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

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 2313)

PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS

- Sales for the year ended 31 December 2007 amounted to approximately RMB3,655,613,000, an increase of 22.7% when compared with the year of 2006.
- Profit attributable to equity holders of the Company for the year ended 31 December 2007 amounted to approximately RMB406,882,000, an increase of 4.6% when compared with the year of 2006.
- Sports wear accounted for 31.9% of the total sales for the year ended 31 December 2007, representing a significant increase as compared to 15.6% for the year of 2006.
- Earnings per share amounted to RMB0.33.
- Proposed to declare a final dividend of HK$0.16 (approximately RMB0.15) per ordinary share.

The board of directors (the "Board") of Shenzhou International Group Holdings Limited ("Shenzhou International" or the "Company") is pleased to present the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, together with the comparative amounts for the corresponding year of 2006 as follows.

* *for identification purposes only*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4	**3,655,613**	2,979,530
Cost of sales		**(2,841,753)**	(2,340,483)
Gross profit		**813,860**	639,047
Other income and gains	4	**15,680**	12,239
Selling and distribution costs		**(47,648)**	(34,744)
Administrative expenses		**(257,395)**	(185,935)
Other expenses		**(88,482)**	(6,279)
Finance costs	5	**(34,279)**	(15,081)
PROFIT BEFORE TAX	6	**401,736**	409,247
Tax	7	**6,352**	(19,001)
PROFIT FOR THE YEAR		**408,088**	390,246
Attributable to:			
Equity holders of the parent		**406,882**	389,031
Minority interests		**1,206**	1,215
		408,088	390,246
DIVIDENDS			
Proposed final	8	**186,531**	187,628
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the year		**RMB0.33**	RMB0.31
Diluted			
– For profit for the year		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,973,982**	1,638,031
Land use rights		**151,993**	132,374
Long-term prepayment		**50,000**	50,000
Intangible assets		**521**	–
Deferred tax assets		**26,689**	709
Total non-current assets		**2,203,185**	1,821,114
CURRENT ASSETS			
Inventories		**695,509**	428,196
Trade receivables	*10*	**325,771**	204,875
Prepayments, deposits and other receivables		**99,270**	60,762
Derivative financial instruments		**286,617**	4,583
Pledged deposits		**184**	182
Bank deposits with initial term of over three months		**60,000**	–
Cash and cash equivalents		**233,384**	273,994
Total current assets		**1,700,735**	972,592
CURRENT LIABILITIES			
Trade and bills payables	*11*	**305,887**	259,845
Other payables and accruals		**119,959**	142,165
Derivative financial instruments		**161,754**	–
Interest-bearing bank and other borrowings		**740,013**	317,336
Due to related parties		**1,009**	44
Tax payable		**2,457**	–
Total current liabilities		**1,331,079**	719,390
NET CURRENT ASSETS		**369,656**	253,202
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,572,841**	2,074,316
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**58,437**	–
Deferred tax liabilities		**33,772**	–
Total non-current liabilities		**92,209**	–
Net assets		**2,480,632**	2,074,316
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**129,717**	129,717
Reserves		**2,152,870**	1,744,457
Proposed final dividend		**186,531**	187,628
		2,469,118	2,061,802
Minority interests		**11,514**	12,514
Total equity		**2,480,632**	2,074,316

Notes:

1. BASIS OF PREPARATION

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

2. IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

3. SEGMENT INFORMATION

The Group is principally engaged in one business segment, the manufacture and sale of knitwear products, and most of its operations and assets are located in Mainland China. Therefore, no business segment or geographical segment is presented.

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**3,655,613**	2,979,530
Other income		
Government grants	**14,116**	4,235
Bank interest income	**1,560**	3,421
Others	**4**	–
	15,680	7,656
Gains		
Fair value gains, net:		
Derivative instruments – transactions not qualifying as hedges	**–**	4,583
	15,680	12,239

5. FINANCE COSTS

	Group 2007	2006
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**34,279**	15,081

6. PROFIT BEFORE TAX

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

	Group 2007	2006
	RMB'000	*RMB'000*
Cost of inventories sold	**2,686,812**	2,233,723
Depreciation	**174,034**	141,775
Recognition of land use rights	**1,981**	1,348
Amortisation of other intangible assets	**31**	–
Minimum lease payments under operating leases:		
Buildings	**19,200**	13,263
Auditors' remuneration	**1,791**	2,000
Employee benefits expense (including directors' remuneration):		
Wages and salaries	**668,361**	521,909
Pension scheme contributions	**30,686**	18,963
Other welfares	**9,031**	7,017
	708,078	547,889
Foreign exchange (gain)/loss, net	**(15,726)**	6,139
Write-down of inventories to net realisable value	**148**	–
Fair value (gain)/loss, net:		
Derivative instruments – transactions not qualifying as hedges	**104,073**	(4,583)
Bank interest income	**(1,560)**	(3,421)
Loss on disposal of items of property, plant and equipment	**135**	444

7. TAX

The major components of income tax expense for the years ended 31 December 2007 and 2006 are:

	Group 2007	2006
	RMB'000	*RMB'000*
Current Mainland China corporate income tax ("CIT")	**13,197**	19,434
Deferred taxation	**(19,549)**	(433)
	(6,352)	19,001

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations. As the Company carries on business in Hong Kong, it is subject to a Hong Kong 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 had no assessable profits arising in Hong Kong during the year (2006: Nil).

Pursuant to the International Business Companies Act, 1984 ("IBC Act") of the British Virgin Islands, International Business Companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax, and all forms of withholding tax. Accordingly, Top Always Investments Ltd. ("Top Always"), a subsidiary incorporated in British Virgin Island, is not subject to tax.

Shenzhou (Cambodia) Co., Ltd. ("Shenzhou Cambodia"), a wholly-owned subsidiary incorporated in the Kingdom of Cambodia under the Law on Taxation, is subject to income tax at a rate of 9% and is entitled to be exempted from income tax for the first four profit-making years.

Shenzhou Trading Co., Ltd. ("Shenzhou Trading"), 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 Shenzhou Trading had no assessable profits arising in Hong Kong during the year (2006: Nil).

The subsidiaries established in Mainland China are subject to CIT rates ranging from 16.5% to 33%. Except for Ningbo Daqian Import & Export Co., Ltd. ("Daqian Import & Export"), other subsidiaries, being incorporated as foreign investment enterprises in Mainland China, have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from CIT for the first two years and 50% reduction in CIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

8. DIVIDENDS

	Company	
	2007	2006
	RMB'000	*RMB'000*
Proposed final dividend of HK$0.16 (approximately RMB0.15) (2006: HK$0.15) per ordinary share	**186,531**	187,628

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

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

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

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

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**406,882**	389,031

	Number of Shares	
	2007	2006
	Thousands	*Thousands*
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**1,245,000**	1,245,000

Diluted earnings per share is not presented as there were no dilutive ordinary shares.

10. TRADE RECEIVABLES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**325,771**	204,875
Impairment	**–**	–
	325,771	204,875

Majority of the Group's sales are covered by letter of credit. The remaining amounts are generally granted with credit terms of one to six months.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Within 6 months	**324,294**	204,717
Over 6 months	**1,477**	158
	325,771	204,875

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

11. TRADE AND BILLS PAYABLES

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

	Group	
	2007	2006
	RMB'000	*RMB'000*
0 to 6 months	**305,844**	258,988
6 months to 1 year	**3**	811
1 year to 2 years	**–**	20
Over 2 years	**40**	26
	305,887	259,845

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2007, Shenzhou International significantly accelerated its adjustment in product mix, customer structure and market diversification with satisfactory results. The business development during the year under review is summarised as follows:

Continuous Substantial Growth in the Contribution from Sports Wear

While securing the stable development of the casual wear business, the Group boosted the contribution of sports wear to the Group's turnover in 2007. During the year, the Group worked more closely with internationally renowned sports brands such as NIKE, ADIDAS and PUMA, and started the business cooperation with trendy sports brand, KAPPA. The factory and apparel design centre designated for NIKE has been running smoothly while the factory designated for ADIDAS has been completed and commenced operation. Compared with 15.6% in 2006, sports wear contributed to 31.9% of the total sales for the year ended 31 December 2007.

Rapid Development of the China Market

Leveraging on the Group's integrated competitiveness and benefited from the selection of suppliers by the major sports wear clients during the post-quota era and the increasing demand for sports wear in the Mainland China, the Group grew rapidly in the China market. The 2008 Beijing Olympics also generated an outstanding growth in demand for sports wear. For the year ended 31 December 2007, sales in the Mainland market accounted for 10.8% of the total sales, as compared to 6.0% in 2006. The impact of the constant appreciation of RMB and the decrease in the tax refund rate for export sales will, in a certain extent, be offset by the rapid growth in the Group's orders from domestic clients.

Expansion of Production Capacity and Ancillary Facilities

During the year under review, the Group continued to expand its dyeing and finishing capacity by acquiring additional dyeing and finishing equipment. To complement with the expansion in the dyeing and finishing capacity, the Group also increased its knitting, printing and embroidery and manufacturing processes during the year with a particular focus on the manufacturing processes capacity. The factory designated for ADIDAS commenced operation during the year, enabling the Group to cope with the increasing orders from ADIDAS. With an aim to better accommodate the needs of our customers, the Group has also set up a printing and embroidery production line in its Cambodian factory.

Moving Towards Higher-end Markets

During the year, orders for fashionable and competition sports wear showed a higher growth among those from renowned sports brands such as NIKE and ADIDAS, boosting the share of the Group's high-end sports wear. With its achievement on fabric ODM, the Group was able to gradually move its lady lingerie segment towards high-end markets. During the year, the testing center of Ningbo Shenzhou Knitting Co., Ltd., the Group's subsidiary, was awarded the National Laboratory Certification (國家實驗室認可證書) by the China National Accreditation Services for Conformity Assessment (CNAS), enabling the Group to provide more detailed and complicated fabrics and garment testing services to its customers as well as facilitating its penetration into the EU and other countries and regions that required higher environmental standards on apparel products.

A More Reasonable Customer Structure

After over three years of effort, satisfactory progress on our strategy to fine tune the customer structure has been achieved. Proportion of sales to two major global sports brands have reached 25% of the Group's total turnover and continued to grow rapidly, effectively reducing its operational risk arising from customer concentration.

Upgraded Ancillary Facilities

Further to a Bulk Water Supply Agreement with the local government of Beilun District, Ningbo City in 2006, the Group, Ningbo Water Supply General Company (寧波市自來水總公司) and the Water Conservancy Bureau of Beilun District, Ningbo City (寧波市北侖區水利局) entered into a Water Supply Guarantee Supplementary Agreement during the year, which signified our effort made to secure water supply and guarantees the safe water supply for our long term development as it enables the Group to effectively control the water utilisation cost and, more importantly, strategically secure our water supply. After years of effort, the Group has also made considerable progress on stable supply of electricity, steam and land and was particularly successful in developing its sewage treatment facilities, ensuring the healthy and sustainable development of our operation in all aspects.

FINANCIAL REVIEW

Sales

Sales for the year ended 31 December 2007 amounted to RMB3,655,613,000, an increase of RMB676,083,000 or 22.7% compared to RMB2,979,530,000 for the year ended 31 December 2006. The growth was mainly driven by 1) the continuous and sharp increase in the sales of sports wear; 2) the successful expansion into the global distribution markets; and 3) the acceleration of the exploration of the domestic market.

Sales of the Group analysed by product categories for 2007 and 2006 are compared as follows:

	For the year ended 31 December					
	2007		2006		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
By products						
Casual wear	**2,248,981**	**61.5**	2,374,491	79.7	(125,510)	(5.3)
Sports wear	**1,165,198**	**31.9**	463,607	15.6	701,591	151.3
Lingerie	**147,920**	**4.0**	35,577	1.2	112,343	315.8
Other knitting products	**93,514**	**2.6**	105,855	3.5	(12,341)	(11.7)
Total sales	**3,655,613**	**100.0**	2,979,530	100.0	676,083	22.7

For the year ended 31 December 2007, the significant growth in the contribution from sports wear was mainly due to the continuous increase in OEM operation for renowned sports brands after the effective implementation of the refined strategy to increase the proportion of high-end products. Sports wear accounted for 31.9% of the Group's total sales for the year ended 31 December 2007, representing a continual increase compared to 15.6% for the year ended 31 December 2006.

For the year ended 31 December 2006, sales from casual wear amounted to RMB2,374,491,000, which decreased to RMB2,248,981,000 for the year ended 31 December 2007, representing a decrease of RMB125,510,000 or 5.3%, mainly due to the decrease in the sales of low value-added products as a result of improvements on product portfolio and client base to guarantee the supply to major clients.

Sales of lingerie for the year ended 31 December 2007 increased by RMB112,343,000 or 315.8% to RMB147,920,000 from RMB35,577,000 in the year ended 31 December 2006. The increase is mainly attributable to the increase in production of lingerie corresponding to the demand in Japan.

Sales of the Group analysed by regions for 2007 and 2006 are compared as follows:

	For the year ended 31 December					
	2007		2006		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
By markets						
Japan	**2,178,725**	**59.6**	2,250,287	75.5	(71,562)	(3.2)
Europe	**515,602**	**14.1**	339,337	11.4	176,265	51.9
The US	**298,830**	**8.2**	105,627	3.6	193,203	182.9
Other countries	**268,112**	**7.3**	105,121	3.5	162,991	155.1
Sub-total for international sales	**3,261,269**	**89.2**	2,800,372	94.0	460,897	16.5
Domestics sales	**394,344**	**10.8**	179,158	6.0	215,186	120.1
Total sales	**3,655,613**	**100.0**	2,979,530	100.0	676,083	22.7

In addition to the effort made for strengthening the market presence in Japan, the significant increase in the contribution to turnover from the markets in Europe, the US and the other markets consisting of Korea, China, Hong Kong and Australia in the year ended 31 December 2007 was mainly attributable to the Group's diversified strategy and the demand from worldwide markets of certain clients. The markets in Europe, the US and the other markets accounted for 14.1%, 8.2% and 7.3% of the Group's total sales for the year ended 31 December 2007, compared to 11.4%, 3.6% and 3.5% for the year ended 31 December 2006.

Domestic sales of garments amounted to approximately RMB320,424,000 for the year ended 31 December 2007 (For the year ended 31 December 2006: RMB101,206,000), mainly related to the increase in demand of high-end sportswear and the imminent 2008 Beijing Olympics, the increase in supply of products to clients of renowned brand names for domestic sales.

COST OF SALES AND GROSS PROFIT

The Group's cost of sales for the year ended 31 December 2007 amounted to approximately RMB2,841,753,000 (2006: RMB2,340,483,000). The gross profit margin of the Group's sales for 2007 was 22.3%, which is approximately 0.9% higher as compared to 21.4% for 2006. The main reason for the increase in our gross profit margin was the output of the staff newly recruited in year 2006 had in principle reached standard level after their on-the-job training sessions and the proportion of sales from products with low added-values had been reduced through an effective adjustment in the product portfolio. However, the abovementioned favorable factors were offset by the continual appreciation of RMB and the 2% lower rate on export tax refund from 1 July 2007.

EQUITY ATTRIBUTABLE TO THE COMPANY's EQUITY HOLDERS

As at 31 December 2007, the Group's equity attributable to the Company's equity holders was RMB2,469,118,000 (2006: RMB2,061,802,000), of which non-current assets were RMB2,203,185,000 (2006: RMB1,821,114,000), net current assets were RMB369,656,000 (2006: RMB253,202,000), non-current liabilities were RMB92,209,000 (2006: RMB nil) and minority interests were RMB11,514,000 (2006: RMB12,514,000). The increase in equity attributable to the Company's equity holders was mainly due to the increase in retained profits and the gain from foreign currency forward contracts.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2007, net cash generated from the Group's operating activities amounted to approximately RMB307,017,000, while that for 2006 was approximately RMB570,879,000. Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 31 December 2007 amounted to RMB565,066,000, an increase of RMB521,724,000 as compared to that as at 31 December 2006, which amounted to RMB43,342,000. The increase was mainly due to increased investments in plant and equipment, etc. in order to further improve production capabilities to satisfy the needs of increasing orders.

Cash and cash equivalents of the Group as at 31 December 2007 amounted to RMB233,384,000 (2006: RMB273,994,000). The total balance of our borrowings was RMB798,450,000 (2006: RMB317,336,000, all being short-term bank loans), in which short-term bank loans amounted to RMB740,013,000 and long-term bank loans amounted to RMB58,437,000. Equity attributable to equity holders of the Company amounted to RMB2,469,118,000 (2006: RMB2,061,802,000). The Group maintained a healthy liquidity position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to the Company's equity holders) of 32.3% (2006: 15.4%).

As at 31 December 2007, the majority of the borrowings of the Group were subject to fixed interest rates. The Group did not enter into any interest rate swaps to hedge against the risks associated with interest rates.

FINANCE COSTS AND TAXATION

For the year ended 31 December 2007, finance costs went up from RMB15,081,000 for the year ended 31 December 2006 to RMB34,279,000, mainly due to the additional bank borrowings to finance the extension of plant and equipment contributed to the increase in the corresponding interest expenses and the hike in RMB prime rate of the People's Bank of China. The Group's USD and RMB loan interest rates during the year ranged from 6.18% to 6.67% and 5.27% to 8.22% respectively (2006: 5.27% to 6.49% and 4.70% to 5.58% respectively).

For the year ended 31 December 2007, the Group recorded an income tax credit of RMB6,352,000 as compared to an income tax charge of RMB19,001,000 for the year ended 31 December 2006, mainly due to the recognition of a loss from fair value of derivative financial instruments of RMB104,073,000 in the year 2007 and the corresponding recognition of deferred income tax credit of RMB19,267,000. Furthermore, one of our subsidiaries was entitled to a preferential CIT treatment of a 2-year exemption and a 50% reduction in CIT for 3 years 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 local CIT and taxes refund for purchasing equipment produced in China.

According to the "Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law", the applicable tax rate in the coming years for our manufacturing subsidiaries in Ningbo Economic & Technical Development Zone will be 18% in 2008, 20% in 2009; 22% in 2010; 24% in 2011 and 25% in 2012. The entitlement of certain companies to the preferential tax treatment of a 2-years exemption and a 50% reduction for 3 years may subsist according to the original tax law and administrative regulation until the expiry of the tax holiday.

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2007, deposits with certain banks with a total amount of approximately RMB184,000 (2006: RMB182,000) pledged as securities for certain trade financing facilities granted by the banks, while plants and land use rights of the Group with a carrying amount of RMB169,350,000 as at 31 December 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 31 December 2007, the Group has borrowed USD8,000,000 from the bank.

USE OF THE COMPANY'S 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 ("Stock Exchange") in November 2005, after deducting related share issue expenses therefrom, amounted to approximately HK$856 million. During the period from the date of listing to 31 December 2007, part of such proceeds had been utilised in accordance with the proposed use as set out in the prospectus of the Company dated 15 November 2005 (the "Prospectus"), as follows:

- approximately HK$185,716,000 (approximately RMB187,245,000) for the acquisition of new dyeing and finishing equipment for the Group's production facilities in China;

- approximately HK$175,476,000 (approximately RMB172,705,000) for the acquisition of new plant and equipment in China for the production of functional fabrics mainly used in sports wear;

- approximately HK$70,000,000 (approximately RMB70,072,000) 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 31 December 2007, the balance of the net proceeds of approximately HK$20,808,000 had been deposited with banks in Hong Kong and the PRC. The Directors intend to utilise 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") whilst its purchases were mainly settled in RMB, its costs and operating profit were subject to exchange rate fluctuations. The Group adopted a policy to hedge part of its exchange risks in light of existing fluctuations of the exchange rate between USD and RMB. The amount to be hedged would depend on the Group's USD revenue, purchases and capital expenditure requirements, as well as market forecast of fluctuations in the USD to RMB exchange rate.

To safeguard itself against reductions in value and the volatility of future cash flows which might result from any exchange rate movement between RMB and USD, the Group had arranged an appropriate amount of USD borrowings. As at 31 December 2007, out of our total bank borrowings, USD borrowings amounted to RMB436,450,000 (USD59,750,000 based on the original currency) (31 December 2006: RMB177,336,000 (USD22,710,000 based on the original currency)). In addition, the Group had entered into foreign currency forward contracts for hedging against certain foreign exchange exposures, in particular, exposure to the forecast sales denominated in USD. For the year ended 31 December 2007, the total amount of the outstanding USD forward contracts designated to hedge the exchange risk of the future sales was approximately USD490,000,000.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2007, the Group had over 35,200 employees. Total staff costs, including administrative and management staff, accounted for approximately 19.4% of the Group's sales during the year. The Group remunerated its staff according to their performance, qualifications and industry practices and conducted regular reviews of its remuneration policy. Employees would receive bonuses and monetary awards 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 skills and product knowledge as well as their knowledge of industry quality standards. All new staff members of the Group are required to attend an introductory course. There were also various types of training courses available to all the employees.

CAPITAL EXPENDITURE AND COMMITMENTS

During the year, the Group's total investments in property, plant and equipment and land use rights amounted to approximately RMB536,050,000, of which approximately 58% was used for the acquisition of plant and equipment, approximately 38% was used for the construction of new factory buildings, and the balance was used for the purchase of fixed assets.

As at 31 December 2007, the Group had capital commitments of approximately RMB250,912,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by internal resources.

Pursuant to an agreement entered between the Group and the Government of Beilun District, Ningbo City, the Group would pay an amount of RMB126 million to the local government, including relevant pipeline constructing costs of approximately RMB26 million, in exchange for a guaranteed constant water supply, at a preferential rate, for a term of 20 years. As at 31 December 2007, the Group has made a prepayment of RMB50,000,000 and had outstanding commitments of RMB76,000,000.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no significant contingent liabilities.

FUTURE PROSPECT AND STRATEGIES

Due to the ongoing appreciation of RMB, continuously rising labour cost, decreasing tax refund rate for export sales and the increase in the cost of raw materials in recent years, low-end garment OEMs in the coastal area of Eastern China have been facing enormous pressure, forcing more and more garment factories to relocate to mid-western China and Southeast Asian countries. However, the coastal area of Eastern China has its unique competitive edges, including a second-to-none comprehensive knitting production chain, skilled and high-standard knitting labour, innovative fabric technology, sound infrastructure and economies of scale within the knitting industry. Recognising its irreplaceable position, medium to high-end garment OEMs are pouring into the region and this trend is going to last in the foreseeable future.

Leveraging on its integrated competitiveness gained in the last two decades, especially in the past five years, and benefited from the above trends, we believe that Shenzhou International has become a leading manufacturer of the industry.

In view of the above, we are confident that the Group will be able to tackle the difficulties currently present in the industry under the Board's development strategy as well as further optimising its product mix, customer structure, market distribution and production base, increasing the product selling prices, stabilising its profit margins and strengthening its position in the industry.

The Group will further promote a vertical integration of processes from weaving and knitting, dyeing and finishing, printing and embroidery to cutting and sewing, and will continue to expand our garment production capacity. In 2008, the Group will ensure the full utilisation of the production capacity of dedicated ADIDAS factory and improve the production efficiency of each garment factory, so as to achieve a highly efficient operation with large economies of scale.

China's new labour contract law, which came into effect on 1 January 2008, generally has little impact on large enterprises with standardised operation. The actual impact will be on small enterprises that do not operate in compliance with the new rules and have low added-value. The wage level in China is undeniably on the rise and the trend will continue. Fortunately, the production efficiency of the Group is also increasing in an acceptable pace, which will in a certain extent act as a buffer to counteract the pressure on rising in labour cost. Going forward, the Group will continue to expand its production capacity in Cambodia and contain the total labour cost within an acceptable range.

It is foreseeable that, fuelled by the momentum in 2007, the appreciation of RMB is likely to accelerate in 2008. The Group is also feeling the pressure from such appreciation and has therefore implemented various measures as previously mentioned, which managed to maintain a relatively stable profit margin for our products. One of the Group's major strategies to cope with RMB appreciation is to increase the proportion of domestic sales. On the solid foundation laid in 2007, we are confident that the Group's sales in the Mainland China will grow tremendously in the coming years.

Due to the reduction of cotton planting areas in the US and Brazil, we forecast that the cotton price will remain at a relatively high level in 2008. During the past two years, prices of agricultural products such as wheat, soybean and corn have gone up significantly. Both the global and China's cotton prices may have been underestimated. Such change in the correlation relation between cotton and other agricultural products may further push the cotton price upward. Meanwhile, affected by the international trade environment, rising energy, raw material and labour cost as well as the possible economic downturn in the US, the growth in China's textile and apparel exports is expected to slow down to approximately 15%, which in turn will reduce the demand for cotton. In general, the Group anticipates that the overall level of China's cotton price will continue to rise amid fluctuations in 2008, though a substantial rise or fall is unlikely. Our corresponding strategy is to confirm the cotton yarn supply plan with our suppliers as early as possible. It will not only ensure the adequate supply at a stable price, and we will encourage the use of chemical fibre. Under certain circumstances, chemical fibre may serve as a substitute for cotton yarn. With the advancement in technology, some of the shortcomings of chemical fibre such as absorbability, air permeability and anti-electrostaticity have been resolved. Fuelled by oil price hike, the price of terylene fibre is facing upward pressure. However, since the excess production capacity of terylene fibre remains, the possibility of seeing a sharp rise in its price in 2008 is relatively low. As the contribution from sports wear to the Group's turnover has considerably increased, the use of terylene fibre will be further increased and hence offset part of impact of rising cotton yarn price.

The Group will continue to improve the quality of its causal wear and establish a stable customer base and market network. The foundation we laid in the past three years for the sports wear business will promote better results for globally renowned sports brand customers such as NIKE, ADIDAS, PUMA and KAPPA. Given the opportunities brought by the 2008 Beijing Olympics and the promising future of the PRC market, the Group believes that the proportion of sales from sports wear will continue to increase in the coming years and the contribution from this segment is expected to exceed 50% after the next two years. Meanwhile, the sports wear segment is apparently moving towards higher-end markets, which will in turn push up the price and profit margins of its products. In addition, with the advancement in fabric technology, we believe the outlook of the Group's lingerie segment will be promising. This will enable the Group to diversify its operation and establish additional income sources.

The Group will continue to strengthen its position and explore the potential in its principal market, Japan. As one of the strategies to cope with RMB appreciation, the Group will put more efforts in developing the Mainland China market in the coming years. On this basis, the EU, the US and other traditionally non-quota markets such as Korea and Australia will be developed in balance in order to avoid operational risk arising from market concentration. This strategy will also help the Group to counteract the possible economic downturn of the US.

To reinforce the Group's position as the largest vertically integrated knitwear manufacturer in China and respond to the changing demand from customers, the Group intends to enhance its capabilities of new fabrics development and garment design by further expanding its fabric and garment design team and enhance its integrated competitiveness.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK$0.16 (equivalent to approximately RMB0.15) per share for the year ended 31 December 2007, subject to shareholders' approval at the forthcoming annual general meeting to be held on 19 May 2008, to the shareholders whose name appear on the register of members of the Company at the close of business on 14 May 2008.

BOOK CLOSURE

The Register of Members of the Company will be closed from 15 May 2008 to 16 May 2008, both dates inclusive. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 14 May 2008.

CORPORATE GOVERNANCE

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") since 9 October 2005.

The Company had complied with all the code provisions of the CG Code throughout the year ended 31 December 2007.

SECURITIES TRANSACTIONS OF DIRECTORS

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

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.

AUDIT COMMITTEE

The Audit Committee reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial statements matters including the review of the audited financial statements for the year ended 31 December 2007.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities shares during the year ended 31 December 2007.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 7th Floor, Office Building, No. 18 Yongjiang Road, Economic Technical Development Zone, Ningbo, the PRC on 19 May 2008 at 10:00 a.m.. Notice of the annual general meeting will be published and issued in due course.

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

22 March 2008