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 2014

HIGHLIGHTS

- Sales for the six months ended 30 June 2014 amounted to approximately RMB4,983,637,000, representing an increase of 4.4% when compared with the corresponding period of 2013.

- Percentage of sports goods sales to total sales was approximately 62.6% for the six months ended 30 June 2014. Revenue from sale of sports goods increased by approximately 14.9% when compared with the corresponding period of the previous year.

- Gross profit for the six months ended 30 June 2014 amounted to approximately RMB1,402,484,000, an increase of 2.0% when compared with the corresponding period of 2013. Gross profit margin decreased by 0.7 percentage point to 28.1%.

- Net profit attributable to owners of the parent for the six months ended 30 June 2014 amounted to approximately RMB943,900,000, an increase of approximately 2.5% when compared with the corresponding period of 2013.

- Basic earnings per share were RMB0.67, representing a decrease of approximately 2.9% from RMB0.69 for the corresponding period last year.

* *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 2014, together with the comparative amounts for the corresponding period of 2013. 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 2014

		Unaudited For the six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**4,983,637**	4,772,638
Cost of sales	*5*	**(3,581,153)**	(3,397,615)
Gross profit		**1,402,484**	1,375,023
Other income and gains	*6*	**248,719**	227,399
Selling and distribution costs	*5*	**(101,156)**	(60,335)
Administrative expenses	*5*	**(394,647)**	(346,009)
Other expenses	*7*	**(5,195)**	(9,070)
Finance costs	*8*	**(3,539)**	(5,611)
PROFIT BEFORE TAX		**1,146,666**	1,181,397
Income tax expense	*9*	**(202,445)**	(260,435)
Profit for the period		**944,221**	920,962
Attributable to:			
Owners of the parent		**943,900**	920,461
Non-controlling interests		**321**	501
		944,221	920,962
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
– Basic		**RMB0.67**	RMB0.69
– Diluted		**RMB0.67**	N/A

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Unaudited For the six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Profit for the period		**944,221**	920,962
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		**(16,017)**	11,831
Reclassification adjustments for gains recognised in consolidated income statement		**9,033**	(8,990)
		(6,984)	2,841
Exchange differences on translation of foreign operations		**20,468**	(13,754)
Other comprehensive income for the period, net of tax		**13,484**	(10,913)
Total comprehensive income for the period		**957,705**	910,049
Attributable to:			
Owners of the parent		**957,384**	909,548
Non-controlling interests		**321**	501
		957,705	910,049

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	**Unaudited 30 June 2014 *RMB'000***	Audited 31 December 2013 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**3,642,763**	3,518,230
Prepaid land lease payments	*12*	**789,678**	696,871
Intangible assets	*12*	**100,891**	101,909
Deferred tax assets		**8,610**	7,571
Total non-current assets		**4,541,942**	4,324,581
CURRENT ASSETS			
Inventories	*13*	**2,539,530**	2,424,899
Trade and bills receivables	*14*	**1,647,847**	1,374,991
Prepayments, deposits and other receivables	*15*	**487,927**	352,872
Available-for-sale investments	*16*	**850,641**	200,000
Derivative financial instruments	*19*	**–**	3,456
Bank deposits with initial term of over three months		**22,306**	27,425
Cash and cash equivalents		**4,546,173**	2,609,050
Total current assets		**10,094,424**	6,992,693
CURRENT LIABILITIES			
Trade and bills payables	*17*	**519,551**	391,749
Advances from customers		**8,575**	14,095
Other payables and accruals	*18*	**444,436**	531,168
Derivative financial instruments	*19*	**5,180**	–
Amounts due to related parties	*23c*	**1,248**	–
Tax payable		**148,371**	48,605
Total current liabilities		**1,127,361**	985,617
NET CURRENT ASSETS		**8,967,063**	6,007,076

	Notes	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,509,005**	10,331,657
NON-CURRENT LIABILITIES			
Convertible bonds	*20*	**2,847,822**	–
Total non-current liabilities		**2,847,822**	–
Net assets		**10,661,183**	10,331,657
EQUITY			
Equity attributable to owners of the parent			
Share capital		**142,105**	142,105
Reserves		**10,503,763**	9,349,239
Proposed final dividend		**–**	824,920
		10,645,868	10,316,264
Non-controlling interests		**15,315**	15,393
Total equity		**10,661,183**	10,331,657

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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 consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise stated. These unaudited interim consolidated financial statements have been approved for issue by the Board on 27 August 2014.

2. BASIS OF PREPARATION

These unaudited interim consolidated financial statements for the six months ended 30 June 2014 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 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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the accounting policy for convertible bonds after issuing convertible bonds in first half year 2014 and the adoption of the new standards and interpretations as of 1 January 2014, noted below.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

New standards, interpretations and amendments adopted by the Group

HKFRS 10, HKFRS 12 and HKAS 27 (Revised) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (Revised) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of these revised HKFRSs has had no significant financial effect on the interim consolidated financial statements.

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.

Geographical information

(a) Revenue from external customers by location of goods delivery

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Japan	**1,406,301**	1,604,101
Mainland China	**1,145,432**	932,750
European Union	**875,797**	812,359
United States of America	**460,239**	388,000
Other countries	**1,095,868**	1,035,428
	4,983,637	4,772,638

(b) Non-current assets

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Mainland China	**3,971,712**	3,969,826
Vietnam	**447,098**	225,293
Cambodia	**107,355**	114,522
Other countries	**7,167**	7,369
	4,533,332	4,317,010

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instrument and deferred tax assets.

Information about major customers

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

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Customer A	**1,117,284**	866,332
Customer B	**1,083,491**	1,064,576
Customer C	**974,055**	1,202,667
Customer D	**576,021**	542,015
Customer E	**471,469**	471,500
	4,222,320	4,147,090

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	
	2014	2013
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**1,191,631**	1,104,977
Retirement benefit contributions	**63,168**	53,221
Other benefits	**50,806**	36,747
	1,305,605	1,194,945
Depreciation, amortisation and impairment expenses	**212,906**	199,271
Changes in inventories of finished goods and work in progress	**(122,639)**	(411,369)
Raw materials and consumables utilized	**2,140,207**	2,332,989
Utilities expenses	**258,265**	255,768
Operating lease expenses for properties	**36,369**	29,923
Taxes	**28,990**	24,718
Outsourcing	**27,797**	42,103
Transportation expenses	**27,608**	24,553
Office expenses	**23,199**	16,220
Donation	**16,322**	16,318
Entertainment expenses	**9,649**	9,770
Commission	**8,448**	9,869
Traveling expenses	**5,350**	4,142
Inspection fees	**5,063**	3,213
Other expenses	**93,817**	51,526
Total cost of sales, selling and distribution costs and administrative expenses	**4,076,956**	3,803,959

6. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Other income		
Government incentives	**199,223**	221,021
Bank interest income	**33,928**	16,126
Rental income	**10,579**	8,911
	243,730	246,058
Gains		
Exchanges gains/(loss), net	**4,989**	(18,659)
	248,719	227,399

7. OTHER EXPENSES

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Loss on disposal of items of property, plant and equipment	**124**	4,234
Rental cost	**5,071**	4,836
	5,195	9,070

8. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**734**	5,611
Interest on convertible bonds	**2,805**	–
	3,539	5,611

9. INCOME TAX

The major components of income tax expenses for the six months ended 30 June 2014 and 2013 are:

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Current Hong Kong profits tax	**11,059**	16,710
Current Mainland China corporate income tax ("CIT")	**190,773**	243,207
Deferred taxation	**613**	518
	202,445	260,435

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 of the Cayman Islands that no law 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% (for the six months ended 30 June 2013: 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 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 Group Co., Ltd, Maxwin (B.V.I.) Limited and Gain Lucky Limited, 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 the rate of 16.5% (for the six months ended 30 June 2013: 16.5%) on the estimated assessable profit 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 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 period.

Shenzhou Trading Company Limited, Top Always (Hong Kong) Investments Limited and Maxwin (Hong Kong) Limited, wholly-owned subsidiaries incorporated in Hong Kong, are subject to profits tax at a rate of 16.5% (for the six months ended 30 June 2013: 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 period.

Gain Lucky (Viet Nam) Limited, a wholly-owned subsidiary incorporated in Vietnam, is subject to income tax at a rate of 22%. Besides, Gain Lucky (Viet Nam) Limited is entitled to be exempted from income tax for the first two profit-making years and subject to a lower tax rate of 10% from the third year to the sixth year. The period of tax privilege will start from the earlier of first profit-making year and the fourth year since its establishment.

Buddies (Macao Commercial Offshore) limited, a wholly-owned subsidiary incorporated in Macao, 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 period as determined in accordance with the New CIT Law is subject to a tax rate of 25%.

During 2013, Ningbo Daqian knitwear Co., Ltd. ("Daqian Knitting"), a wholly owned subsidiary incorporated in mainland China, was qualified as a High-New Technology Enterprise of Zhejiang Province. As a result, Daqian Knitting had been entitled to a concessionary rate of income tax at 15% for three years commencing 1 January 2013.

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

(a) Basic

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 RMB943,900,000 (for six months ended 30 June 2013: RMB920,461,000) and on the weighted average number of 1,399,000,000 (for six months ended 30 June 2013: 1,331,144,000) ordinary shares in issue.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: convertible bonds. The Company's convertible bonds have no dilutive effect on the earnings per share as at 30 June 2014.

11. DIVIDEND

Pursuant to a resolution passed by the Board on 27 August 2014, the directors did not recommend the payment of an interim dividend for the six months ended 30 June 2014.

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 2013				
Opening net book amount at 1 January 2013	3,314,100	539,275	99,348	5,636
Additions	292,763	34,268	–	1,514
Disposals	(4,770)	–	–	–
Depreciation/amortisation	(189,058)	(6,573)	(3,225)	(415)
Exchange differences	(1,140)	–	–	–
Closing net book amount at 30 June 2013	3,411,895	566,970	96,213	6,735
For the six months ended 30 June 2014				
Opening net book amount at 1 January 2014	3,518,230	696,871	92,988	8,921
Additions	327,632	100,277	–	2,872
Disposals	(341)	–	–	–
Depreciation/amortisation	(203,702)	(9,791)	(3,225)	(665)
Exchange differences	944	2,321	–	–
Closing net book amount at 30 June 2014	3,642,763	789,678	89,763	11,128

13. INVENTORIES

	30 June 2014 *RMB'000*	31 December 2013 *RMB'000*
Raw materials	**252,946**	260,954
Work in progress	**1,311,431**	1,289,150
Finished goods	**975,153**	874,795
	2,539,530	2,424,899

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 2014 *RMB'000*	31 December 2013 *RMB'000*
Within 3 months	**1,457,101**	1,341,794
Over 3 months	**190,746**	33,197
	1,647,847	1,374,991

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2014 *RMB'000*	31 December 2013 *RMB'000*
Prepayments and deposits		
– Purchase of raw materials	**91,655**	56,898
– Purchase of items of property, plant and equipment	**85,987**	23,025
– Prepaid rental and deposits	**94,091**	111,221
– Others	**26,100**	2,456
VAT refund receivable and recoverable	**114,989**	100,055
Other receivables	**75,105**	59,217
	487,927	352,872

16. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2014 *RMB'000*	31 December 2013 *RMB'000*
Financial products issued by financial institution	**850,641**	200,000

As at 30 June 2014, certain financial products with a carrying amount of RMB850,641,000 were stated at cost less impairment. The Directors are of the opinion that their fair value cannot be measured reliably. The financial products have terms of less than one year and have expected annual rates of return up to 5.85%. Pursuant to the underlying contracts or notices, these financial products are guaranteed by capital upon the maturity date. The Group does not intend to dispose of them in the near future.

17. TRADE AND BILLS PAYABLES

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

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Within 6 months	**490,566**	377,273
6 months to 1 year	**16,743**	5,136
1year to 2 years	**3,179**	943
over 2 years	**9,063**	8,397
	519,551	391,749

18. OTHER PAYABLES AND ACCRUALS

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Accrued expenses	**110,322**	200,635
Payable for water use right	**76,000**	76,000
Payables for purchase of property, plant and equipment	**30,198**	19,648
Guarantee deposits related to construction projects	**9,883**	9,770
Advance from customers	**96,960**	109,313
Other taxes payable	**55,078**	61,864
Dividends payable to non-controlling interests	**587**	587
Other payables	**65,408**	53,351
	444,436	531,168

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2014		31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Forward currency contracts	**–**	**5,180**	3,456	–

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

Forward currency contracts – cash flow hedges

As at 30 June 2014, the Group held certain forward currency contracts designated as hedges in respect of expected future sales to overseas customers.

The annual value 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 2014 and 2015 were assessed to be highly effective.

As at 30 June 2014, the Group had outstanding foreign currency contracts of approximately US$500,000,000 with maturity periods ranging from 1 month to 12 months.

20. CONVERTIBLE BONDS

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Face value of convertible bonds issued on 18 June 2014	**3,097,380**	–
Issuing expenses	**(53,790)**	–
Equity component	**(197,140)**	–
Liability component on initial recognition on 18 June 2014	**2,846,450**	–
Effect of exchange rate changes	**(1,433)**	–
Accumulated finance costs	**2,805**	–
Liability component	**2,847,822**	–

On 18 June 2014, the Company issued convertible bonds which will be due on 18 June 2019 (the "maturity date"), in the aggregate principal amount of HK$3,900,000,000 with an initial conversion price of HK$38.56 (subject to adjustment) per ordinary share of the Company, coupon rate is 0.5%. Unless previously redeemed, converted, purchased or cancelled, these bonds will be redeemed at 103.86% of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate of 3.55% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in reserves in shareholders' equity.

The fair value of the convertible bonds approximated its carrying amounts as at 30 June 2014.

As at 30 June 2014, no bond holders have converted their bonds into ordinary shares of the Company.

21. COMMITMENTS

(a) Capital commitments

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Contracted but not provided for:		
– Acquisition of prepaid land lease payments and property, plant and equipment	**219,639**	92,134
– Construction of property, plant and equipment	**257,034**	266,882
	476,673	359,016

(b) Outstanding forward foreign exchange contracts

As at 30 June 2014, the Group had commitments in respect of outstanding forward foreign exchange contracts to sell US$500,000,000 (31 December 2013: US$60,000,000) for approximately RMB3,126,346,000 (31 December 2013: approximately RMB365,820,000) within periods ranging from 1 month to 12 months (31 December 2013: within one month).

22. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

23. RELATED PARTY TRANSACTIONS

(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 2014 and 2013:

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Lease of property, plant and equipment from Ningbo Shenzhou Properties Company Limited ("Shenzhou Properties")*	**4,926**	3,631
Provision of processing services from Ningbo Shenzhou Shitong Knitwear Co. Ltd. ("Shenzhou Shitong")*	**7,341**	7,015
Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")**	**20,378**	20,944

* 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 credit facilities of the Group are guaranteed by the 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 2014	31 December 2013
	RMB'000	*RMB'000*
Amounts due to related parties		
– Trade related		
Huaxi Packaging Company	**1,248**	–
	1,248	–

(d) Key management compensation

	For the six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**11,008**	9,379
Post-employment benefits	**55**	52
	11,063	9,431

24. COMPARATIVE AMOUNTS

Certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes of the Group for the six months ended 30 June 2014 set out in this announcement.

BUSINESS REVIEW

During the period, the amount of textile and garment products export from China exhibited a slight growth as compared with the corresponding period last year. According to the statistics of the Chinese Customs, the total amount of Chinese textile and garment exports (including textile yarns, fabrics and finished products as well as garments and garment accessories, referred the same as below) from January to June 2014 was US$132.48 billion, representing a year-on-year increase of approximately 4.1%, down by approximately 8 percentage points as compared with the same period in 2013. Out of the total exports, the export of textile products amounted to US$53.30 billion, representing a year-on-year increase of approximately 4.2%. Garment export value rose by approximately 4.1% to US$79.18 billion, among which US$19.66 billion, US$14.24 billion and US$8.84 billion were exported to the European Union ("EU"), the United States ("US") and Japan, respectively, representing increases of approximately 20.2%, 7.4% and a decrease of approximately 11.1% respectively, over the corresponding period last year. Exports of garment products to the EU market rose significantly, and exports to Japanese market saw an apparent drop as a result of the shifting of purchasing focus of the Japanese market that had affected the export and the increase in domestic consumption tax in Japan. As affected by continuing increase in manufacturing costs, the market share of China's garment products show a decreasing trend year by year in the EU, the US and Japanese markets. Of the garment products exported, the export value of knitted garments amounted to US$35.09 billion from January to June 2014, representing a decrease of 9.4% as compared with the same period last year, which was mainly due to decrease in the unit price of cotton knitted garments because of a drop in domestic cotton price.

For the domestic garments consumer market, according to the National Bureau of Statistics of China, RMB588.6 billion total retail sales of goods among the "over-the-threshold" enterprises from January to June 2014 came from garments, footwear, hats and knitwear, representing a year-on-year increase of 10%, and down by nearly 2 percentage points as compared with the same period last year. In recent years, the garment consumption in the domestic market has maintained a stable low growth instead of rapid increase like in the past, and the competition of garment retail brands was more and more intense in the domestic market.

During the period, as affected by the change of the population structure and employment mentality, the recruitment by enterprises was more difficult with labour costs increasing rapidly. For raw materials, as a result of the change in the previous collection and reserve policies by government, cotton price dropped significantly during the period and the price difference with foreign markets was narrowed. The price of dye and chemical materials had apparent increases as a result of certain small and medium enterprises pulling out from the industry due to inability to fulfill the environmental protection requirements because of the impact from the tightening of the government's environmental policies. The stabilization of the RMB exchange rate against US dollars had mitigated the adverse impact of RMB appreciation on export enterprises.

For January to June 2014, the Group recorded a slight growth in revenue and operating results with 4.4% and 2.0% increases in revenue and gross profit respectively, as compared with the same period in 2013, and also, profit after tax rose by 2.5% in order to realize earnings per share amounted to RMB0.67. During the period, the Group constructed its overseas production bases as scheduled, strengthened the research and development and innovation activities for its products and further optimized its product mix. The works during the period had laid a healthy foundation for the sustainable and stable development of the Group.

To increase the production capacity of the Group and to achieve a stable increase in its revenue, the Group initiated a new round of construction of production bases in overseas. The construction progress of the fabric production base of the Group in Tay Ninh Province, Vietnam is in line with its expectation. Currently, the construction of the Phase I factory with administrative offices is at its final stage with some production equipment starting to be installed and tested. It is expected that Phase I capacity will be put into production by the end of 2014. The incident of attacking foreign enterprises by Vietnamese occurred in May this year had increased the risk concern of foreign enterprises on investments in Vietnam. The production base of the Group in Vietnam was at the construction period, so its properties and progress of the project did not suffer from any significant impact. Through its own channels, the Group had conveyed its concern on investors' interests to the Vietnam government authorities. At present, the Group has not changed its plan to invest in Vietnam, and it also takes a positive attitude towards its business development in Vietnam. However, the Group will continue to assess the situation to make reasonable response or adjustment. Apart from the fabric production base, the Group is also preparing to construct its garment factory in Vietnam.

To further enhance its industry competitive advantages, the Group strengthened its activities in innovation, and research and development. Apart from its engineering technology centre, its corporate innovation centre is also under construction. Following its wholly-owned subsidiary of the Group being awarded as a High New Technology Enterprise in 2013, Ningbo Shenzhou Knitting Co., Ltd., another wholly-owned subsidiary of the Group, received the "Ningbo City Mayor Quality Award".

During the period, revenue from sportswear products represented 62.6% of total revenue, which was the highest proportion in the history of the Group and achieved a satisfactory growth. Lingerie products also maintained a relative stable level. For retail operation, the total number of current directly-managed stores was 29, which are mainly located in cities within the Yangtze River Delta region.

THE GROUP'S OPERATING RESULTS

Revenue

The Group's revenue for the six months ended 30 June 2014 amounted to RMB4,938,637,000, representing an increase of RMB210,999,000 or approximately 4.4% from RMB4,772,638,000 for the six months ended 30 June 2013. The modest increase in revenue of the Group during the period was mainly attributable to: 1) a satisfactory increase in sportswear products, but offset by a drop in sales of casual wear products in the Japanese market, 2) there was no substantial additional capacity of the Group during the period, 3) the impact of efficiency improvement of domestic employees was affected by staff turnover.

A comparison of the Group's revenue for the six months ended 30 June 2014 and the six months ended 30 June 2013 by product categories is as follows:

	For the six months ended 30 June					
	2014		2013		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Sportswear	**3,117,439**	**62.6**	2,713,800	56.9	403,639	14.9
Casual wear	**1,112,038**	**22.3**	1,294,820	27.1	(182,782)	(14.1)
Lingerie	**672,704**	**13.5**	667,438	14.0	5,266	0.8
Other knitwear	**81,456**	**1.6**	96,580	2.0	(15,124)	(15.7)
Total revenue	**4,983,637**	**100.0**	4,772,638	100.0	210,999	4.4

For the six months ended 30 June 2014, revenue from sale of sportswear amounted to RMB3,117,439,000, representing an increase of RMB403,639,000 or approximately 14.9% from RMB2,713,800,000 for the six months ended 30 June 2013. The growth in revenue from sale of sportswear mainly came from international brands, and the revenue from sale of domestic sportswear brands for the period also rose when compared with 2013. During the period, the revenue from sale of domestic sportswear brands increased by RMB37,000,000 to approximately RMB110,000,000 from approximately RMB73,000,000 for the same period in 2013.

Revenue from sale of casual wear products decreased by RMB182,782,000 or approximately 14.1% from RMB1,294,820,000 for the six months ended 30 June 2013 to RMB1,112,038,000 for the six months ended 30 June 2014. This was mainly due to: 1) the decrease in purchase demand from the Japanese clients of the Group; 2) the redeployment of the Group's limited capacity to the increasing demand for sportswear products without any increase in other casual wear products to meet clients' demand.

Revenue from sale of lingerie products increased by RMB5,266,000 or approximately 0.8% from RMB667,438,000 for the six months ended 30 June 2013 to RMB672,704,000 for the six months ended 30 June 2014. Revenue from sale of lingerie products was mainly attributable to the demand from Japanese clients.

A comparison of the Group's revenue for the six months ended 30 June 2014 and the six months ended 30 June 2013 by market regions is as follows:

	For the six months ended 30 June					
	2014		2013		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By market regions						
International sales						
Japan	**1,406,301**	**28.2**	1,604,101	33.6	(197,800)	(12.3)
Europe	**875,797**	**17.6**	812,359	17.0	63,438	7.8
US	**460,239**	**9.2**	388,000	8.1	72,239	18.6
Others	**1,095,868**	**22.0**	1,035,428	21.8	60,440	5.8
Sub-total for international sales	**3,838,205**	**77.0**	3,839,888	80.5	(1,683)	–
Domestic sales	**1,145,432**	**23.0**	932,750	19.5	212,682	22.8
Total revenue	**4,983,637**	**100.0**	4,772,638	100.0	210,999	4.4

For the six months ended 30 June 2014, the Group's revenue from the Japanese market was RMB1,406,301,000, representing a decrease of RMB197,800,000 or approximately 12.3% from RMB1,604,101,000 for the six months ended 30 June 2013. It was mainly due to the decrease in the purchase amount of Japanese clients from the Company as a result of the increased domestic consumption tax rate in Japan, in which it had affected garment consumption demand.

The Group's revenue from the European market for the six months ended 30 June 2014 amounted to RMB875,797,000, representing an increase of RMB63,438,000 or approximately 7.8% from RMB812,359,000 for the six months ended 30 June 2013. It was mainly due to the increase in garment consumption demand due to its economic recovery.

The Group's revenue from the US market for the six months ended 30 June 2014 amounted to approximately RMB460,239,000, representing an increase of RMB72,239,000 or approximately 18.6% from RMB388,000,000 for the six months ended 30 June 2013. The growth of the Group's sales from the US market was mainly attributable to sportswear products.

The Group maintained its revenue growth in other markets including South Korea, Russia and Hong Kong. Revenue from other markets for the six months ended 30 June 2014 increased by approximately 5.8% as compared with the six months ended 30 June 2013.

For the six months ended 30 June 2014, the Group increased 22.8% in its revenue from the domestic market as compared with last year, with sales of apparels in domestic market amounted to approximately RMB1,076,561,000, representing an increase of RMB229,484,000 or approximately 27.1% from RMB847,077,000 for the same period last year. The increase in sales from the domestic market was also mainly attributable to the purchase for sales of international brands in the PRC region.

Cost of sales and gross profit

The Group's cost of sales for the six months ended 30 June 2014 amounted to approximately RMB3,581,153,000 (for the six months ended 30 June 2013: RMB3,397,615,000). The Group's gross profit margin for sales for the six months ended 30 June 2014 was approximately 28.1%, representing a decrease of approximately 0.7 percentage point from 28.8% for the six months ended 30 June 2013. Revenue for the period included a loss of RMB12,010,000 (for the six months ended 30 June 2013: gain of RMB10,638,000) from foreign currency forward hedges between US dollars and RMB entered into in China. Gross profit margin for the period excluding such loss from foreign currency hedges was approximately 28.3% (for the six months ended 30 June 2013: 28.7%), representing a slight decrease of approximately 0.4 percentage point. The major factor affecting the gross profit margin for the period was the rapid rise in labor costs.

Equity attributable to equity holders of the Company

As at 30 June 2014, the Group's equity attributable to equity holders of the Company amounted to RMB10,645,868,000 (31 December 2013: RMB10,316,264,000), of which non-current assets, net current assets, non-current liabilities and non-controlling interests amounted to RMB4,541,942,000 (31 December 2013: RMB4,324,581,000), RMB8,967,063,000 (31 December 2013: RMB6,007,076,000), RMB2,847,822,000 (31 December 2013: nil) and RMB15,315,000 (31 December 2013: RMB15,393,000), respectively. The increase in equity attributable to equity holders of the Company was mainly due to an increase in retained earnings and the equity component of convertible bonds was credited to reserves during the period.

Liquidity and financial resources

For the six months ended 30 June 2014, net cash generated from the Group's operating activities amounted to approximately RMB798,272,000 (for the six months ended 30 June 2013: RMB540,015,000). Net cash (cash and cash equivalents less total borrowings (including the balance of debt component of convertible bonds)) of the Group as at 30 June 2014 was RMB1,698,351,000, representing an decrease of RMB910,699,000 from the net cash of RMB2,609,050,000 as at 31 December 2013. The decrease was mainly due to an increase in cash outflow from investing activities of the Group during the period.

Cash and cash equivalents of the Group as at 30 June 2014 amounted to RMB4,546,173,000 (31 December 2013: RMB2,609,050,000). The balance of debt component of convertible bonds amounted to RMB2,847,822,000 (31 December 2013: nil). Equity attributable to equity holders of the Company amounted to RMB10,645,868,000 (31 December 2013: RMB10,316,264,000). The Group maintained a sound cash flow position with a debt to equity ratio (total outstanding borrowings (including the balance of debt component of convertible bonds) as a percentage of the equity attributable to equity holders of the Company) of 26.8% (31 December 2013: nil).

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

The Company issued convertible bonds in an aggregate principal amount of HK$3,900,000,000 (equivalent to approximately RMB3,097,380,000 if calculated at an exchange rate of HK$1=RMB0.7942 on the Issue Date) on 18 June 2014 (the "Issue Date"), bearing a coupon rate of 0.5% and payable semi-annually. The maturity date of convertible bonds is on 18 June 2019 (the "Maturity Date"), unless previously redeemed, converted, purchased, cancelled or otherwise provided in the terms and conditions of the bonds. The Company will redeem the convertible bonds at 103.86% of their principal amounts on the Maturity Date. The initial conversion price of the bonds is HK$38.56 per share (subject to adjustment). On the Issue Date, the initial recognition amount of RMB2,846,450,000 for the liability component of the bonds was calculated using a market interest rate of 3.55% for a non-convertible bond of the same class. Equity component amount of RMB197,140,000 was credited to the reserves of shareholders' equity. Net proceeds from the issue of those bonds were approximately HK$3,832,271,000, which was intended to be used for business expansion and for general corporate purposes.

As of 30 June 2014, no convertible bonds have been converted into shares of the Company pursuant to the relevant terms.

Finance costs and tax

For the six months ended 30 June 2014, finance costs dropped from RMB5,611,000 for the six months ended 30 June 2013 to RMB3,539,000, out of which the interest on convertible bonds amounted to RMB2,805,000. It was mainly due to the decrease in the Group's average balance of borrowings during the period.

The Group's income tax expense for the six months ended 30 June 2014 decreased to RMB202,445,000 from RMB260,435,000 for the six months ended 30 June 2013, which was mainly due to the provision for corporate income tax of Ningbo Daqian Knitwear Co., Ltd. (寧波大千紡織品有限公司), a wholly owned subsidiary of the Group, at a preferential rate of 15% during the period and it was subject to a tax rate of 25% during the same period last year as the tax preference is yet to be approved. If calculated subject to a preferential rate of 15%, income tax expense for the same period last year would decreased by RMB42,779,000.

Pledge of the Group's assets

As at 30 June 2014, the Group had no pledge of assets.

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

Placing of new shares in April 2012

The Company completed the 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$1:RMB0.8109) after deducting related share issue expenses. The intended use of the proceeds from such placing of new shares and the actual use of related proceeds during the period are set out as follows:

- An amount of approximately RMB608,174,000 shall be used to establish new textile production facilities in Mainland China and to purchase and construct the relevant equipment and plants. As of 30 June 2014, approximately RMB473,640,000 in total had been used;

- An amount of approximately RMB121,635,000 shall be used to set up new garment production facilities and to purchase the relevant production equipment. As of 30 June 2014, the amount had been fully utilized;

- An amount of approximately RMB81,090,000 shall be used to expand the Group's retail network. As of 30 June 2014, approximately RMB51,917,000 in total had been used; and

- An amount of approximately RMB128,649,000 shall be used to repay part of the Group's short-term bank loans. As of 30 June 2014, the amount had been fully utilized.

As at 30 June 2014, the remaining net proceeds equivalent to RMB163,707,000 have been placed as bank deposits in Hong Kong and Mainland China. For the details of such placing of new shares, please refer to the announcements of the Company dated 16 April 2012 and 26 April 2012 respectively.

Placing of new shares in June 2013

The Company completed the placing of 69,000,000 new shares on 28 June 2013 and raised net proceeds of approximately HK$1,527,464,000 (equivalent to approximately RMB1,216,625,000 based on the exchange rate of HK$1:RMB0.7965) after deducting related share issue expenses. The intended use of the proceeds from such placing of new shares is set out as follows:

- The proceeds will be used to build and construct a production facility for the manufacture of fabrics in Vietnam ("Vietnam Project") in phases, as to approximately HK$777,000,000 for the building and construction of phase I of the Vietnam Project, including long term leasehold land use right, construction of buildings and staff quarters, construction of sewage system and infrastructure, purchase of machinery and equipment, etc; and

- the residual amount of approximately HK$750,464,000 will be used to build and construct phase II of the Vietnam Project and as general working capital.

As of 30 June 2014, approximately HK$631,860,000 of the proceeds from such placing had been utilized and the balance of approximately HK$895,604,000 was placed in bank as deposits in Hong Kong and Mainland China. For the details of such placing of new shares, please refer to the announcements of the Company dated 18 June 2013 and 28 June 2013. For details of the Vietnam Project, please refer to the announcement of the Company dated 28 May 2013.

Exposure to foreign exchange

As the Group's sales were mainly settled in US dollar, while its purchases were mainly settled in RMB, the Group's costs and operating profit margin were affected by exchange rate fluctuations to a 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 US dollar and RMB. The amounts to be hedged depend on the Group's expected revenue, purchases and capital expenditure in US dollar, as well as the market forecast of fluctuations in the exchange rate of US dollars against RMB.

To avoid the reduction in the value of future cash flows and the volatility thereof arising from any exchange rate movement between RMB and US dollar, the Group entered into forward contracts in selling US dollar. As of 30 June 2014, the aggregate amount of the outstanding US dollar forward contracts was approximately US$500,000,000 (as at 31 December 2013: approximately US$60,000,000). The expansion of the overseas production bases of the Group will add to the cost expenditure in US dollar, and is conducive to offsetting the volatility of the exchange rate between RMB and US dollar. In addition, the Group will also consider the arrangement of appropriate amount of loans in foreign currency according to the bank interest rates and capital requirements.

Employment, training and development

As at 30 June 2014, the Group employed approximately 59,200 employees in total. Total staff costs, including management and administrative staff, accounted for approximately 26.2% (for the six months ended 30 June 2013: 25.0%) 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 commitments

During the six months ended 30 June 2014, the Group's total investment in property, plant and equipment and prepaid land lease payments amounted to approximately RMB430,781,000, of which approximately 12% was used for the acquisition of production equipment, approximately 80% 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 2014, the Group had contracted capital commitments of approximately RMB476,673,000 in connection with the acquisition and construction of properties, plants and equipment, which will be mainly financed by the net proceeds from the placing of new shares and internal resources.

Contingent liabilities

As at 30 June 2014, the Group did not have any material contingent liabilities.

FUTURE PROSPECTS AND STRATEGIES

The cost competitiveness of the Chinese garment products in the international market is now confronted with the ever rising labor costs. Meanwhile, major garment importing countries have adopted differentiated tariffs policies in the import sector for the garment products made in China and other countries, which has placed the Chinese garment manufacturing industry into a disadvantaged competitive position in the international market. Since 2010, the Chinese garment products' market share in major garment-importing countries has been a continuous downward trend and there have been signs of accelerated downward movement. The Chinese government has continuously toughened the environmental requirements and law enforcement which has made some small and medium-sized garment manufacturing enterprises start exiting this industry, while it will continue to benefit enterprises with leading environmental capacity in thus industrial integration,. The Group has clear development policies to counteract the numerous development difficulties faced by the garment industry.

In expanding the scale of its overseas production bases, building and optimizing the vertically integrated production model overseas to eventually reduce the adverse effect on the Group caused by the ever-rising domestic labor costs, it can also meet the risk management requirements for which international brand customers decentralized their procurement sources. Currently, the project of the first phase of the Group's fabric production bases in Vietnam is running smoothly. Our jobs will focus on improving the production efficiency and refining management standard after the overseas production bases begin to operate. The new garment factory in Vietnam is also under preparation. Furthermore, apart from the existing investments in Cambodia and Vietnam, the Group is always keeping its eyes on appropriate other overseas investment regions, and it will make arrangement, depending on the business development, especially in those developing countries with lower costs.

The Group will maintain the competitive edge of domestic production bases through various innovative measures. The Group will transform and renew part of its production lines in its domestic production bases with the targets of achieving energy conservation, high efficiency and stability. We will expand the application coverage of automated equipment to improve work efficiency and thereby reduce the adverse effects caused by the increasing labour costs. We will establish enterprise innovation center and increase products research investments to provide technical support for our global production bases. We will further optimize industry chain to shorten product delivery time and reduce the market risks for clients.

The Group will cooperate with Avery Dennison to establish a joint venture to provide customers with embellishment transfer printing, printing and knitting label, graphic labels and hangtags and sustainable packaging services. It is believed that such cooperation will promote the innovation in heat transfer printing to better service leading global brands, thus strengthening the competitiveness of the Group.

The huge demand for garment consumption in the global market is the development foundation of this industry. To improve enterprises' production efficiency and management standard through integrating the resource advantages of different production bases to become the world's premium enterprise in this sector is the development vision of the Group. The future strategy of the Group is to have a foothold on the enterprise's sustainable development to strive for satisfactory investment returns for the shareholders.

DIVIDENDS

At the Company's annual general meeting held on 28 May 2014, the shareholders of the Company approved the payment of a final dividend of HK$0.75 (equivalent to approximately RMB0.59) (including a special dividend of HK$0.20) per share for the year ended 31 December 2013 to the shareholders whose names appeared on the register of members of the Company at the close of business on 9 June 2014. The cash dividend was paid by the Company on 26 June 2014 in cash.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil) and proposes to retain the profit for the period.

CORPORATE GOVERNANCE

On 9 October 2005, 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 Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has complied with all the code provisions of the CG Code throughout the six months ended 30 June 2014. There have not been any material changes to the Company's corporate governance practices during the reporting period as compared with the information disclosed in the 2013 annual report.

Terms of Reference of Board Committees

In order to comply with the Listing Rules and the CG Code, the terms of reference of the audit committee, the nomination committee and the remuneration committee of the Company have been revised accordingly. Such terms of reference for each committee 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 updates 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 the 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 the 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 held on 28 May 2014 to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

The Company has adopted a shareholders' communication policy and procedures for shareholders to propose a person for election as a Director with effect from 26 March 2012. The policy and the procedures 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 set out in Appendix 10 of 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. Reminders 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 on this matter, all Directors have confirmed their strictly compliance with the relevant provisions of the Securities Trading Code throughout the period ended 30 June 2014.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company issued convertible bonds in an aggregate principal amount of HK$3,900,000,000 (equivalent to approximately RMB3,097,380,000 if calculated at an exchange rate of HK$1=RMB0.7942 on the Issue Date) on 18 June 2014, bearing a coupon rate of 0.5% and payable semi-annually. The maturity date of convertible bonds is on 18 June 2019, unless previously redeemed, converted, purchased, cancelled or otherwise provided in the terms and conditions of the bonds. The Company will redeem the convertible bonds at 103.86% of their principal amounts on the Maturity Date. The initial conversion price of the bonds is HK$38.56 per share (subject to adjustment). On the Issue Date, the initial recognition amount of RMB2,846,450,000 for the liability component of the bonds was calculated using a market interest rate of 3.55% for a non-convertible bond of the same class. Equity component amount of RMB197,140,000 was credited to the reserves of shareholders' equity. For relevant details, please refer to the announcements of the Company dated 22 May, 18 June and 19 June 2014.

As of 30 June 2014, no convertible bonds have been converted into shares of the Company pursuant to the relevant terms.

Save for the placing of existing 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 six months ended 30 June 2014.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The interim report of the Company containing all the information required by the Listing Rules will be sent to the shareholders of the Company and published on the website of the Stock Exchange (www.hkexnews.com.hk) and the Company's website (www.shenzhouintl.com) 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 the review of the unaudited financial statements for the six months ended 30 June 2014).

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe, Ms. Zheng Miaohui, Mr. Wang Cunbo and Ms. Chen Zhifen; and four independent non-executive Directors, namely Mr. Chen Genxiang, Mr. Chen Xu, Mr. Jiang Xianpin and Mr. Qiu Weiguo.

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

Hong Kong, 27 August 2014