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

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 2313)

PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS

- Sales for the year ended 31 December 2012 amounted to approximately RMB8,937,578,000, representing a slight decrease of 1.2% when compared with the year of 2011.

- Percentage of sportswear sales to total sales increased on a year-on-year basis from 54.7% to 55.9%. Sportswear revenue increased by 0.9% when compared with the year of 2011.

- Gross profit margin stood at 28.5% in 2012, decreasing from last year by a minimal 0.3 percentage point.

- Profit attributable to equity holders of the Company for the year ended 31 December 2012 amounted to approximately RMB1,620,158,000, representing a decrease of 4.9% when compared with the year of 2011.

- Proposed to declare a final dividend of HK$0.70 (approximately RMB0.57) per ordinary share (including a special dividend of HK$0.20), representing an increase of 40.0% when compared with HK$0.50 (approximately RMB0.41) of 2011.

* *for identification purposes only*

The board of directors (the "Board") of Shenzhou International Group Holdings Limited ("Shenzhou International" or the "Company") is pleased to present the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, together with the comparative amounts for the corresponding year of 2011 as follows.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**8,937,578**	9,043,442
Cost of sales		**(6,393,023)**	(6,441,605)
Gross profit		**2,544,555**	2,601,837
Other income and gains	4	**244,283**	180,505
Selling and distribution expenses		**(143,285)**	(106,239)
Administrative expenses		**(600,350)**	(516,241)
Other expenses		**(9,751)**	(49,199)
Finance costs	5	**(29,987)**	(51,243)
PROFIT BEFORE TAX	6	**2,005,465**	2,059,420
Income tax expense	7	**(383,985)**	(354,573)
PROFIT FOR THE YEAR		**1,621,480**	1,704,847
Attributable to:			
Owners of the parent		**1,620,158**	1,703,845
Non-controlling interests		**1,322**	1,002
		1,621,480	1,704,847
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the year		**RMB1.24**	RMB1.37
Diluted			
– For profit for the year		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**1,621,480**	1,704,847
OTHER COMPREHENSIVE INCOME		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	**13,656**	66,994
Reclassification adjustments for gains recognised in the consolidated income statement	**(28,371)**	(106,638)
	(14,715)	(39,644)
Exchange differences on translation of foreign operations	**3,482**	(4,131)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,233)**	(43,775)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,610,247**	1,661,072
Attributable to:		
Owners of the parent	**1,608,925**	1,660,070
Non-controlling interests	**1,322**	1,002
	1,610,247	1,661,072

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012** ***RMB'000***	2011 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,314,100**	2,974,958
Prepaid land lease payments		**539,275**	547,407
Intangible assets		**105,074**	109,728
Deferred tax assets		**9,058**	2,224
Total non-current assets		**3,967,507**	3,634,317
CURRENT ASSETS			
Inventories		**1,924,435**	1,952,814
Trade and bills receivables	*10*	**1,397,759**	1,313,646
Prepayments, deposits and other receivables		**330,435**	301,730
Derivative financial instruments		**–**	27,331
Bank deposits with an initial term of over three months		**130,868**	290,125
Cash and cash equivalents		**2,144,405**	1,029,596
Total current assets		**5,927,902**	4,915,242
CURRENT LIABILITIES			
Trade and bills payables	*11*	**397,099**	490,838
Advances from customers		**4,939**	30,681
Other payables and accruals		**431,779**	406,440
Derivative financial instruments		**9,550**	16,656
Interest-bearing bank and other borrowings		**786,226**	1,244,259
Amounts due to related parties		**3,288**	1,631
Tax payable		**140,394**	246,826
Total current liabilities		**1,773,275**	2,437,331
NET CURRENT ASSETS		**4,154,627**	2,477,911
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,122,134**	6,112,228
Net assets		**8,122,134**	6,112,228

	Note	2012 RMB'000	2011 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital		**136,609**	129,717
Reserves		**7,195,906**	5,443,851
Proposed final dividend	*8*	**754,855**	504,661
		8,087,370	6,078,229
Non-controlling interests		**34,764**	33,999
Total equity		**8,122,134**	6,112,228

Notes:

1. BASIS OF PREPARATION

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

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKFRS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

3. OPERATING SEGMENT INFORMATION

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

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

99% of the non-current assets of the Group were located in Mainland China during the year ended 31 December 2012 (2011: 99%).

Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	2012	2011
	RMB'000	*RMB'000*
Customer A	**2,093,455**	2,142,000
Customer B	**2,010,709**	1,940,000
Customer C	**1,662,320**	1,778,000

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**8,937,578**	9,043,442
Other income		
Government grants*	**196,101**	153,144
Bank interest income	**40,077**	11,095
Rental income	**6,632**	4,560
	242,810	168,799
Gains		
Foreign exchange differences, net	**1,473**	11,706
	244,283	180,505

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**29,987**	51,243

6. PROFIT BEFORE TAX

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**6,347,288**	6,396,470
Depreciation	**329,162**	313,290
Amortisation of prepaid land lease payments	**11,876**	11,196
Amortisation of intangible assets	**7,087**	6,954
Minimum lease payments under operating leases:		
Buildings	**30,618**	25,937
Auditors' remuneration	**2,380**	2,260
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**1,748,851**	1,620,990
Pension scheme contributions	**68,348**	55,212
Other benefits	**93,878**	67,103
	1,911,077	1,743,305
Foreign exchange differences, net*	**(1,473)**	(11,706)
Write-down of inventories to net realisable value	**16,561**	7,411
Fair value losses, net:		
Derivative instruments – transactions not qualifying as hedges**	**412**	41,302
Bank interest income	**(40,077)**	(11,095)
Loss on disposal of items of property, plant and equipment	**1,598**	1,855

* *The foreign exchange differences, net for the years ended 31 December 2012 and 31 December 2011 are included in "Other income and gains" on the face of the consolidated income statement.*

** *The fair value losses for the years ended 31 December 2012 and 31 December 2011 are included in "Other expenses" on the face of the consolidated income statement.*

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**45,428**	39,012
Current Mainland China corporate income tax ("CIT")	**339,645**	321,594
Deferred taxation	**(1,088)**	(6,033)
	383,985	354,573

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 a rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong.

The subsidiaries incorporated in the BVI are not subject to income tax as these 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 Investments"), Maxwin (B.V.I.) Limited ("Maxwin BVI") and Buddies Group Limited ("Buddies Group"), subsidiaries incorporated in the BVI, are not subject to tax. As Top Always was engaged in the property leasing business in Hong Kong, it is subject to Hong Kong profits tax at a rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong.

Shenzhou (Cambodia) Co., Ltd. ("Shenzhou Cambodia") and Daqian Textile (Cambodia) Co., Ltd. ("Daqian Cambodia"), wholly-owned subsidiaries incorporated in the Kingdom of Cambodia, under the Law on Taxation, are subject to income tax at a rate of 20% and 9% respectively, and are entitled to be exempted from income tax for the first four profit-making years. Shenzhou Cambodia and Daqian Cambodia had no assessable profits during the year.

Shenzhou Trading Company Limited ("Shenzhou Trading"), Top Always (Hong Kong) Investment Limited ("Top Always HK") and Maxwin (Hong Kong) Limited ("Maxwin HK"), subsidiaries incorporated in Hong Kong, are subject to profits tax at a rate of 16.5% (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 income tax has been made as Shenzhou Japan had no assessable profits arising in Japan during the year.

No provision for Macao Complementary Tax has been made for Buddies (Macao Commercial Offshore) Limited ("Buddies Macao"), a wholly-owned subsidiary incorporated in Macao, as the company is exempted from Macao Complementary Tax pursuant to Macao's relevant tax legislations.

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 year 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 expired in 2012.

A reconciliation between the tax expense and the product of accounting profit multiplied by the PRC's domestic tax rate for the tax years ended 31 December 2012 and 2011 is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**2,005,465**	2,059,420
Tax at the statutory tax rate of 25% (2011: 25%)	**501,366**	514,855
Lower tax rate for specific provinces or enacted by local authority	**(147,764)**	(179,682)
Adjustments in respect of current tax of previous periods	**1,220**	3,431
Expenses not deductible for tax	**5,773**	3,817
Effect of change in tax rate on deferred tax	**–**	(331)
Tax losses not recognised during the year	**26,932**	17,242
Utilisation of previously unrecognised deductible tax losses	**(3,542)**	(4,759)
	383,985	354,573

8. DIVIDENDS

	Company	
	2012	2011
	RMB'000	*RMB'000*
Proposed final dividend of HK$0.70 (2011: HK$0.50) per ordinary share	**754,855**	504,661

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

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

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

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,620,158**	1,703,845

	Number of shares	
	2012	2011
	Thousands	*Thousands*
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**1,303,060**	1,245,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade and bills receivables	**1,397,759**	1,313,646
Impairment	**–**	–
	1,397,759	1,313,646

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.

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within three months	**1,367,438**	1,237,370
Over three months	**30,321**	76,276
	1,397,759	1,313,646

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

11. TRADE AND BILLS PAYABLES

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within six months	**378,454**	473,916
Six months to one year	**691**	6,792
One year to two years	**10,105**	5,378
Over two years	**7,849**	4,752
	397,099	490,838

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS AND STRATEGIES

Business Review

During the year, the textile and garment industry was in face of tougher operating environment, including: much higher cotton prices in the domestic market when compared to the international market, rising labour costs, weakened demand in the global market, the shift of some overseas orders to other developing countries around China. Regarding the overall situation of the industry, the Group achieved relatively stable operating results. Revenue and net profit in 2012 decreased slightly by 1.2% and 4.9% respectively from 2011. During the year, the Group had attained better progress in a number of spectrums, such as the optimization of the layout of the production bases, conservation-based and eco-friendly production, the strengthening of employees' welfare and the enhancement of retail business, thus laying a solid foundation for the sustained development of the Group in the future.

Optimization of the layout of production bases

During the year, the construction of a new garment manufacturing factory Phase II in Cambodia was carried out as scheduled. The factory had begun to be put into operation in stages. With the completion of the construction of the newly-built garment factory Phase II in Anqing City, Anhui Province, the factory had started to recruit new employees in February 2013. With the smooth progress of the newly-built garment factories Phase II in Cambodia and Anqing City, Anhui Province, the Group further optimized the layout of its production bases, relieved the operating pressure on the Group resulting from the continuous rise in labour costs, and also enhanced the Group's comprehensive competitiveness in the industry. The Group made efforts to improve the efficiency of the new garment factories, in order to strive for the early realization of the normal capacity of the new factories. With the completion of the infrastructure construction of the newly-built textile factory in Ningbo, China, the factory commenced production in the fourth quarter of 2012. The project is currently progressing well, and is going to gradually reach the expected scale in 2013. In addition, the Group is actively identifying suitable overseas production bases, with a view to better consolidating the global resources and to promptly responding to the changes in the operating environment.

Stepping up effort in conservation-based and eco-friendly production

The Group has always placed indispensable emphasis on environmental protection, and is untiringly playing a more active role in this aspect. During the year, the Group's efforts on environmental protection were well recognized by the relevant authorities. Ningbo Shenzhou Knitting Co., Ltd., a principal subsidiary of the Group, was rated as an "Energy-saving, Emission-reducing Advanced Enterprise" by the Ningbo Municipal Government, awarded as an "Excellent Enterprise with Environment Optimization and Energy Saving in China's Knitting Industry" by the Knitting Industry Association of China, and rated as the "Best Supplier with Sustainable Development" by major customers. Led by the changes in consumption demand, the production of green products has become an increasing trend for the development of the industry. The reduction of adverse impacts on the environment is the basis on which enterprises can grow into sustainable development, and also forms a part of their corporate social responsibility.

Strengthening of employees' welfare

The Group extended continued efforts on strengthening employees' welfare, with an aim to build a relatively stable team of employees and to ensure the best performance of the lean production and management. In addition to providing comprehensive staff dormitories, during the year, we had made a decision to construct residential areas for our employees in Anqing City, Anhui Province, in order to provide our outstanding employees with amiable living condition. We also arranged low-rent housings for employees in Ningbo. During the year, we provided these imported labour forces with chartered shuttle services to facilitate their return to home during the Chinese New Year and their subsequent return to work at our expense. In Cambodia, the Group started to provide free working meals for the local staff. The Group encouraged employees to take an active part in the day-to-day management of the Company. Constructive suggestions and innovative ideas will be rewarded with certain incentives upon their acceptance. The Group regards excellent employees as important resources for its corporate development. While raising employees' salaries, the Group will continue to improve the living condition and working environment for its employees.

Solid expansion in the retail business

In relation to the domestic retail business, at this stage, the Group continues to stick to the principles of prudent control over the progress of the store expansion. We currently focus on a number of primary fundamental tasks including team integration, process optimization, system improvement, and product improvements. For the year ended 31 December 2012, the total number of the Group's directly-operated stores increased to 17, which are mainly located in eleven cities in Zhejiang, Shanghai and Jiangsu Province. Despite a temporary slowdown in retail consumption in the domestic garment market, the Group believes that in long term, the development of the domestic retail market is still blessed with immense opportunities, in particular, garment products with high quality, green eco-friendly concept and competitive price are set to account for larger market share.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2012 amounted to RMB8,937,578,000, representing a decrease of RMB105,864,000 or about 1.2% when compared to RMB9,043,442,000 for the year ended 31 December 2011. The slight decrease in revenue was due to the following facts: (1) there was no obvious expansion in the Group's production capacity during the year, and hence, there was no significant increase in orders from major customers; (2) softer-than-expected sales performance of the Group in Japanese market; (3) there was a relatively reduction in business volume for domestic customers due to the impact of their excess inventory; and (4) there was a reduction in the average selling price of the Group during the year, which was as a result of the significant fall in the average purchase price of raw materials when compared to 2011.

The comparison of the revenue of the Group for 2012 and 2011 by product categories is as follows:

	For the year ended 31 December					
	2012		2011		**Change**	
	RMB'000	**%**	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**4,994,455**	**55.9**	4,949,196	54.7	45,259	0.9
Casual wear	**2,993,648**	**33.5**	3,046,903	33.7	(53,255)	(1.7)
Lingerie	**701,766**	**7.8**	799,391	8.8	(97,625)	(12.2)
Other knitting products	**247,709**	**2.8**	247,952	2.8	(243)	(0.1)
Total revenue	**8,937,578**	**100.0**	9,043,442	100.0	(105,864)	(1.2)

Sales of sportswear for the year ended 31 December 2012 amounted to RMB4,994,455,000, representing an increase of RMB45,259,000 or 0.9% when compared to sales of RMB4,949,196,000 for the year ended 31 December 2011. There was a further increase in the proportion of sales of sportswear of the total sales to 55.9%. Yet, there was a slowdown in sales growth. This was mainly due to the sharp fall in the amount of sales made to customers of the domestic sportswear brands when compared to the previous year, which was as a result of the impact of the consumption demand. During the year, the sales revenue from the domestic sportswear brands amounted to RMB194,174,000, representing a decrease of RMB144,656,000 or about 42.7% when compared to last year's figure of RMB338,830,000.

Sales of casual wear decreased from RMB3,046,903,000 for the year ended 31 December 2011 to RMB2,993,648,000 for the year ended 31 December 2012, representing a decrease of RMB53,255,000 or about 1.7%. The decrease was mainly due to: (1) the reduction in the amount of orders made by the Group's customers in Japan during the year when compared to the previous year, which was as a result of the impact of the lower consumption demand and the exceptional climate conditions in the year; and (2) the adjustment of customer structure by the Group in response to the pressure of rising costs.

Sales of lingerie decreased from RMB799,391,000 for the year ended 31 December 2011 to RMB701,766,000 for the year ended 31 December 2012, representing a decrease of RMB97,625,000 or about 12.2%. The decrease was principally attributable to the reduction in orders made by customers in Japan along with the drop in consumption demand.

The comparison of the revenue of the Group for 2012 and 2011 by market regions is as follows:

	For the year ended 31 December					
	2012		2011		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By regions						
Japan	**2,805,902**	**31.4**	3,224,257	35.7	(418,355)	(13.0)
Europe	**1,849,436**	**20.7**	1,949,355	21.6	(99,919)	(5.1)
U.S.	**727,913**	**8.1**	516,420	5.7	211,493	41.0
Others	**1,778,979**	**19.9**	1,428,093	15.8	350,886	24.6
Sub-total for international sales	**7,162,230**	**80.1**	7,118,125	78.8	44,105	0.6
Domestic sales	**1,775,348**	**19.9**	1,925,317	21.2	(149,969)	(7.8)
Total revenue	**8,937,578**	**100.0**	9,043,442	100.0	(105,864)	(1.2)

The Group's sales in the Japanese market for the year ended 31 December 2012 amounted to RMB2,805,902,000, representing a decrease of RMB418,355,000 or about 13.0% when compared to RMB3,224,257,000 for the year ended 31 December 2011. The decrease was mainly due to the reduction in sales of casualwear and lingerie to the Japanese market by the Group.

The Group's sales in the European market for the year ended 31 December 2012 amounted to RMB1,849,436,000, representing a decrease of RMB99,919,000 or approximately 5.1% when compared to RMB1,949,355,000 for the year ended 31 December 2011. The decrease was mainly due to the decline in the overall consumption demand in the European market amid a vulnerable economy.

Growth in sales was maintained in the U.S. and other markets including Hong Kong, Taiwan, Korea and Singapore. For the year ended 31 December 2012, sales from the U.S. and other foreign markets increased by approximately 41.0% and 24.6% respectively when compared to the previous year. The substantial increase in the Group's sales from other markets was mainly contributed by the Taiwan market.

Dampened by the decline in market demand from customers of the domestic brands during the year, the Group's sales in the domestic market recorded a setback for the first time. During the year ended 31 December 2012, garment sales in the domestic market amounted to RMB1,573,754,000, representing a decrease of RMB140,119,000 or approximately 8.2% when compared to RMB1,713,873,000 for the year ended 31 December 2011.

Cost of sales and gross profit

The Group's cost of sales for the year ended 31 December 2012 amounted to approximately RMB6,393,023,000 (2011: RMB6,441,605,000). The Group's gross profit margin of sales in 2012 was approximately 28.5%, representing a decrease of approximately 0.3 percentage point when compared to 28.8% in 2011. The slight decrease in gross profit margin was mainly due to: (1) the inclusion of a gain of RMB37,487,000 (2011: RMB140,313,000) from foreign currency forward hedges between U.S. dollars and Renminbi in the Group's operating revenue for the year ended 31 December 2012. If such gain from foreign currency forward contract hedges was excluded, the gross profit margin of the Group's sales in 2012 would have been approximately 28.2% (2011: 27.6%), which was an increase of 0.6 percentage point when compared to 2011; (2) the continued surge in labour costs; and (3) the rapid decline in the U.S. dollar price actually sold by the Company to its bank in the second half of 2012.

Equity attributable to the equity holders of the Company

As at 31 December 2012, the Group's equity attributable to the equity holders of the Company amounted to RMB8,087,370,000 (2011: RMB6,078,229,000), of which non-current assets amounted to RMB3,967,507,000 (2011: RMB3,634,317,000), net current assets amounted to RMB4,154,627,000 (2011: RMB2,477,911,000), and non-controlling interests amounted to RMB34,764,000 (2011: RMB33,999,000). The increase in equity attributable to the equity holders of the Company was mainly attributable to the placing of new shares and the increase in retained earnings during the year.

Liquidity and financial resources

For the year ended 31 December 2012, net cash generated from the Group's operating activities amounted to approximately RMB1,611,015,000, comparing to approximately RMB1,641,447,000 in 2011. The Group's net cash (cash and cash equivalents less bank borrowings) as at 31 December 2012 were RMB1,358,179,000. The Group's net borrowings (bank borrowings less cash and cash equivalents) as at 31 December 2011 was RMB214,663,000, representing an increase in net cash by RMB1,572,842,000.

Cash and cash equivalents of the Group's as at 31 December 2012 amounted to RMB2,144,405,000 (2011: RMB1,029,596,000). The total amount of outstanding borrowings was RMB786,226,000 (2011: RMB1,244,259,000, being short-term bank borrowings), all of which were short-term bank borrowings. Equity attributable to equity holders of the Company amounted to RMB8,087,370,000 (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 9.7% (2011: 20.4%).

For the year ended 31 December 2012, the Group entered into an interest rate swap contract with the relevant bank in respect of a loan denominated in U.S. dollars. 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 interest charges to the relevant bank 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 main 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

Finance costs decreased from RMB51,243,000 for the year ended 31 December 2011 to RMB29,987,000 for the year ended 31 December 2012. The decrease was mainly due to the reduction in the Group's average amount of bank borrowings during the year. The Group's U.S. dollar and Renminbi loan interest rates during the year ranged from 1.12% to 3.21% and 2.50% to 8.55% respectively (2011: 1.24% to 5.91% and 2.50% to 8.55% respectively).

For the year ended 31 December 2012, income tax expense of the Group amounted to RMB383,985,000, representing an increase of RMB29,412,000 when compared to income tax expense of RMB354,573,000 for the year ended 31 December 2011. The increase in income tax expense was mainly due to higher income tax rates for the subsidiaries of the Group in China during the year.

Pledge of the Group's assets

As at 31 December 2012, 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, the Group's plants and prepaid land lease payments with an aggregate carrying amount of RMB192,217,000 as at 31 December 2012 were pledged as security. As at 31 December 2011 and 31 December 2012, no overdraft facilities were used by the Group. In addition, the Group has 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 RMB228,969,000 as at 31 December 2012 were pledged as security. As at 31 December 2012, the outstanding borrowings of the Group secured by way of asset security from the Ningbo Branch of Hang Seng Bank (China) Limited was nil (as at 31 December 2011:RMB10,000,000). Certain bank loans and credit facilities of the Group are secured by the Company and the holding companies controlled by the directors of the Company.

Use of proceeds from the placing of new shares

The Company completed a placing of 85,000,000 new shares on 26 April 2012, and raised net proceeds of approximately HK$1,158,650,000 (equivalent to approximately RMB939,548,000 based on the exchange rate of HK dollar against RMB of HK$1:RMB0.8109) after share issue expenses. The intended application of the proceeds from the placing of new shares, and the actual use of those proceeds during the period are set out as follows:

- An amount of approximately RMB608,174,000 will be used for the establishment of new textile production facilities in Mainland China, as well as the purchase and construction of the relevant equipment and plant. An amount of approximately RMB313,305,000 has been used during the year;

- An amount of approximately RMB121,635,000 will be used to set up new garment production facilities and to purchase production equipment during the year. An amount of approximately RMB78,729,000 has been used;

- An amount of approximately RMB81,090,000 will be used to expand our retail network. An amount of approximately RMB28,567,000 has been used during the year; and

- An amount of approximately RMB128,649,000 is used for the repayment of part of the Group's short-term bank loans. The amount has been fully utilized during the year.

As at 31 December 2012, the remaining balance of the net proceeds was equivalent to approximately RMB390,298,000, which have been placed as bank deposits in Hong Kong and Mainland China. For details of the placing of new shares, please refer to 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, the Group's costs and operating profit margin were affected by exchange rate fluctuations to certain extent. 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. dollars 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 31 December 2012, out of the total bank borrowings, U.S. dollar borrowings amounted to RMB565,695,000 (US$90,000,000 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 31 December 2012, the aggregate amount of the outstanding U.S. dollar forward contracts was approximately US$120,000,000 (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 31 December 2012, the aggregate value of outstanding non-deliverable U.S. dollars foreign currency forward contracts was amounting to approximately US$420,000,000 (as at 31 December 2011: approximately US$210,000,000), including foreign exchange forward contracts US$320,000,000 that had already been settled during the year. The value of open contracts was amounting to US$100,000,000 (as at 31 December 2011: approximately US$210,000,000).

Employment, training and development

As at 31 December 2012, the Group employed more than 51,400 employees. Total staff costs, including management and administrative staff, accounted for approximately 21.4% (2011: 19.3%) of the Group's sales during the year. The Group remunerated its staff according to their performances, qualifications and industry practices, and conducted regular reviews of its remuneration policy. Employees may receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Company also offered rewards or other incentives to motivate personal growth and career development of the employees, such as ongoing opportunities for training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. 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 commitments

During the year, the Group's total investment in property, plant and equipment and prepaid land lease payments amounted to approximately RMB690,571,000, of which approximately 50% was used for the acquisition of production equipment, approximately 45% for the construction and acquisition of new factory buildings and prepaid land lease payments, and the balance was used for the purchase of other fixed assets.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant events after the reporting period up to the date of this announcement.

FUTURE PROSPECTS AND STRATEGIES

Under the current background of a slowdown growth in the global economy and increased liquidity pressure emerging from additional currency issuance, most of the industry peers will face with dual pressures in terms of a slowdown in growth of market demand and swift surge in manufacturing costs. Compared with peers in other countries, enterprises in the textile and garment industry in China are required to withstand additional pressure arising from the differences between prices of raw materials and trade policies. At present, some apparel importers outside the country have strategically begun to shift their purchase orders to other low-cost countries, while some small and medium-sized garment manufacturing enterprises within the country have exited from the industry due to the continued pressure from rising cost and higher environmental requirements. The international shift and the domestic consolidation in the garment industry will linger on for a prolonged time. Despite the depressing business environment at the moment, the Group believes that the leading enterprises in the industry are still well-positioned to capture development opportunities. However, enterprises are required to accelerate the adjustment of the layout of the industrial chain, to consolidate the global resources, and to mitigate the pressure from the continued rise in labour costs through reasonable use of their edges in technology, management and capital, in order for them to carve out first-mover niche in the industry adjustment. The Group will focus on the following aspects of tasks in its future development.

We will capitalize on the existing technology base to step up our research and development efforts on product offering and to bolster up the Group's leading position in terms of new product development capability and technology innovation in the industry. We will make great steps to transform into high value-added, eco-friendly, conservation-based and fit-for-health products. We will endeavour to stay in the top spot amid the competitive pressure from the industry by offering high-quality, differentiated products. We will also enrich the existing product lines to better meet the future changes in consumption demand.

We will take great leaps in further optimizing the global layout of the industrial chain by actively looking at the possibility of establishing production lines amongst the ASEAN countries. With resource advantages of different regions, we will manage to resist against the pressure arising from the rapid rise in labour costs. Thanks to the preferential trade policies put in place by major apparel importing countries in overseas countries where the Group's has made investments, we will be well-poised to enhance the competitiveness of the Group in the industry customers. At the same time, the Group will strengthen the training of management talents from overseas countries. Efforts will be dedicated on the localization of overseas management personnel, with a view to improving the management standard of overseas factories, in order for these factories to reach desirable production efficiency and to ensure stable product quality.

We will adhere to a green, eco-friendly direction in our corporate development. Through the deepening of the lean production and management, we will be able to reduce materials loss and energy consumption. By exercising strict control over the entire process of production stretching across raw materials, equipment, technology and product, we will continuously enhance the technological level of clean production, thereby providing consumers with eco-friendly garment products and pursuing sustainable development.

In relation to market layout, the Group will make reinforced efforts on consolidating the existing market and stepping up the expansion into new markets, so as to reduce the operating risk exposures associated with the volatility of a single market. The Group will continue to offer strategic customers with services of superb quality. We will optimize the integrated processes of production and enhance our capability in rapid delivery. Thus, the Group's products will better serve the market demand.

In light of the challenges of the depressing operating environment, we will take advantage of our edges in technology and scale, and capitalize on the new development opportunities presented by the industry consolidation, thus laying a stronger basis for our sustained development and creating more prominent returns for shareholders.

FINAL DIVIDEND (INCLUDING SPECIAL DIVIDEND)

The Board recommends the payment of a final dividend of HK$0.70 (equivalent to approximately RMB0.57) per ordinary share (including a special dividend of HK$0.20) for the year ended 31 December 2012 to shareholders whose name appear on the register of members of the Company at the close of business on 3 June 2013 at 4:30 p.m.. However, the proposed payment of the dividend shall be subject to approval by shareholders at the forthcoming annual general meeting (the "AGM") to be held on 28 May 2013.

BOOK CLOSURE

The Register of Members of the Company will be closed from 23 May 2013 to 28 May 2013, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 May 2013.

The Register of Members of the Company will be closed from 4 June 2013 to 7 June 2013, both dates inclusive, during such period no transfer of shares will be registered. In order to qualify for the said final dividend (including special dividend) which will be resolved and voted at the AGM, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 3 June 2013.

CORPORATE GOVERNANCE

The Board adopted its own Code of Corporate Governance, which covers all of the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 October 2005.

The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2012. Set out 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 the CG 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 (the "Articles") is in compliance with the requirements of the Listing Rules and the CG Code, during the period under review, the Board made the relevant amendments to the Articles to comply with the Listing Rules and the CG Code and proposed the adoption of a new set of the Articles which incorporated such relevant amendments. The shareholders of the Company approved the adoption of the amended and restated Articles 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 the CG Code, the terms of reference of each of the audit committee, nomination committee and remuneration committee of the Company have been revised accordingly. Such terms of reference and the list of Directors and their roles and functions have been published on the websites of the Company and the Stock Exchange respectively.

Responsibilities of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills pursuant to the code provision A.6.5 set out in the CG Code. The Company has arranged for continuous professional development on the 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 functions on 26 March 2012 in compliance with the code provision D.3 set out in the CG Code, effective from 1 April 2012. Pursuant to the terms of reference of the corporate governance functions, the Board shall be responsible for developing 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 from 26 March 2012. The policy and the procedure are available on the website of the Company.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules as the Company's code of conduct regarding Directors securities transactions ("Securities Trading Code"). A copy of the Securities Trading Code is provided to all Directors on their appointment. Reminder will be issued twice a year, being 30 days prior to the Board meeting approving the Company's interim results and 60 days prior to the Board meeting approving the Company's annual results, reminding the Directors that they are not allowed to deal in the Company's securities prior to the announcement of its results (the period during which the directors are prohibited from dealing in shares) and that all transactions must comply with the Securities Trading Code. Upon specific enquiries, all Directors confirmed their strictly compliance with the relevant provisions of the Securities Trading Code throughout the year.

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

AUDIT COMMITTEE

The Audit Committee reviewed with the management and the external auditors of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial statements matters including the review of the financial statements for the year ended 31 December 2012.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Group's auditors, Ernst & Young, certified public accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company completed the placing of 85,000,000 new shares on 26 April 2012 with net proceeds of approximately HK$1,158,650,000 (equivalent to approximately RMB939,548,000). Details of the placing were set out in the announcements of the Company dated 16 April 2012 and 26 April 2012 respectively.

Save for the placing of new shares of the Company mentioned above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

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

ANNUAL GENERAL MEETING

The AGM will be held at 7th Floor, Office Building, No. 18 Yongjiang Road, Economic Technical Development Zone, Ningbo, the PRC on 28 May 2013 at 10:00 a.m.. Notice of the AGM will be published and issued in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the five executive directors of the Company are Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe, Ms. Zheng Miaohui and Mr. Wang Cunbo; the one non-executive director is Mr. Chen Zhongjing; and the three independent non-executive directors are Mr. Zong Pingsheng, Mr. Jiang Xianpin and Mr. Chen Genxiang.

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

Hong Kong, 25 March 2013