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 2011

HIGHLIGHTS

- Revenue for the six months ended 30 June 2011 amounted to RMB4,232,573,000, a significant increase of approximately 34.9% when compared with the corresponding period of 2010.
- Percentage of sportswear revenue to total revenue increased to approximately 53.7% for the six months ended 30 June 2011. Sportswear revenue increased significantly by approximately 50.7% when compared with the corresponding period of previous year.
- Casual wear revenue for the six months ended 30 June 2011 increased significantly by approximately 25.4% when compared with the corresponding period of previous year.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2011 amounted to RMB856,353,000, an increase of approximately 30.0% compared with the corresponding period of 2010.
- Earnings per share amounted to RMB0.69, an increase of approximately 30.2% 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 (collectively, the "Group") for the six months ended 30 June 2011, together with the comparative amounts for the corresponding period of 2010. 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 2011

		Unaudited For the six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**4,232,573**	3,136,940
Cost of sales	*5*	**(3,013,854)**	(2,171,115)
Gross profit		**1,218,719**	965,825
Other income and gains	*6*	**164,383**	105,196
Selling and distribution costs	*5*	**(42,282)**	(49,202)
Administrative expenses	*5*	**(246,427)**	(207,295)
Other expenses	*7*	**(25,272)**	(68)
Finance costs	*8*	**(29,021)**	(14,084)
PROFIT BEFORE TAX		**1,040,100**	800,372
Income tax expense	*9*	**(183,284)**	(141,360)
Profit for the period		**856,816**	659,012
Attributable to:			
Owners of the parent		**856,353**	658,578
Non-controlling interests		**463**	434
		856,816	659,012
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
– Basic		**RMB0.69**	RMB0.53
– Diluted		**N/A**	N/A

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Unaudited For the six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
Profit for the period		**856,816**	659,012
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		**(14,307)**	(87)
Reclassification adjustments for gains recognised in consolidated income statement		**(60,753)**	(1,149)
		(75,060)	(1,236)
Exchange differences on translation of foreign operations		**(2,248)**	426
Other comprehensive income for the period, net of tax		**(77,308)**	(810)
Total comprehensive income for the period		**779,508**	658,202
Attributable to:			
Owners of the parent		**779,045**	657,768
Non-controlling interests		**463**	434
		779,508	658,202

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**2,958,329**	2,991,017
Prepaid land lease payments	12	**472,908**	478,506
Intangible assets	12	**113,030**	115,961
Deferred tax assets		**12,048**	–
Total non-current assets		**3,556,315**	3,585,484
CURRENT ASSETS			
Inventories	13	**2,154,778**	1,808,784
Trade receivables	14	**1,190,653**	897,211
Prepayments, deposits and other receivables	15	**362,696**	382,049
Derivative financial instruments	16	**512**	107,884
Bank deposits with initial term of over three months		**72,425**	125,026
Cash and cash equivalents		**892,530**	519,017
Total current assets		**4,673,594**	3,839,971
CURRENT LIABILITIES			
Trade and bills payables	17	**536,967**	486,856
Advance from customers		**15,448**	53,060
Other payables and accruals	18	**587,516**	376,638
Derivative financial instruments	16	**29,973**	–
Interest-bearing bank and other borrowings		**1,586,425**	1,349,887
Amount due to related parties	21b	**9,901**	2,257
Tax payable		**133,226**	248,805
Total current liabilities		**2,899,456**	2,517,503
NET CURRENT ASSETS		**1,774,138**	1,322,468
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,330,453**	4,907,952

	Notes	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**119,500**	79,732
Deferred tax liabilities		**–**	14,949
Total non-current liabilities		**119,500**	94,681
Net assets		**5,210,953**	4,813,271
EQUITY			
Equity attributable to owners of the parent			
Share capital		**129,717**	129,717
Reserves		**5,067,487**	4,288,442
Proposed final dividend		**–**	381,373
		5,197,204	4,799,532
Non-controlling interests		**13,749**	13,739
Total equity		**5,210,953**	4,813,271

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL INFORMATION

Shenzhou International Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 23 June 2005. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of knitwear products.

These unaudited interim 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 on 15 August 2011.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2011 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 (the "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 2010, 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 2010, as described in those annual financial statements.

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

- The name of the government and the nature of their relationship;
- The nature and amount of any individually significant transactions; and
- The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to HK(IFRIC) – Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- HK(IFRIC) – Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- HKFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

4. SEGMENT INFORMATION

For management purposes, the Group is organized 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 condensed 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 2011 (as at 31 December 2010: 99%).

5. EXPENSES BY NATURE

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**809,548**	661,902
Retirement benefit contributions	**21,468**	20,151
Other benefits	**29,978**	15,507
	860,994	697,560
Depreciation, amortisation and impairment expenses	**164,460**	142,475
Changes in inventories of finished goods and work in progress	**(338,043)**	(265,076)
Raw materials and consumables utilized	**2,221,467**	1,479,213
Utilities expenses	**227,514**	188,063
Outsourcing	**23,540**	39,420
Office expenses	**22,938**	11,390
Transportation expenses	**20,440**	15,122
Operating lease expenses for properties	**12,840**	14,309
Commission	**8,709**	21,534
Entertainment expenses	**7,641**	6,970
Donation	**4,212**	4,165
Inspection fees	**3,918**	4,593
Traveling expenses	**3,091**	2,697
Other expenses	**58,842**	65,177
Total cost of sales, selling and distribution costs and administrative expenses	**3,302,563**	2,427,612

6. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Other income		
Government incentives	**150,511**	4,697
Bank interest income	**4,827**	1,918
	155,338	6,615
Gains		
Exchanges gains, net	**9,045**	2,046
Fain value gains, net		
Derivative instruments – transactions not qualifying as hedges	**–**	95,964
Others gains	**–**	571
	9,045	98,581
	164,383	105,196

7. OTHER EXPENSES

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Loss on disposal of items of property plant and equipment	**725**	68
Fair value losses, net		
Derivative instruments-transactions not qualifying as hedges	**24,547**	–
	25,272	68

8. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**29,021**	14,084

9. INCOME TAX

The major components of income tax for the six months ended 30 June 2011 and 2010 are:

	For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current Hong Kong profit tax	**18,204**	–
Current Mainland China corporate income tax ("CIT")	**165,981**	126,098
Deferred taxation	**(901)**	15,262
	183,284	141,360

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% (for the six months ended 30 June 2010: 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"), Maxwin (B.V.I.) Limited and Buddies Investments Limited, subsidiaries incorporated in BVI, are 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 of the Kingdom of Cambodia, 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 period.

Shenzhou Trading Co., Ltd. ("Shenzhou Trading"), Top Always (Hong Kong) Investments Ltd. ("Top Always (Hong Kong)") and Maxwin (Hong Kong) Limited, 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.

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 tax has been made as Shenzhou Japan had no assessable profits arising in Japan during the period.

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 2011 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 RMB856,353,000 (six months ended 30 June 2010: RMB658,578,000) and on the weighted average number of 1,245,000,000 (six months ended 30 June 2010: 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 15 August 2011, the directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

12. CAPITAL EXPENDITURES

	Properties, plants and equipment *RMB'000*	**Prepaid land lease payments** *RMB'000*	**Water use right** *RMB'000*	**Software** *RMB'000*
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
Disposals	(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
For the six months ended 30 June 2011				
Opening net book amount at 1 January 2011	2,991,017	478,506	112,338	3,623
Additions	125,502	–	–	541
Disposal	(1,963)	–	–	–
Depreciation/amortization	(155,390)	(5,598)	(3,225)	(247)
Exchange differences	(837)	–	–	–
Closing net book amount at 30 June 2011	2,958,329	472,908	109,113	3,917

13. INVENTORIES

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Raw materials	**497,045**	502,453
Work in progress	**953,899**	793,963
Finished goods	**703,834**	512,368
	2,154,778	1,808,784

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 2011 *RMB'000*	31 December 2010 *RMB'000*
Within 3 months	**1,175,260**	863,011
Over 3 months	**15,393**	34,200
	1,190,653	897,211

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLE

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Prepayments and deposits		
– Purchase of raw materials	**76,877**	142,770
– Purchase of property, plant and equipment	**61,751**	5,054
– Prepaid rental and deposits	**24,194**	36,130
– Others	**5,342**	523
VAT refund receivable and recoverable	**153,079**	166,498
Other receivables	**41,453**	31,074
	362,696	382,049

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2011		31 December 2010	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Forward currency contracts	**512**	**29,973**	107,884	–

The carrying amounts of forward currency contracts are the approximate to their fair values.

Forward currency contracts – cash flow hedges

At 30 June 2011, 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 2011 and 2013 were assessed to be highly effective.

In addition, the Group has also entered into other foreign currency contracts which do not qualify for hedge accounting. Such foreign currency contracts are settled based on the extent of the appreciation of the RMB against the USD exchange rates as management forecasts that the rate of such appreciation will be lower than that forecasted by the counterparty. Changes in the fair value of non-hedging currency derivatives amounting to a loss of RMB24,547,000 were charged to the income statement during the period (six months ended 30 June 2010: gain of RMB95,964,000). As at 30 June 2011, the Group held outstanding foreign currency contracts of US$215,000,000 (as at 31 December 2010: US$685,000,000).

17. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, is as follows:

	30 June 2011	31 December 2010
	RMB'000	*RMB'000*
0 to 6 months	**519,574**	460,447
6 months to 1 year	**8,429**	16,745
1 year to 2 years	**4,498**	6,027
over 2 years	**4,466**	3,637
	536,967	486,856

18. OTHER PAYABLES AND ACCRUALS

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Accrued expenses	**179,647**	222,125
Payable for water use right	**76,000**	76,000
Payables for purchase of property, plant and equipment	**22,304**	33,862
Guarantee deposits related to construction projects	**3,580**	3,513
Other taxes payable	**11,739**	8,497
Customer deposits	**2,727**	–
Dividends payable to shareholder of the parent	**265,711**	–
Dividends payable to non-controlling interests shareholders	**1,041**	587
Other payables	**24,767**	32,054
	587,516	376,638

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 2011 *RMB'000*	31 December 2010 *RMB'000*
Contracted but not provided for:		
– Acquisition of prepaid land lease payments and property, plant and equipment	**81,285**	31,898
– Construction of property, plant and equipment	**75,875**	48,687
	157,160	80,585

(b) Outstanding forward foreign exchange contracts

As at 30 June 2011, the Group had commitments in respect of outstanding forward foreign exchange contracts to sell US$1,475,000,000 (31 December 2010: US$620,000,000) for approximately RMB9,408,037,000 (31 December 2010: approximately RMB4,148,951,000) within periods ranging from 1 month to 23 months (31 December 2010: from 1 month to 24 months).

20. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2011 (31 December 2010: 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 operating 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 continuing significant transactions with its related parties, including directors and their associates and companies controlled by the controlling shareholder, for six months ended 30 June 2011 and 2010:

	For the six months ended 30 June	
	2011	2010
	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
Provision of Processing services from Ningbo Shenzhou Dagang Knitwear Co. Ltd. ("Shenzhou Dagang")*	**–**	5,570
Provision of Processing services from Ningbo Shitong Knitwear Co. Ltd. ("Shenzhou Shitong")*	**5,359**	–
Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")***	**17,228**	15,509

* *Shenzhou Properties, Shenzhou Dagang and Shenzhou Shitong 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) Outstanding balances with related parties

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

	30 June 2011 ***RMB'000***	31 December 2010 *RMB'000*
Amounts due to related parties		
– Trade related		
Huaxi Packaging Company	**2,414**	2,257
Shenzhou Shitong	**6,270**	–
Mingyao Electric Company	**1,217**	–
	9,901	2,257

(c) Key management compensation

	For the six months ended 30 June	
	2011 ***RMB'000***	2010 *RMB'000*
Salaries and other short-term employee benefits	**4,595**	4,021
Post-employment benefits	**30**	25
	4,625	4,046

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 2011 as set out in this interim announcement.

Business Review

During the period, the operating environment of the textile and garment industry was not satisfactory with higher financing pressure on the part of the enterprises due to record high price of cotton, acceleration of appreciation of Renminbi against US dollars, overall price surge resulting from inflation and tightening credit policy from banks. Most of the enterprises had immense pressure on costs, and the adverse change in the external economic environment had no less effect on the industry than the financial crisis. Despite the fact that the Group's gross profit margin of sales for the period decreased, the competitiveness of the Group in the industry was further enhanced by offering customers with products of better quality and better services, and the sales revenue and profit after tax for the period increased by approximately 34.9% and 30.0% respectively as compared to the corresponding period in 2010. For the six months ended 30 June 2011, the Group achieved remarkable results in respect of intensifying the lean production management, accelerating the setting-up of a retail management team, optimizing its product structure and strengthening the cooperation with new domestic customers. The specific performance included:

Intensifying the lean production management

During the period, the Group continued to improve the lean production management and optimize the production processes with production efficiency better improved and production capacity effectively expanded to meet the rapid growth of orders from our customers. Meanwhile, it also raised the utilization rate of resources and mitigated the effects of the increase in prices of raw materials, labor costs and energy on the Group's operating results. The production of garments for the six months ended 30 June 2011 increased by approximately 26% as compared to the corresponding period in 2010, while the Group's labor costs for the period only increased by approximately 23% (inclusive of the effect of an increase in average wages of approximately 14%), and the depreciation and aromatization expenses and utilities expenses only increased by 15% and 21% respectively.

Accelerating the setting up of a retail management team

In recent years, with the rising demand in domestic garment market and more sophisticated consumption of customers, quality, environmental protection and price have become the important factors for shopping by consumers. The sales channel is no longer the primary advantage of the garment industry, and with more and more intense competition between garment brands, it is the development trend of the industry to provide consumers with products of better quality and more stylish at a reasonable price. As the retail headquarter in Shanghai was put into operation, the Group accelerated the setting-up of a retail management team for garments during the period with all functional departments substantially established. In particular, the design team made remarkable achievements after one year's cooperation. The first garment retailing store of the Group was officially opened in Ningbo City on 1 August 2011.

Continuously optimizing the product structure

For the six months ended 30 June 2011, the Group's sportswear accounted for approximately 53.7% of its total revenue, approximately 21 percent higher than that of casual wear, which is attributable to the close cooperation with internationally renowned sportswear brands. The Group's sales of sportswear in foreign market for the six months ended 30 June 2011 recorded more remarkable growth, the revenue of which increased by 57.7% as compared to the corresponding period in 2010.

Strengthening the cooperation with new domestic customers

During the period, the Group concentrated on the business cooperation with new domestic customers to mitigate the possible adverse impacts of the fluctuation in Renminbi exchange rate and changes in trade policies on the Group. For the six months ended 30 June 2011, among the Group's sales in Mainland China, revenue from new customers amounted to approximately RMB312,625,000, representing an increase of 3.5 times from RMB68,762,000 for the six months ended 30 June 2010. The Group intends to further strengthen the cooperation with domestic customers, and to increase the proportion of sales in Mainland China by leveraging on the growing domestic demand for garments.

OPERATING RESULTS OF THE GROUP

Revenue

Revenue amounted to RMB4,232,573,000 for the six months ended 30 June 2011, representing an increase of RMB1,095,633,000 or approximately 34.9% from RMB3,136,940,000 for the six months ended 30 June 2010. The growth was mainly driven by: 1) persistently robust growth of demand from foreign sportswear customers during the period; 2) rapid growth of domestic revenue benefiting from the orders from new domestic customers; 3) the increase in production capacity of garments of the Group through persistent progress of lean production, optimization of production processes as well as increasing the employees and improving the efficiency of the new garment factory; and 4) the increase in sales prices of the Group during the period due to the rises in raw materials and labor costs.

The comparison of the revenue of the Group for the six months ended 30 June 2011 and the six months ended 30 June 2010 by product categories is as follows:

	For the six months ended 30 June					
	2011		2010		**Change**	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**2,274,093**	**53.7**	1,508,568	48.1	765,525	50.7
Casual wear	**1,386,391**	**32.8**	1,105,598	35.2	280,793	25.4
Lingerie	**454,567**	**10.7**	414,891	13.2	39,676	9.6
Other knitting products	**117,522**	**2.8**	107,883	3.5	9,639	8.9
Total revenue	**4,232,573**	**100.0**	3,136,940	100.0	1,095,633	34.9

For the six months ended 30 June 2011, revenue of sportswear amounted to RMB2,274,093,000, representing an increase of RMB765,525,000 or approximately 50.7% from RMB1,508,568,000 for the six months ended 30 June 2010. The Group has established long-standing strategic cooperation with internationally renowned sportswear customers with respect to the business development and its integrated advantages have gained recognition from its customers. Moreover, the restorative growth of garment consumption demand from the international market also boosted the growth of the Group's orders from its customers.

For the six months ended 30 June 2011, revenue of casual wear amounted to RMB1,386,391,000, representing an increase of RMB280,793,000 or approximately 25.4% from RMB1,105,598,000 for the six months ended 30 June 2010. The increase was mainly due to: 1) the restorative growth of purchasing demand for casual wear from Japanese customers during the period; and 2) the increase in orders from new domestic customers.

For the six months ended 30 June 2011, revenue of lingerie amounted to RMB454,567,000, representing an increase of RMB39,676,000 or 9.6% from RMB414,891,000 for the six months ended 30 June 2010.

The comparison of the revenue of the Group for the six months ended 30 June 2011 and the six months ended 30 June 2010 by market regions is as follows:

	For the six months ended 30 June					
	2011		2010		**Change**	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
By region						
International sales						
Japan	**1,559,063**	**36.8**	1,370,468	43.7	188,595	13.8
Europe	**913,682**	**21.6**	593,381	18.9	320,301	54.0
The US	**237,616**	**5.6**	141,331	4.5	96,285	68.1
Others	**564,411**	**13.4**	343,608	11.0	220,803	64.3
Sub-total for international sales	**3,274,772**	**77.4**	2,448,788	78.1	825,984	33.7
Domestic sales	**957,801**	**22.6**	688,152	21.9	269,649	39.2
Total revenue	**4,232,573**	**100.0**	3,136,940	100.0	1,095,633	34.9

For the six months ended 30 June 2011, the revenue of the Group derived from Japan amounted to RMB1,559,063,000, representing an increase of RMB188,595,000 or approximately 13.8% from RMB1,370,468,000 for the six months ended 30 June 2010. The revenue of the Group derived from Japan during the period soared to its historical high despite the decline of its share in the total revenue. The Group will continue to place emphasis on the business expansion in Japan.

The Group's sales in the European market maintained rapid growth. For the six months ended 30 June 2011, the revenue of the Group derived from the European market amounted to RMB913,682,000, representing a substantial growth of approximately 54.0% as compared to RMB593,381,000 for the six months ended 30 June 2010, 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, the PRC, Korea and Australia. For the six months ended 30 June 2011, revenues derived from the US and other foreign markets increased by approximately 68.1% and approximately 64.3%, respectively, as compared to the six months ended 30 June 2010.

The Group's sales in the domestic market also achieved a satisfactory growth. For the six months ended 30 June 2011, sales of garments in the domestic market amounted to RMB870,756,000, representing an increase of RMB272,137,000 or approximately 45.5% from RMB598,619,000 for the six months ended 30 June 2010.

Cost of sales and gross profit

The Group's cost of sales for the six months ended 30 June 2011 amounted to approximately RMB3,013,854,000 (for the six months ended 30 June 2010: RMB2,171,115,000). The Group's gross profit margin of sales for the six months ended 30 June 2011 was 28.8%, representing a decrease of approximately 2 percent from 30.8% for the six months ended 30 June 2010. The sales revenue for the period included a gain of RMB79,938,000 (for the six months ended 30 June 2010: RMB1,387,000) from forward currency contract hedges between US dollars and Renminbi. If such gain from forward currency contract hedges was excluded, the gross profit margin for the period was 27.4% (for the six months ended 30 June 2010: 30.8%). The drop in gross profit margin was mainly due to: 1) the significant increase in prices of raw materials, predominantly cotton yarn as compared to the corresponding period in last year; 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 30 June 2011, the Group's equity attributable to the equity holders of the Company amounted to RMB5,197,204,000 (31 December 2010: RMB4,799,532,000), of which non-current assets amounted to RMB3,556,315,000 (31 December 2010: RMB3,585,484,000), net current assets amounted to RMB1,774,138,000 (31 December 2010: RMB1,322,468,000), non-current liabilities amounted to RMB119,500,000 (31 December 2010: RMB94,681,000) and non-controlling interests amounted to RMB13,749,000 (31 December 2010: RMB13,739,000). 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 2011, net cash generated from the Group's operating activities amounted to approximately RMB306,199,000 (the six months ended 30 June 2010: RMB608,832,000). Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 30 June 2011 amounted to RMB813,395,000, representing a decrease of RMB97,207,000 from RMB910,602,000 as at 31 December 2010.

Cash and cash equivalents of the Group as at 30 June 2011 amounted to RMB892,530,000 (31 December 2010: RMB519,017,000). The total amount of outstanding borrowings was RMB1,705,925,000 (31 December 2010: RMB1,429,619,000, in which short-term bank loans amounted to RMB1,349,887,000 and long-term bank loans amounted to RMB79,732,000), in which short-term bank loans amounted to RMB1,586,425,000 and long-term bank loans amounted to RMB119,500,000. Equity attributable to equity holders of the Company amounted to RMB5,197,204,000 (31 December 2010: RMB4,799,532,000). 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 approximately 32.8% (31 December 2010: 29.8%).

As at 30 June 2011, the Group entered into an interest-rate swap contract in connection with its US dollar loan with the relevant bank. The contract became effective on 30 April 2011 and will be terminated on 31 March 2014, under which, the Group shall pay interest to the relevant bank at a fixed rate of 1.13% per annum in exchange for receipt of interest calculated at one-month US dollar LIBOR from such bank. The principle amounts for transaction agreed under the contract shall be US$50,000,000 from 30 April 2011, US$40,000,000 from 28 September 2012, US$30,000,000 from 28 March 2013 and US$20,000,000 for the period from 30 September 2013 to 31 March 2014. The Group entered into this transaction with the relevant bank to lock in the finance cost arising from its bank loan. Save for such loan, the other borrowings of the Group were subject to fixed interest rates.

Finance costs and tax

For the six months ended 30 June 2011, finance costs increased to RMB29,021,000 from RMB14,084,000 for the six months ended 30 June 2010, mainly due to the increase in average balance of bank borrowings of the Group and a rise in benchmark interest rates for Renminbi loans during the period.

For the six months ended 30 June 2011, income tax expense of the Group increased to RMB183,284,000 from RMB141,360,000 for the six months ended 30 June 2010, mainly due to the increase in the assessable income as a result of increase in profits of the Group for the period.

Pledge of the Group's assets

As at 30 June 2011, the Group's deposits with certain banks amounting to approximately RMB24,131,000 (as at 31 December 2010: RMB24,135,000) were pledged to secure certain trade financing facilities granted by the banks. The Group's plants and prepaid land lease payments with carrying amount of RMB164,453,000 (as at 31 December 2010: RMB168,963,000) as at 30 June 2011 were pledged to secure a medium to long-term loan facilities of US$21,000,000 granted by the Zhejiang branch of Export-Import Bank of China. As at 30 June 2011, the Group had outstanding borrowings of US$3,454,000 (as at 31 December 2010: US$5,363,000) from such bank. 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 carrying amount of RMB42,179,000 as at 30 June 2011 (as at 31 December 2010: RMB43,490,000) were pledged as security. As at 30 June 2011, the outstanding borrowings of the Group from such bank were RMB69,500,000 (as at 31 December 2010: RMB69,500,000). In addition, the Group has entered into a borrowing contract to an extent of US$50,000,000 with The Hong Kong and Shanghai Banking Corporation Limited, for which the Group's plants and prepaid land lease payments with carrying amount of RMB206,669,000 as at 30 June 2011 were pledged as security. As at 30 June 2011, the outstanding borrowings of the Group from such bank were US$50,000,000 (as at 31 December 2010: nil). Certain bank loans of the Group and the Company were guaranteed by 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 30 June 2011, out of the total bank borrowings, US dollars borrowings amounted to RMB843,537,000 (US$130,344,000 based on the original currency) (as at 31 December 2010: RMB525,377,000 (US$79,330,000 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 30 June 2011, the aggregate amount of the outstanding US dollars forward contracts was approximately US$1,475,000,000 (as at 31 December 2010: approximately US$620,000,000). The Group has also entered into various non-deliverable US dollars forward currency contracts. As at 30 June 2011, the total outstanding non-deliverable US dollars forward currency contracts amounted to approximately US$215,000,000 (as at 31 December 2010: approximately US$685,000,000).

Employment, training and development

As at 30 June 2011, the Group employed approximately 49,300 employees. Total staff costs, including management and administrative staff, accounted for approximately 20.3% (the six months ended 30 June 2010: 22.2%) of the Group's sales 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 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 provided by the Group 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 2011, the Group's total investment in property, plant and equipment and prepaid land lease payments amounted to approximately RMB125,502,000, of which approximately 65% was used for the acquisition of production equipment, approximately 24% 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.

As at 30 June 2011, the Group had contracted capital commitments of approximately RMB157,160,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by internal resources.

Contingent liabilities

As at 30 June 2011, the Group had no material contingent liabilities.

Future prospects and strategies

As the textile garment industry was faced with increasing pressure on operating costs, enterprises on their own initiatives pursued business restructuring and upgrading. Seeking to strengthen company competitiveness through innovation and reformation is now becoming the trend underlying the industry development. The Group always believes that the scale of an enterprise must be built on its comprehensive competitiveness, and only by maintaining leading competitiveness can the Group ensure a leading position in a consolidated industry. In its future development, the Group will focus on ensuring smooth progress for the following work:

The Group will further improve and strengthen its internal product innovation system, increase its input into research and development and create attractive working environment and conditions to attract candidates of high caliber to join the Group, so as to establish an effective and long-term incentive mechanism to stimulate R&D employees' innovation ability. Added value of products will be increased through continuing improvement of product quality, development and application of new materials and environmental-friendly feature and safety of products.

The Group will seek to improve its production efficiency and reduce resource consumption through strengthening lean production management and better cost control, in order to better cope with pressure on business operation arising from increasing costs. In addition, the Group will optimize its production process and improve the application of information technologies to enhance the Group's ability to make rapid response to market changes and allocate its production resources in an effective way. The Group will also stabilize product quality and reduce its dependency on labor and resource consumption by promoting and introducing automated and energy-efficient equipments.

The Group will continue to optimize the layout of its production bases by locating its major production base for garment fabrics in the coastal regions facilitated with well-developed infrastructure and re-allocating the labor intensive garment processing procedures to other countries and the central regions of Mainland China. The Group intends to further expand the scale of its garment factory in Cambodia.

By commencing retail sales of its own brand products in Mainland China market, the Group has extended its industry chain into retailing from manufacturing, which will help the Group to capitalize on its resource strengths and tap into the fast growing garment retail market in China. As the management system for the retailing business is still developing, the Group's retailing business will focus on such fundamental work as team building, improving systems and strengthening information management in the next two years. Meanwhile it will increase its input into and strengthen management of product design and innovation. The Group's first own-operated retailing store was officially opened in Ningbo City on 1 August 2011, and another three to five own-operated stores are expected to be opened in Shanghai City and Ningbo City during the year. The Group operates such stores under its own brand "MAXWIN" , with range of products including knitwear, woven garments and sweaters.

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 to offering consumers with products of better quality and creating higher returns for its investors.

DIVIDENDS

At the Company's Annual General Meeting held on 27 May 2011, shareholders approved the payment of a final dividend of HK$0.36 per share for the year ended 31 December 2010 to shareholders whose names appeared on the register of members of the Company at the close of business on 20 May 2011. The cash dividend was payable on 15 June 2011 in cash.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (for the six months ended 30 June 2010: 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 provisions of the CG Code as set out in the Listing Rules during the six months ended 30 June 2011.

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.

The senior management, who, because of their office in the Company, are likely to be in 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 2011.

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 2011.

BOARD OF DIRECTORS

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

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

Hong Kong, 15 August 2011