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 2012

HIGHLIGHTS

- Revenue for the six months ended 30 June 2012 amounted to RMB4,358,808,000, an increase of approximately 3% when compared with the corresponding period of 2011.

- Percentage of sportswear revenue to total revenue increased to approximately 58.5% for the six months ended 30 June 2012. Sportswear revenue increased by approximately 12.1% when compared with the corresponding period of the previous year.

- Gross profit for the six months ended 30 June 2012 amounted to RMB1,289,868,000, an increase of approximately 5.8% when compared with the corresponding period of 2011. Gross profit ratio increased by 0.8 percentage point to 29.6%.

- Other income and gains for the six months ended 30 June 2012 decreased by approximately 31.9% when compared with the corresponding period of 2011.

- Net profit for the six months ended 30 June 2012 amounted to RMB827,546,000, a decrease of approximately 3.4% when compared with the corresponding period of 2011.

* *for identification purposes only*

The board (the "Board") of directors (the "Directors") of Shenzhou International Group Holdings Limited ("Shenzhou International" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 , together with the comparative amounts for the corresponding period of 2011. 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 2012

		Unaudited For the six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**4,358,808**	4,232,573
Cost of sales	*5*	**(3,068,940)**	(3,013,854)
Gross profit		**1,289,868**	1,218,719
Other income and gains	*6*	**111,946**	164,383
Selling and distribution costs	*5*	**(62,733)**	(42,282)
Administrative expenses	*5*	**(286,522)**	(246,427)
Other expenses	*7*	**(601)**	(25,272)
Finance costs	*8*	**(15,369)**	(29,021)
PROFIT BEFORE TAX		**1,036,589**	1,040,100
Income tax expense	*9*	**(209,043)**	(183,284)
Profit for the period		**827,546**	856,816
Attributable to:			
Owners of the parent		**826,833**	856,353
Non-controlling interests		**713**	463
		827,546	856,816
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
– Basic		**RMB0.65**	RMB0.69
– Diluted		**N/A**	N/A

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Unaudited For the six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Profit for the period		**827,546**	856,816
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		**(8,611)**	(14,307)
Reclassification adjustments for gains recognised in consolidated income statement		**(36,453)**	(60,753)
		(45,064)	(75,060)
Exchange differences on translation of foreign operations		**1,807**	(2,248)
Other comprehensive income for the period, net of tax		**(43,257)**	(77,308)
Total comprehensive income for the period		**784,289**	779,508
Attributable to:			
Owners of the parent		**783,576**	779,045
Non-controlling interests		**713**	463
		784,289	779,508

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	**Unaudited 30 June 2012 RMB'000**	Audited 31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**3,098,390**	2,974,958
Prepaid land lease payments	*12*	**545,459**	547,407
Intangible assets	*12*	**107,544**	109,728
Deferred tax assets		**17,416**	2,224
Total non-current assets		**3,768,809**	3,634,317
CURRENT ASSETS			
Inventories	*13*	**1,817,192**	1,952,814
Trade and bills receivables	*14*	**1,371,387**	1,313,646
Prepayments, deposits and other receivables	*15*	**319,773**	301,730
Derivative financial instruments	*16*	**–**	27,331
Bank deposits with initial term of over three months		**218,747**	290,125
Cash and cash equivalents		**1,942,760**	1,029,596
Total current assets		**5,669,859**	4,915,242
CURRENT LIABILITIES			
Trade and bills payables	*17*	**482,803**	490,838
Advance from customers		**5,554**	30,681
Other payables and accruals	*18*	**357,163**	406,440
Derivative financial instruments	*16*	**48,901**	16,656
Interest-bearing bank and other borrowings		**1,091,999**	1,244,259
Amount due to related parties	*21c*	**10,448**	1,631
Tax payable		**145,067**	246,826
Total current liabilities		**2,141,935**	2,437,331

	Notes	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
NET CURRENT ASSETS		**3,527,924**	2,477,911
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,296,733**	6,112,228
Net assets		**7,296,733**	6,112,228
EQUITY			
Equity attributable to owners of the parent			
Share capital		**136,609**	129,717
Reserves		**7,125,412**	5,443,851
Proposed final dividend		**–**	504,661
		7,262,021	6,078,229
Non-controlling interests		**34,712**	33,999
Total equity		**7,296,733**	6,112,228

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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") and all values are rounded to the nearest thousand, except when otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board on 20 August 2012.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

3. ACCOUNTING POLICIES

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 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 2015 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.

- HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- HKAS 19 (Amendment) "Employee benefits" eliminate the corridor approach and calculate finance costs on a net funding basis. The Group is yet to assess the amendments to HKAS 19's impact.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 world-wide and therefore, the disclosure of location of customers in the condensed consolidated financial statements would not be meaningful.

98% of the non-current assets of the Group were located in the PRC as at 30 June 2012 (as at 31 December 2011: 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	
	2012	2011
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**904,035**	809,548
Retirement benefit contributions	**30,673**	21,468
Other benefits	**33,850**	29,978
	968,558	860,994
Depreciation, amortisation and impairment expenses	**175,805**	164,460
Changes in inventories of finished goods and work in progress	**(67,375)**	(338,043)
Raw materials and consumables utilized	**1,922,455**	2,221,467
Utilities expenses	**223,191**	227,514
Transportation expenses	**23,032**	20,440
Operating lease expenses for properties	**18,962**	12,840
Outsourcing	**18,327**	23,540
Office expenses	**17,925**	22,938
Commission	**14,064**	8,709
Inspection fees	**8,895**	3,918
Entertainment expenses	**8,692**	7,641
Traveling expenses	**3,416**	3,091
Donation	**548**	4,212
Other expenses	**81,700**	58,842
Total cost of sales, selling and distribution costs and administrative expenses	**3,418,195**	3,302,563

6. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Other income		
Government incentives	**89,107**	150,511
Bank interest income	**15,969**	4,827
	105,076	155,338
Gains		
Exchanges gains, net	**6,870**	9,045
	111,946	164,383

7. OTHER EXPENSES

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Loss on disposal of items of property, plant and equipment	**601**	725
Fair value losses, net		
Derivative instruments – transactions not qualifying as hedges	**–**	24,547
	601	25,272

8. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**15,369**	29,021

9. INCOME TAX

The major components of income tax for the six months ended 30 June 2012 and 2011 are:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**28,176**	18,204
Current Mainland China corporate income tax ("CIT")	**181,548**	165,981
Deferred taxation	**(681)**	(901)
	209,043	183,284

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% (for the six months ended 30 June 2011: 16.5%) on the estimated assessable profits arising in Hong Kong.

The subsidiaries incorporated in the British Virgin Islands ("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"), Buddies Investments Limited, Buddies Group Co., Ltd. and Maxwin (B.V.I.) Limited, subsidiaries incorporated in BVI, are not subject to tax. As Top Always was engaged in property leasing 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 2011: 16.5%) on the estimated assessable profit arising in Hong Kong.

Shenzhou (Cambodia) Co., Ltd. ("Shenzhou Cambodia"), a wholly-owned subsidiary incorporated in the Kingdom of Cambodia, under the Law on Taxation, is subject to income tax at a rate of 20% 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 HK") and Maxwin (Hong Kong) Limited, wholly-owned subsidiaries incorporated in Hong Kong, are subject to a profits tax rate of 16.5% (for the six months ended 30 June 2011: 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 30% 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 in the year 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 RMB826,833,000 (six months ended 30 June 2011: RMB856,353,000) and on the weighted average number of 1,275,824,000 (six months ended 30 June 2011: 1,245,000,000) ordinary shares in issue.

The Group had no potentially dilutive ordinary shares in issue.

11. DIVIDEND

Pursuant to a resolution passed by the Board on 20 August 2012, the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

12. CAPITAL EXPENDITURES

	Property, plant 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 2011				
Opening net book amount at 1 January 2011	2,991,017	478,506	112,338	3,623
Additions	125,502	–	–	541
Disposals	(1,963)	–	–	–
Depreciation/amortisation	(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
For the six months ended 30 June 2012				
Opening net book amount at 1 January 2012	2,974,958	547,407	105,888	3,840
Additions	290,521	3,744	–	1,345
Disposals	(675)	–	–	–
Depreciation/amortisation	(166,584)	(5,692)	(3,225)	(304)
Exchange differences	170	–	–	–
Closing net book amount at 30 June 2012	3,098,390	545,459	102,663	4,881

13. INVENTORIES

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Raw materials	**200,112**	403,109
Work in progress	**943,508**	878,288
Finished goods	**673,572**	671,417
	1,817,192	1,952,814

14. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit with credit terms of within six months. Overdue balances are reviewed regularly by senior management. The ageing analysis of trade and bills receivables is as follows:

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Within 3 months	**1,317,976**	1,237,370
Over 3 months	**53,411**	76,276
	1,371,387	1,313,646

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Prepayments and deposits		
– Purchase of raw materials	**61,601**	68,558
– Purchase of items of property, plant and equipment	**25,219**	24,687
– Prepaid rental and deposits	**90,869**	49,162
– Others	**3,971**	96
VAT refund receivable and recoverable	**78,349**	104,412
Other receivables	**59,764**	54,815
	319,773	301,730

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012		31 December 2011	
	Assets *RMB'000*	**Liabilities** *RMB'000*	Assets *RMB'000*	Liabilities *RMB'000*
Forward currency contracts	**–**	**48,901**	27,331	16,656

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

Forward currency contracts – cash flow hedges

At 30 June 2012, 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 2012 and 2013 were assessed to be highly effective.

In addition, the Group also has 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 RMB against U.S. dollar exchange rates as management forecasts that the rate of such appreciation will be lower than that forecasted by the counterparty. As at 30 June 2012, those foreign currency contracts of US$210,000,000 were all offset.

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 2012 *RMB'000*	31 December 2011 *RMB'000*
0 to 6 months	**453,799**	473,916
6 months to 1 year	**16,082**	6,792
1 year to 2 years	**8,058**	5,378
Over 2 years	**4,864**	4,752
	482,803	490,838

18. OTHER PAYABLES AND ACCRUALS

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Accrued expenses	**189,655**	221,217
Payable for water use right	**76,000**	76,000
Payables for purchase of property, plant and equipment	**12,374**	11,184
Guarantee deposits related to construction projects	**5,773**	3,260
Other taxes payable	**35,521**	52,028
Dividends payable to non-controlling interests	**587**	587
Other payables	**37,253**	42,164
	357,163	406,440

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

19. COMMITMENTS

(a) Capital commitments

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Acquisition of prepaid land lease payments and property, plant and equipment	**6,296**	51,560
– Construction of property, plant and equipment	**72,965**	40,365
	79,261	91,925

(b) Outstanding forward foreign exchange contracts

As at 30 June 2012, the Group had commitments in respect of outstanding forward foreign exchange contracts to sell US$440,000,000 (31 December 2011: US$875,000,000) for approximately RMB2,752,661,000 (31 December 2011: approximately RMB5,546,791,000) within periods ranging from 1 month to 10 months (31 December 2011: from 11 months to 16 months).

20. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2012 (31 December 2011: 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 2012 and 2011:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Lease of property, plant and equipment from Ningbo Shenzhou Properties Company Limited ("Shenzhou Properties")*	**3,631**	3,631
Provision of processing services from Ningbo Shenzhou Shitong Knitwear Co., Ltd. ("Shenzhou Shitong")*	**6,931**	5,359
Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")**	**19,409**	17,228

* *Shenzhou Properties and Shenzhou Shitong are controlled by one of the Company's executive Directors.*

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

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) Other transactions with related parties

Certain bank loans and credit facilities of the Group are guaranteed by certain companies controlled by the executive Directors.

(c) Outstanding balances with related parties

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

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Amounts due to related parties – Trade related		
Huaxi Packaging Company	**2,339**	1,631
Shenzhou Shitong	**8,109**	–
	10,448	1,631

(d) Key management compensation

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**5,451**	4,595
Post-employment benefits	**32**	30
	5,483	4,625

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 2012 as set out in this announcement.

BUSINESS REVIEW

During the period, the global economy faced stern challenges. In Europe, purchasing power of consumers had seen sharp decline due to absence of any signs for improvement in the European sovereign debt crisis and substantial depreciation of Euro in the past year; in the U.S., the pace for economic recovery was slow; in China, the economic growth started to slow down. From January to June 2012, the gross domestic product of China amounted to RMB 22.7 trillion, representing a growth of approximately 7.8% as compared with the last corresponding period. As a result, a lot of enterprises were running into difficulties. Textile and garment manufacturing and retail enterprises in China also faced daunting challenges.

A weak global economy was taking its toll on consumer confidence, and the growth rate of expenditure on apparels recorded a notable decrease. According to the statistics from China Customs, from January to June 2012, the total export value in China's textile and garment products (including textile yarn, fabrics and finished products as well as apparel and apparel accessories) was US$113.52 billion, representing an increase of approximately 1.6% over the last corresponding period. Compared with the growth of approximately 25.7% in the same period in 2011, the rate of increase sharply fell by 24.1 percentage points. Out of the total export value (as defined above), textile products accounted for US$46.48 billion, representing a year-on-year increase of 1.3%. Garment export value rose by 1.9% to US$67.05 billion on a year-on-year basis, among which export to the European Union (EU) countries amounted to US$15.71 billion, representing a significant decrease of 14.5% over the last corresponding period. Domestically, according to the National Bureau of Statistics of China, during the period from January to June 2012, the total retail sales of social consumer goods amounted to RMB9,822.2 billion, attaining a nominal growth rate of 14.4% (the real growth rate net of price factors was 11.2%). In terms of the retail sales of goods among the "over-the-threshold" enterprises, total retail sales of apparels and textile products amounted to RMB453.8 billion, representing a year-on-year increase of 16.9%.

As a result of weaker market demand, cotton price continued to decline during the period under review, alleviating the pressure of raw material costs on the apparel manufacturing industry. Following the decline in China's trade surplus and the substantial appreciation of RMB over the past few years, the exchange rate movement between RMB and US$ had shifted from "one-way" appreciation to "two-way" volatility. At times RMB even logged a slight depreciation, which was definitely beneficial to export-oriented enterprises. Due to the continued surge in labor costs in China, some overseas orders had been shifting to those neighboring economies surrounding China which could afford lower operating cost for businesses. Preferential trade policies adopted by certain apparel importing countries also helped speeding up the process of such shift.

During the period, despite tough operating environment of the industry, the Group continued to achieve a satisfactory performance. Revenue and operating profit remained relatively stable with sales revenue and gross profit recorded an increase of 3.0% and 5.8% respectively, as compared with the same period last year. Earnings per share amounted to RMB0.65. The optimization in planning of production bases and structural refinement of products attained remarkable results, which laid a solid foundation for the long term development of the Group.

Construction of the Group's new garment factory Phase II in Cambodia had been underway as scheduled, and production was expected to commence in phases from the second half of 2012. Apart from expanding the production capacity of the Group, new garment factory Phase II would also help to offset the operating pressure arising from the higher labor costs. Furthermore, as preferential tariffs were being granted by garment importing countries such as the EU countries to garments manufactured in Cambodia, the Group's integrated competitive strength in services of its customers had been enhanced. The Group's garment factory, established in Anqing, Anhui Province of central China in 2009, met its preset targets. Currently, the Group is in contemplation of establishing another new garment factory in the city. In addition, the Group is also actively identifying suitable overseas production bases, in order to better consolidate and utilize the global resources in preparation for changes under the operating environment.

During the period, the Group attained remarkable progress over the structural refinement of the products. Sales of sportswear accounted for approximately 58.5% of the total revenue, surpassing the percentage of sales of casual wear to the total revenue by approximately 29 percentage points. Taking into account the concentration of customers of sportswear being lower than that of casual wear, the Group was less vulnerable to volatility in certain customers' markets. Following the expansion of the Group's production capacity, and notwithstanding the higher proportion of purchases among existing customers, the Group also placed great emphasis on soliciting new customers and improving its overall competitive edges, so as to provide a strong backup for the business expansion of the Group.

Construction work of the Group's new textile factory in Ningbo, China had been in good progress, with the foundation work being almost completed. The factory was expected to commence production in the last quarter of 2012 and to achieve the expected scale in 2013.

As for retail business, the Group is confident of the future prospect of China's domestic market, but it maintains a cautious stance in pursuit of new stores expansion under the current climate. There had been two new branch stores opened in Shaoxing, Zhejiang Province, China during the period, and one in Ningbo, China in early August this year. It is envisaged that the total number of branch stores under direct control by the Group will rise to about 15 by the end of 2012.

THE GROUP'S OPERATING RESULTS

Revenue

For the six months ended 30 June 2012, the Group's revenue increased by RMB126,235,000 or approximately 3.0% to RMB4,358,808,000 from RMB4,232,573,000 for the six months ended 30 June 2011. During the period, the growth in scales revenue slowed down mainly because (1) the Group did not have large scaled expansion on new production capacity over the past two years and there was limited room to increase the production capacity through the enhancement of efficiency with lean production; (2) the unit selling price was affected by the drop in cotton yarn price, a major raw material; and (3) a dip in consumption caused by an ailing global economy.

The comparison of the revenue of the Group for the six months ended 30 June 2012 and the six months ended 30 June 2011 by product categories is as follows:

	For the six months ended 30 June					
	2012		2011		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**2,550,086**	**58.5**	2,274,093	53.7	275,993	12.1
Casual wear	**1,296,878**	**29.8**	1,386,391	32.8	(89,513)	(6.5)
Lingerie	**408,136**	**9.4**	454,567	10.7	(46,431)	(10.2)
Other knitting products	**103,708**	**2.3**	117,522	2.8	(13,814)	(11.8)
Total revenue	**4,358,808**	**100.0**	4,232,573	100.0	126,235	3.0

For the six months ended 30 June 2012, the revenue of sportswear amounted to RMB2,550,086,000, representing an increase of RMB275,993,000 or approximately 12.1% from RMB2,274,093,000 for the six months ended 30 June 2011. Although global demand for apparel products was sluggish, the Group's sportswear achieved a steady growth in revenue in the domestic and international market, which was attributable to the establishment of long-term strategic and cooperative relationship between the Group and well-known international sports brands.

Revenue of casual wear dropped from RMB1,386,391,000 for the six months ended 30 June 2011 to RMB1,296,878,000 for the six months ended 30 June 2012, representing a decrease of RMB89,513,000 or approximately 6.5%. The decrease was mainly attributable to the fact that: (1) setback in consumer demand for casual wear in Japanese customers causing the amount of orders during the period being lower than the same period of last year; and (2) refinement in product structure and customer profiles by the Group to reduce pressure from surging cost.

Sales of lingerie dropped from RMB454,567,000 for the six months ended 30 June 2011 to RMB408,136,000 for the six months ended 30 June 2012, representing a decrease of RMB46,431,000 or approximately 10.2%, primarily because of the Group's Japanese customers being hit by the shrinking consumer demand.

The comparison of the revenue of the Group for the six months ended 30 June 2012 and the six months ended 30 June 2011 by market regions is as follows:

	For the six months ended 30 June					
	2012		2011		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By regions						
International sales						
Japan	**1,347,848**	**30.9**	1,559,063	36.8	(211,215)	(13.5)
Europe	**997,585**	**22.9**	913,682	21.6	83,903	9.2
U.S.	**259,615**	**6.0**	237,616	5.6	21,999	9.3
Others	**887,976**	**20.3**	564,411	13.4	323,565	57.3
Sub-total for international sales	**3,493,024**	**80.1**	3,274,772	77.4	218,252	6.7
Domestic sales	**865,784**	**19.9**	957,801	22.6	(92,017)	(9.6)
Total sales	**4,358,808**	**100.0**	4,232,573	100.0	126,235	3.0

For the six months ended 30 June 2012, the Group's sales in the Japanese market was RMB1,347,848,000, representing a decrease of RMB211,215,000 or approximately 13.5% from RMB1,559,063,000 for the six months ended 30 June 2011. The decrease of the Group's sales in the Japanese market was mainly due to the decreasing demand for apparel in Japanese consumer market which had undesirable effect on some of our Japanese clients.

The Group continued to register growth in sales in the European market notwithstanding the consumer market in Europe had been hard hit by the contagious European sovereign debt crisis. For the six months ended 30 June 2012, the Group's sales from the European market was RMB997,585,000, representing an increase of approximately 9.2% from RMB913,682,000 for the six months ended 30 June 2011. The increase was mainly attributable to the increase in the Group's sales of sportswear in the European market.

Notable growth in sales was also recorded in the U.S. and other markets including Hong Kong, Taiwan, Korea and Singapore. For the six months ended 30 June 2012, sales from the U.S. and other foreign markets increased by approximately 9.3% and 57.3% respectively when compared to the six months ended 30 June 2011. The substantial increase in the Group's sales from other markets was mainly contributed by Taiwan.

The Group's sales in the domestic market recorded a considerable decrease. For the six months ended 30 June 2012, garment sales in the domestic market was RMB775,150,000, representing a decrease of RMB95,606,000 or approximately 11% from RMB870,756,000 for the six months ended 30 June 2011. The decrease was mainly due to the reduction of procurement scale by some of our domestic clients to reduce their amount of inventory. The Group believed the problem of inventory would be solved, and would still be optimistic about the future sales in domestic market.

Cost of sales and gross profit

The Group's cost of sales for the six months ended 30 June 2012 amounted to approximately RMB3,068,940,000 (for the six months ended 30 June 2011: RMB3,013,854,000). The Group's gross profit margin of sales for the six months ended 30 June 2012 was approximately 29.6%, representing an increase of approximately 0.8 percentage point when compared to 28.8% for the six months ended 30 June 2011. During the period, the Group's revenue included a gain of RMB48,121,000 (for the six months ended 30 June 2011: RMB79,938,000) from domestic foreign currency forward hedges between U.S. dollar and Renminbi. If such gain from foreign currency hedges was excluded, the gross profit margin for the period was approximately 28.8% (for the six months ended 30 June 2011: 27.4%), representing a 1.4 percentage points increase. The growth in gross profit margin was mainly due to the fact that: (1) the price of major raw materials of cotton yarn during the period was significantly lower than that of the same period in 2011 which was undesirable to the growth in the revenue but beneficial to the rebound of gross profit margin; (2) the exchange rate of Renminbi against U.S. dollar maintained at a balanced level; and (3) the Group's product structure continued to improve.

Equity attributable to the equity holders of the Company

As at 30 June 2012, the Group's equity attributable to the equity holders of the Company amounted to RMB7,262,021,000 (31 December 2011: RMB6,078,229,000), of which non-current assets amounted to RMB3,768,809,000 (31 December 2011: RMB3,634,317,000), net current assets amounted to RMB3,527,924,000 (31 December 2011: RMB2,477,911,000), and non-controlling interests amounted to RMB34,712,000 (31 December 2011: RMB33,999,000). The rise in equity attributable to the equity holders of the Company was mainly attributable to the placing of new shares during the period and the increase in retained earnings.

Liquidity and financial resources

For the six months ended 30 June 2012, net cash generated from the Group's operating activities amounted to approximately RMB892,803,000 (for the six months ended 30 June 2011: RMB306,199,000). The Group's net cash (cash and cash equivalents less bank borrowings) as at 30 June 2012 was RMB850,761,000, compared to net borrowings (bank borrowings less cash and cash equivalents) of RMB214,663,000 as at 31 December 2011, representing an increase in net cash by RMB1,065,424,000.

Cash and cash equivalents of the Group as at 30 June 2012 amounted to RMB1,942,760,000 (31 December 2011: RMB1,029,596,000). The total amount of outstanding borrowings was RMB1,091,999,000 (31 December 2011: RMB1,244,259,000, all of which were short-term bank borrowings), all of which were short-term bank borrowings. Equity attributable to equity holders of the Company amounted to RMB7,262,021,000 (31 December 2011: RMB6,078,229,000). The Group was in a good 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 15.0% (31 December 2011: 20.5%).

During 2011, the Group entered into an interest rate swap contract with the relevant bank in respect of a loan denominated in U.S. dollar. The contract came into effect on 30 April 2011, and will terminate on 31 March 2014. The Group shall bear interest payment to the relevant bank at a fixed interest rate of 1.13% per annum, and charge the relevant bank interest at the one-month U.S. dollar LIBOR rate. The principal amounts of the agreed transaction under the contract are US$50,000,000 commencing on 30 April 2011, US$40,000,000 commencing on 28 September 2012, US$30,000,000 commencing on 28 March 2013, and US$20,000,000 for the period from 30 September 2013 to 31 March 2014. The purpose of the transaction between the Group and the relevant bank was to fix the financing cost of the bank loan.

Finance costs and tax

For the six months ended 30 June 2012, finance costs dropped to RMB15,369,000 from RMB29,021,000 for the six months ended 30 June 2011. The decrease was mainly due to the decrease in the Group's average balance of bank borrowings during the period.

For the six months ended 30 June 2012, income tax expense of the Group increased to RMB209,043,000 from RMB183,284,000 for the six months ended 30 June 2011. The increase was mainly due to the increase of tax rate for income tax of the Group's subsidiaries in China during the period.

Pledge of the Group's assets

As at 30 June 2012, the Group's plants and prepaid land lease payments with an aggregate carrying amount of RMB197,034,000 as at 30 June 2012 were pledged to secure the Group's bank overdraft facilities from the Ningbo Branch of HSBC Bank (China) Company Limited in the amount of RMB5,000,000. As at 30 June 2012, no overdraft facilities were used by the Group. In addition, the Group had entered into a credit facility contract with the Ningbo Branch of Hang Seng Bank (China) Limited in the amount of RMB60,000,000, for which the Group's plants and prepaid land lease payments with an aggregate carrying amount of RMB236,045,000 as at 30 June 2012 were pledged as security. As at 30 June 2012, the outstanding borrowings of the Group secured by way of asset security from the Ningbo Branch of Hang Seng Bank (China) Limited was RMB10,000,000 (as at 31 December 2011: RMB10,000,000). Certain bank loans and credit facilities of the Group were guaranteed by the Company and the companies controlled by the executive Directors.

Use of proceeds from the placing of new shares of the Company

The Company completed placing of 85,000,000 new shares on 26 April 2012. After deduction of relevant expenses in relation to the share issuance, the net proceeds were approximately HK$1,158,650,000 (equivalent to approximately RMB939,548,000 based on an exchange rate of HK$1.00 to RMB0.8109). The intended uses of the proceeds from the placing of new shares and the actual applications of the proceeds during the period were as followed:

- approximately RMB608,174,000 would be used for setting up new textile production facilities, purchase and construction of relevant facilities and factories in China. During the period, approximately RMB155,147,000 had been utilized;

- approximately RMB121,635,000 would be used for setting up new garment production facilities and purchase of relevant production facilities. During the period, approximately RMB19,262,000 had been utilized;

- approximately RMB81,090,000 would be used for expansion of the Group's retail network. During the period, none of that part of proceeds had been utilized; and

- approximately RMB128,649,000 would be used for repayment of part of the Group's short-term bank loans. During the period, that part of proceeds had been fully utilized.

As at 30 June 2012, the remaining balance of the proceeds was approximately RMB636,490,000, which had been placed with banks in Hong Kong and China as deposits. Details of the placing of new shares were set out in the announcements of the Company dated 16 April 2012 and 26 April 2012 respectively.

Exposure to foreign exchange

As the Group's sales were mainly settled in U.S. dollar 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 U.S. dollar and Renminbi. The amounts to be hedged depend on the Group's expected revenue, purchases and capital expenditure in U.S. dollar, as well as the market forecast of fluctuations in the exchange rate of U.S. dollar against Renminbi.

To avoid reductions in value and volatility of future cash flows arising from any exchange rate movement between Renminbi and U.S. dollar, the Group has arranged an appropriate amount of U.S. dollar borrowings. As at 30 June 2012, out of the total bank borrowings, U.S. dollar borrowings amounted to RMB584,392,000 (US$92,395,000 based on the original currency) (as at 31 December 2011: RMB902,037,000 (US$143,160,000 based on the original currency)). In addition, the Group entered into forward contracts selling U.S. dollar in order to hedge certain of its foreign exchange risk, particularly those related to U.S. dollar. As at 30 June 2012, the aggregate amount of the outstanding U.S. dollar forward contracts was approximately US$440,000,000 (as at 31 December 2011: approximately US$875,000,000). The Group has also entered into a number of non-deliverable U.S. dollar foreign currency forward contracts. As at 30 June 2012, approximately US$210,000,000 of the non-deliverable U.S. dollar foreign currency forward contracts were offset (as at 31 December 2011: approximately US$210,000,000).

Employment, training and development

As at 30 June 2012, the Group employed about 51,400 employees. Total staff costs, including management and administrative staff, accounted for approximately 22.2% (for the six months ended 30 June 2011: 20.3%) 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 to enhance their technical and product knowledge as well as their knowledge of industry quality standards. Each of the new employees of the Group is 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 capital commitments

For the six months ended 30 June 2012, the Group's total investment in property, plant and equipment and prepaid land lease payments amounted to approximately RMB294,265,000, of which approximately 62% was used for the acquisition of production equipment, approximately 34% 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 2012, the Group had contracted capital commitments of approximately RMB79,261,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by the proceeds from the placing of new shares and internal resources.

Contingent liabilities

As at 30 June 2012, the Group had no material contingent liabilities.

Future prospects and strategies

The garment manufacturing industry has been weathering a period of great market volatility and rising costs, while the lower-cost economies have been consistently gaining more market share in the global market. China's proportion of exports to the three largest global garment import markets (namely the EU countries, the U.S. and Japan) had reduced in 2011. In 2010, China's proportional garment imports into the EU countries, the U.S. and Japan were 45.67%, 40.84% and 82.14% respectively, and the figures dropped to 44.26%, 39.41% and 79.84% respectively in 2011. There is a clear indication that continued rise in labor costs would be a major challenge faced by China's garment manufacturing industry in its quest for future development.

The Group insisted that, albeit subject to a number of unfavorable factors at the moment, there will be tremendous opportunities ahead in China's garment manufacturing industry. Although China's market share in the global market has declined slightly, it still manages to sweep up the biggest market share amongst all countries mainly due to its solid segment infrastructure that is much superior to those of its competitors. However, one must be pointed out that other countries have been moving up. Therefore, China's garment manufacturing industry needs to brace with a sense of urgency in leveraging on its resources in capital, technology and management to strive for swifter industry transformation, take initiatives to explore new business.

In our view, to speed up the integration of the resources in different countries to the Group's benefit, coupled with the unswerving expansion into the overseas production bases, would take priority in the Group's business strategy. Such initiatives will work to maximize the advantages from our management expertise and technologies in garment manufacturing. The Group also sets target on cultivating an overseas management team, and to attract local staff members to join our management team via effective incentive package. The successful operating experience of the Cambodia factory gives confidence to the Group in expanding its production bases overseas.

Although the Group is focusing on optimizing cost control and production bases setup, it has always been the Group's development direction to enhance competitiveness. Technology and talents are the key strengths for achieving sustainability in corporate development. The Group will seek to reach for the high-end of the industry value chain through innovative technology and sophisticated and informative management that shall enable the functions of garment products to meet the requirements of consumers, offering customers with advanced and comprehensive services.

To enable the Group to retain its leading position in the industry, the management will continue with its optimization initiatives of product diversification, overseas market expansion and selective addition of new customers.

With an exceptionally sizeable population and continuously increasing consumption power, China has arguably the most promising and brightest garment consumer market in the world. We take note to the emerging of an increasing number of domestic brands which are rising to prominence in China. The Group is committed to seize the opportunities of development in the domestic market and will seek further co-operations with renowned domestic branded customers and pursue for market expansion of its own brands steadily.

DIVIDENDS

At the Company's Annual General Meeting held on 29 May 2012, the shareholders of the Company approved the payment of a final dividend of HK$0.50 per share for the year ended 31 December 2011 to the shareholders whose names appeared on the register of members of the Company at the close of business on 8 June 2012. The cash dividend was paid by the Company on 18 June 2012 in cash.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: Nil) and proposes that the profit for the period be retained.

CORPORATE GOVERNANCE

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 Corporate Governance Code (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").

Maintaining an effective corporate governance framework is one of the priorities of the Company. The Company has complied with all the provisions of the CG Code.

There have not been material changes to the information disclosed in the 2011 annual report of the Company in respect of the Company's corporate governance practices. Set below are major updates on the Company's compliance with the CG Code during the period under review:

Adoption of the amended and restated Articles of Association of the Company

The Stock Exchange has amended the Listing Rules and Corporate Governance Code, which came into effect in phases on or before 1 April 2012. In order to ensure that the Articles of Association of the Company is in compliance with the requirements of the Listing Rules and Corporate Governance Code, during the period under review, the Board made the relevant amendments to the Articles of Association of the Company to comply with the Listing Rules and Corporate Governance Code and proposed the adoption of a new set of Articles of Association of the Company which incorporated such relevant amendments. The shareholders of the Company approved the adoption of the amended and restated Articles of Association of the Company at the annual general meeting of the Company convened on 29 May 2012.

Terms of Reference of Board Committees

In order to comply with the Listing Rules and Corporate Governance Code, the Terms of Reference of each of the Board committees of the Company have been revised accordingly. Such amendments and the list of Directors and their roles and functions have been published on the websites of the Company and the Stock Exchange respectively.

Responsibilities of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills pursuant to the code provision A.6.5 set out in the CG Code. The Company will arrange for continuous professional development on the update of the Listing Rules and the related legal and regulatory requirements for the Directors.

Corporate governance functions

The Company has adopted the Terms of Reference for corporate governance on 26 March 2012 in compliance with the code provision D.3 set out in the CG Code, effective from 1 April 2012. Pursuant to the Terms of Reference of the corporate governance functions, the Board shall be responsible for developing and reviewing and/or monitoring the policies and practices on corporate governance of the Group; training and continuous professional development of Directors and senior management and making recommendations; compliance with legal and regulatory requirements; the code of conduct and compliance manual (if any) applicable to employees and Directors; and the Group's compliance with the CG Code.

Communications with shareholders

Pursuant to the code provision E.1.2 set out in the CG Code, the Company invited representatives of the external auditors of the Company to attend the annual general meeting of the Company convened on 29 May 2012 to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Company has adopted a shareholders' communication policy and procedure for shareholders to propose a person for election as a Director with effect on 26 March 2012. The policy and the procedure are available on the website of the Company.

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 had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

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 the shareholders of the Company and published on the websites 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 2012.

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. Zong Pingsheng, Mr. Jiang Xianpin and Mr. Chen Genxiang.

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

Hong Kong, 20 August 2012