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 2007

HIGHLIGHTS

- Revenue for the six months ended 30 June 2007 amounted to RMB1,552,907,000, an increase of 11.7% as compared with the corresponding period of 2006.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2007 amounted to RMB265,937,000, an increase of 39.5% as compared with the corresponding period of 2006.
- Net profit margin for the period was 17.1%, approximately 3.4% higher as compared to 13.7% for the corresponding period of 2006.
- Sports wear accounted for 23.0% of the total revenue for the period, representing an increase as compared with 13.2% for the corresponding period of 2006.
- Apparel exports to the US and other countries accounted for 10.9% of the total revenue for the period, representing an increase as compared with 6.1% for the corresponding period of 2006.
- Earnings per share amounted to RMB0.21.

The board of directors (the "Board") of Shenzhou International Group Holdings Limited ("Shenzhou International" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007, together with the comparative amounts for the corresponding period of 2006. The interim results and interim financial statements have not been audited but have been reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited For the six months ended 30 June 2007 RMB'000	2006 RMB'000
Revenue	3	**1,552,907**	1,390,177
Cost of sales	4	**(1,167,858)**	(1,079,164)
Gross profit		**385,049**	311,013
Distribution costs	4	**(17,498)**	(13,774)
General and administrative expenses	4	**(118,010)**	(81,665)
Other income/(losses)	5	**35,899**	(2,498)
Other losses		**(174)**	(235)
Operating profit		**285,266**	212,841
Finance income	6	**564**	2,241
Finance costs	6	**(11,429)**	(7,984)
Finance costs, net		**(10,865)**	(5,743)
Profit before income tax		**274,401**	207,098
Income tax expense	7	**(7,741)**	(15,919)
Profit for the period		**266,660**	191,179
Attributable to:			
Equity holders of the Company		**265,937**	190,593
Minority interests		**723**	586
		266,660	191,179
Earnings per share for the profit attributable to the equity holders of the Company for the period (expressed in RMB per share)	8		
— Basic		**0.21**	0.15
— Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited 30 June 2007** *RMB'000*	Audited 31 December 2006 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**152,533**	132,374
Properties, plants and equipment		**1,841,824**	1,638,031
Intangible assets		**526**	—
Deferred income tax assets		**831**	709
Derivative financial instruments		**116,539**	—
Prepayment		**50,000**	50,000
		2,162,253	1,821,114
Current assets			
Inventories		**776,511**	428,196
Accounts and bills receivable	10	**238,796**	204,875
Prepayments and other receivables		**123,361**	60,762
Derivative financial instruments		**47,404**	4,583
Pledged bank deposits		**227**	182
Cash and cash equivalents		**118,175**	273,994
		1,304,474	972,592
Total assets		**3,466,727**	2,793,706
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**129,717**	129,717
Reserves		**2,137,957**	1,932,085
		2,267,674	2,061,802
Minority interests		**13,237**	12,514
Total equity		**2,280,911**	2,074,316

	Note		
Current liabilities			
Accounts and bills payable	11	**369,444**	259,845
Accruals and other payables		**97,999**	142,165
Due to related parties		**2,100**	44
Bank borrowings		**696,190**	317,336
		1,165,733	719,390
Non-current liabilities			
Bank borrowings		**3,808**	—
Deferred income tax liabilities		**16,275**	—
		20,083	—
Total liabilities		**1,185,816**	719,390
Total equity and liabilities		**3,466,727**	2,793,706
Net current assets		**138,741**	253,202
Total assets less current liabilities		**2,300,994**	2,074,316

NOTES:

1. BASIS OF PREPARATION

These unaudited consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". These unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. ACCOUNTING POLICIES

The accounting policies and basis of presentation adopted are consistent with those of the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

- HKFRS 7, "Financial Instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. The Group has assessed the impact of this new standard and adjustments had been made accordingly in the Group's financial statements;

- HKAS 1, "Amendments to Capital Disclosures", effective for annual periods beginning on or after 1 January 2007. The Group is currently assessing the impact of this new standard on the Group's financial statements;

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29", effective for annual periods beginning on or after 1 March 2006. The Group does not expect this interpretation to be relevant for the Group;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. The Group does not expect this interpretation to be relevant for the Group;

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. As none of the group entities have changed the terms of their contracts, this interpretation is not relevant for the Group; and

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. The Group does not expect this interpretation to be relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. The Group is currently assessing the impact of this new standard on the Group's financial statements;

- HK(IFRIC)-Int 11, "HKFRS 2 — Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. The Group does not expect this interpretation to be relevant for the Group; and

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. The Group does not expect this interpretation to be relevant for the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in a single business segment, the manufacture and sale of knitwear products, the majority of the operations and assets of which are located in Mainland China. Therefore, no business segment is presented.

Revenue by geographical locations of customers (by market locations where merchandise was sold):

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Sales to external customers		
Japan	**1,080,189**	1,078,259
Europe	**183,439**	160,404
Mainland China	**120,457**	67,255
Others	**168,822**	84,259
	1,552,907	1,390,177

4. EXPENSES BY NATURE

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

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Employee benefit expenses		
Wages and salaries	**306,819**	252,256
Retirement benefit contributions	**10,760**	7,265
Other benefits	**5,233**	3,400
	322,812	262,921
Depreciation, amortisation and impairment expenses	**81,842**	66,877
Changes in inventories of finished goods and work in progress	**(334,567)**	(124,117)
Raw materials and consumables utilised	**1,002,535**	801,337
Utilities expenses	**99,272**	88,087
Outsourcing	**54,290**	27,458
Commission	**10,993**	5,057
Transportation expenses	**9,399**	2,590
Operating lease expenses for properties	**7,799**	5,710
Office expenses	**4,277**	2,079
Inspection fees	**3,865**	4,911
Traveling expenses	**3,144**	1,858
Entertainment expenses	**3,139**	2,013
Other expenses	**34,566**	27,822
Total cost of sales, distribution costs and general and administrative expenses	**1,303,366**	1,174,603

5. OTHER INCOME/(LOSSES)

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Government subsidies *(note a)*	**11,585**	3,655
Exchanges gains/(losses), net	**6,447**	(2,797)
Gains/(losses) arising from the changes of fair values in forward foreign exchange contracts at fair value through profit and loss	**17,863**	(3,356)
Others	**4**	—
	35,899	(2,498)

(a) Government subsidies mainly represent incentives granted to the Group by local governments.

6. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest expenses		
— on bank borrowings wholly repayable within 5 years	**11,429**	7,984
Finance income — Interest income	**(564)**	(2,241)
	10,865	5,743

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Mainland China current income tax ("EIT")	**6,032**	16,674
Deferred tax	**1,709**	(755)
	7,741	15,919

The Company and Top Always Investments Limited, a subsidiary of the Company, are exempted from payment of income tax in their respective places of incorporation.

The subsidiaries established in Mainland China are subject to EIT at a rate of 16.5% to 33%. Except for Daqian Import & Export, the other subsidiaries which were incorporated as foreign investment enterprises in Mainland China have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to an exemption from EIT for the first 2 years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

Under the Law on Taxation, Shenzhou Cambodia Co., Ltd., a wholly-owned subsidiary incorporated in the Kingdom of Cambodia, is subject to income tax at a rate of 9% and is entitled to an exemption from income tax for the first four profit-making years in accordance with the relevant tax rules.

Shenzhou Trading Co., Ltd., a wholly-owned subsidiary incorporated in Hong Kong, is subject to a profits tax rate of 17.5% on the estimated assessable profits arising in Hong Kong. No provision of Hong Kong profits tax has been made as the company did not generate any assessable profits in Hong Kong during the period.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the consolidated profit attributable to equity holders of the Company of approximately RMB265,937,000 (Six months ended 30 June 2006: RMB190,593,000) and on the weighted average number of approximately 1,245,000,000 (Six months ended 30 June 2006: 1,245,000,000) ordinary shares in issue during the period.

Diluted earnings per share has not been presented as there were no diluted ordinary shares.

9. DIVIDEND

Pursuant to a resolution passed by the Board on 11 August 2007, the directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

10. ACCOUNTS AND BILLS RECEIVABLE

The majority of the Group's sales are on letters of credit. The remaining amounts are generally granted with credit terms ranging from 1 to 6 months. The ageing analysis of accounts and bills receivable is as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
0 to 6 months	**238,657**	204,717
6 months to 1 year	**119**	158
1 year to 2 years	**20**	—
	238,796	204,875

The carrying amounts of accounts and bills receivable approximate to their fair values.

11. ACCOUNTS AND BILLS PAYABLE

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
Accounts payable	**206,240**	137,362
Bills payable	**163,204**	122,483
	369,444	259,845

Ageing analysis of accounts and bills payable is as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
0 to 6 months	**368,910**	258,988
6 months to 1 year	**462**	811
1 year to 2 years	**53**	20
Over 2 years	**19**	26
	369,444	259,845

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2007, the Group has made significant achievements on its work which proceeded according to its stated development strategy, details of which are as follows:

Robust growth in the share of sports wear

The Group, with its competitive edge in integrated services, attracted well-known international sports brand customers and established close strategic co-operation with such customers. Such co-operation secured a robust growth in sales orders received and allowed a more extensive scope of co-operation in various fields, such as production capacity planning, strategy coordination, coordination between production and sales as well as research and development. It also helped promote the progress in the diversification of the Group's products, customers and market bases, streamline the Group's operating structure and improve the overall profitability. For the six months ended 30 June 2007, the contribution of sports wears to the total revenue increased to 23.0%, compared to 13.2% for the six months ended 30 June 2006.

Rise of lingerie as a new product segment

Leveraging on its fabric "ODM" foundation and sustained capacity in developing new fabrics and products, the Group experimented with the production of lady lingerie series in the second half of 2006 and this product line has matured in the first half of 2007, showing positive development prospects. For the six months ended 30 June 2007, lingerie contributed to 4.6% of the total revenue.

Satisfactory profit margin resumed

The Group resumed a satisfactory profit margin as the productivity of the large pool of staff newly hired in early 2006 increased in the first half of this year and the business co-operation with new customers improved, while the unit costs of the related orders were under well control and dropped continuously.

Balanced development among markets in Mainland China, the US and the Asia-Pacific

In addition to the stable development of markets in Japan and Europe, the markets in Mainland China, the US and the Asia-Pacific, which include Australia, Korea and Hong Kong, China, also experienced rapid growth and operational risks relating to single market has been reduced significantly as a framework with balanced and healthy growth among several major markets has been established. For the six months ended 30 June 2007, sales of garments and clothing accounted for RMB87,132,000 in the total sales in Mainland China, representing a substantial increase as compared to RMB28,663,000 for the six months ended 30 June 2006, mainly attributable to the sales of products of internationally renowned brand names to customers for their domestic sales.

New customers with development potential being attracted

While focusing on the development of customers such as UNIQLO, NIKE and ADIDAS, the Group also approached and nurtured new customers with potential for growth. After initial negotiations, factory inspections and sampling which lasted for six months to one year, Kappa has started to place orders for its market in Mainland China, while Marks & Spencer, the largest retail chain in the UK has also placed its first batch of orders. The Group will formulate a future plan for mutual co-operation after taking the results of co-operations among the parties and the allocation of production capacity into consideration.

OPERATING RESULTS OF THE GROUP

Revenue

Revenue for the six months ended 30 June 2007 amounted to RMB1,552,907,000, representing an increase of RMB162,730,000 or 11.7% from RMB1,390,177,000 for the six months ended 30 June 2006. The growth was mainly driven by: 1) the continuous sharp increase in the sales of sports wear; and 2) the effect of the globalized expansion in sales markets.

The comparisons by product categories between revenue of the Group for the six months ended 30 June 2007 and the six months ended 30 June 2006 are as follows:

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By product						
Casual wear	**1,082,993**	**69.7**	1,147,514	82.5	(64,521)	(5.6)
Sports wear	**356,192**	**23.0**	183,168	13.2	173,024	94.5
Lingerie	**71,298**	**4.6**	—	—	71,298	n/a
Other knitting products	**42,424**	**2.7**	59,495	4.3	(17,071)	(28.7)
Total revenue	**1,552,907**	**100.0**	1,390,177	100.0	162,730	11.7

For the six months ended 30 June 2007, contribution from sports wear increased substantially, mainly due to a substantial increase in OEM manufacturing for renowned brands. Sports wear accounted for 23.0% of the total revenue for the six months ended 30 June 2007, representing a continual increase as compared with 13.2% for the six months ended 30 June 2006.

For the six months ended 30 June 2007, revenue for casual wear amounted to RMB1,082,993,000, representing a decrease of RMB64,521,000 or 5.6% from RMB1,147,514,000 for the six months ended 30 June 2006, mainly due to a proper reduction of sales of products to certain customers with lower profit margins as the Group adjusted its products and customers bases after the Company had secured the supplies to its major customers.

The comparisons by regions between revenue of the Group for the six months ended 30 June 2007 and the six months ended 30 June 2006 are as follows:

	For the six months ended 30 June					
	2007		2006		Change	
	RMB'000	**%**	*RMB'000*	*%*	*RMB'000*	*%*
By region						
International sales						
Japan	**1,080,189**	**69.6**	1,078,259	77.6	1,930	0.2
Europe	**183,439**	**11.8**	160,404	11.5	23,035	14.4
The US	**74,655**	**4.8**	35,029	2.5	39,626	113.1
Others	**94,167**	**6.1**	49,230	3.6	44,937	91.3
Sub-total for international sales	**1,432,450**	**92.3**	1,322,922	95.2	109,528	8.3
Domestic sales	**120,457**	**7.7**	67,255	4.8	53,202	79.1
Total revenue	**1,552,907**	**100.0**	1,390,177	100.0	162,730	11.7

For the six months ended 30 June 2007, on the solid foundation in the Japanese market, shares contributed by the US market and other markets, which include Hong Kong, China, Korea and Australia, increased significantly, mainly attributable to the market diversification strategy of the Company as well as the global market demands from certain customers. For the six months ended 30 June 2007, sales in the US market and other countries accounted for 4.8% and 6.1% of the Group's sales, respectively, representing an increase from 2.5% and 3.6%, respectively, for the six months ended 30 June 2006.

Domestic sales of normal garments amounted to RMB87,132,000 for the six months ended 30 June 2007 (Six months ended 30 June 2006: RMB28,663,000), mainly attributable to the demand of high-end sportswear in Mainland China and the supply of more products by the Company for customers with internationally renowned brand names for their domestic sales as a result of the 2008 Beijing Olympic Games.

Cost of sales and gross profit

The Group's cost of sales for the six months ended 30 June 2007 amounted to approximately RMB1,167,858,000 (Six months ended 30 June 2006: RMB1,079,164,000). The gross profit margin of the Group for the six months ended 30 June 2007 was 24.8%, approximately 2.4% higher as compared with 22.4% for the six months ended 30 June 2006. The main reason for the increase in the gross profit margin was that the production volume of the staff newly recruited in year 2006 has in principle reached normal level after having their on-the-job training sessions and the proportion of sales for products with low added-values has been reduced through an effective adjustment in the products portfolio.

Equity attributable to the equity holders of the Company

As at 30 June 2007, the Group's equity attributable to the equity holders of the Company amounted to RMB2,267,674,000 (31 December 2006: RMB2,061,802,000), of which non-current assets amounted to RMB2,162,253,000 (31 December 2006: RMB1,821,114,000), net current assets amounted to RMB138,741,000 (31 December 2006: RMB253,202,000) and minority interests amounted to RMB13,237,000 (31 December 2006: RMB12,514,000). The increase in equity attributable to the equity holders of the Company was mainly due to the increase in retained earnings.

Liquidity and financial resources

For the six months ended 30 June 2007, net cash generated from the Group's operating activities amounted to approximately RMB911,000 (Six months ended 30 June 2006: RMB282,959,000). Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 30 June 2007 amounted to RMB581,823,000, an increase by RMB538,481,000 as compared with the net borrowings as at 31 December 2006 of RMB43,342,000 mainly due to increased investment in plants and equipment, etc. to further improve production capabilities as well as the increase of balance of financial resources occupied by inventories. The balance of inventories increased to the amount of RMB776,511,000 as at 30 June 2007 from RMB428,196,000 as at 31 December 2006, representing an increase of RMB348,315,000, mainly because the Company early produced part of the work in progress using the surplus production capacity in the first half of the year with a view to maintaining its capacity in the second half of the year and that the amount of finished goods undelivered has increased. The operating mode of the Company to arrange production according to orders received remains unchanged and the term of delivery is relatively stable.

Cash and cash equivalents of the Group at 30 June 2007 amounted to RMB118,175,000 (31 December 2006: RMB273,994,000). The total amount of outstanding borrowings was RMB699,998,000 (31 December 2006: RMB317,336,000), in which short-term loans amounted to RMB696,190,000 and long-term loans amounted to RMB3,808,000. Equity attributable to equity holders of the Company amounted to RMB2,267,674,000 (31 December 2006: RMB2,061,802,000). The Group was in a solid cashflow position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to the equity holders of the Company) of 30.9% (31 December 2006: 15.4%).

As at 30 June 2007, the majority of borrowings of the Group is subject to interest payable at fixed rates. The Group did not enter into any interest rate swaps to hedge itself against interest rate risks.

Finance costs and tax

For the six months ended 30 June 2007, finance cost increased substantially to RMB11,429,000 from RMB7,984,000 for the six months ended 30 June 2006, mainly due to the increase of the interest expenses arising from more bank loans being raised by the Company during the period.

For the six months ended 30 June 2007, income tax expense of the Group decreased to RMB7,741,000 from RMB15,919,000 for the six months ended 30 June 2006, mainly because a subsidiary of the Company was entitled to a preferential EIT treatment of 2 years of exemption from and 3 years of 50% reduction in EIT starting from 2007, which is the first year of the tax holiday, as well as an elimination of the current tax charges of Ningbo Shenzhou Knitting Co., Ltd., a major subsidiary of the Company, in the amount of RMB3,336,000 arising from a reduction of part of its local EIT and taxes recovered from purchasing equipment produced in China.

Pledge of the Group's assets

As at 30 June 2007, the Group's deposits with certain banks amounted to approximately RMB227,000 (31 December 2006: RMB182,000) were pledged to secure certain trade financing facilities granted by the banks, while plants and land use rights of the Group with a carrying amount of RMB187,142,000 as at 30 June 2007 were also pledged to secure a medium to long-term loan facilities of USD21,000,000 granted by the Zhejiang branch of the Export-Import Bank of China. As at 30 June 2007, the Company has borrowed USD500,000 from the bank with a borrowing term of 5 years.

Use of proceeds from the initial public offering

Proceeds from the issue of new shares of the Company for listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2005, after deducting related share issue expenses therefrom, amounted to approximately HK$856 million. During the period from the listing date to 30 June 2007, part of such proceeds were utilized in accordance with the proposed uses as set out in the prospectus of the Company dated 15 November 2005 (the "Prospectus"), as follows:

- approximately HK$156,869,000 (approximately RMB159,669,000) for the acquisition of new dyeing and finishing equipment for the Group's production facilities in China;

- approximately HK$128,874,000 (approximately RMB129,048,000) for the acquisition of new plants and equipment in China for the production of functional fabrics mainly used in sports wear;

- approximately HK$68,214,000 (approximately RMB68,854,000) for the acquisition of new weaving and knitting equipment for the Group's production facilities in China;

- approximately HK$51,000,000 (approximately RMB53,050,000) for the acquisition of new cutting and sewing equipment for the Group's production facilities in China;

- approximately HK$305,000,000 (approximately RMB317,261,000) for partial repayment of the Group's long-term bank borrowings; and

- approximately HK$48,000,000 (approximately RMB49,930,000) as additional general working capital of the Group.

As at 30 June 2007, the balance of the net proceeds of approximately HK$98,043,000 were deposited with banks in Hong Kong and China. The Directors intend to utilize such net proceeds in the manner disclosed in the Prospectus.

Exposure to exchange risks

As the Group's sales were mainly settled in United States Dollars ("USD") while its purchases were mainly settled in RMB, its costs and operating profit margin were subject to exchange rate fluctuations. The Group has adopted a policy to hedge part of its exchange rate risks in light of the existing fluctuations of exchange rate between USD and RMB. The amount to be hedged will depend on the Group's expected USD revenue, purchases and capital expenditure requirements, as well as market forecast of fluctuations in the USD to RMB exchange rate.

To protect itself from reductions in value and the volatility of future cash flows which might be resulted from any exchange rate movement between RMB and USD, the Group has arranged for USD borrowings of an appropriate amount. As at 30 June 2007, out of the total bank borrowings, USD borrowings amounted to RMB438,348,000 (USD57,560,000 based on the original currency) (31 December 2006: RMB177,336,000 (USD22,710,000 based on the original currency)). In addition, the Group entered into USD forward sales contracts and USD/CNY Non-Deliverable Forward contracts in order to hedge certain of its foreign exchange risk, particularly the foreign exchange risk relating to USD. As at 30 June 2007, the total amount of the USD forward sales contracts and USD/CNY Non-Deliverable Forward contracts were approximately USD736,000,000 and USD676,000,000, respectively. The Group did not enter into any foreign exchange transactions for speculative purposes.

Employment, training and development

As at 30 June 2007, the Group had over 32,700 employees. Total staff costs, including administrative and management staff, amounted to approximately 20.8% (Six months ended 30 June 2006: 18.9%) 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 would receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Company also offered rewards or other incentives to motivate personal growth and career development of the employees, such as ongoing opportunities for training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. All new staff of the Group are required to attend an introductory course, while there are also various types of training courses available to all the Group's employees.

Capital expenditure and commitments

For the six months ended 30 June 2007, the Group's total investment in properties, plants and equipment and land use rights amounted to approximately RMB308,520,000, of which approximately 58% was used for the acquisition of plants and equipment and approximately 39% for the construction of new factory buildings, while the balance was used for the purchase of other fixed assets.

As at 30 June 2007, the Group had contracted capital commitments of approximately RMB104,962,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by proceeds from the initial public offering and internal resources.

Pursuant to an agreement entered into between the Group and the government of Beilun District, Ningbo City, the local government will guarantee the supply of certain amount of water to the Group at a discounted price for a term of 20 years upon the Group paying it RMB126,000,000, which included the relevant costs of pipes construction in the amount of approximately RMB26,000,000. At 30 June 2007, the Group has paid a prepayment in the amount of RMB50,000,000, while a commitment amounted to RMB76,000,000 remained outstanding.

Contingent liabilities

As at 30 June 2007, the Group had no material contingent liabilities.

Future prospects and strategies

After the lifting of garments quota restrictions on 1 January 2005 and up to the date hereof, the Group has further experienced the competitiveness brought by the comprehensive and vertically-integrated production processes, which is represented by the Group's all-rounded abilities in terms of customer-services, quality control, timely responses and scale of production. The management of the Group believes that such competitiveness will bring about more significant contributions in the coming years. As a result, the Group will continue to strengthen the capacity of each production process, improve its production techniques, increase the operation efficiencies, tighten its control over costs and shorten the time of delivery in order to improve the overall competitiveness.

In view of the rising labour cost and the cost of lands for industrial uses, the Group intends to operate certain garment factories in the Mid West region of Mainland China in the next few years and continue to increase the production and integrated servicing capacity of the garment factory in Cambodia according to the customers' needs. It is aimed that a network with Ningbo, China as the production center for fabrics and garments and Cambodia and the Mid West region of Mainland China, as two supportive garment production bases will be formed. The Group will strive to ensure stable and secured product supplies for the major customers and achieve cost advantage.

On the solid foundation in the development of the Japanese market, the Group will also put more efforts in realizing balanced development among each major markets in anticipation of any new and possible restriction on garments to be implemented after the withdrawal of the transitional garments quota restrictions by the EU and the US on 1 January 2008 and 1 January 2009, respectively. The Group will also actively promote its development in quota free markets, such as Australia, Korea as well as countries and regions in Southeast Asia. Meanwhile, the Group will strive to promote the sales shared by the Chinese market in view of the continuous appreciation of RMB and the adjustment in the export tax refund rate. On such basis, the Group will implement a development strategy of promoting a balanced market development in order to mitigate the operation risk relating to the reliance on a single market.

The Group is presented with an unprecedented opportunity for growth in its sports wear business and it will, therefore, continue to increase the proportion of sales and sales volume attributable to sports wear, broaden the scope of co-operation with internationally renowned sports brands, and establish closer and tighter strategic co-operation with them. In addition, the Group will raise the standards and techniques of its research and development in fabrics and expand its lingerie business to higher-end markets.

Leveraging on its fabric "ODM" foundation, the Group will steadily build up its "ODM" garments design operation. In addition to co-operating with internationally renowned sports brands in running fashion design centers, the Group has also recruited its own senior fashion designers in Paris and Tokyo.

In the coming years, textile and garment industry in China will experience more world-shaking changes. The Group believes that, leveraging on its apparent competitive advantage in the industry, it will be able to overcome all kinds of challenges in the future, secure its leading position in terms of assets quality and profitability, as well as strengthening and expanding itself in order to become the most competitive knitwear manufacturer in the world with a view to generating considerable return for shareholders and investors.

DIVIDENDS

At the Company's Annual General Meeting held on 8 June 2007, shareholders approved the payment of a final dividend of HK$0.15 per share for the year ended 31 December 2006 to shareholders whose names appeared on the register of members of the Company on 5 June 2007. The dividend was paid on 22 June 2007 in cash.

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (Six months ended 30 June 2006: Nil) and propose that the profit for the period be retained.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with all the code provisions of the CG Code as set out in the Listing Rules during the six months ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Trading Code"). Upon specific enquiries, all Directors have confirmed their strict compliance with the relevant provisions of the Securities Trading Code during the period.

The senior management, who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Securities Trading Code.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities shares during the six months ended 30 June 2007.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed matters relating to auditing, internal control and financial statements, including a review of the unaudited financial statements for the six months ended 30 June 2007.

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Ma Jianrong, Mr. Huang Guanlin, Mr. Ma Renhe, Mr. Chen Zhongjing and Ms. Zheng Miaohui, and the Independent Non-executive Directors are Mr. Qian Feng, Mr. Zong Pingsheng and Mr. Dai Xiangbo.

By Order of the Board
Ma Jianrong
Chairman

Hong Kong, 11 August 2007

* *For identification only*