SHENZHOU INTERNATIONAL GROUP HOLDINGS LIMITED
（申洲國際集團控股有限公司*）

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 2313)

PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

- Sales for the year ended 31 December 2010 amounted to approximately RMB6,719,172,000, representing an increase of 10.3% when compared with the year of 2009.
- Percentage of sportswear revenue to total revenue increased year on year from 42.3% to 50.2%. Sportswear revenue increased sufficiently by 30.8% when compared with the year of 2009.
- Percentage of lingerie revenue to total revenue increased year on year from 8.6% to 11.0%, representing a substantially growth of lingerie revenue by 41.3%.
- Profit attributable to equity holders of the Company for the year ended 31 December 2010 amounted to approximately RMB1,271,654,000, representing an increase of 1.6% when compared with the year of 2009.
- Earnings per share amounted to RMB1.02, representing an increase of 1.0% as compared with the year of 2009.
- Proposed to declare a final dividend of HK$0.36 (approximately RMB0.31) per ordinary share, representing an increase of 2.9% when compared with the year of 2009.

* *for identification purposes only*

The board of directors (the "Board") of Shenzhou International Group Holdings Limited ("Shenzhou International" or the "Company") is pleased to present the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative amounts for the corresponding year of 2009 as follows.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
REVENUE	*4*	**6,719,172**	6,093,485
Cost of sales		**(4,713,001)**	(4,159,229)
Gross profit		**2,006,171**	1,934,256
Other income and gains	*4*	**201,207**	47,672
Selling and distribution costs		**(96,932)**	(65,033)
Administrative expenses		**(426,376)**	(403,893)
Other expenses		**(23,636)**	(14,056)
Finance costs	*5*	**(35,837)**	(25,393)
PROFIT BEFORE TAX	*6*	**1,624,597**	1,473,553
Income tax expense	*7*	**(351,952)**	(220,439)
PROFIT FOR THE YEAR		**1,272,645**	1,253,114
Attributable to:			
Owners of the parent		**1,271,654**	1,252,030
Non-controlling interests		**991**	1,084
		1,272,645	1,253,114
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
– For profit for the year		**RMB1.02**	RMB1.01
Diluted			
– For profit for the year		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**1,272,645**	1,253,114
OTHER COMPREHENSIVE INCOME			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**70,150**	29,701
Reclassification adjustments for gains recognised in consolidated income statement		**(42,182)**	(87,833)
		27,968	(58,132)
Exchange differences on translation of foreign operations		**1,093**	(388)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**29,061**	(58,520)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,301,706**	1,194,594
Attributable to:			
Owners of the parent		**1,300,715**	1,193,510
Non-controlling interests		**991**	1,084
		1,301,706	1,194,594

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,991,017**	2,708,796
Prepaid land lease payments		**478,506**	205,821
Intangible assets		**115,961**	122,238
Deferred tax assets		**–**	1,874
Total non-current assets		**3,585,484**	3,038,729
CURRENT ASSETS			
Inventories		**1,808,784**	1,185,157
Trade receivables	*10*	**897,211**	607,346
Prepayments, deposits and other receivables		**382,049**	150,162
Derivative financial instruments		**107,884**	30,291
Bank deposits with initial term of over three months		**125,026**	37,827
Cash and cash equivalents		**519,017**	377,717
Total current assets		**3,839,971**	2,388,500
CURRENT LIABILITIES			
Trade and bills payables	*11*	**486,856**	386,426
Advance from customers		**53,060**	–
Other payables and accruals		**376,638**	392,188
Derivative financial instruments		**–**	5,584
Interest-bearing bank and other borrowings		**1,349,887**	619,558
Amounts due to related parties		**2,257**	2,058
Tax payable		**248,805**	48,718
Total current liabilities		**2,517,503**	1,454,532
NET CURRENT ASSETS		**1,322,468**	933,968
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,907,952**	3,972,697

	Notes	**2010** *RMB'000*	2009 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**79,732**	76,120
Deferred tax liabilities		**14,949**	881
Total non-current liabilities		**94,681**	77,001
Net assets		**4,813,271**	3,895,696
EQUITY			
Equity attributable to owners of the parent			
Share capital		**129,717**	129,717
Reserves		**4,288,442**	3,369,100
Proposed final dividend	*8*	**381,373**	383,678
		4,799,532	3,882,495
Non-controlling interests		**13,739**	13,201
Total equity		**4,813,271**	3,895,696

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

3. OPERATING SEGMENT INFORMATION

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

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

99% of the non-current assets of the Group were located in the PRC during the year ended 31 December 2010 (2009: 99%).

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,719,172**	6,093,485
Other income		
Government grants*	**120,718**	44,117
Bank interest income	**4,190**	3,555
Rental income	**4,404**	–
Others	**304**	–
	129,616	47,672
Gains		
Fair value gains, net:		
Derivative instruments – transactions not qualifying as hedges	**71,591**	–
	201,207	47,672

* *Government grants mainly represent incentives granted by local government to the Group. There are no unfulfilled conditions or contingencies related to the government grants.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**35,837**	25,393

6. PROFIT BEFORE TAX

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold	**4,665,853**	4,115,212
Depreciation and impairment of property, plant and equipment	**286,026**	235,857
Amortisation of prepaid land lease payments	**8,929**	4,006
Amortisation of other intangible assets	**6,874**	6,749
Minimum lease payments under operating leases:		
Building	**25,657**	20,444
Auditors' remuneration	**2,000**	1,900
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**1,324,609**	1,119,591
Pension scheme contributions	**48,948**	36,711
Other welfares	**27,154**	13,865
	1,400,711	1,170,167
Foreign exchange differences, net*	**15,424**	7,018
Write-down of inventories to net realisable value	**6,664**	1,514
Fair value (gains)/losses, net:		
Derivative instruments – transactions not qualifying as hedges**	**(71,591)**	5,339
Bank interest income	**(4,190)**	(3,555)
Loss on disposal of items of property, plant and equipment	**4,401**	1,699

* *The foreign exchange differences, net for the years ended 31 December 2010 and 31 December 2009 are included in "Other expenses" on the face of the consolidated income statement.*

** *The fair value gains and losses, for the years ended 31 December 2010 and 31 December 2009 are included in "Other income and gains" and "Other expenses", respectively, on the face of the consolidated income statement.*

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**19,792**	–
Current Mainland China corporate income tax ("CIT")	**325,746**	210,970
Deferred taxation	**6,414**	9,469
	351,952	220,439

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 on 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% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong.

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 the BVI, is not subject to tax.

Shenzhou (Combodia) Co., Ltd, 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. Shenzhou Cambodia had no assessable profits during the year.

Shenzhou Trading Company Limited ("Shenzhou Trading") and Top Always (Hong Kong) Investment Limited, wholly-owned subsidiaries incorporated in Hong Kong, are subject to the profits tax rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong.

Shenzhou Japan Co., Ltd. ("Shenzhou Japan"), a wholly-owned subsidiary 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 income tax has been made as Shenzhou Japan had no assessable profits arising in Japan during the year.

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), the assessable income of each of the PRC subsidiaries for the period as determined in accordance with the New CIT Law is subject to a tax rate of 25%, except for certain of these 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.

A reconciliation between tax expense and the product of accounting profit multiplied by the PRC's domestic tax rate for the tax years ended 31 December 2010 and 2009 is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**1,624,597**	1,473,553
Tax at the statutory tax rate of 25% (2009: 25%)	**406,149**	368,388
Lower tax rate for specific provinces or enacted by local authority	**(120,804)**	(163,581)
Adjustments in respect of current tax of previous periods	**58,937**	–
Expenses not deductible for tax	**1,706**	5,055
Effect of change in tax rate on deferred tax	**(477)**	–
Tax losses not recognised during the year	**9,994**	10,577
Utilisation of previously unrecognised deductable tax losses	**(3,553)**	–
	351,952	220,439

8. DIVIDENDS

	Company	
	2010	2009
	RMB'000	*RMB'000*
Proposed final dividend of HK$0.36 (2009: HK$0.35) per ordinary share	**381,373**	383,678

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

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

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share calculations:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,271,654**	1,252,030

	Number of Shares	
	2010	2009
	Thousands	*Thousands*
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**1,245,000**	1,245,000

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2010 and 2009.

10. TRADE RECEIVABLES

	Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**897,211**	607,346
Impairment	**–**	–
	897,211	607,346

Majority of the Group's sales are covered by letter of credit. The remaining amounts are generally granted with credit terms of one to six months.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**863,011**	578,874
Over 3 months	**34,200**	28,472
	897,211	607,346

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

11. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
0 to 6 months	**460,447**	380,248
6 months to 1 year	**16,745**	5,302
1 year to 2 years	**6,027**	411
Over 2 years	**3,637**	465
	486,856	386,426

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and future prospects and strategies

Business review

During the year, the surge in raw materials, water resources and energy prices and the rise in labor cost have exerted immense cost pressure on garment manufacturers. Due to the requirements under the energy-saving and emission-reduction project carried out by the government in August 2010, the production in the Group's plants in Ningbo has been suspended for 8 days. Even though the operating environment was severe during the year, the Group has successfully surmounted all kinds of hurdles and achieved satisfactory results attributable to its advanced planning and preemptive measures, such as stockpiling raw materials, acquiring the right to use water from a local reservoir for 20 years and unremittingly improving the working and living environment of the staff. In review of the work during the year, the Group has paid enormous efforts to adjust its product mix, forage for domestic customers, optimize the layout of production bases and improve the welfare of its staff. The specific performance included:

More Reasonable Product mix

The Group has sustained close cooperative relationship with key sportswear brands and expanded the business volume so that the Group's product mix has improved persistently. For the year ended 31 December 2010, the revenue of sportswear increased by 30.8% as compared to 2009 and accounted for 50.2% of the total revenue, surpassing the share of casual wear in the total revenue for the first time. The revenue of underwear maintained rapid growth for the year ended 31 December 2010 and accounted for 11.0% of the total revenue, rose by 41.3% as compared to 2009. The continual improvement in product mix helped the Group to effectively weather the adverse influence of the increase in production cost and secured a relatively stable profitability.

Optimal Enlargement of Domestic Customer Base

The Group considers the mainland China market as one with the highest potential. This is not only due to the aggregate garment consumption demand from the Chinese population of 1.3 billion, but also, more importantly, higher expectations for garment that result from the higher income of the mainland Chinese. It is expected that while the overall consumption amount of garment rises, the consumption pattern will also change drastically with an accelerated increase in market demand for quality, stylish and inexpensive garment products. During the year, the Group has secured some leading domestic sportswear brands as its new customers. This laid a better foundation for the Group to enlarge its sales in the domestic market while helping the Group mitigate the negative influence of the fluctuation in Renminbi exchange rate and changes in trade policies. For the year ended 31 December 2010, the revenue from the domestic market accounted for 20.2% of the Group's total revenue and increased by 24.0% from 2009.

Further Optimization of Production Base Layout

When it continually expands its business scale, the Group pays careful attention to whether the layout of the production bases is optimal so as to capitalize on and combine the different strengths of various regions. Following the establishment of the first garment factory in Cambodia in 2005, the Group's new garment factories in Anqing City, Anhui Province and Quzhou City in west Zhejiang Province have commenced production in the first and third quarter of 2009, respectively. During the year, the headcounts of the garment factories outside Ningbo City have been increased and the efficiency of the staff has been enhanced as the management teams matured. The Group has learned valuable lessons on how to set up additional factories in other places from the successful operation of the Group's new factories outside Ningbo. The new dyeing and finishing factory of the Group in Ningbo Economic and Technical Development Zone has also been launched smoothly during the year, which has enhanced the fabric production capacity of the Group. The facilities in this new fabric factory are more advanced and consume less water and energy. The optimization of the layout of production bases has paved the way for the long-term development of the Group.

Further Improvement in Staff Welfare

In the face of rising labor costs, the Group has reduced its reliance on manual labor for production by enhancing staff efficiency through lean production management and large-scale automation. On the other hand, it has also further improved the working and living environment of its staff during the year. It has renovated and enlarged most of the staff quarters, shower rooms and canteen, and added other new and convenience facilities. The Group has arranged coaches for its non-local staff to return to their home towns during Chinese New Year and back to their workplaces after the festival at the expense of the Group. The Group's care for its staff has satisfactorily reduced its staff turnover and enhanced the outcome of its lean production measures.

FINANCIAL REVIEW

Revenue

Revenue amounted to RMB6,719,172,000 for the year ended 31 December 2010, representing an increase of RMB625,687,000 or 10.3% from RMB6,093,485,000 for the year ended 31 December 2009. Factors affecting the growth were: (1) the satisfactory sales growth of sportswear and lingerie; (2) the drop in sales of casual wear which are mainly targeted at the Japanese market; and (3) the impact on the Group's output as production of the Group's plant in Ningbo Economic and Technical Development Zone was interrupted for 8 days in August 2010 in compliance with the "energy-saving and emission-reduction" arrangement of the government.

The comparison of the revenue of the Group for 2010 and 2009 by product categories is as follows:

	For the year ended 31 December					
	2010		2009		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**3,373,294**	**50.2**	2,578,060	42.3	795,234	30.8
Casual wear	**2,365,684**	**35.2**	2,835,415	46.5	(469,731)	(16.6)
Lingerie	**740,586**	**11.0**	524,141	8.6	216,445	41.3
Other knitting products	**239,608**	**3.6**	155,869	2.6	83,739	53.7
Total revenue	**6,719,172**	**100.0**	6,093,485	100.0	625,687	10.3

For the year ended 31 December 2010, revenue of sportswear amounted to RMB3,373,294,000, representing an increase of RMB795,234,000 or 30.8% from RMB2,578,060,000 for the year ended 31 December 2009. Sportswear exceeded casual wear in terms of percentage of total revenue for the first time. The Group has endeavored to develop a high-end product portfolio and has established solid and long-standing cooperation with internationally renowned sportswear clients. It also continued to expand the business cooperation with sports brands in the mainland market with an aim to reduce the impacts of fluctuations in exchange rates and changes in trade policies on the Group's export business.

For the year ended 31 December 2010, revenue of casual wear amounted to RMB2,365,684,000, representing a decrease of RMB469,731,000 or 16.6% from RMB2,835,415,000 for the year ended 31 December 2009. The decrease was mainly due to the facts that: (1) the Group's Japanese clients were affected by the drop in retail volume in the garment market of Japan; and (2) the Group continued to adjust its product mix 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 year ended 31 December 2010, revenue of lingerie amounted to RMB740,586,000, representing an increase of RMB216,445,000 or 41.3% from RMB524,141,000 for the year ended 31 December 2009. The rapid growth in lingerie products has optimized the product mix of the Group.

The comparison of the revenue of the Group for 2010 and 2009 by market regions is as follows:

	For the year ended 31 December					
	2010		2009		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By region						
Japan	**2,772,854**	**41.3**	3,201,526	52.5	(428,672)	(13.4)
Europe	**1,392,450**	**20.7**	929,192	15.3	463,258	49.9
The US	**439,591**	**6.5**	339,692	5.6	99,899	29.4
Others	**760,347**	**11.3**	531,090	8.7	229,257	43.2
Sub-total for international sales	**5,365,242**	**79.8**	5,001,500	82.1	363,742	7.3
Domestic sales	**1,353,930**	**20.2**	1,091,985	17.9	261,945	24.0
Total sales	**6,719,172**	**100.0**	6,093,485	100.0	625,687	10.3

For the year ended 31 December 2010, the revenue of the Group derived from Japan amounted to RMB2,772,854,000, representing a decrease of RMB428,672,000 or 13.4% from RMB3,201,526,000 for the year ended 31 December 2009. The decrease in sales to the Japanese market was mainly due to the drop in demand for garments in Japan which adversely affected the Group's clients in Japan, as well as the adjustment to the Group's product structure. The Japanese market has always been the most significant single market of the Group, and the Group will continue its efforts in expanding sales in such market while adjusting the product structure.

For the year ended 31 December 2010, the revenue derived from the European market amounted to RMB1,392,450,000, representing a growth of RMB463,258,000 or 49.9% as compared to RMB929,192,000 for the year ended 31 December 2009, mainly due to the notable increase in sales of the Group's sportswear in the European market.

Considerable growth in sales was also recorded in the US and other markets including Hong Kong, Korea and Australia. For the year ended 31 December 2010, revenues derived from the US and other foreign markets increased by 29.4% and 43.2%, respectively, as compared to the previous year.

The Group's sales in the domestic market also achieved a satisfactory growth. In addition to the existing clients, the Group has also developed various renowned garment brands in China during the year as new clients. For the year ended 31 December 2010, sales of garments in the domestic market amounted to RMB1,157,227,000, representing an increase of RMB192,563,000 or 20.0% from RMB964,664,000 for the year ended 31 December 2009.

Cost of sales and gross profit

The Group's cost of sales for the year ended 31 December 2010 amounted to approximately RMB4,713,001,000 (2009: RMB4,159,229,000). The Group's gross profit margin of sales for 2010 was 29.9%, representing a decrease of approximately 1.8 percentage points from 31.7% for 2009. The Group's revenue included a gain of RMB50,920,000 (2009: RMB104,067,000) from forward currency contract hedges between US dollars and Renminbi. If such gain from forward currency contract hedges was excluded, the gross profit margin of the Group's sales for 2010 was 29.3% (2009: 30.6%), decreased by 1.3 percentage points as compared to 2009. The slight drop in gross profit margin was mainly due to: (1) the increasing prices of raw materials, predominantly cotton; (2) the increase in labor costs; and (3) the further appreciation of Renminbi against US dollars.

Equity attributable to the equity holders of the Company

As at 31 December 2010, the Group's equity attributable to the equity holders of the Company amounted to RMB4,799,532,000 (2009: RMB3,882,495,000), of which non-current assets amounted to RMB3,585,484,000 (2009: RMB3,038,729,000), net current assets amounted to RMB1,322,468,000 (2009: RMB933,968,000), non-current liabilities amounted to RMB94,681,000 (2009: RMB77,001,000) and non-controlling interests amounted to RMB13,739,000 (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 year ended 31 December 2010, net cash generated from the Group's operating activities amounted to approximately RMB710,914,000, while that for 2009 was approximately RMB1,147,264,000. Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 31 December 2010 amounted to RMB910,602,000, representing an increase of RMB592,641,000 from RMB317,961,000 as at 31 December 2009.

Cash and cash equivalents of the Group as at 31 December 2010 amounted to RMB519,017,000 (2009: RMB377,717,000). The total amount of outstanding borrowings was RMB1,429,619,000 (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 RMB1,349,887,000 and long-term bank loans amounted to RMB79,732,000. Equity attributable to equity holders of the Company amounted to RMB4,799,532,000 (2009: RMB3,882,495,000). The Group was in a solid cash flow position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to the equity holders of the Company) of 29.8% (2009: 17.9%).

As at 31 December 2010, the majority of the Group's borrowings were subject to fixed interest rates. The Group did not enter into any interest rate swaps to hedge against interest rate risks.

Finance costs and tax

For the year ended 31 December 2010, finance costs increased to RMB35,837,000 from RMB25,393,000 for the year ended 31 December 2009, mainly due to the higher interest expenses which were in line with the increase in the Group's bank borrowings during the year. The Group's US dollars and Renminbi loan interest rates during the year ranged from 1.15% to 4.82% and 4.37% to 5.28% respectively (2009: 2.26% to 2.95% and 3.65% to 5.31% respectively).

For the year ended 31 December 2010, income tax expense of the Group amounted to RMB351,952,000, a surge of RMB131,513,000 from RMB220,439,000 for the year ended 31 December 2009. The increase in income tax expense in 2010 was mainly due to the increase in income tax rates, as well as the additional accrual of income tax of RMB53,435,000 made by Ningbo Shenzhou Knitting Co., Ltd, a subsidiary of the Group, pursuant to further interpretation made by the tax authority in 2010 on the "Two year exempt, three year 50% reduction" transitional tax concession policy for additional investment claimed in 2009.

According to the "Notice of the State Council on the Implementation of the Transitional Preferential Policies of Enterprise Income Tax", the applicable tax rate in the coming years for our manufacturing subsidiaries in Ningbo Economic & Technical Development Zone will be 24% in 2011 and 25% in 2012 and afterwards. After the implementation of the new tax law, the entitlement of certain subsidiaries to the preferential tax treatment of a 2-year exemption and a 50% reduction for 3 years may remain in force according to the original tax laws, administrative regulations and other relevant provisions until the expiry of the tax holiday.

Pledge of the Group's assets

As at 31 December 2010, the Group's plants and prepaid land lease payments with an aggregate carrying amount of RMB168,963,000 (as at 31 December 2009: RMB173,242,000) as at 31 December 2010 were pledged to secure a medium to long-term loan facilities of USD21,000,000 granted by the Zhejiang branch of Export-Import Bank of China. As at 31 December 2010, the Group had outstanding borrowings of USD5,363,000 (as at 31 December 2009: USD9,181,000) from such bank. In addition, the Group has entered into a long-term borrowing contract to an extent of RMB90,000,000 with the Beilun sub-branch of Bank of China Limited, for which the Group's plants and prepaid land lease payments with an aggregate carrying amount of RMB43,490,000 as at 31 December 2010 were pledged as security. As at 31 December 2010, the outstanding borrowings of the Group from such bank were RMB69,500,000. Certain bank borrowings of the Group and the Company were guaranteed by various holding companies controlled by the directors of the Company.

Exposure to foreign exchange

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

To avoid reductions in value and volatility of future cash flows arising from any exchange rate movement between Renminbi and US dollars, the Group has arranged an appropriate amount of US dollars borrowings. As at 31 December 2010, out of the total bank borrowings, US dollars borrowings amounted to RMB525,377,000 (USD79,330,000 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 US dollars in order to hedge certain of its foreign exchange risk, particularly those related to US dollars. As at 31 December 2010, the aggregate amount of the outstanding US dollars forward contracts was approximately USD620,000,000 (as at 31 December 2009: approximately USD928,000,000). The Group has also entered into various non-deliverable US dollars forward currency contracts. As at 31 December 2010, the outstanding non-deliverable US dollars forward currency contracts amounted to approximately USD685,000,000 (as at 31 December 2009: approximately USD893,500,000).

Employment, training and development

As at 31 December 2010, the Group employed more than 48,390 employees. Total staff costs, including management and administrative staff, accounted for approximately 20.8% (2009: 19.2%) of the Group's sales during the year. The Group remunerated its staff according to their performances, qualifications and industry practices, and conducted regular reviews of its remuneration policy. Employees may receive discretionary bonuses and monetary rewards based on their 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

During the year, the Group's total investment in property, plant and equipment and prepaid land lease payments amounted to approximately RMB852,797,000, of which approximately 40% was used for the acquisition of production equipment, approximately 56% for the construction and acquisition of new factory buildings and prepaid land lease payments, and the balance was used for the purchase of other fixed assets.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no material contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

The Group did not have any material event after the reporting period for the year ended 31 December 2010.

FUTURE PROSPECTS AND STRATEGIES

Export of Chinese textile and garment products has begun to pick up with the impact of the global financial crisis on market demand on the wane. The growing demand, however, does not ease the pressure on the operation of industry players. The outlook for garment manufacturers does not show many positive signs as they continue to face challenges of rising raw material prices and labor costs and appreciating Renminbi. We believe that this will speed up industry integration, and the Group will work towards raising our leading position in the industry so as to achieve continuous growth in the face of adversity and lay a solid foundation for its long-term development.

The garment sector is characterized by huge market demand and great number of manufacturers. In such a highly-competitive environment, the crucial factor in market share and profitability lies on whether a product is in favor with the consumers. The Group will increase its input into research and development to attract candidates of high calibre and to enhance its product development capability with new technology, new materials and new techniques. It is the objective of the Group to satisfy the ever-increasing demand of consumers with quality products, as well as to offset the impact of rising costs on the Group's profitability.

The Group will expand its sales in the domestic market in order to alleviate the impact of exchange rate fluctuations on its performance and the uncertainties of export sales arising from changes in trade policies and to benefit from the rapid-growing garment market in China. Meanwhile, the growing consumers' concern about product quality and environmental protection also present opportunities for the Group's development in the domestic market. The Group has taken steps to set up its own design team and retailing management and hopes to establish a retail network with appropriate size for future business development, with a view to addressing the changing market needs and offering better products to its clients and the consumers. The Group has set up the headquarters of retail and product design in Shanghai during the year.

The Group will continue to optimize the layout of its production base and re-allocate the various production processes according to the edges of difference regions. The Chinese government encourages the relocation of labor-intensive enterprises to the western and central regions, and also the "outward expansion" by setting up factories overseas. In light of the rising costs of operation in coastal regions, the Group will consider setting up new factories in the western and central regions and foreign countries with regard to its own development needs.

The Group has been emphasizing on lean production management, under which optimized cost control is achieved by further streamlining of business flow and raising the related requirements. On the other hand, in order to cope with the difficulties in operations, the Group will also reduce its dependency of production on labor and enhance resource utilization by introducing automated equipments.

The lifecycle of an industry hangs on the market demand, while competitiveness of an enterprise is crucial to its profitability. The Group will be dedicated to offer consumers with products of better quality and create higher returns for investors.

FINAL DIVIDEND

The Directors recommend a payment of a final dividend of HK$0.36 (equivalent to approximately RMB0.31) per share for the year ended 31 December 2010, subject to shareholders' approval at the forthcoming annual general meeting to be held on 27 May 2011, to the shareholders whose names appeared on the Register of Members of the Company at the close of business on 20 May 2011.

BOOK CLOSURE

The Register of Members of the Company will be closed from 23 May 2011 to 27 May 2011, both dates inclusive, during such period no transfer of shares will be registered. In order to qualify for the final dividend which will be resolved and voted at the forthcoming annual general meeting of the Company; and the eligible for attending and voting at the 2010 annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 20 May 2011.

CORPORATE GOVERNANCE

The Board 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") since 9 October 2005.

The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2010.

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 ("Securities Trading Code"). A copy of the Securities Trading Code is provided to all Directors on their appointment. Reminder will be issued twice a year, being 30 days prior to the Board meeting approving the Company's interim results and 60 days prior to the Board meeting approving the Company's annual results, reminding the Directors that they are not allowed to trade on the Company's securities prior to the announcement of its results (the period during which the directors are prohibited from dealing in shares) and that all transactions must comply with the Securities Trading Code. Upon specific enquiries, all Directors confirmed their strictly compliance with the relevant provisions of the Securities Trading Code throughout the year.

Senior management may be in possession of unpublished price-sensitive information due to their duties within the Company, and hence, is required to comply with the Securities Trading Code.

AUDIT COMMITTEE

The Audit Committee reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial statements matters including the review of the financial statements for the year ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities shares during the year ended 31 December 2010.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 7th Floor, Office Building, No. 18 Yongjiang Road, Economic Technical Development Zone, Ningbo, the PRC on 27 May 2011 at 10:00 a.m.. Notice of the annual general meeting will be published and issued in due course.

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; and 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 of
Shenzhou International Group Holdings Limited
Ma Jianrong
Chairman

Ningbo, 28 March 2011