources, but are also necessary in the face of rising manufacturing costs and unfavorable trading environment. The Group will further the automation of the industry chain and build up an intelligent warehousing and logistics system to improve the efficiency and accuracy of material distribution. Building on the modular sewing in our garment manufacturing process, we will further work on the automation of sewing process and enhance the intelligence of supporting materials, so as to reduce work intensity and improving output per person. While expanding the scale of equipment automation, the Group will promote the whole life cycle management of equipment and improve the comprehensive utilization rate of production equipment.

The Group will further strengthen research and development and innovation to adapt to the trend of consumption upgrading, improve our ability to develop new products with new materials and new technologies, in particular, to reflect the added value of new products in terms of quality, functions and environmental protection. At the same time, the Group will consolidate and enhance our basic production ability, strengthen the management of material consumption, improve the full kits rate of raw material, promote the co-ordination and matching of production capacity of upstream and downstream processes, and reduce material loss and idle capacity. We will further improve the talent identification and training mechanism, increase talent reserves, optimize the internal training platform, and enhance the team's innovation awareness and ability.

The Group will continue to promote the digital transformation of enterprises, aiming to improve production efficiency and the level of refinement, flexibility and intelligence of production methods, and promote the collaborative innovation of equipment, software and information technology. We will improve the application of digital equipment at enterprise level, enhance the online rate of digital equipment and expand the automatic collection scope of production line data. Besides, we will integrate and optimize our system software, accelerate the upgrading and transformation of enterprise network, and promote the application of new network technologies and equipment, such as the Internet of Things and smart sensors. The Group will also establish a digital ecosystem, realize the matching of our production system with the demand from external supply chains and customers, so as to improve the responsiveness of the supply chain to demand.

The Group attaches great importance to and promotes sustainable development, and has expedited the construction of a green manufacturing system covering the whole industry chain, including green materials, green processes, green production, and circulation development. The Group has implemented countermeasures to meet the goal of "emission peak and carbon neutrality" in advance, including research and development and introduction of low-carbon technologies, optimization of energy structure, strengthening delicacy management of production process, promoting the application of high-efficiency energy-saving equipment, implementing intelligent energy management, and strengthening resource recycling. The green production model has not only become an important consideration in selecting supply chain for global textile and garment buyers, it is also an important component for textile and garment enterprises to enhance their competitiveness in the industry.

The Group will further promote the global layout of our production bases, optimize the diversified base layout of supply chain and the vertical integrated production model, so as to better meet the needs to diversify procurement risks and shorten order delivery time of the Group's customers. We will drive lean manufacturing and green manufacturing at our overseas bases, and help to improve the quality and efficiency of our overseas factories by exporting management and technical talents to overseas and strengthening the training of overseas local talents. With the support of our domestic bases and leveraging on our digital infrastructure, we will vigorously improve our ability in global collaborative manufacturing and sharing of management resources, and reduce the pressure brought by the demand for talents overseas. The Group will strengthen its cross-border resource integration capabilities, make use of domestic and foreign resource advantages, and achieve continuous improvement of our value chain.

In view of the epidemic continue to grow in Mainland China, the Group will remain cautions and maintain flexibility to a certain extent in recruiting staff in Mainland China, with priority given to ensuring the safety and stability of supply chain. In terms of overseas bases, the Group will utilize the production capacity of our new factories in Cambodia and Vietnam as soon as possible, recruit additional employees in an orderly manner, and accelerate the efficiency improvement of new factories.

The Group will continue to focus on enhancing its competitiveness and value chain, and will accelerate the establishment of a high-quality development model integrating technology, fashion and sustainable development. Adhere to the demand-oriented and innovation-driven principle, we strive to provide customers with more comprehensive services, and create better returns for shareholders.

EVENTS AFTER THE REPORTING PERIOD

In order to cooperate with the PRC local government in respect of the measures taken to contain the 2019 novel coronavirus, the Group's production line in Ningbo, China has suspended operation partially starting from 1 January 2022. Production has been resumed in an orderly manner starting from 16 January 2022. The impact of the suspension of production line in Ningbo on the Group's overall operation is limited, and has no significant impact on the financial position of the Group. For more details, please refer to the announcements of the Company dated 3 January 2022, 10 January 2022 and 16 January 2022. Save as disclosed above, there were no events after the reporting period that had significant impacts on the Group after 31 December 2021 and up to the date of this announcement.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HKD0.57 (equivalent to approximately RMB0.47) per ordinary share for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company on 13 June 2022. 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 30 May 2022 and subject to such approval having been obtained, the payment of such dividend is expected to be on or around 23 June 2022.

BOOK CLOSURE

The register of members of the Company will be closed from Wednesday, 25 May 2022 to Monday, 30 May 2022, 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 Tuesday, 24 May 2022.

The register of members of the Company will be closed from Wednesday, 8 June 2022 to Monday, 13 June 2022, 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 Tuesday, 7 June 2022.

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 Listing Rules since 9 October 2005. The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2021.

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 of Hong Kong Limited (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 C.1.4 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 2021, 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 A.2 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 and making recommendations; training and continuous professional development of Directors and senior management; policies and practices on 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 F.2.2 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 30 May 2022 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 2021.

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 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 year ended 31 December 2021.

SHARE OPTION SCHEME

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

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 2021 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 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 2021. 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 2021 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 2021, 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 2022.

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, at 10:00 a.m. on Monday, 30 May 2022. 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, 30 March 2022

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. Jiang Xianpin, Mr. Zhang Bingsheng, Mr. Liu Xinggao and Ms. Liu Chunhong.