**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 2008

## HIGHLIGHTS

- Revenue for the six months ended 30 June 2008 amounted to RMB2,107,078,000, an increase of 35.7% when compared with the corresponding period of 2007.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2008 amounted to RMB263,646,000, a decrease of approximately 1% when compared with the corresponding period of 2007.
- Sports wear accounted for 45.2% of the total sales for the period, representing a significant increase as compared to 23.0% for the corresponding period of 2007.
- 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 2008, together with the comparative amounts for the corresponding period of 2007. The interim results and interim financial statements have not been audited but have been reviewed by the Company's audit committee.

* *For identification purpose only*

## CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2008*

| | Notes | Unaudited For the six months ended 30 June 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **REVENUE** | *4* | **2,107,078** | 1,552,907 |
| Cost of sales | *5* | **(1,592,216)** | (1,167,858) |
| Gross profit | | **514,862** | 385,049 |
| Other income | *6* | **28,055** | 18,600 |
| Selling and distribution costs | *5* | **(20,778)** | (17,498) |
| Administrative expenses | *5* | **(152,155)** | (118,010) |
| Other gains/(expenses) | *7* | **(58,044)** | 17,689 |
| Finance costs | *8* | **(24,236)** | (11,429) |
| PROFIT BEFORE TAX | | **287,704** | 274,401 |
| Tax | *9* | **(23,507)** | (7,741) |
| Profit for the period | | **264,197** | 266,660 |
| Attributable to: | | | |
| Equity holders of the parent | | **263,646** | 265,937 |
| Minority interests | | **551** | 723 |
| | | **264,197** | 266,660 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT FOR THE PERIOD** | *10* | | |
| – Basic | | **RMB0.21** | RMB0.21 |
| – Diluted | | **N/A** | N/A |

## CONSOLIDATED BALANCE SHEET

*As at 30 June 2008*

| | Notes | Unaudited 30 June 2008 RMB'000 | Audited 31 December 2007 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 12 | **2,204,692** | 1,973,982 |
| Land use rights | 12 | **199,600** | 151,993 |
| Water resource use rights | 12 | **125,475** | – |
| Long-term prepayment | | **–** | 50,000 |
| Intangible assets | | **1,873** | 521 |
| Deferred tax assets | | **32,027** | 26,689 |
| Total non-current assets | | **2,563,667** | 2,203,185 |
| **CURRENT ASSETS** | | | |
| Inventories | 13 | **882,466** | 695,509 |
| Trade receivables | 14 | **351,686** | 325,771 |
| Prepayments, deposits and other receivables | 15 | **119,207** | 99,270 |
| Derivative financial instruments | 16 | **252,096** | 286,617 |
| Pledged deposits | | **78,517** | 184 |
| Bank deposits with initial term of over three months | | **60,000** | 60,000 |
| Cash and cash equivalents | | **311,951** | 233,384 |
| Total current assets | | **2,055,923** | 1,700,735 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 17 | **357,616** | 305,887 |
| Other payables and accruals | 18 | **289,028** | 119,959 |
| Derivative financial instruments | 16 | **183,012** | 161,754 |
| Interest-bearing bank and other borrowings | | **966,821** | 740,013 |
| Amount due to related parties | 21b | **171,767** | 1,009 |
| Tax payable | | **15,065** | 2,457 |
| Total current liabilities | | **1,983,309** | 1,331,079 |
| **NET CURRENT ASSETS** | | **72,614** | 369,656 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,636,281** | 2,572,841 |

| | Notes | Unaudited<br>30 June<br>2008<br>*RMB'000* | Audited<br>31 December<br>2007<br>*RMB'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | | **75,450** | 58,437 |
| Deferred tax liabilities | | **32,043** | 33,772 |
| Total non-current liabilities | | **107,493** | 92,209 |
| Net assets | | **2,528,788** | 2,480,632 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | | **129,717** | 129,717 |
| Reserves | | **2,387,006** | 2,339,401 |
| | | **2,516,723** | 2,469,118 |
| **Minority interests** | | **12,065** | 11,514 |
| Total equity | | **2,528,788** | 2,480,632 |

**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 Company and its subsidiaries (the "Group") is principally engaged in the manufacture and sale of knitwear products.

These unaudited consolidated interim financial statements are presented in Renminbi ("RMB") unless otherwise stated. These consolidated interim financial statements have been approved for issue by the Board of Directors on 12 August 2008.

**2. BASIS OF PREPARATION**

These unaudited consolidated interim financial statements for the six months ended 30 June 2008 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 2007.

## 3. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the unaudited consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, except in relation to the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) and certain accounting policy as follows:

**New and revised HKFRSs adopted for the first time for the current period's unaudited consolidated interim financial statements**

| | |
|---|---|
| HK(IFRIC)-Int 11 | HKFRS 2 Group and Treasury Share Transactions |
| HK(IFRIC)-Int 14 | HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

HK(IFRIC)-Int 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits.

The adoption of these new and revised HKFRSs has had no material impact on the Group's results of operations or financial position.

The following standards and interpretations have not been illustrated as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. We do not expect the impact of such changes on the financial statements to be material.

| | |
|---|---|
| HKFRS 2 | Share-based Payment – Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) | Business Combinations |
| HKFRS 8 | Operating Segments |

The amendment to HKFRS 2 was issued in March 2008 and becomes effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition of a vesting condition and prescribes the treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

HKFRS 3 (Revised) Business Combinations was issued in March 2008 and will apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Amongst other changes, the new Standard will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs to be recognised immediately in the income statement. Fair value gains or losses on existing investments in an acquired company will be recognised in the income statement at the date of acquisition.

In March 2007, the Hong Kong Institute of Certified Public Accountants issued HKFRS 8, "Operating Segments", which specifies how an entity should report information about its operating segments in annual financial statements to require an entity to report selected information about its operating segments in interim financial reports. This statement also outlines the requirements for related disclosures about products and services, geographical areas, and major customers and is effective for annual periods beginning on or after 1 January 2009.

## 4. SALES 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 location of customers (by market locations where merchandise was sold):

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Sales to external customers | | |
| Japen | **1,016,746** | 1,080,189 |
| Europe | **294,306** | 183,439 |
| Mainland China | **522,777** | 120,457 |
| Others | **273,249** | 168,822 |
| | **2,107,078** | 1,552,907 |

## 5. EXPENSES BY NATURE

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Employee benefit expenses | | |
| Wages and salaries | **403,746** | 306,819 |
| Retirement benefit contributions | **21,148** | 10,760 |
| Other benefits | **8,305** | 5,233 |
| | **433,199** | 322,812 |
| Depreciation ,amortisation and impairment expenses | **102,564** | 82,772 |
| Changes in inventories of finished goods and work in progress | **(176,413)** | (334,567) |
| Raw materials and consumables utilized | **1,139,287** | 1,002,535 |
| Utilities expenses | **126,788** | 99,272 |
| Outsourcing | **42,774** | 54,290 |
| Donation | **15,024** | 819 |
| Commission | **10,976** | 10,993 |
| Operating lease expenses for properties | **10,099** | 7,799 |
| Transportation expenses | **9,407** | 9,399 |
| Office expenses | **6,077** | 4,277 |
| Entertainment expenses | **3,838** | 3,139 |
| Inspection fees | **2,752** | 3,865 |
| Traveling expenses | **2,658** | 3,144 |
| Other expenses | **36,119** | 32,817 |
| Total cost of sales, distribution costs and administrative expenses | **1,765,149** | 1,303,366 |

## 6. OTHER INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Exchanges gains ,net | **27,091** | 6,447 |
| Government incentives | **328** | 11,585 |
| Bank interest income | **636** | 564 |
| Others | **–** | 4 |
| | **28,055** | 18,600 |

## 7. OTHER GAINS/(EXPENSES)

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Fair value gain/(loss), net: | | |
| Derivative instruments – transactions not qualifying as hedges | **(57,759)** | 17,863 |
| Loss on disposal of items of porperty plant and equipment | **(285)** | (174) |
| | **(58,044)** | 17,689 |

## 8. FINANCE COSTS

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | **24,236** | 11,429 |

## 9. TAX

The major components of income tax for the six months ended 30 June 2008 and 2007 are:

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current Mainland China corporate income tax ("CIT") | **19,248** | 6,032 |
| Deferred taxation | **4,259** | 1,709 |
| | **23,507** | 7,741 |

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 which is enacted in the Cayman Islands imposing any tax to profits or income or gain or appreciation shall apply to the Company or its operations. As the Company carries out business in Hong Kong, it is subject to a Hong Kong profits tax at 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 period (for the six months ended 30 June 2007: Nil).

Pursuant to the International Business Companies Act, 1984 ("IBC Act") of the British Virgin Islands, International Business Companies incorporated in accordance with 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 the British Virgin Islands, is not subject to tax.

Shenzhou (Cambodia) Co., Ltd, 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") and Top Always (Hong Kong) Investments Ltd. ("Top Always (Hong Kong)"), wholly-owned subsidiaries incorporated in Hong Kong, are 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 have been made as Shenzhou Trading and Top Always (Hong Kong) had no assessable profits arising in Hong Kong during the year (for the six months ended 30 June 2007: Nil).

The subsidiaries established in Mainland China are subject to CIT rates ranging from 18% to 25%. 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 and thereafter. Subsidiaries currently enjoying the fixed-term preferential tax treatment of "full exemption for two years and a 50% reduction for 3 years (二免三減半)" will continue to enjoy the preferential treatment in accordance with the original tax law, administrative regulations and the relevant stipulated preferential treatment and terms after the implementation of the new tax law until the term expires. However, the preferential policies will come to an end in 2012.

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

The calculation of earnings per share attributable to ordinary equity holders of the parent for the period is based on the consolidated profit attributable to equity holders of the parent of approximately RMB263,646,000 (six months ended 30 June 2007: RMB265,937,000) and on the weighted average number of 1,245,000,000 (six months ended 30 June 2007: 1,245,000,000) ordinary shares in issue.

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

## 11. DIVIDEND

Pursuant to the resolution passed by the Board on 12 August 2008, the directors do not recommend the payment of an interim dividend for the period ended 30 June 2008.

## 12. CAPITAL EXPENDITURES

| | Properties, plants and equipment | Land use rights | Water resource use rights |
|---|---|---|---|
| **For the six months ended 30 June 2007** | | | |
| Opening net book amount at 1 January 2007 | 1,638,031 | 132,374 | – |
| Additions | 287,431 | 21,089 | – |
| Disposals | (820) | – | – |
| Depreciation/Amortisation | (81,842) | (930) | – |
| Exchange differences | (976) | – | – |
| Closing net book amount at 30 June 2007 | 1,841,824 | 152,533 | – |
| **For the six months ended 30 June 2008** | | | |
| Opening net book amount at 1 January 2008 | 1,973,982 | 151,993 | – |
| Additions | 334,247 | 48,805 | 126,000 |
| Disposal | (746) | – | – |
| Depreciation/Amortisation | (100,841) | (1,198) | (525) |
| Exchange differences | (1,950) | – | – |
| Closing net book amount at 30 June 2008 | 2,204,692 | 199,600 | 125,475 |

## 13. INVENTORIES

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| Raw materials | **138,709** | 128,165 |
| Work in progress | **476,517** | 308,659 |
| Finished goods | **267,240** | 258,685 |
| | **882,466** | 695,509 |

## 14. TRADE RECEIVABLES

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 trade receivables is as follows:

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| 0 to 6 months | **345,514** | 324,294 |
| over 6 months | **6,172** | 1,477 |
| | **351,686** | 325,771 |

The carrying amounts of trade receivables approximate their fair values.

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| Prepayments | | |
| – Purchase of raw materials | **42,166** | 42,745 |
| – Purchase of export quotas | **6,195** | 3,716 |
| – Prepaid rentals and deposits | **18,241** | 22,030 |
| – Others | **17,130** | 743 |
| VAT refund receivables | **17,072** | 10,471 |
| Other receivables | **18,403** | 19,565 |
| | **119,207** | 99,270 |

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | **30 June 2008** | | 31 December 2007 | |
|---|---|---|---|---|
| | **Assets** *RMB'000* | **Liabilities** *RMB'000* | Assets *RMB'000* | Liabilities *RMB'000* |
| Forward currency contracts | **252,096** | **183,012** | 286,617 | 161,754 |

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

**Forward currency contracts – cash flow hedges**

At 30 June 2008, the Group held certain forward currency contracts designated as hedges in respect of expected future sales to overseas customers.

The terms of the forward currency contracts have been negotiated to match the terms of the expected future sales. The cash flow hedges relating to expected future sales in the year 2008 and 2009 were assessed to be highly effective .

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria of hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to a loss of RMB57,759,000 were charged to the income statement during the period (six months ended 30 June 2007: gain of RMB17,863,000).

## 17. TRADE AND BILLS PAYABLES

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

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| 0 to 6 months | **356,117** | 305,844 |
| 6 months to 1 year | **1,456** | 3 |
| 1 year to 2 years | **3** | – |
| over 2 years | **40** | 40 |
| | **357,616** | 305,887 |

## 18. OTHER PAYABLES AND ACCRUALS

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| Customer deposits | **1,451** | 1,803 |
| Accrued expenses | **56,083** | 95,749 |
| Payables for purchase of property, plant and equipment | **2,092** | 7,003 |
| Guarantee deposits related to construction projects | **18,296** | 1,226 |
| Payables for water resource use rights | **76,000** | – |
| Other tax payables | **2,651** | 9,525 |
| Dividends payable to shareholders of the parent | **126,605** | – |
| Dividends payable to minority shareholders | **1,087** | 1,087 |
| Other payables | **4,763** | 3,566 |
| | **289,028** | 119,959 |

## 19. COMMITMENTS

**Capital commitments**

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| Contracted but not provided for: | | |
| – Acquisition of land use rights and property, plant and equipment | **173,877** | 224,474 |
| – Construction of property, plant and equipment | **144,275** | 26,438 |
| – Water resource use rights | **76,000** | 76,000 |
| | **394,152** | 326,912 |

## 20. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2008 (31 December 2007: Nil).

## 21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control.

### (a) Transactions with related parties

The Group had the following significant transactions with its related parties, including directors and their associates and companies controlled by the controlling shareholder, for the six months ended 30 June 2008 and 2007:

*Discontinuing –*

Pursuant to several agreements dated 21 December 2007, the Group acquired the land use rights of land situated at Beilun District, Ningbo and industrial complexes from Ningbo Shenzhou Properties Co., Ltd. ("Shenzhou Properties") at an aggregate cash consideration of approximately RMB153,000,000.

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Lease of property, plant and equipment from Shenzhou Properties* | **3,054** | 4,234 |
| Purchase of steam supply from Ningbo Mingyao Environmental Thermal Power Co., Ltd. ("Mingyao Electric Company")** | **22,509** | 20,671 |
| Processing services provided by Ningbo Shenzhou Dagang Knitwear Co. Ltd. ("Shenzhou Dagang")* | **4,433** | 3,112 |
| Purchase of packaging materials from Shaoxing County Huaxi Packaging Materials Company Limited ("Huaxi Packaging Company")*** | **13,738** | 12,576 |

* Shenzhou Properties and Shenzhou Dagang are controlled by the Company's ultimate holding company.

** Mingyao Electric Company is owned as to 48% by the Company's ultimate holding company.

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

The purchases and lease from the related parties were made according to the published prices and terms offered by the related companies to their major customers.

**(b) Balances with related parties**

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

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amounts due to related parties | | |
| – Trade related | | |
| Huaxi Packaging Company | **2,383** | 1,009 |
| Shenzhou Dagang | **5,186** | – |
| Shenzhou Properties | **155,000** | – |
| – Non-trade | | |
| Worldon (Hong Kong) Limited | **967** | – |
| Excelbright Overseas Limited | **8,231** | – |
| | **171,767** | 1,009 |

**(c) Key management remuneration**

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and other short-term employee benefits | **4,028** | 4,021 |
| Post-employment benefits | **29** | 34 |
| | **4,057** | 4,055 |

## MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with the unaudited interim financial statements and the accompanying notes of Shenzhou International Group Holdings Limited ("Shenzhou International" or "the Company") and its subsidiaries ("the Group") for the six months ended 30 June 2008 as set out in this interim results announcement.

### Business Review

For the six months ended 30 June 2008, the Group has overcome the adverse effects brought about by the substantial appreciation of Renminbi and the persistent rise in the labour costs and achieved outstanding results with its unremittent efforts in structural adjustment, and details of which are as follows:

*Fruitful Results from Energy Saving, Reduction in Consumption and Infrastructure Construction*

The Group has made significant investments in energy saving, reduction in consumption and infrastructure construction in recent years and achieved outstanding results. Measures we have taken included the application of the most advanced and environmental-friendly dyeing equipment in the world; the enhancement of our power facilities; the construction of a 50,000-ton sewage treatment system and a 10,000-ton dyeing liquid recycling system and cooling water recycling system and the cooperation with local governments in the construction of pipeline systems designated for reservoir water. Our efforts made in saving energy, reducing consumption and constructing infrastructure have not only secured the sustainable development of the Group during the period, but have also yielded substantive economic benefits.

*Stable Profit Guaranteed by Lean Manufacturing and Technological Reform*

During the period, the Group has furthered its efforts in respect of lean manufacturing and accelerated its pace of technological reform. We have optimized our manufacturing process to upgrade operating efficiency; refined our information identification system and transportation instruments to improve the logistics between different manufacturing processes and warehouses; progressively introduced the technique of automatic bed cutting in order to further upgrade the fabric cutting ratio and lower manpower costs; promoted "standardized operating procedure" to improve the manufacturing efficiency of various apparel production process and fully utilized our garment production capacity with an aim of raising our output per capita. Our sustained effort made in respect of lean manufacturing and technological reform has largely alleviated the adverse effects on the Group brought about by the macro-environment of the garment industry and ensured our stability of profit.

*Achieved Stable and Solid Growth in Customer Orders*

Benefited from the integrated competitive competence of the Group, orders of casual wear received by the Group have on the whole remained at a stable level during the period; while the business of lingerie has delivered solid performance and the orders of sports wear have also had a continuous and rapid increase. The above categories of products have not only attained stable growth in the number of orders, but have also gradually moved to the high-end markets.

*The Robust Development of the Mainland China market*

In order to mitigate the negative effects of the appreciation of Renminbi, the Group has fully implemented its strategic arrangement of development of the market in Mainland China. Such strategy was implemented efficiently during the period and was strongly supported by our customers. For the six months ended 30 June 2008, sales in Mainland China of the Group accounted for 24.8% of the total sales, representing a substantial increase as compared with 7.7% for the six months ended 30 June 2007.

*Substantial Improvement in Customer Structure*

After years of strenuous efforts, the Group has secured large-scaled orders from renowned sports wear customers, namely ADIDAS and NIKE, while orders from PUMA and KAPPA were also gaining significance in terms of sales contribution. Such trend has brought about fundamental changes to our previous customer structure, which is dominated by one major customer, and established a new customer structure that is more risk-resistant, diversified and more stable in terms of profitability. It is expected that such system will be further optimized.

**Operating results of the Group**

*Revenue*

Revenue amounted to RMB2,107,078,000 for the six months ended 30 June 2008, representing an increase of RMB554,171,000 or 35.7% from RMB1,552,907,000 for the six months ended 30 June 2007. The growth was mainly driven by: 1) the successful adjustment of the products portfolio helped promote the continuous and rapid increase in the sales of sports wear; and 2) the effect of the globalized expansion in sales markets with Mainland China playing a prominent role.

The comparisons by product categories between revenue of the Group for the six months ended 30 June 2008 and the six months ended 30 June 2007 are as follows:

| | **For the six months ended 30 June** | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | Change | |
| | ***RMB'000*** | **%** | *RMB'000* | % | *RMB'000* | % |
| By product | | | | | | |
| Casual wear | **954,282** | **45.3** | 1,082,993 | 69.7 | (128,711) | (11.9) |
| Sports wear | **952,731** | **45.2** | 356,192 | 23.0 | 596,539 | 167.5 |
| Lingerie | **121,151** | **5.7** | 71,298 | 4.6 | 49,853 | 69.9 |
| Other knitting products | **78,914** | **3.8** | 42,424 | 2.7 | 36,490 | 86.0 |
| Total revenue | **2,107,078** | **100.0** | 1,552,907 | 100.0 | 554,171 | 35.7 |

For the six months ended 30 June 2008, contribution from sports wear increased substantially, mainly due to a substantial increase in OEM manufacturing for renowned sports brands. Sports wear accounted for 45.2% of the total revenue for the six months ended 30 June 2008, representing a continual increase as compared with 23.0% for the six months ended 30 June 2007.

For the six months ended 30 June 2008, revenue for casual wear amounted to RMB954,282,000, representing a decrease of RMB128,711,000 or 11.9% from RMB1,082,993,000 for the six months ended 30 June 2007, mainly due to a proper reduction of sales of products to certain customers with lower profit margins as the Company efficiently adjusted its products and customers bases in order to maintain its profitability at a satisfactory level.

The comparisons by regions between revenue of the Group for the six months ended 30 June 2008 and the six months ended 30 June 2007 are as follows:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | Change | |
| | *RMB'000* | % | *RMB'000* | % | *RMB'000* | % |
| By region | | | | | | |
| International sales | | | | | | |
| Japan | **1,016,746** | **48.3** | 1,080,189 | 69.6 | (63,443) | (5.9) |
| Europe | **294,306** | **14.0** | 183,439 | 11.8 | 110,867 | 60.4 |
| The US | **93,122** | **4.4** | 74,655 | 4.8 | 18,467 | 24.7 |
| Others | **180,127** | **8.5** | 94,167 | 6.1 | 85,960 | 91.2 |
| Sub-total for international sales | **1,584,301** | **75.2** | 1,432,450 | 92.3 | 151,851 | 10.6 |
| Domestic sales | **522,777** | **24.8** | 120,457 | 7.7 | 402,320 | 334.0 |
| Total revenue | **2,107,078** | **100.0** | 1,552,907 | 100.0 | 554,171 | 35.7 |

On the solid foundation in the Japanese market, shares contributed by the Europe market and other markets, which include Hong Kong, China, Korea and Australia, continued to increase for the six months ended 30 June 2008, 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 2008, sales in the Europe market and other countries accounted for 14.0% and 8.5% of the Group's sales, respectively, representing an increase from 11.8% and 6.1%, respectively, for the six months ended 30 June 2007.

The rapid growth in domestic sales has driven the growth of aggregate sales of the Group. Domestic sales of normal garments amounted to RMB475,867,000 for the six months ended 30 June 2008, representing an increase of RMB388,735,000 or 446.1% from RMB87,132,000 for the six months ended 30 June 2007. This was mainly due to the increasing demand of high-ended sportswear in Mainland China, the favourable impact of the 2008 Beijing Olympic Games and the availability of more sports wear products by the Company for customers with internationally renowned brand names for the sales in domestic market.

*Cost of sales and gross profit*

The Group's cost of sales for the six months ended 30 June 2008 amounted to approximately RMB1,592,216,000 (Six months ended 30 June 2007: RMB1,167,858,000). The gross profit margin of sales of the Group for the six months ended 30 June 2008 was 24.4%, representing a decrease of 0.4% as compared with 24.8% for the six months ended 30 June 2007. The main reason for the decrease in the gross profit margin was the continuous rapid appreciation of RMB, the reduction of export tariff rebate rate from 13% to 11% commencing from 1 July 2007 and the surge in the price of resources. The Company has efficiently offset the pressure arising from the surge of costs through the adjustment of product portfolio and the improvement in the internal efficiency while maintaining a relatively stable level of gross profit margin.

*Equity attributable to the equity holders of the Company*

As at 30 June 2008, the Group's equity attributable to the equity holders of the Company amounted to RMB2,516,723,000 (31 December 2007: RMB2,469,118,000), of which non-current assets amounted to RMB2,563,667,000 (31 December 2007: RMB2,203,185,000), net current assets amounted to RMB72,614,000 (31 December 2007: RMB369,656,000), net non-current liabilities amounted to RMB107,493,000 (31 December 2007: RMB92,209,000) and minority interests amounted to RMB12,065,000 (31 December 2007: RMB11,514,000). 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 2008, net cash generated from the Group's operating activities amounted to approximately RMB199,282,000 (Six months ended 30 June 2007: RMB911,000). Net borrowings (bank borrowings less cash and cash equivalents) of the Group as at 30 June 2008 amounted to RMB730,320,000, an increase by RMB165,254,000 as compared with the net borrowings as at 31 December 2007 of RMB565,066,000 was mainly attributable to the newly incurred investment expenses on plants and land use rights. Such investment aimed meeting the demand arising from the further increase in number of orders and the full utilization of the existing production capacity of our equipment.

Cash and cash equivalents of the Group at 30 June 2008 amounted to RMB311,951,000 (31 December 2007: RMB233,384,000). The total amount of outstanding borrowings was RMB1,042,271,000 (31 December 2007: RMB798,450,000, in which mid to short-term bank loans amounted to RMB740,013,000 and long-term bank loans amounted to RMB58,437,000), in which mid to short-term bank loans amounted to RMB966,821,000 and long-term bank loans amounted to RMB75,450,000. Equity attributable to equity holders of the Company amounted to RMB2,516,723,000 (31 December 2007: RMB2,469,118,000). 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 41.4% (31 December 2007: 32.3%).

As at 30 June 2008, 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 2008, finance cost increased to RMB24,236,000 from RMB11,429,000 for the six months ended 30 June 2007, mainly due to the increase of bank loans raised by the Group and the surge of benchmark interest rates of RMB loans during the period.

For the six months ended 30 June 2008, income tax expense of the Group increased to RMB23,507,000 from RMB7,741,000 for the six months ended 30 June 2007, mainly because the tax holidays enjoyed by a major subsidiary of the Company have expired and the subsidiary was subject to a EIT tax rate of 9% after 50 % reduction during the period. This implied that the increase in tax rate has led to a surge in income tax expenses.

*Pledge of the Group's assets*

As at 30 June 2008, the Group's deposits with certain banks amounted to approximately RMB78,517,000 (31 December 2007: RMB184,000) were pledged to secure certain trade financing facilities and foreign currency loan granted by the banks, while plants and land use rights of the Group with a carrying amount of RMB160,767,000 as at 30 June 2008 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 2008, the Group has borrowed USD11,000,000 from the bank.

*Use of proceeds from the initial public offering of the Company*

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$856,000,000. During the period from the listing date to 30 June 2008, 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$198,120,000 (approximately RMB198,511,000) for the acquisition of new dyeing and finishing equipment for the Group's production facilities in China;

- approximately HK$183,880,000 (approximately RMB180,340,000) for the acquisition of new plants 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 30 June 2008, the entire net proceeds were utilized 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 2008, out of the total bank borrowings, USD borrowings amounted to RMB488,368,000 (USD71,200,000 based on the original currency) (31 December 2007: RMB436,450,000 (USD59,750,000 based on the original currency)). In addition, the Group entered into USD forward sales contracts in order to hedge certain of its foreign exchange risk, particularly the foreign exchange risk relating to USD. As at 30 June 2008, the total amount of the USD forward sales contracts was approximately USD373,500,000.

*Employment, training and development*

As at 30 June 2008, the Group had over 37,700 employees. Total staff costs, including administrative and management staff, amounted to approximately 20.6% (Six months ended 30 June 2007: 20.8%) of the Group's revenue 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 2008, the Group's total investment in properties, plants and equipment and land use rights amounted to approximately RMB383,052,000, of which approximately 16% was used for the acquisition of manufactory equipment and approximately 81% for the construction and acquisition of new factory buildings and land use rights, while the balance was used for the purchase of other fixed assets.

As at 30 June 2008, the Group had contracted capital commitments of approximately RMB318,152,000 in connection with the acquisition and construction of properties, plants and equipment, which will be financed by internal resources and proceeds.

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 pipeline constructing costs in the amount of approximately RMB26,000,000. At 30 June 2008, the Group has paid a prepayment in the amount of RMB50,000,000, while a commitment amounted to RMB76,000,000 remained outstanding. The local government has started to supply water in accordance with the agreement during the period.

*Contingent liabilities*

As at 30 June 2008, the Group had no material contingent liabilities.

*Future prospects and strategies*

During the period, the Group has achieved breakthrough in its sports wear business, witnessing the competitive edges of vertically-integrated garments processing model which was readily imitated and outdone by our competitors. As such, the Group will continue to upgrade the production capacity of various manufacturing facilities in order to meet the increasing demand of our major customers in respect of garment orders.

In view of the appreciation of RMB and the constant rise of labour, raw materials and energy costs and with an aim of achieving industry integration and structural adjustment, it is necessary for us to upgrade our administrative standard continuously. Specific measures taken by the Group include: further adjust our product portfolio, market layout and customer profile and enhance our negotiating power in respect of orders we have received and improve profitability; optimize our manufacturing process in order to increase our operating efficiency, perfect the logistics between different manufacturing processes, further increase fabric utilizing rate, optimize manufacturing efficiency of apparel production process, continue to enhance our overall competitiveness and maintain our leading position in the industry.

Following EU's withdrawal of garments quota restriction on 1 January 2008, it is expected that the US will also remove its transitional garments quota restrictions as scheduled on 1 January 2009, and in light of this favorable development, the Group will develop the American and European garment markets in order to secure the demand of high-ended orders of our major customers. Meanwhile, in consideration of the continuous appreciation of RMB, the Group will adhere to its basic market development strategy of focusing on the development of Mainland China market and continue to increase the proportion of sales attributable to market in Mainland China as compared to our aggregate sales.

In addition, the Group will continue to increase the proportion of sales attributable to sports wear in our aggregate sales, broaden the scope of co-operation with internationally renowned sports brand, and establish closer and tighter strategic co-operation with them. On the basis of providing knitwear to customers and in order to diversify our foundry services products, the Group will establish a woven garment processing factory in Quzhou City, Zhejiang Province, the PRC to provide more a great variety of products and services to our broader base of clientele.

Our manufacturing base in Cambodia is now in smooth operation and capable of providing stable production capacity. The Group will adjust its capacity in the future in accordance with the demand of our major customers.

We believe that the textile and garment industry in China has experienced its toughest time during the period and there is sign of rebound for the industry. While the textile and garment industry in China is experiencing its difficult time, the textile and garment industry in Vietnam and India, which were considered as the major threats to the textile and garment industry in China, have also suffered from problems such as the appreciation of local currencies and inflation, and this was reflected in the export figures to major markets like the US. As such, the competitive strength of the textile and garment industry in Mainland China, particularly the mid to high-ended foundry business, is still obvious and such competitiveness will be maintained and further enhanced.

The Group has faith that the most difficult period of the textile and garment industry of China has passed and is confident and proud of the leading position that the Group secured in the industry. Therefore, the Group will adhere to its past strategies and endeavor to strengthen and expand itself in order to become the most competitive 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 19 May 2008, shareholders approved the payment of a final dividend of HK$0.16 per share for the year ended 31 December 2007 to shareholders whose names appeared on the register of members of the Company at the close of business on 14 May 2008. The cash dividend was paid on 18 June 2008 in cash.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil) and proposes that the profit for the period be retained.

## CODE ON CORPORATE GOVERNANCE PRACTICES

On 9 October 2005, the Board approved and adopted its own Code of Corporate Governance, which covered all the code provisions and most of the recommended best practices of the 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 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2008.

## 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 2008.

## 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.

On behalf of the Board
**Ma Jianrong**
*Chairman*

12 August 2008