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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 2023

HIGHLIGHTS

- Sales for the six months ended 30 June 2023 amounted to approximately RMB11,561,962,000, representing a decrease of approximately 14.9% as compared with the corresponding period of 2022.
- Percentage of sportswear products sales to total sales was approximately 74.0% for the six months ended 30 June 2023. Revenue from sale of sportswear products decreased by approximately 19.9% as compared with the corresponding period of the previous year.
- Percentage of casual wear products sales to total sales was approximately 19.9% for the six months ended 30 June 2023. Revenue from sale of casual wear products increased by approximately 10.1% as compared with the corresponding period of the previous year.
- Percentage of lingerie products sales to total sales was approximately 5.3% for the six months ended 30 June 2023. Revenue from sale of lingerie products increased by approximately 0.4% as compared with the corresponding period of the previous year.
- Gross profit for the six months ended 30 June 2023 amounted to approximately RMB2,594,904,000, representing a decrease of approximately 15.4% as compared with the corresponding period of 2022. Gross profit margin was approximately 22.4%, representing a decrease of 0.2 percentage point from approximately 22.6% of the corresponding period last year.
- Net profit attributable to owners of the parent for the six months ended 30 June 2023 amounted to approximately RMB2,126,829,000, representing a decrease of RMB239,787,000 or approximately 10.1% as compared with the corresponding period of 2022. The main reasons for the decrease in net profit included the decrease in net foreign exchange gain of RMB373,567,000.
- Basic earnings per share were RMB1.41, representing a decrease of approximately 10.2% from RMB1.57 for the corresponding period of the previous year.
- The Board has resolved to declare an interim dividend of HK$0.95 per share, representing a decrease of approximately 10.4% from HK$1.06 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 2023 (the "Reporting Period"), together with the comparative amounts for the corresponding period of 2022. The interim results and interim financial statements have not been audited but have been reviewed by the Company's Audit Committee.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

		Unaudited For the six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**11,561,962**	13,592,789
Cost of sales	*5*	**(8,967,058)**	(10,527,182)
Gross profit		**2,594,904**	3,065,607
Other income	*6*	**507,389**	298,213
Selling and distribution expenses	*5*	**(81,135)**	(124,736)
Administrative expenses	*5*	**(913,688)**	(1,002,415)
Finance costs	*7*	**(146,258)**	(103,557)
Other gains, net	*6*	**376,659**	641,839
Share of profits and losses of associates		**10,553**	(6,543)
PROFIT BEFORE TAX		**2,348,424**	2,768,408
Income tax expenses	*8*	**(221,595)**	(400,724)
PROFIT FOR THE PERIOD		**2,126,829**	2,367,684
Attributable to:			
Owners of the parent		**2,126,829**	2,366,616
Non-controlling interests		**–**	1,068
		2,126,829	2,367,684
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted for profit for the period		**RMB1.41**	RMB1.57

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**2,126,829**	2,367,684
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**410,042**	334,146
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods:	**410,042**	334,146
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**410,042**	334,146
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,536,871**	2,701,830
ATTRIBUTABLE TO:		
Owners of the parent	**2,536,871**	2,700,762
Non-controlling interests	**–**	1,068
	2,536,871	2,701,830

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	**Unaudited 30 June 2023 RMB'000**	Audited 31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**11,515,969**	11,593,702
Right-of-use assets	*11*	**1,809,814**	1,735,380
Intangible assets	*11*	**128,084**	124,993
Long-term time deposits at banks		**6,889,203**	2,940,984
Long-term prepayments	*14*	**475,560**	263,949
Investments in associates		**14,516**	573,964
Equity investment designated at fair value through other comprehensive income		**720**	720
Deferred tax assets		**96,921**	94,639
Total non-current assets		**20,930,787**	17,328,331
CURRENT ASSETS			
Inventories	*12*	**6,319,495**	6,260,803
Trade and bills receivables	*13*	**4,585,421**	5,005,167
Prepayments and other receivables	*14*	**803,384**	445,162
Amounts due from related parties	*19(b)*	**3,158**	2,850
Financial assets at fair value through profit or loss		**2,140,377**	3,195,232
Pledged deposits		**–**	725,934
Bank deposits with an initial term of over three months		**1,187,242**	3,159,888
Cash and cash equivalents		**10,365,717**	7,369,498
Total current assets		**25,404,794**	26,164,534
CURRENT LIABILITIES			
Trade payables	*15*	**1,041,915**	931,593
Contract liabilities		**8,535**	13,461
Other payables and accruals	*16*	**1,338,811**	1,670,595
Amounts due to related parties	*19(b)*	**25,570**	8,672
Financial liabilities at fair value through profit or loss		**–**	9,816
Interest-bearing bank borrowings		**8,850,034**	7,197,684
Lease liabilities		**55,811**	29,548
Tax payable		**450,170**	398,068
Total current liabilities		**11,770,846**	10,259,437
NET CURRENT ASSETS		**13,633,948**	15,905,097
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,564,735**	33,233,428

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2023

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,910,000**	2,000,000
Lease liabilities	**135,930**	87,059
Deferred tax liabilities	**364,504**	380,585
Total non-current liabilities	**2,410,434**	2,467,644
Net assets	**32,154,301**	30,765,784
EQUITY		
Equity attributable to owners of the parent		
Share capital	**151,200**	151,200
Reserves	**32,003,101**	30,601,718
	32,154,301	30,752,918
Non-controlling interests	**–**	12,866
Total equity	**32,154,301**	30,765,784

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 24 November 2005.

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 condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board on 30 August 2023.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". These unaudited interim condensed 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 2022.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

None of these amendments had a material impact on the financial position or performance of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. 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

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Mainland China	**3,103,257**	3,220,794
European Union	**2,421,402**	3,326,629
United States of America	**1,831,356**	2,720,531
Japan	**1,666,147**	1,632,574
Other regions	**2,539,800**	2,692,261
	11,561,962	13,592,789

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

(b) Non-current assets

	Unaudited 30 June 2023	Audited 31 December 2022
	RMB'000	*RMB'000*
Mainland China	**6,212,535**	6,305,326
Vietnam	**4,801,797**	4,664,913
Cambodia	**2,671,380**	2,502,255
Other regions	**243,715**	245,530
	13,929,427	13,718,024

The non-current assets 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 total revenue are as follows:

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Customer A	**3,466,712**	4,438,550
Customer B	**2,540,639**	2,412,399
Customer C	**1,885,861**	2,536,214
Customer D	**1,336,027**	1,870,335
	9,229,239	11,257,498

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	
	2023	2022
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**2,906,471**	3,600,922
Retirement benefit contributions	**339,110**	344,538
Other benefits	**120,134**	173,472
	3,365,715	4,118,932
Depreciation, amortisation and impairment expenses	**751,018**	678,163
Changes in inventories of finished goods and work in progress	**(63,376)**	(1,302,973)
Raw materials and consumables utilized	**4,942,394**	6,869,498
Utilities expenses	**564,397**	706,017
Transportation expenses	**123,360**	161,353
Taxation	**52,556**	58,001
Repair expenses	**39,216**	41,829
Outsourcing	**22,199**	122,743
Traveling expenses	**15,769**	4,771
Charges for disposing pollutants	**11,969**	12,670
Inspection fees	**11,663**	8,981
Operating lease expenses for properties	**9,877**	21,789
Entertainment expenses	**9,696**	5,876
Donation	**801**	2,057
Other expenses	**104,627**	144,626
Total cost of sales, selling and distribution costs and administrative expenses	**9,961,881**	11,654,333

6. OTHER INCOME AND GAINS

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Other income		
Government incentives	**169,284**	162,598
Interest income	**325,831**	119,356
Rental income	**12,058**	16,150
Dividend income from equity investments at fair value through other comprehensive income	**216**	109
	507,389	298,213
Other gains, net		
Fair value gains, net:		
Derivative instruments		
– transactions not qualifying as hedges	**999**	7,882
Financial assets at fair value through profit or loss		
– mandatorily classified as such	**90,568**	22,750
Gain on disposal of items of property, plant and equipment	**39,351**	614
Gain on disposal of items of right-of-use assets	**9,427**	–
Foreign exchange gains, net	**243,663**	617,230
Others	**(7,349)**	(6,637)
	376,659	641,839

7. FINANCE COSTS

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Interest on bank borrowings	**142,023**	100,866
Interest on lease liabilities	**4,235**	2,691
	146,258	103,557

8. INCOME TAX

The major components of income tax expenses for the six months ended 30 June 2023 and 2022 are:

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**1,865**	21,421
Current overseas withholding tax	**1,691**	1,047
Current Vietnam profits tax	**44,374**	40,858
Current Cambodia profits tax	**19**	81
Current Macao profits tax	**92,658**	89,399
Current Mainland China corporate income tax ("CIT")	**99,351**	160,246
Deferred taxation	**(18,363)**	87,672
	221,595	400,724

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 2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for the indirect wholly owned subsidiary, Top Always (Hong Kong) Investments Limited (the "Top Always Hong Kong"), which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (for the six months ended 30 June 2022: HKD2,000,000) of assessable profits of the Top Always Hong Kong 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 2022: 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% (for the six months ended 30 June 2022: 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, two subsidiaries are entitled to enjoy a lower profits tax rate of 10% in the first fifteen years after their establishment. 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 is subject to income tax at a rate of 12% of the accessible profits arising in Macao.

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), the PRC subsidiaries as determined for the 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 ("HNTE"), and is entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2022. A subsidiary is qualified as a micro and small company and entitled to a concessionary rate of income tax of 5%.

9. 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 RMB2,126,829,000 (for the six months ended 30 June 2022: RMB2,366,616,000) and on the weighted average number of 1,503,222,397 (for the six months ended 30 June 2022: 1,503,222,397) ordinary shares in issue.

(b) Diluted

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and the six months ended 30 June 2022.

10. DIVIDEND

Pursuant to resolution passed by the Board on 30 August 2023, the Board declared an interim dividend of HKD0.95 per share (for the six months ended 30 June 2022: HKD1.06 per share), totaling approximately HKD1,428,061,000 (equivalent to approximately RMB1,316,672,000). This declared dividend is not reflected as a dividend payable in this interim condensed consolidated financial information, but will be reflected as an appropriation of reserve for the year ending 31 December 2023.

11. CAPITAL EXPENDITURES

	Property, plant and equipment *RMB'000*	Right-of-use assets *RMB'000*	Water use right *RMB'000*	Software *RMB'000*
Unaudited				
For the six months ended 30 June 2022				
Opening net book amount at 1 January 2022	11,130,174	1,574,134	41,386	68,902
Additions	823,660	176,308	–	11,630
Disposals	(3,551)	–	–	–
Depreciation/amortisation	(634,440)	(35,125)	(3,225)	(5,373)
Exchange differences	261,611	35,689	–	4
Closing net book amount at 30 June 2022	11,577,454	1,751,006	38,161	75,163
Unaudited				
For the six months ended 30 June 2023				
Opening net book amount at 1 January 2023	**11,593,702**	**1,735,380**	**34,935**	**90,058**
Additions	**413,029**	**106,177**	**–**	**13,223**
Disposals	**(82,205)**	**(10,112)**	**–**	**–**
Depreciation/amortisation	**(685,139)**	**(55,745)**	**(3,225)**	**(6,909)**
Exchange differences	**276,582**	**34,114**	**–**	**2**
Closing net book amount at 30 June 2023	**11,515,969**	**1,809,814**	**31,710**	**96,374**

12. INVENTORIES

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Raw materials	**1,241,118**	1,224,123
Work in progress	**3,027,303**	2,925,493
Finished goods	**2,209,152**	2,247,586
	6,477,573	6,397,202
Provision	**(158,078)**	(136,399)
	6,319,495	6,260,803

13. 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 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Within three months	**4,400,634**	4,837,645
Over three months	**184,787**	167,522
	4,585,421	5,005,167

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

At 30 June 2023, the trade and bills receivables were denominated in the following currencies:

	Unaudited 30 June 2023		Audited 31 December 2022	
	Original currency	**RMB equivalent**	Original currency	RMB equivalent
	In thousand	***RMB'000***	*In thousand*	*RMB'000*
USD	**523,966**	**3,786,073**	482,077	3,357,473
RMB		**799,348**		1,647,694
		4,585,421		5,005,167

14. PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited 30 June 2023	Audited 31 December 2022
	RMB'000	*RMB'000*
Current		
Prepayments and deposits		
– Purchase of raw materials	**123,822**	126,762
– CIT advance payment	**23,378**	24,657
– Rental deposits	**38,275**	39,364
– Others	**33,191**	49,226
VAT receivable and recoverable	**148,606**	147,134
Interest receivable	**10,169**	352
Receivable from disposal of investment in an associate	**370,000**	–
Other receivables	**55,943**	57,667
	803,384	445,162
Non-Current		
Long-term prepayment		
– Land use rights	**313,460**	185,034
– Purchase of items of property, plant and equipment	**162,100**	78,915
	475,560	263,949

None of above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of the financial assets included in prepayments and other receivables approximate to their fair values.

15. 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 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Within six months	**1,026,619**	903,431
Six months to one year	**2,020**	13,715
One year to two years	**1,713**	1,418
Over two years	**11,563**	13,029
	1,041,915	931,593

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

16. OTHER PAYABLES AND ACCRUALS

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Accrued expenses	**870,687**	1,126,407
Payables for purchase of property, plant and equipment	**192,365**	158,492
Payables and guarantee deposits related to construction projects	**22,280**	45,727
Other taxes payable	**134,078**	226,254
Others	**119,401**	113,715
	1,338,811	1,670,595

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

17. COMMITMENTS

Capital commitments

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Contracted, but not provided for:		
Acquisition of property, plant and equipment	**258,321**	363,083
Acquisition of land use right	**190,324**	44,334
	448,645	407,417

18. CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no significant contingent liabilities (at 31 December 2022: Nil).

19. RELATED PARTY TRANSACTIONS

(a) Continuing transactions with related parties

The Group had the following continuing significant transactions with its related parties, including associates, directors and their associates and companies controlled by the controlling shareholder, for the six months ended 30 June 2023 and 2022:

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Lease of apparel production properties from Ningbo Shenzhou Properties Co., Ltd. ("Shenzhou Properties")*		
Additions of right-of-use assets	**106,177**	N/A
Depreciation of right-of-use assets	**17,696**	N/A
Interest expense on lease liabilities	**1,904**	N/A
Rent expenses	**N/A**	17,253
Printing service provided by Ningbo Avery**	**68,924**	80,444
Sales and marketing services and general support services provided to Ningbo Avery**	**4,832**	6,328
Purchase of raw material yarns from Anhui Huamao Group Company Limited ("Huamao Group")***	**32,542**	232,924

* *Shenzhou Properties is controlled by one of the Company's executive directors. Transactions with Shenzhou Properties are continuing connected transactions.*

On 29 December 2022, Shenzhou Knitting, a wholly-owned subsidiary of the Company, entered into the Lease Agreement with Shenzhou Properties, pursuant to which Shenzhou Properties agreed to lease the properties to Shenzhou Knitting. The Lease Agreement is for a term of three years commencing on 1 January 2023 and expiring on 31 December 2025. The monthly rent under the Lease Agreement is RMB3,233,169.

** *Ningbo Avery is an associate of the Group and is considered to be a related party of the Group. This transaction does not constitute a continuing connected transaction as defined in Chapter 14A of the Listing Rules.*

*** *During the period from 1 January 2022 to 31 March 2023, Huamao Group was an associate of the Group and was considered to be a related party of the Group, and the transactions with Huamao Group constituted related party transactions but did not constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. On 31 March 2023, the 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 Hanfeng (Hangzhou) Trading Co., Ltd. (瀚灃(杭州)貿易有限公司) ("Hanfeng"), pursuant to which Hangfeng acquired 21.05% equity interests in Huamao Group held by Ningbo Ruiding at a consideration of RMB570,000,000. Since 1 April 2023, Huamao Group is no longer the associate of the Group, nor is it considered to be a related party of the Group.*

The transactions with the related parties were made according to the published prices and conditions offered by the related companies to their major customers.

(b) Outstanding balances with related parties

The Group had the following balances with its related parties:

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Amounts due from related parties		
– Trade related		
Shenzhou Properties	**167**	170
Ningbo Avery	**2,991**	2,680
Amounts due to related parties		
– Trade related		
Shenzhou Properties*	**89,344**	–
Ningbo Avery	**25,570**	163
Huamao Group**	**N/A**	8,509

* *As at 30 June 2023, the balance due to Shenzhou Properties was presented in lease liabilities.*

** *As at 30 June 2023, the balance due to Huamao Group was presented in trade payables.*

(c) Key management compensation

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**24,762**	25,046
Post-employment benefits	**79**	78
	24,841	25,124

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 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 2023 was approximately US$142.68 billion, representing a decrease of approximately 8.3% as compared with the corresponding period last year. Out of the total export value, the export value of textile products was approximately US$67.70 billion, representing a decrease of approximately 10.9% as compared with the corresponding period last year; the export value of apparel products was approximately US$74.98 billion, representing a year-on-year decrease of approximately 5.9%. From January to June 2023, 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$15.93 billion, US$12.88 billion, US$5.88 billion and US$2.10 billion respectively, representing a year-on-year decrease of 17.9%, 18.9%, 8.7% and 21.7%, respectively. In respect of the domestic apparel consumption market, according to information released by the National Bureau of Statistics, out of the retail sales of products by enterprises above the designated quota from January to June 2023, the total retail sales of apparel amounted to approximately RMB501.67 billion, representing a year-on-year increase of approximately 15.5%; the national online retail sales of products in the wearing segments increased by approximately 13.3% year-on-year. From January to June 2023, due to the sluggish demand in overseas markets and the impact of retailers' inventory destocking, the value of China's apparel product exports to major markets has recorded a significant decrease. However, due to the lifting of pandemic control measures in the domestic market, the demand for apparel consumption has seen a restorative growth.

According to the preliminary statistics of the Vietnam Customs, from January to June 2023, Vietnam's textile and apparel exports was approximately US$15.73 billion, representing a decrease of approximately 15.4% as compared with the corresponding period last year, and exports to the US, Japan and Korea amounted to approximately US$6.96 billion, US$1.75 billion and US$1.34 billion, respectively, among which exports to the US and Korea seen a decrease of 25.5% and 2.2%, while exports to Japan seen an increase of 4.9%, respectively, as compared with the corresponding period last year, the US market accounts for approximately 44% of Vietnam's total export value of apparel products (corresponding period in 2022: approximately 50%), and the US is still the largest export market for Vietnam's apparel products. In addition, Vietnam exported approximately US$1.87 billion and US$320 million of textile and clothing to 27 EU countries and the UK, respectively, representing a decrease of approximately 10.4% and 15.9%, respectively, as compared with the corresponding period last year. Vietnam exported approximately US$2.82 billion of textile and clothing to members of the CPTPP, representing a decrease of approximately 0.9% as compared with the corresponding period last year. In the past few years, the export value of Vietnam's apparel products has maintained continuous growth, but the decline in global demand since the second half of 2022 has also had a great impact on Vietnam's apparel industry, especially for the US and European markets, where the decline in exports were more obvious. From January to June 2023, Vietnam's yarn exports amounted to approximately US$2.06 billion, representing a decrease of approximately 25.6% as compared with the corresponding period last year, of which the export to China amounted to approximately US$1.04 billion, representing a decrease of approximately 20.7% as compared with the corresponding period last year. From January to June 2023, the total value of fabrics imported from other countries to Vietnam amounted to approximately US$6.42 billion, representing a decrease of approximately 19.4% as compared with the corresponding period last year, of which the value of fabrics imported from Mainland China amounted to approximately US$4.07 billion, representing a decrease of approximately 20.2% as compared with the corresponding period last year and accounted for approximately 63.4% of the total value of imported fabrics of Vietnam. In addition, the value of fabrics imported from Korea and Taiwan amounted to approximately US$780 million and US$670 million, respectively, accounted for 12.2% and 10.5% of the total value of imported fabrics of Vietnam, respectively. The upstream and downstream industrial chains of Vietnam's textile and garment industry have all been affected by insufficient external demand.

During the period, the global economic growth slowed down and geopolitical conflicts remained in place, the combination of declining consumer demand and high inventory adjustments has placed great pressure on the textile and garment manufacturing industry; the US dollar has seen multiple interest rate hikes in a row, while the RMB monetary policy was relatively loose, the further depreciation of the exchange rate of RMB against US dollar is relatively beneficial to enterprises whose exports are settled in US dollars, while the debt cost of the US dollar or the currencies with their exchange rates linked to the US dollar has risen sharply; domestic cotton prices have rebounded from the beginning of the year, while international cotton prices were relatively stable. Overall, insufficient market demand has become the biggest operating pressure for the industry.

From January to June 2023, the Group achieved sales revenue of approximately RMB11,561,962,000, representing a decrease of approximately 14.9% as compared with the corresponding period last year; profit attributable to owners of the parent was approximately RMB2,126,829,000, representing a decrease of approximately 10.1% as compared with the corresponding period last year; and gross profit has decreased by approximately 15.4% to approximately RMB2,594,904,000 as compared with the corresponding period last year. The decrease in revenue and results of the Group during the period was mainly attributable to the lack of normal utilization of the Group's existing production capacity due to the impact of the weak global consumer demand and the de-stocking by brand customers. During the period, the Group continued to focus on strengthening its industrial base for long-term development, with the completion of new garment production capacity in Cambodia and Vietnam, further enhancement of digitalization and intelligent capabilities for corporate management, diversification of development of product portfolio, and further achievements have been made in green and low-carbon initiatives.

As at 30 June 2023, the production efficiency of the Group's new garment factory in Cambodia has been significantly improved, with the output of garments from the new factory accounted for approximately 17% of the Group's total production in the first half of the year, and the production processes such as printing and embroidery are fully supported. The newly built customer-specific factory in Vietnam has also commenced operation, with approximately 4,500 employees at present, and has increased the application of automation equipment in the new dedicated factory.

During the period, the Group further improved its digital management ecosystem and realized informatization data collection and visualized management of the entire process from research and development, design, procurement, manufacturing, logistics, inspection and sales. We have improved the integrated production management system platform for the whole industrial chain, which has facilitated the overall monitoring and management of the whole production process. A comprehensive management platform for the entire process has been initially established between us and suppliers for giving instruction, execution feedback, early warning and evaluation, which has enabled us to achieve seamless integration of various business aspects.

During the period, the Group's products have become more diversified. In addition to the knitted fabrics that we have been using, the Group has added new fabric categories such as woven fabrics, and the fiber raw materials used have become more diversified, and there has been a new expansion in the range of products produced for customers. The diversification of our product range is conducive to the Group's expansion of new business and increasing our shares in existing customers.

During the period, the Group added 6.3MW of installed rooftop photovoltaic power generation capacity, with the cumulative total installed capacity reaching 51.9MW, and will further expand the construction scale of rooftop photovoltaic power plants. The Group exerted its influence on the industry chain, we have invited strategic cooperative suppliers to participate in the climate action and labor management, which promoted the linkage between the upstream and downstream industry chains in sustainable development. During the period, the Group participated in green certificate trading for the first time, aiming to enhance the green performance of its domestic and overseas production bases. In addition, the Group has been actively promoting the replacement of coal in its fabric factories in Vietnam, using a total of approximately 8,300 tons of biomass fuel as an alternative to coal in the first half of the year.

OPERATING RESULTS OF THE GROUP

Sales

For the six months ended 30 June 2023, the Group's sales amounted to approximately RMB11,561,962,000, representing a decrease of approximately RMB2,030,827,000 or approximately 14.9% from approximately RMB13,592,789,000 for the six months ended 30 June 2022. During the period, the decrease in the Group's sales revenue was mainly due to: 1) weak demand in the global market, in particular, demand in the European and US markets declined significantly; and 2) during the period, most of the retail brand owners were still in the process of de-stocking, which affected the purchasing demand of customers for the current period's sales.

The comparison of revenue breakdown by product categories of the Group between the six months ended 30 June 2023 and the six months ended 30 June 2022 is as below:

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**8,560,723**	**74.0**	10,687,190	78.6	(2,126,467)	(19.9)
Casual wear	**2,299,766**	**19.9**	2,087,944	15.4	211,822	10.1
Lingerie wear	**612,784**	**5.3**	610,462	4.5	2,322	0.4
Other knitwear	**88,689**	**0.8**	207,193	1.5	(118,504)	(57.2)
Total revenue	**11,561,962**	**100.0**	13,592,789	100.0	(2,030,827)	(14.9)

For the six months ended 30 June 2023, sales of sportswear products were approximately RMB8,560,723,000, representing a decrease of approximately RMB2,126,467,000 or approximately 19.9% from approximately RMB10,687,190,000 for the six months ended 30 June 2022. The decrease in sales of sportswear products was mainly due to the decrease in demand for sportswear order in the European and US market.

Sales of casual wear products increased by approximately RMB211,822,000 or approximately 10.1% from approximately RMB2,087,944,000 for the six months ended 30 June 2022 to approximately RMB2,299,766,000 for the six months ended 30 June 2023, which was mainly attributable to the increase in sales of casual wear products in the Japanese and Chinese markets.

Sales of lingerie wear products increased by approximately RMB2,322,000 or approximately 0.4% from approximately RMB610,462,000 for the six months ended 30 June 2022 to approximately RMB612,784,000 for the six months ended 30 June 2023, which was mainly attributable to the increase in demand for lingerie wear products in the Chinese market.

Sales of other knitwear products decreased by approximately RMB118,504,000 or approximately 57.2% from approximately RMB207,193,000 for the six months ended 30 June 2022 to approximately RMB88,689,000 for the six months ended 30 June 2023. The decrease was mainly attributable to the cessation of production and sales of mask products during the period, which had contributed a revenue of approximately RMB109,815,000 in the corresponding period last year.

The comparison of revenue breakdown by markets of the Group between the six months ended 30 June 2023 and the six months ended 30 June 2022 is as below:

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
By market						
International sales						
Europe	**2,421,402**	**20.9**	3,326,629	24.5	(905,227)	(27.2)
US	**1,831,356**	**15.9**	2,720,531	20.0	(889,175)	(32.7)
Japan	**1,666,147**	**14.4**	1,632,574	12.0	33,573	2.1
Other markets	**2,539,800**	**22.0**	2,692,261	19.8	(152,461)	(5.7)
Sub-total revenue from international market	**8,458,705**	**73.2**	10,371,995	76.3	(1,913,290)	(18.4)
Revenue from China domestic market	**3,103,257**	**26.8**	3,220,794	23.7	(117,537)	(3.6)
Total revenue	**11,561,962**	**100.0**	13,592,789	100.0	(2,030,827)	(14.9)

For the six months ended 30 June 2023, the Group's revenue from the European market was approximately RMB2,421,402,000, representing a decrease of approximately RMB905,227,000 or approximately 27.2% from approximately RMB3,326,629,000 for the six months ended 30 June 2022. During the period, the decrease in the revenue from the European market was mainly due to the decrease in demand for sportswear in the European market.

For the six months ended 30 June 2023, the Group's revenue from the US market was approximately RMB1,831,356,000, representing a decrease of approximately RMB889,175,000 or approximately 32.7% from approximately RMB2,720,531,000 for the six months ended 30 June 2022. Such decrease was mainly attributable to the decrease in demand for sportswear in the US market.

For the six months ended 30 June 2023, the Group's revenue from the Japanese market was approximately RMB1,666,147,000, representing an increase of approximately RMB33,573,000 or approximately 2.1% from approximately RMB1,632,574,000 for the six months ended 30 June 2022. Such increase was mainly attributable to the increase in demand for casual wear in the Japanese market.

For the six months ended 30 June 2023, the Group's revenue from other markets, including Korea, Canada and Australia, was approximately RMB2,539,800,000, representing a decrease of approximately RMB152,461,000 or approximately 5.7% as compared with approximately RMB2,692,261,000 for the six months ended 30 June 2022. The decrease in revenue from other markets was mainly attributable to the decrease in sales of sportswear in Russia and India.

For the six months ended 30 June 2023, the Group's revenue from the domestic market decreased by approximately 3.6% as compared with the corresponding period last year. Among the domestic revenue, revenue from garment amounted to approximately RMB3,033,864,000, representing a decrease of approximately RMB97,444,000 or approximately 3.1% as compared with approximately RMB3,131,308,000 in the corresponding period last year, which was mainly attributable to the decrease in orders related to Mainland China market placed by international sportswear brands.

Cost of sales and gross profit

The cost of sales of the Group for the six months ended 30 June 2023 amounted to approximately RMB8,967,058,000 (for the six months ended 30 June 2022 approximately RMB10,527,182,000). For the six months ended 30 June 2023, the gross profit margin of the Group was approximately 22.4%, representing a decrease of 0.2 percentage points as compared with approximately 22.6% for the corresponding period last year. The main factors affecting the Group's gross profit margin were: 1) decreasing demand for the products of the Group and subnormal utilization rate due to soft demand for apparel products around the globe during the period when most brands were destocking; 2) the Group has newly expanded production capacity in Cambodia and Vietnam, but the number of employees has not yet reached the designed scale, and there is still room for further improvement in the product efficiency of employees. The contribution of new production capacity to the Group's profit is still in a transitional period.

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

As at 30 June 2023, the Group's equity attributable to owners of the parent amounted to approximately RMB32,154,301,000 (31 December 2022: approximately RMB30,752,918,000), in which non-current assets were approximately RMB20,930,787,000 (31 December 2022: approximately RMB17,328,331,000), net current assets were approximately RMB13,633,948,000 (31 December 2022: approximately RMB15,905,097,000), non-current liabilities were approximately RMB2,410,434,000 (31 December 2022: approximately RMB2,467,644,000) and non-controlling interests were RMB nil (31 December 2022: approximately RMB12,866,000). Changes in equity attributable to owners of the parent were mainly attributable to the fact that: 1) the Group's operating profit for the period increased its reserve balances; and 2) the increase in reserves was partially offset by the payment of final dividend for 2022 to owners of the parent during the period.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2023, net cash generated from the Group's operating activities amounted to approximately RMB2,703,715,000, representing an increase of RMB2,157,517,000 from approximately RMB546,198,000 for the corresponding period last year. The Group's cash and cash equivalents as at 30 June 2023 amounted to approximately RMB10,365,717,000, of which approximately RMB6,863,421,000 was denominated in Renminbi, approximately RMB3,436,572,000 was denominated in US dollar, approximately RMB32,327,000 was denominated in Hong Kong dollar, approximately RMB21,574,000 was denominated in VND, approximately RMB1,114,000 was denominated in EUR and the balance was denominated in other currencies (31 December 2022: approximately RMB7,369,498,000, of which approximately RMB1,374,624,000 was denominated in Renminbi, approximately RMB5,941,640,000 was denominated in US dollar, approximately RMB13,941,000 was denominated in Hong Kong dollar, approximately RMB26,948,000 was denominated in VND, and the balance was denominated in other currencies). The balance of bank borrowings was approximately RMB10,760,034,000 (31 December 2022: approximately RMB9,197,684,000, including short term bank borrowings of approximately RMB7,197,684,000 and long term bank borrowings of approximately RMB2,000,000,000), including short term bank borrowings of approximately RMB8,850,034,000 and long-term bank borrowings of approximately RMB1,910,000,000. As at 30 June 2023, the Group's net borrowings (bank borrowings less cash and cash equivalents) was approximately RMB394,317,000, representing a decrease of approximately RMB1,433,869,000 as compared to the balance of approximately RMB1,828,186,000 as at 31 December 2022, primarily due to the increase in the balance of cash deposit and the significant increase of cash inflow from operating activities during the period over the corresponding period last year.

Equity attributable to owners of the parent amounted to approximately RMB32,154,301,000 (31 December 2022: approximately RMB30,752,918,000). 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 33.5% (31 December 2022: 29.9%), representing an increase of 3.6 percentage points as compared with the end of last year. As at 30 June 2023, in addition to cash and cash equivalents, the Group also held other deposit financial assets of approximately RMB10,216,822,000. Total deposit financial assets of the Group (including cash and cash equivalents, bank deposits with an initial term of over three months, financial assets at fair value through profit or loss and long-term time deposits at banks) amounted to approximately RMB20,582,539,000; balance of our interest-bearing bank borrowings was approximately RMB10,760,034,000; net deposit financial assets (net of interest-bearing bank borrowings) were approximately RMB9,822,505,000 (31 December 2022: approximately RMB8,193,852,000). The Group will adjust the size of our bank loan balance in due course depending on the movement of interest rates in the market.

As part of the Group's general treasury management policies, 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 mainland China and Hong Kong to maximise the return from the Group's idle funds through a legal channel with low risks. These financial products were covered by principal protection clause stipulated in the agreement we entered into with these licensed banks. 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 to monitor the implementation of treasury management policies of the Group.

Finance costs and tax

For the six months ended 30 June 2023, finance costs increased by approximately RMB42,701,000 from approximately RMB103,557,000 for the six months ended 30 June 2022. The increase in finance costs was mainly due to the substantial increase in HKD and USD lending rates during the period as compared with the corresponding period of last year, partially offset by the decrease in lending interest rate in RMB lending rate.

For the six months ended 30 June 2023, the Group's income tax expense decreased by approximately RMB179,129,000 to approximately RMB221,595,000 from approximately RMB400,724,000 for the six months ended 30 June 2022, which was mainly due to the decrease in profit of the Group during the period as compared with the corresponding period last year, and the increase in proportion of profit in the Group from subsidiaries with lower tax rate.

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 30 June 2023, loans of approximately RMB1,058,750,000 were denominated in USD (calculated based on the original currency of approximately USD146,524,000) and loans of RMB5,091,284,000 were denominated in HKD (calculated based on the original currency of HKD5,522,000,000) (31 December 2022: loans of approximately RMB576,171,000 were denominated in USD (calculated based on the original currency of approximately USD82,729,000) and loans of approximately RMB3,771,513,000 were denominated in HKD (calculated based on the original currency of HKD4,222,000,000)).

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2023, the Group employed approximately 95,050 employees (31 December 2022: 94,340) in total. During the period, the total costs for staff, including those for administrative and management staff, accounted for approximately 29.1% (for the six months ended 30 June 2022: approximately 30.3%) of the Group's revenue. The Group determines 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. For example, 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 2023, the Group's total investment in property, plant and equipment, right-of-use assets and intangible assets amounted to approximately RMB532,429,000, of which approximately 43% was used for the acquisition of production facilities, approximately 50% 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 2023, the Group had contracted capital commitments of approximately RMB448,645,000 in connection with the acquisition and construction of properties, plants and equipment, which were mainly financed by the net proceeds from internal resources.

Significant investments, acquisitions and disposals

On 31 March 2023, 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 Hanfeng (Hangzhou) Trading Co., Ltd. (瀚灃(杭州)貿易有限公司) ("Hanfeng"), an independent third party, pursuant to which Hangfeng acquired 21.05% equity interests in Anhui Huamao Group Company Limited (安徽華茂集團有限公司) ("Huamao Group") held by Ningbo Ruiding at a consideration of RMB570,000,000.

Save as disclosed above, during the six months ended 30 June 2023, the Group had no significant investments, significant acquisitions and disposals in relation to our subsidiaries, associates and joint ventures that were required to be disclosed.

Gearing ratio

As at 30 June 2023, the Group's gearing ratio was approximately 33.5%, calculated base 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 2023, the Group had no significant contingent liability (31 December 2022: Nil).

FUTURE PROSPECTS AND STRATEGIES

At present, global economic growth is slowing down, geopolitical conflicts continue, there is a risk of the international division of labor model undergoing a reshuffle, as the global industrial landscape is accelerating its reshaping towards regionalization and localization. Weak external demand, slow recovery in domestic demand, and the combined effect of destocking at the retail level have become the biggest challenges for the development of the industry. Although inflation in major developed economies has peaked and started to decline, it still remains at a high level. The impact of contractionary monetary policy in developed economies has emerged, and the high interest rate after successive rate hikes has suppressed consumption growth. Until we saw a change in monetary policy, consumer demand in overseas markets will continue to be under pressure. From the perspective of the Chinese market, market demand is gradually recovering after the pandemic control measures were lifted, but the subsequent impact of the epidemic has not been completely eliminated, we still see relatively great pressure in the youth employment market, the confidence of residents' income expectations has yet to be recovered, and there are certain challenges in the momentum of sustained growth of consumption.

In view of the current economic situation, expanding domestic demand and stabilizing foreign trade have become an area of focus of the government to drive economic growth, more fiscal and monetary policies have been rolled out to support consumption and the real economy, and domestic supply-side reform and high-quality development are also continuing to advance. Despite the challenges in the current industry environment, there are also development opportunities, and the domestic market consumer demand still has great growth potential. A complete industrial system and rich talent resources will drive further upgrade of the industry. Despite the difficulties and challenges ahead, we believe things will turn out fine.

The Group will continue to deepen the integration of the industrial chain and gain market share with high-quality products and innovative technologies; deepen customer relationships with value creation and quick response; promote science and technology with our talent pool and incentive schemes; lean production, improve production efficiency with lean production and digitalized and intelligent management. We believe that after the transition period of bottoming out, the Group will be greeted with a better development prospects.

We will enhance the competitiveness of our products, seize and lead consumer demand with the enhancement in the supply end. We attach great importance to strengthening the interaction with customers in the product development stage, with an aim to improve the success rate of customers' clothing design and the accuracy rate of the first design. We will further promote product diversification and upgrade towards high-end offerings, and will incorporate competitive elements, such as technology, sustainability, and fashion, into our products.

The value of a company depends on its ability to create value for customers, and the Group attaches importance to providing comprehensive and quality services to customers. We strive to build a rapid response mechanism for the whole industry chain, through reasonable spatial layout and efficient digitalized management and control, achieve efficient collaboration between various departments and segments of the industry chain, improve the ability to quickly respond to market and customer needs, consolidate and increase the proportion of major customers, and timely expand and introduce high-quality new customers.

The Group regards talents as an important asset for the sustainable development of an enterprise. By improving the systematic, professional and integrated human resource management mode, the Group creates an ideal environment for the development of talents, so as to build a career ladder for the management cadres and technical talents that are full of vitality and capable of transcending and leading the industry. We will put more effort on talent recruitment and development, provide them with incentives and promotion opportunities, with an aim to build a talented workforce to drive technological advancements of the industry.

We will continue to improve our lean production capacity, accelerate the migration towards digitalized and intelligent management and automated production, enhance the efficiency of management decision-making, reduce the dependence on labor, and achieve cost competitive advantage at the manufacturing level. We will further optimize the global layout of the industrial chain base to better meet customers' procurement demands in different markets, and achieve higher returns on industrial investment.

At present, the destocking pressure of brand owners has eased, and there are signs of gradual recovery of consumer demand. It is expected that the business performance in the second half of the year will be better than that in the first half of the year, and the Group's capacity utilization level will gradually improve.

Difficulties are opportunities for growth. We should gather strength and remain resilience amid adversity, raise the bar for peers and at the same time lay a solid foundation for future growth. Only in this way, we survive tough times and see new opportunities.

EVENTS AFTER THE REPORTING PERIOD

There were no other important events affecting the Group that have occurred after 30 June 2023 and up to the date of this announcement.

DIVIDEND

During the reporting period, at the Company's annual general meeting held on 30 May 2023, the shareholders of the Company approved the payment of a final dividend of HK$0.85 per share for the year ended 31 December 2022 to the shareholders whose names appeared on the register of members of the Company at the close of business on 14 June 2023. The dividend was paid by the Company on 26 June 2023 in cash.

The Board had resolved to declare an interim dividend of HK$0.95 (equivalent to approximately RMB0.88) per share for the six months ended 30 June 2023 (for the six months ended 30 June 2022: HK$1.06 per share) to the shareholders whose names appeared on the register of members of the Company at the close of business on 15 September 2023. The interim dividend is expected to be paid on or before 28 September 2023.

Closure of Register of Members

To ascertain shareholders' entitlement to the 2023 interim dividend, the register of members of the Company will be closed from 13 September 2023 to 15 September 2023, both days inclusive, during which period no transfer of the shares of the Company will be effected. To determine entitlement to the 2023 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 12 September 2023.

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 2023. 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 2022 annual report.

In order to make our existing Memorandum and Articles of Association to comply with the requirements of the Laws of the Cayman Islands and the Listing Rules of The Stock Exchange of Hong Kong Limited, the Company has amended its existing Memorandum and Articles of Association. The adoption of the new Memorandum and Articles of Association was approved at the annual general meeting held on 30 May 2023. For details, please refer to the announcements of the Company dated 28 March 2023 and 30 May 2023.

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 30 May 2023 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 2023.

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 2023, 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 2023.

SHARE OPTION SCHEME

No share option scheme was adopted by the Company as at 30 June 2023.

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.

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 2023.

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. Mr. Zhang Bingsheng is the Chairman of the Remuneration Committee.

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

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

NOMINATION COMMITTEE

The Company established the Nomination Committee on 9 October 2005. As at the date of this announcement, the Nomination Committee comprises Mr. Ma Jianrong, an executive Director, Mr. 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.

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

Hong Kong, PRC, 30 August 2023

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.