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 2010

HIGHLIGHTS

- Revenue for the six months ended 30 June 2010 amounted to RMB3,136,940,000, an increase of 13.8% when compared with the corresponding period of 2009.
- Percentage of lingerie revenue to total revenue increased to 13.2% for the six months ended 30 June 2010. Lingerie revenue increased substantially by 72.8% when compared with the corresponding period of previous year.
- Percentage of sportswear revenue to total revenue increased to 48.1% for the six months ended 30 June 2010. Sportswear revenue increased significantly by 26.3% when compared with the corresponding period of previous year.
- Gross profit margin for the six months ended 30 June 2010 was 30.8%, decreased by 1% compared with the corresponding period of previous year.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2010 amounted to RMB658,578,000, an increase of approximately 14.5% compared with the corresponding period of 2009.
- Earnings per share amounted to RMB0.53, an increase of 15.2% compared with the corresponding period of previous year.

* *for identification purposes only*

The board of directors (the "Board") 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 (the "Group") for the six months ended 30 June 2010, together with the comparative amounts for the corresponding period of 2009. The interim results and interim financial statements have not been audited but have been reviewed by the Company's audit committee.

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Unaudited For the six months ended 30 June	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
REVENUE		**3,136,940**	2,755,629
Cost of sales	*5*	**(2,171,115)**	(1,879,301)
Gross profit		**965,825**	876,328
Other income and gains	*6*	**105,196**	19,218
Selling and distribution costs	*5*	**(49,202)**	(22,324)
Administrative expenses	*5*	**(207,295)**	(167,423)
Other expenses	*7*	**(68)**	(251)
Finance costs	*8*	**(14,084)**	(16,537)
PROFIT BEFORE TAX		**800,372**	689,011
Tax	*9*	**(141,360)**	(113,186)
Profit for the period		**659,012**	575,825
Attributable to:	*10*		
Owners of the parent		**658,578**	575,287
Non-controlling interests		**434**	538
		659,012	575,825
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic		**RMB0.53**	RMB0.46
– Diluted		**N/A**	N/A

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Unaudited	
		For the six months ended 30 June	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
Profit for the period		**659,012**	575,825
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		**(87)**	1,155
Reclassification adjustments for gains recognised in consolidated income statement		**(1,149)**	(66,717)
		(1,236)	(65,562)
Exchange differences on translation of Foreign operations		**426**	(153)
Other comprehensive income for the period, net of tax		**(810)**	(65,715)
Total comprehensive income for the period, net of tax		**658,202**	510,110
Attributable to:			
Owners of the parent		**657,768**	509,572
Non-controlling interests		**434**	538
		658,202	510,110

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**Unaudited 30 June 2010 *RMB'000***	Audited 31 December 2009 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**3,155,151**	2,708,796
Land use rights	*12*	**206,322**	205,821
Intangible assets	*12*	**118,946**	122,238
Deferred tax assets		**8,031**	1,874
Total non-current assets		**3,488,450**	3,038,729
CURRENT ASSETS			
Inventories	*13*	**1,408,770**	1,185,157
Trade receivables	*14*	**725,124**	607,346
Prepayments, deposits and other receivables	*15*	**157,591**	150,162
Derivative financial instruments	*16*	**99,671**	30,291
Amount due from related parties	*21b*	**5,280**	–
Pledged deposits		**32,799**	–
Bank deposits with initial term of over three months		**–**	37,827
Cash and cash equivalents		**559,415**	377,717
Total current assets		**2,988,650**	2,388,500
CURRENT LIABILITIES			
Trade and bills payables	*17*	**505,141**	386,426
Other payables and accruals	*18*	**703,395**	392,188
Derivative financial instruments	*16*	**–**	5,584
Interest-bearing bank and other borrowings		**881,702**	619,558
Amount due to related parties	*21b*	**9,423**	2,058
Tax payable		**70,271**	48,718
Total current liabilities		**2,169,932**	1,454,532
NET CURRENT ASSETS		**818,718**	933,968
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,307,168**	3,972,697

	Notes	Unaudited 30 June 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**118,883**	76,120
Deferred tax liabilities		**18,518**	881
Total non-current liabilities		**137,401**	77,001
Net assets		**4,169,767**	3,895,696
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**129,717**	129,717
Reserves		**4,026,868**	3,369,100
Proposed final dividend		**–**	383,678
		4,156,585	3,882,495
Non-controlling interests		**13,182**	13,201
Total equity		**4,169,767**	3,895,696

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

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 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") unless otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 20 August 2010.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The 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 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), "consolidated and separate financial statements", at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, "Distributions of Non-cash Assets to Owners" is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- "Additional exemptions for first-time adopters" (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), "Eligible hedged items" is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), "Group cash-settled share-based payment transaction" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services 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 resources allocation and performance assessment.

In the opinion of the directors, majority of the revenue was generated from customers which located world-wide locations, and therefore, the disclosure of location of customers in the consolidated financial statements would not be meaningful.

99% of the non-current assets of the Group were located in the PRC as at 30 June 2010 (31 December 2009: 99%).

5. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**661,902**	485,261
Retirement benefit contributions	**20,151**	13,488
Other benefits	**15,507**	15,175
	697,560	513,924
Depreciation, amortisation and impairment expenses	**142,475**	117,581
Changes in inventories of finished goods and work in progress	**(265,076)**	(259,334)
Raw materials and consumables utilized	**1,479,213**	1,425,257
Utilities expenses	**188,063**	139,718
Outsourcing	**39,420**	44,845
Commission	**21,534**	13,204
Transportation expenses	**15,122**	9,390
Operating lease expenses for properties	**14,309**	10,055
Office expenses	**11,390**	6,286
Entertainment expenses	**6,970**	5,033
Inspection fees	**4,593**	3,079
Donation	**4,165**	195
Traveling expenses	**2,697**	2,660
Other expenses	**65,177**	37,155
Total cost of sales, distribution costs and administrative expenses	**2,427,612**	2,069,048

6. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Other income		
Government incentives	**4,697**	3,803
Bank interest income	**1,918**	2,408
	6,615	6,211
Gains		
Exchanges gains /(loss),net	**2,046**	(3,155)
Fair value gains, net		
Derivative instruments – transactions not qualifying as hedges	**95,964**	16,162
Others gains	**571**	–
	98,581	13,007
	105,196	19,218

7. OTHER EXPENSES

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Loss on disposal of items of property, plant and equipment	**68**	251

8. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**14,084**	16,537

9. TAX

The major components of income tax for the six months ended 30 June 2010 and 2009 are:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Current Mainland China corporate income tax ("CIT")	**126,098**	101,778
Deferred taxation	**15,262**	11,408
	141,360	113,186

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 which is enacted in the Cayman Islands imposing any tax to be levied to profits or income or gain or appreciation shall apply to the Company or its operations. As the Company carries on business in Hong Kong, it is subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong net of the accumulated tax losses in the previous year (for the six months ended 30 June 2009: Nil).

The subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI. Accordingly, Top Always Investments Ltd. ("Top Always"), a subsidiary incorporated in BVI, is not subject to tax.

Shenzhou (Cambodia) Co., Ltd. ("Shenzhou Cambodia"), a wholly-owned subsidiary incorporated in the Kingdom of Cambodia under the Law on Taxation, is subject to income tax at a rate of 9% and is entitled to be exempted from income tax for the first four profit-making years (for the six months ended 30 June 2009: Nil).

Shenzhou Trading Co., Ltd. ("Shenzhou Trading") and Top Always (Hong Kong) Investments Ltd. ("Top Always (Hong Kong)"), wholly-owned subsidiaries incorporated in Hong Kong, are subject to a profits tax rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision of Hong Kong profits tax have been made as Shenzhou Trading and Top Always (Hong Kong) had no assessable profits arising in Hong Kong during the period (for the six months ended 30 June 2009: Nil).

Shenzhou Japan Co., Ltd. ("Shenzhou Japan"), a wholly-owned subsidiaries incorporated in Japan under the Law of Taxation , is subject to income tax at a rate of 22% of the assessable profits arising in Japan. No provision for Japan tax has been made as Shenzhou Japan had no assessable profits arising in Japan during the Period.

The Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") was effective from 1 January 2008, which unifies the corporate income tax rate for domestic and foreign enterprises at 25%. From 1 January 2008, the PRC enterprises income tax is provided based on the statutory income tax rate of 25% of the assessable income of each of these companies for the period as determined in accordance with the New CIT Law except for certain of the Group's PRC subsidiaries, which are exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. The tax holidays and concessions will expire between 2010 and 2012.

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

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 equity holders of the parent of approximately RMB658,578,000 (six months ended 30 June 2009: RMB575,287,000) and on the weighted average number of 1,245,000,000 (Six months ended 30 June 2009: 1,245,000,000) ordinary shares in issue .

The Group had no potentially dilutive ordinary shares in issue.

11. DIVIDEND

Pursuant to resolution passed by the Board on 20 August 2010, the directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

12. CAPITAL EXPENDITURES

	Properties, plants and equipment *RMB'000*	Land use rights *RMB'000*	Water use right *RMB'000*	Software *RMB'000*
For the six months ended 30 June 2009				
Opening net book amount at 1 January 2009	2,273,680	205,994	125,238	2,430
Additions	258,681	4,207	–	220
Disposals	(411)	–	–	–
Depreciation/amortization	(112,414)	(1,809)	(3,225)	(133)
Exchange differences	(12)	–	–	–
Closing net book amount at 30 June 2009	2,419,524	208,392	122,013	2,517
For the six months ended 30 June 2010				
Opening net book amount at 1 January 2010	2,708,796	205,821	118,788	3,450
Additions	583,994	3,033	–	137
Disposal	(955)	–	–	–
Depreciation/amortization	(136,514)	(2,532)	(3,225)	(204)
Exchange differences	(170)	–	–	–
Closing net book amount at 30 June 2010	3,155,151	206,322	115,563	3,383

13. INVENTORIES

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Raw materials	**422,301**	455,985
Work in progress	**610,574**	422,949
Finished goods	**375,895**	306,223
	1,408,770	1,185,157

14. TRADE RECEIVABLES

The majority of the Group's sales are on letters of credit. The remaining amounts are generally granted with credit terms ranging from 1 to 6 months. The ageing analysis of trade receivables is as follows:

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
0 to 6 months	**723,293**	606,956
Over 6 months	**1,831**	390
	725,124	607,346

The carrying amounts of trade receivable approximate to their fair values.

15. PREPAYMENTS,DEPOSITS AND OTHER RECEIVABLE

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Prepayments and deposits		
– Purchase of raw materials	**62,495**	62,160
– Purchase of property, plant and equipment	**5,040**	9,111
– Prepaid rental and deposits	**25,133**	19,720
– Others	**1,897**	425
VAT refund receivable	**42,969**	39,476
Other receivables	**20,057**	19,270
	157,591	150,162

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2010		31 December 2009	
	Assets *RMB'000*	**Liabilities** *RMB'000*	Assets *RMB'000*	Liabilities *RMB'000*
Forward currency contracts	**99,671**	**–**	30,291	5,584

The carrying amounts of forward currency contracts are the same as their fair values.

Forward currency contracts – cash flow hedges

At 30 June 2010, the Group held certain forward currency contracts designated as hedges in respect of expected future sales to overseas customers.

The terms of the forward currency contracts have been negotiated to match the terms of the expected future sales. The cash flow hedges relating to expected future sales in the year 2010 and 2011 were assessed to be highly effective .

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Gains arising from the changes in the fair value of non-hedging currency derivatives amounting to RMB95,964,000 were credited to the income statement during the period (six months ended 30 June 2009: gain of RMB16,162,000).

17. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the balance sheet date, based on the invoice date is as follows:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
0 to 6 months	**494,023**	380,248
6 months to 1 year	**6,196**	5,302
1 year to 2 years	**4,335**	411
Over 2 years	**587**	465
	505,141	386,426

18. OTHER PAYABLES AND ACCRUALS

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
Accrued expenses	**199,937**	215,573
Payable for water use right	**77,000**	77,000
Payables for purchase of property, plant and equipment	**36,062**	66,297
Guarantee deposits related to Construction projects	**5,851**	12,977
Other tax payable	**11,780**	2,072
Customer deposits	**2,769**	6,168
Payable for acquisition of a subsidiary	**49,434**	–
Dividends payable to equity holders of the Parent	**223,305**	–
Dividends payable to non-controlling shareholders	**587**	587
Other payables	**96,670**	11,514
	703,395	392,188

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

19. COMMITMENTS

(a) Capital commitment

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Contracted but not provided for:		
– Acquisition of land use rights and property, plant and equipment	**97,890**	93,118
– Construction of property, plant and equipment	**36,438**	101,931
	134,328	195,049

(b) Outstanding forward foreign exchange contracts

As at 30 June 2010, the Group had commitments in respect of outstanding forward foreign exchange contracts to sell US$1,199,000,000 (31 December 2009: US$928,000,000) for approximately RMB8,104,667,000 (31 December 2009: approximately RMB6,275,873,000) within periods ranging from 1 month to 17 months (31 December 2009: from 1 month to 23 months).

20. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

(a) Continuing transactions with related parties

The Group had the following significant transactions with its related parties, including directors and their associates and companies controlled by the controlling shareholder, for six months ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Lease of property, plant and equipment from Ningbo Shenzhou Properties Company Limited ("Shenzhou Properties")*	**3,631**	3,631
Purchase of steam supply from Ningbo Mingyao Environmental Thermal Power Co., Ltd. ("Mingyao Electric Company")**	**23,051**	16,728
Provision of Processing services from Ningbo Shenzhou Dagang Knitwear Co. Ltd. ("Shenzhou Dagang")*	**5,570**	5,260
Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")***	**15,509**	14,267

* *Shenzhou Properties and Shenzhou Dagang are controlled by one of the Company's executive directors.*

** *Mingyao Electric Company is 48% owned by one of the Company's executive directors.*

*** *Huaxi Packaging Company is controlled by the relatives of one of the Company's executive director.*

The purchases and lease from the related parties were made according to the published prices and conditions offered by the related companies to their major customers.

(b) Balances with related parties

The Group had the following significant balances with its related parties:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
Due from related parties		
– Trade related		
Mingyao Electric Company	**5,280**	–
Due to related parties		
– Trade related		
Huaxi Packaging Company	**2,906**	2,058
Shenzhou Dagang	**6,517**	–
	9,423	2,058

(c) Key management compensation

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**4,021**	4,434
Post-employment benefits	**25**	27
	4,046	4,461

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes of the Group for the six months ended 30 June 2010 as set out in this interim results report.

Business Review

For the six months ended 30 June 2010, through optimizing its product structure and facilitating lean production management, the Group overcame the pressure on costs caused by increase in the price of raw materials and the significant increase in labor costs, and achieved remarkable results. The specific performance included:

Further optimizing the product structure

The Group's comprehensive competitive advantages have allowed it to cooperate with its renowned sportswear clients more closely on a larger scale. For the six months ended 30 June 2010, sportswear accounted for 48.1% of the Group's total revenue, this is the first time exceeded casual wear in terms of percentage to the total revenue. Leveraging on the ability of the Group to develop new fabrics and products, lingerie has continued to maintain a satisfactory growth and accounted for 13.2% of the total revenue for the six months ended 30 June 2010, representing a significant growth of 72.8% as compared to the corresponding period in 2009. The continual optimization of the Group's product structure has effectively offset part of the adverse effects resulting from increase in production costs, hence a stable profitability has been maintained.

Persistent progress of lean production management

During the period, the Group continued to improve the lean production management by raising the utilization rate of resources and reducing wastes and consumption, which mitigated the effects of the increase in prices of raw materials and energy on the Group's operating results. At the same time, the Group strengthened the efficiency of its staff through lean production management and upgrades of equipment, thereby reducing the workload and lengthening the break for its staff. In addition to raising its staff's salary, the Group also maintained a stable team and attracted new employees to join the Company by further improving their working environment and facilities. A stable working team has amplified the effects of the lean production management.

Achieving preliminary effects of production base layout adjustment

After the commencement of production of the new garment factory established by the Group in Anqing City, Anhui Province in central China in the first quarter of 2009, the size of workforce has further expanded during the period and the current number of workers at this factory is approximately 5,000. The management of the Group is particularly satisfied with the increase in staff's efficiency and a significant improvement in the consistency of product quality. The Group's garment factory which is located in Phnom Penh, Cambodia, was also expanded during the period to better accommodate the global procurement needs of the Group's customers. The newly constructed dyeing and finishing factory in Ningbo Economic and Technical Development Zone came into operation during the period and raised the fabric production capacity. State-of-the-art equipment has been introduced to the new fabric factory, which can save more water and energy. After the new garment factory in Quzhou City, Zhejiang Province commenced operation in the third quarter of 2009, its operation efficiency also grew steadily.

Further expansion in domestic market

To reduce the possible adverse impacts of, among other factors, fluctuations in the exchange rate of Renminbi and changes in trade policies on the Group, the Group has been particularly focused on its expansion in domestic market. The Group successfully attracted new customers including Anta, Li Ning, 361 Degrees and VANCL during the period. For the six months ended 30 June 2010, the garments accounted for approximately RMB598,619,000 of the Group's sales in Mainland China, representing an increase of 17.8% from RMB508,009,000 for the six months ended 30 June 2009. The group intends to further expand the proportion of sales in Mainland China by enhancing its cooperation with domestic customers and leveraging on the growing domestic demand for garments.

OPERATING RESULTS OF THE GROUP

Revenue

Revenue amounted to RMB3,136,940,000 for the six months ended 30 June 2010, representing an increase of RMB381,311,000 or 13.8% from RMB2,755,629,000 for the six months ended 30 June 2009. The growth was mainly driven by: 1) impressive revenue growth of sportswear and lingerie; 2) remarkable achievements made in respect of the sales expansion in the domestic market.

The comparison of the revenue of the Group for the six months ended 30 June 2010 and the six months ended 30 June 2009 by product categories is as follows:

	For the six months ended 30 June					
	2010		**2009**		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sports wear	1,508,568	48.1	1,194,043	43.3	314,525	26.3
Casual wear	1,105,598	35.2	1,241,065	45.0	(135,467)	(10.9)
Lingere	414,891	13.2	240,132	8.7	174,759	72.8
Other knitting products	107,883	3.5	80,389	3.0	27,494	34.2
Total revenue	3,136,940	100.0	2,755,629	100.0	381,311	13.8

For the six months ended 30 June 2010, revenue for sportswear amounted to RMB1,508,568,000, representing an increase of RMB314,525,000 or 26.3% from RMB1,194,043,000 for the six months ended 30 June 2009. In recent years, the Group has endeavored to develop a high-end product portfolio and has leveraged on its advantages in developing new products to further intensify its cooperation with internationally renowned sportswear clients.

For the six months ended 30 June 2010, revenue for casual wear amounted to RMB1,105,598,000, representing a decrease of RMB135,467,000 or 10.9% from RMB1,241,065,000 for the six months ended 30 June 2009. The decrease was mainly due to: (1) the Group's clients from Japan were affected by the drop in retail volume in the garment market of Japan; (2) the Group continued to adjust its product structure and client structure in response to the pressure arising from increasing costs, hence the sales volume of some of our clients' products with lower profit margin decreased.

For the six months ended 30 June 2010, revenue for lingerie amounted to RMB414,891,000, representing an increase of RMB174,759,000 or 72.8% from RMB240,132,000 for the six months ended 30 June 2009. The rapid growth in lingerie products has optimized the product structure of the Group.

The comparison of the revenue of the Group for the six months ended 30 June 2010 and the six months ended 30 June 2009 by market regions is as follows:

	For the six months ended 30 June					
	2010		2009		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By region						
International sales						
Japan	1,370,468	43.7	1,423,092	51.6	(52,624)	(3.7)
Europe	593,381	18.9	388,421	14.1	204,960	52.8
The US	141,331	4.5	125,019	4.5	16,312	13.0
Others	343,608	11.0	248,949	9.1	94,659	38.0
Sub-total for international sales	2,448,788	78.1	2,185,481	79.3	263,307	12.0
Domestic sales	688,152	21.9	570,148	20.7	118,004	20.7
Total revenue	3,136,940	100.0	2,755,629	100.0	381,311	13.8

For the six months ended 30 June 2010, the revenue of the Group derived from Japan amounted to RMB1,370,468,000, representing a decrease of RMB52,624,000 or 3.7% from RMB1,423,092,000 for the six months ended 30 June 2009. The position of Japan as the most crucial single market for the Group remained unchanged. The decrease in revenue in Japan was mainly due to the drop in demand for garments in Japan which was adversely affected the Group's clients in Japan, meanwhile the adjustment of the Group's product structure also contributed to the aforesaid decrease in revenue. The Group believes that with its solid foundation in the Japan-market, the development prospects in the Japan-market will remain positive.

The sales of the Group in Europe were not affected by the fluctuations in the exchange rate of Euro. For the six months ended 30 June 2010, the revenue derived from Europe market amounted to RMB593,381,000, representing a significant increase of 52.8% as compared to RMB388,421,000 for the six months ended 30 June 2009, mainly due to the notable increase in revenue for the Group's sportswear in Europe market.

Considerable growth in sales was also recorded in the US and other markets including Hong Kong, Korea and Australia. For the six months ended 30 June 2010, revenues derived from the US and other foreign markets increased by 13.0% and 38.0%, respectively, as compared to the six months ended 30 June 2009.

The Group's sales in domestic market also achieved satisfactory growth. For the six months ended 30 June 2010, revenue from the sales of garments in the domestic market amounted to RMB598,619,000, representing an increase of RMB90,610,000 or 17.8% from RMB508,009,000 for the six months ended 30 June 2009.

Cost of sales and gross profit

The Group's costs of sales for the six months ended 30 June 2010 amounted to approximately RMB2,171,115,000 (for the six months ended 30 June 2009: RMB1,879,301,000). The Group's gross profit margin of sales for the six months ended 30 June 2010 was 30.8%, representing a decrease of approximately 1.0% from 31.8% for the six months ended 30 June 2009. The slight drop in gross profit margin was mainly due to: (1)a significant increase in labor costs as compared to the corresponding period of last year; (2) the increase in prices for raw materials, predominantly cotton yarn, and energy; (3) hedging gain from the USD/RMB forward exchange included in the sales revenue decreased from RMB77,940,000 for the six months ended 30 June 2009 to RMB1,387,000 during the period, representing a decrease of RMB76,553,000. As a result of the adjustment on product structure and the increase in production efficiency brought about by the enhancement of lean production management, the Group effectively mitigated the pressure arising from surging costs and maintained a relatively stable gross profit margin.

Equity attributable to the equity holders of the Company

As at 30 June 2010, the Group's equity attributable to the equity holders of the Company amounted to RMB4,156,585,000 (31 December 2009: RMB3,882,495,000), of which non-current assets amounted to RMB3,488,450,000 (31 December 2009: RMB3,038,729,000), net current assets amounted to RMB818,718,000 (31 December 2009: RMB933,968,000), non-current liabilities amounted to RMB137,401,000 (31 December 2009: RMB77,001,000) and non-controlling interests amounted to RMB13,182,000 (31 December 2009: RMB13,201,000). The increase in equity attributable to the equity holders of the Company was mainly due to the increase in retained earnings.

Liquidity and financial resources

For the six months ended 30 June 2010, net cash generated from the Group's operating activities amounted to approximately RMB608,832,000 (for the six months ended 30 June 2009: RMB566,383,000) Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 30 June 2010 amounted to RMB441,170,000, representing an increase of RMB123,209,000 from RMB317,961,000 as at 31 December 2009. The increase was mainly due to the Group's payment for equity transfer of RMB275,000,000 upon acquisition of a company from an independent third party in Pudong District, Shanghai during the period.

Cash and cash equivalents of the Group as at 30 June 2010 amounted to RMB559,415,000 (31 December 2009: RMB377,717,000). The total amount of outstanding borrowings was RMB1,000,585,000 (31 December 2009: RMB695,678,000, in which short-term bank loans amounted to RMB619,558,000 and long-term bank loans amounted to RMB76,120,000), in which short-term bank loans amounted to RMB881,702,000 and long-term bank loans amounted to RMB118,883,000. Equity attributable to equity holders of the Company amounted to RMB4,156,585,000 (31 December 2009: RMB3,882,495,000). The Group was in a solid cashflow position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to the equity holders of the Company) of 24.1% (31 December 2009: 17.9%).

As at 30 June 2010, the majority of the Group's borrowings is subject to interest payable at fixed rates. The Group did not enter into any interest rate swaps to hedge itself against interest rate risks.

Finance costs and tax

For the six months ended 30 June 2010, finance cost decreased to RMB14,084,000 from RMB16,537,000 for the six months ended 30 June 2009, mainly due to the decrease in average balance of bank borrowings of the Group during the period.

For the six months ended 30 June 2010, income tax expense of the Group increased to RMB141,360,000 from RMB113,186,000 for the six months ended 30 June 2009, mainly due to the increase in the income tax rate and the increase in the assessable income.

Pledge of the Group's assets

As at 30 June 2010, the Group's deposits with certain banks amounting to approximately RMB32,799,000 (as at 31 December 2009: nil) were pledged to secure certain trade financing facilities granted by the banks, while plants and land use rights of the Group with a carrying amount of RMB168,834,000 (as at 31 December 2009: RMB173,242,000) as at 30 June 2010 were also pledged to secure a medium to long-term loan facilities of USD21,000,000 granted by the Zhejiang branch of the Export-import Bank of China. As at 30 June 2010, the Group has borrowed USD7,272,000 (as at 31 December 2009: USD9,181,000) from the aforesaid bank. In addition, plants and land use rights of the Group with a carrying amount of RMB34,517,000 (as at 31 December 2009: RMB35,231,000) as at 30 June 2010 were pledged to secure the facilities of RMB90,000,000 under a long-term borrowing contract between the Group and the Beilun branch of Bank of China Limited. As at 30 June 2010, the balance of the borrowings granted by the aforesaid bank to the Group was RMB69,500,000 (as at 31 December 2009: RMB39,500,000).

Acquisition

During the period, the Group acquired a 100% interest in Shanghai Qungong Investment Management Co., Ltd. ("Qungong") for a cash of RMB297,000,000. The major purpose of the acquisition was to obtain the land use right and the building held by Qungong as a product research and design centre.

Exposure to exchange risks

As the Group's sales were mainly settled in United States Dollars while its purchases were mainly settled in RMB, its costs and operating profit margin were affected by exchange rate fluctuations. The Group has adopted a policy to hedge part of its exchange rate risks in light of the existing fluctuations of exchange rate between USD and RMB. The amount to be hedged will depend on the Group's expected USD revenue, purchases, capital expenditure, as well as market forecast of fluctuations in the USD to RMB exchange rate.

To protect itself from reductions in value and the volatility of future cash flows which might result from any exchange rate movement between RMB and USD, the Group has arranged an appropriate amount of USD borrowings. As at 30 June 2010, out of the total bank borrowings, USD borrowings amounted to RMB425,463,000 (USD62,652,000 based on the original currency) (as at 31 December 2009: RMB322,917,000 (USD47,292,000 based on the original currency)).In addition, the Group entered into forward contracts in USD in order to hedge certain of its foreign exchange risk, particularly the foreign exchange risk related to USD. As at 30 June 2010, the total amount of the USD forward contracts was approximately USD1,199,000,000 (as at 31 December 2009: approximately USD928,000,000). The Group has also entered into various non-deliverable USD forward currency contracts. As at 30 June 2010, the outstanding non-deliverable USD forward currency contracts amounted to approximately USD504,000,000 (as at 31 December 2009:approximately USD893,500,000).

Employment, training and development

As at 30 June 2010, the Group had employed more than 47,930 employees. Total staff costs, including management and administrative staff, amounted to approximately 22.2% (six months ended 30 June 2009: 18.6%) of the Group's revenue during the period. The Group remunerated its staff according to their performances, qualifications and industry practices, and conducted regular reviews of its remuneration policy. Employees would receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Company also offered rewards or other incentives to motivate personal growth and career development of the employees, such as ongoing opportunities for training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. All new staff of the Group are required to attend an introductory course, while there are also various types of training courses available to all the Group's employees.

Capital expenditure and commitments

For the six months ended 30 June 2010, the Group's total investment in properties, plants and equipment and land use rights amounted to approximately RMB587,027,000, of which approximately 29% was used for the acquisition of production equipment and approximately 68% for the construction and acquisition of new factory buildings and land use rights, while the balance was used for the purchase of other fixed assets.

As at 30 June 2010, the Group had contracted capital commitments of approximately RMB134,328,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by internal resources and proceeds.

Contingent liabilities

As at 30 June 2010, the Group had no material contingent liabilities.

Future prospects and strategies

While the textile garment industry has not yet managed to fully cope with the insufficient market demand caused by the financial crisis, it is confronted with the operational pressures from increasing price of raw materials and surging labor costs. We believe that as the industry integration continues, maintaining and raising our leading position in the industry will be the key to achieve sustainable development.

The Group will continue to expand its R&D investments, improve quality of products, shorten the lead time for delivery, provide better supporting services for customers to achieve sustainable development while seeking for the best interests for its customers, and offer product choices that satisfy the needs of consumers.

The Group will continue to place emphasis on the expansion in the domestic market by increasing the proportion of sales, intensifying the cooperation with the existing customers and exploring new customers in the domestic market. The Group believes that the demand in the domestic market will continue to grow. As living standards rises, consumers will pay increasing attention on product quality in addition to product price. As part of its future development plan, the Group also intends to establish a retail network, with a view to address the changing market needs pertinently and offering better products for its customers and consumers. The Group has commenced preparation work for retail business.

The Group will continue to adjust the layout of its production base. By locating its major production base for fabries in the coastal regions facilitated with well-developed infrastructure and re-allocating the labor intensive garment processing procedures to the western and central regions, the Group can fully utilize the respective advantages of different regions to lower the production costs and achieve optimal allocation of resources, which are also in line with the industry policy set by the PRC government.

The Group will constantly improve its lean production management, raise the level of production automation, reduce resources consumption and increase production efficiency to cope with the operating pressure from increasing costs.

At present, the textile garment industry is under the pressure of rising costs, and the increase in labor costs will persist for a considerable period of time. However, we remain optimistic towards the prospects of the industry as market demands in developing countries, including China, will continue to grow. At the same time, the continual integration of the garment industry and the guidance of the government's industry policy will further facilitate the development of the leading enterprises. In adherence to its stated strategies, the Group will grow stronger and expand further to consolidate and enhance its overall competitive advantages in the industry, with a view creating the best returns for its shareholders and investors.

DIVIDENDS

At the Company's Annual General Meeting held on 28 May 2010, shareholders approved the payment of a final dividend of HK$0.35 per share for the year ended 31 December 2009 to shareholders whose names appeared on the register of members of the Company at the close of business on 20 May 2010. The cash dividend was payable on 11 June 2010 in cash.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (for the six months ended 30 June 2009: Nil) and proposes that the profit for the period be retained.

CODE ON CORPORATE GOVERNANCE PRACTICES

On 9 October 2005, the Board approved and adopted its own Code of Corporate Governance, which covered all 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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has complied with all the code provisions of the CG Code as set out in the Listing Rules during the six months ended 30 June 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group 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 ("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 during the period.

Senior management, whose position in the Company, are likely to come into possession of unpublished price sensitive information, have been requested to comply with the provisions of the Securities Trading Code.

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 during the six months ended 30 June 2010.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The interim report of the Company, which will contain all the information required by the Listing Rules, will be sent to shareholders of the Company and published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.shenzhouintl.com), respectively, in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed matters relating to auditing, internal control and financial statements, including a review of the unaudited financial statements for the six months ended 30 June 2010.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe and Ms. Zheng Miaohui; the non-executive director is Mr. Chen Zhongjing; and the independent non-executive directors are Mr. Zong Pingsheng, Mr. Dai Xiangbo and Mr. Su Shounan.

By Order of the Board
Shenzhou International Group Holdings Limited
Ma Jianrong
Chairman

Ningbo, 20 August 2010