

Shenzhen Victor Onward Textile Industrial Co., Ltd.

The Third Quarterly Report 2005

§ 1. Important Notice

1.1 The Board of Directors of Shenzhen Victor Onward Textile Industrial Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

1.2 No director stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Semi-annual Report or has objection for this report.

1.3 All directors attended the Meeting.

1.4 The financial report of the Company in this report period has not been audited.

1.5 Chairman of the Board Mr. Hu Yongfeng, Director as well as General Manager Mr. Sun Zhiping and person in charge of financial and accounting organization Mr. Zhang Jinliang hereby confirm that the financial report enclosed in the 3rd quarterly report 2005 is true and complete.

§ 2. Company Profile

2.1 Basic information

Short form of stock	Shen Victor Onward A, Shen Victor Onward B	Short form before change (If it has)	China Merchants A, China Merchants B
Stock code	000018, 200018		
	Secretary of Board of Directors	Securities Affairs Representative	
Name	Chen Xing	Jiang Xujuan	
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2.2 Financial information

2.2.1 Major accounting data and financial indexes

Unit: RMB

	At the end of this report period	At the end of the last year	Increase/decrease of the end of the report period compared with the end of the last year (%)
Total assets	489,334,133.58	529,067,471.00	-7.51%
Shareholders' equity (excluding minority interests)	288,209,432.09	312,442,877.00	-7.76%

Net assets per share	1.7039	1.847	-7.75%
Net assets per share after adjustment	1.6872	1.832	-7.90%
	This report period	The year-begin to the end of this report period	Increase/decrease of this report period compared with the same period of last year (%)
Net cash flows arising from operating activities	-3,449,702.34	7,859,638.44	-129.00%
Earnings per share	-0.0717	-0.1062	-16.00%
Earnings per share (Note)	-0.0717	-	-
Return on equity (weighted)	-4.21%	-6.23%	Decreasing 3.99 percentage point
Return on equity after deducting non-recurring gains and losses (weighted)	-4.21%	-6.23%	Decreasing 4.2 percentage point
Items of non-recurring gains and losses	Amount		
Non-operating income	30,756.01		
Other incomes	30,756.01		
Net losses from disposal of fixed assets	54,110.04		
Donation cost	33,910.04		
Other costs	19,400.00		
Influence on income tax	800.00		
Total	2,335.40		

2.2.2 Financial statement

2.2.2.1 Balance Sheet

Unit: RMB

Domestic statement

Items	Amount at period-end		Amount in the last year-end	
	Consolidated	Parent company	Consolidated	Parent company
Current assets:				
Monetary fund	29,507,582.41	5,911,340.37	46,664,429.00	11,345,033.00
Short-term investment	131,036.68		46,347.00	
Notes receivable	231,402.32			
Dividend receivable				
Interest receivable				
Account receivable	75,134,173.74	43,181,244.27	82,812,213.00	50,791,820.00
Other receivables	981,422.87	87,246,387.18	938,931.00	67,833,355.00
Account payable	638,203.91	10,000.00	584,234.00	202,050.00
Subsidy receivable				
Stock in trade	99,464,361.75	80,003,874.22	95,869,695.00	74,722,622.00
Fees to be apportioned	850,536.14	262,872.71	433,718.00	97,973.00

Long-term credit investment within one year				
Other current assets				
Total of current assets	206,938,719.82	216,615,718.75	227,349,567.00	204,992,853.00
Long-term investment:				
Long-term investment for share equity	89,383,575.14	74,818,264.30	92,895,389.00	81,492,878.00
Long-term investment for credit				
Total of long-term investment	89,383,575.14	74,818,264.30	92,895,389.00	81,492,878.00
Consolidated price balance	-2,967,870.02		-3,728,742.00	
Fixed assets:				
Original price of fixed assets	466,449,332.31	254,532,569.76	474,275,548.00	258,325,693.00
Less: accumulated depreciation	276,458,848.44	157,095,616.47	269,013,917.00	153,343,192.00
Net value of fixed assets	189,990,483.87	97,436,953.29	205,261,631.00	104,982,501.00
Less: Provision for depreciation of fixed assets				
Net fixed assets	189,990,483.87	97,436,953.29	205,261,631.00	104,982,501.00
Engineering materials				
Construction in progress	606,177.59	606,177.59	550,139.00	330,200.00
Check-up of fixed assets				
Total of fixed assets	190,596,661.46	98,043,130.88	205,811,770.00	105,312,701.00
Intangible assets and other assets:				
Intangible assets	2,415,177.16	364,370.31	3,010,745.00	407,238.00
Long-term fees to be apportioned				
Other long-term assets				
Total of intangible assets and other assets	2,415,177.16	364,370.31	3,010,745.00	407,238.00
Deferred tax:				
Debt item of deferred tax				
Total assets	489,334,133.58	389,841,484.24	529,067,471.00	392,205,670.00
Current debts:				
Short-term loans	93,585,100.62	65,000,000.00	107,945,290.00	65,000,000.00
Notes payable	1,997,507.19	0.00	11,090,499.00	
Account payable	43,263,536.61	38,744,493.27	31,662,868.00	16,292,628.00
Account receive in advance	382,790.16	0.00	486,545.00	122,890.00

Salary payable	167,473.91	167,473.91	199,520.00	199,520.00
Welfare fees payable	164,454.64	139,412.23	38,832.00	
Share equity payable	3,124,832.51		3,190,827.00	
Tax payable	-6,884,404.10	-5,871,315.58	-5,545,710.00	-5,145,896.00
Other account payable				
Other account payable	21,225,953.45	840,716.74	19,592,952.00	1,040,242.00
Drawing expenses in advance	3,629,049.54	1,735,035.41	3,295,726.00	1,164,236.00
Estimated debts				
Long-term debts within one year				
Other current debts				
Total of current liabilities	160,656,294.53	100,755,815.98	171,957,349.00	78,673,620.00
Long-term debts:				
Long-term loans	2,322,172.65		2,442,326.00	
Bonds payable				
Long-term account payable	10,905,095.83		11,135,405.00	
Special account payable	1,075,227.11	1,075,227.11	1,097,935.00	1,097,935.00
Other long-term debts				
Total of long-term debts	14,302,495.59	1,075,227.11	14,675,666.00	1,097,935.00
Deferred tax:				
Credit item of deferred tax				
Total of debts	174,958,790.12	101,831,043.09	186,633,015.00	79,771,555.00
Minority equity	26,165,911.37		29,991,579.00	
Ownership interest (shareholders' interest):				
Paid-up capital (share equity)	169,142,356.00	169,142,356.00	169,142,356.00	169,142,356.00
Less: returned investment				
Net amount of paid-up capital (or share equity)	169,142,356.00	169,142,356.00	169,142,356.00	169,142,356.00
Capital reserve	30,712,491.00	30,712,491.00	30,712,491.00	30,712,491.00
Surplus reserve	53,461,763.00	53,461,763.00	53,461,763.00	53,461,763.00
Including: legal welfare fund	3,810,343.00	3,810,343.00	3,810,343.00	3,810,343.00
Undistributed profit	-10,883,117.94	-10,883,117.94	7,078,629.00	7,078,629.00
Including: cash dividend				
Unconfirmed investment losses				
Exchange balance in	45,775,940.03	45,576,949.09	52,047,638.00	52,038,876.00

foreign monetary statement				
Total of ownership' interest (or shareholder's interest)	288,209,432.09	288,010,441.15	312,442,877.00	312,434,115.00
Total of debts and ownership's interest (or shareholders' equity)	489,334,133.58	389,841,484.24	529,067,471.00	392,205,670.00

2.2.2.2 Statement of profit distribution in the report period

Unit: RMB

Domestic statement

Items	In this period		The same period of last year	
	Consolidated	Parent company	Consolidated	Parent company
I. Income from main operations	52,421,877.49	31,053,489.39	55,929,926.68	29,921,154.73
Less: cost of main operation	56,798,691.12	36,268,664.32	51,012,237.59	28,637,336.37
Tax and its affixation of main operation				
II. Profit from main operation (loss listed as "-")	-4,376,813.63	-5,215,174.93	4,917,689.09	1,283,818.36
Add: profit from other operation (listed as "-")	851,017.86	397,930.96	522,703.03	184,839.09
Less: operating expenses	3,396,718.07	419,677.49	3,007,674.72	506,103.80
Administrative expenses	3,853,351.51	1,433,110.07	1,932,264.20	1,384,517.84
Financial expenses	4,051,697.27	2,038,437.90	1,732,546.28	906,313.96
III. Profit from operation (listed as "-")	-14,827,562.62	-8,708,469.43	-1,232,093.08	-1,328,278.15
Add: investment income (listed as "-")	-118,329.43	-3,424,540.70	1,286,190.70	874,739.07
Subsidy income				
Non-operating income	30,500.00	30,484.37	211,132.31	10,000.00
Less: non-operating expenses	27,821.25	32,316.61	859,983.51	223,138.00
Add: loss adjustment in previous year				
IV. Total amount of profit (listed as "-")	-14,943,213.30	-12,134,842.37	-594,753.58	-666,677.08
Less: income tax	0.00		0.00	
Gains and losses	-2,808,370.93		103,425.58	

from minority				
Add: unconfirmed occurred in the period				
V. Net profit (listed as “-”)	-12,134,842.37	-12,134,842.37	-698,179.16	-666,677.08
Add: undistributed profit at year-begin	7,078,629.00	7,078,629.00	6,324,709.00	6,324,709.00
Net profit in the first half year	-5,826,904.57	-5,826,904.57	1,062,052.44	1,062,052.44
Other transfer-ins			153,491.09	143,710.87
VI. Profit available for distribution	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Less: withdrawal of legal surplus reserve				
Withdrawal of legal welfare fund				
Withdrawal of employ’s reward and welfare fund				
Withdrawal of reserve fund				
Withdrawal of enterprise development fund				
Profit return investment				
VII. Profit available for distribution to investors	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Less: equity payable for preferred stock				
Withdrawal of free surplus reserve				
Dividends for ordinary shares				
Ordinary shares converted into (capital) share equity				
VIII. Undistributed profit	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Profit statement (supplementary information)				
1. Income from selling or disposal branch and investee enterprise				
2. Losses from natural				

disaster				
3.Increase/decrease in total profits due to the changes of accounting policies				
4. Increase/decrease in total profits from the changes of accounting estimation				
5. Losses on debts restructure				
6. Others				

2.2.2.3 Statement of profit distribution from year beginning to the end of report period

Unit: RMB

Domestic statement

Items	Year-begin to the end of the report period		The same period of last year	
	Consolidated	Parent company	Consolidated	Parent company
I. Income from main operations	176,576,042.75	106,072,233.97	205,134,106.77	111,075,687.56
Less: cost of main operation	174,883,408.06	112,448,690.22	181,377,610.91	106,545,803.54
Tax and its affixation of main operation				
II. Profit from main operation (loss listed as “-”)	1,692,634.69	-6,376,456.25	23,756,495.86	4,529,884.02
Add: profit from other operation (listed as “-”)	2,113,985.39	868,762.09	1,744,755.04	685,173.35
Less: operating expenses	9,457,796.54	1,343,460.51	11,873,332.81	1,089,766.16
Administrative expenses	7,808,821.62	4,075,842.09	6,564,976.60	3,794,364.53
Financial expenses	7,757,180.13	3,651,462.85	5,211,983.41	2,645,962.03
III. Profit from operation (listed as “-”)	-21,217,178.21	-14,578,459.61	1,850,958.08	-2,315,035.35
Add: investment income (listed as “-”)	71,510.44	-3,373,261.09	845,159.37	4,162,827.27
Subsidy income				
Non-operating income	30,756.01	30,740.37	331,480.34	130,348.02
Less: non-operating expenses	54,110.04	40,766.61	2,025,656.89	1,379,154.28
Add: loss adjustment in previous year			-9,612.89	

IV. Total amount of profit (listed as “-”)	-21,169,021.80	-17,961,746.94	992,328.01	598,985.66
Less: income tax			76,394.70	59,898.56
Gains and losses from minority	-3,207,274.86		415,287.10	
Add: unconfirmed occurred in the period				
V. Net profit (listed as “-”)	-17,961,746.94	-17,961,746.94	500,646.21	539,087.10
Add: undistributed profit at year-begin	7,078,629.00	7,078,629.00	6,324,709.00	6,324,709.00
Net profit in the first half year				
Other transfer-ins			16,718.16	-0.87
VI. Distributable profit	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Less: withdrawal of legal surplus reserve				
Withdrawal of legal welfare fund				
Withdrawal of employ’s reward and welfare fund				
Withdrawal of reserve fund				
Withdrawal of enterprise development fund				
Profit return investment				
VII. Profit available for distribution to investors	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Less: equity payable for preferred stock				
Withdrawal of free surplus reserve				
Dividends for ordinary shares				
Ordinary shares converted into (capital) share equity				
VIII. Undistributed profit	-10,883,117.94	-10,883,117.94	6,842,073.37	6,863,795.23
Profit statement (supplementary information)				

1. Income from selling or disposal branch and investee enterprise				
2. Losses from natural disaster				
3. Increase/decrease in total profits due to the changes of accounting policies				
4. Increase/decrease in total profits from the changes of accounting estimation				
5. Losses on debts restructure				
6. Others				

2.2.2.4 Cash flow statement from year beginning to the end of the report period

Unit: RMB

Domestic statement

Items	Year beginning to the end of the report period	
	Consolidated	Parent company
I. Cash flows arising from operating activities:		
Cash received from selling products and providing services	178,464,113.22	8,822,900.67
Tax refund received	7,773,896.69	5,208,848.66
Other cash received relating to operating activities	7,805,181.03	47,952,140.47
Subtotal of cash inflow	194,043,190.94	61,983,889.80
Cash paid for purchase of products and services	156,918,897.17	51,249,159.15
Cash paid to / for employees	16,932,043.70	8,509,704.50
Taxes paid	1,094,418.88	713,480.01
Other cash paid relating to operating activities	11,238,192.75	4,412,786.46
Subtotal of cash outflow	186,183,552.50	64,885,130.12
Net cash flows arising from operating activities	7,859,638.44	-2,901,240.32
II. Cash flows arising from investing activities:		
Cash received from withdrawal of investment		
Cash received from investment income	1,616,748.87	1,615,873.84
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	20,999.99	20,999.99
Other cash received relating to investment activities		
Subtotal of cash inflow	1,637,748.86	1,636,873.83
Net cash paid for the purchase of fixed assets,	2,448,104.86	1,475,027.14

intangible assets and other long-term assets		
Cash paid for investments		
Including: Cash paid for purchasing subsidiaries	152,128.96	152,128.96
Subtotal of cash outflow	2,600,233.82	1,627,156.10
Net cash flows arising from investing activities	-962,484.96	9,717.73
III. Cash flows arising from financing activities:		
Cash received from obtaining investment		
Cash received from loan	168,363,011.21	136,125,129.26
Other cash received relating to financing activities		
Subtotal of cash inflow	168,363,011.21	136,125,129.26
Cash paid for debts repayment	184,127,747.50	136,125,129.26
Cash paid for dividends, profit distribution or of interest payment	4,847,404.92	2,307,525.44
Other cash paid relating to financing activities		
Subtotal of outflow	188,975,152.42	138,432,654.70
Net cash flows arising from financing activities	-20,612,141.21	-2,307,525.44
IV. Influence on cash from fluctuation in exchange rate	-1,301,538.40	
V. Net increase in cash and cash equivalents	-15,016,526.13	-5,199,048.03
Supplementary information		
1. Adjusting net profit to cash flows from operating activities		
Net profit	-17,961,746.94	-17,961,746.94
Add: withdrawal provision for depreciation of assets		
Depreciation of fixed assets	13,283,019.73	7,198,557.62
Amortization of intangible assets	574,288.35	75,434.44
Amortization of long-term fees to be apportioned		
Decrease of fees to be apportioned (less: increase)	-482,490.21	-166,926.25
Increase of drawing expenses in advance (less: decrease)	432,591.65	594,880.18
Losses from disposal of fixed assets, intangible assets and other long-term assets (less: gains)	20,739.56	20,739.56
Losses from rejection of fixed assets	17,192.30	
Finance expenses	6,159,133.74	2,277,148.10
Investment losses (less: gains)	-71,510.44	3,373,261.09
Deferred tax liabilities (less: debit)		
Decrease of inventories (Less: increase)	-5,434,961.18	-6,826,704.50
Decrease in operating receivables	4,619,588.62	-13,364,340.24

(Less: increase)		
Increase in operating payables (Less: decrease)	9,911,068.12	21,878,456.62
Others		
Gains and losses of minority	-3,207,274.86	
Net cash flows arising from operating activities	7,859,638.44	-2,901,240.32
2. Investment and financing activities without cash movement		
Capital converted from debts		
Convertible bonds due within one year		
Financing leased fixed assets		
3. Net increase in cash and cash equivalents		
Ending balance of cash	22,536,397.40	5,911,340.38
Less: Beginning balance of cash	37,552,923.53	11,110,388.41
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	-15,016,526.13	-5,199,048.03

2.3 Total number of shareholders at the end of the report period and particulars about shares held by the top ten shareholders of circulation

Total amount of shareholders in the end of the report period	20,788	
Particulars about shares held by the top ten shareholders of circulation		
Full name of shareholders	Amount of circulating shares in period-end	Types (A, B, H and others)
STYLE - SUCCESS LIMITED	24,466,029.00	B-share
RICH CROWN INVESTMENT (HK) CO., LTD.	6,114,556.00	B-share
XIN YING JIE	5,446,261.00	B-share
CHEN SONG	398,400.00	B-share
WEI SHUANG MEI	373,400.00	B-share
WANG XIAO TIAN	303,532.00	B-share
ABN AMRO BANK NV	285,000.00	B-share
YAO YU ZHONG	281,763.00	B-share
LIU LIAO YUAN	235,100.00	B-share
ZHONG YONG LAI	223,700.00	B-share

§3. Discussion and Analysis of the Management

3.1 Brief analysis on total status of operating activities of the Company in the report period

In the report period, the operating environment of the Company has not been improved, because the quantity of the orders went on keeping unsaturated state, raw

material such as fuel and gray cloth, etc. kept rising successively, which resulted in unit cost of main operation mounting up; the change of RMB exchange rate in foreign market increased the financial expenses in this period amounting to RMB 2.2 million, various elements led the Company to be deficit in the period.

In report period, with approval of examination and comment of experts, the project of industrialization of Victor Onward Digital Printing (hereinafter referred to as VODP), formally gained the certification of hi-tech project of Shenzhen. With the rapid development of for three years, VODP industry had made huge achievement in terms of development of industrialized production craft, internalization of production management of digital printing and technology development of digital printing simulating traditional printing proofing technology, industrialization of individualized products and short runs and poly sorts of printing, and so on. In August 2005, Victor Onward Digital Injection Printing was cognized as the only research & development base for digital injection printing cloth by National Textile Products Development Center. Compared with traditional dye printing industry, VODP made a broken betterment in terms of economizing energy, saving water, decreasing cost and protecting environment, etc. in compliance with the direction of national cleaning production, and had excellent social benefits and environmental benefits. At preset, by right of pioneer advantages and large powerful new products development capacity, Victor Onward Digital made the occupancy of its own digital printing products exceeded the half of the Hong Kong digital printing product market and obtained the better economic benefit.

It estimated the operating situation of 2005: due to the dispute in international textile market was unfinished, Sino-US trade negotiation still have no result, it estimated that quantities of orders for the Company could no improvement at all, the raw material prices such as fuel and gray cloth, etc. appeared the rising trend again, unit cost for main operation of the Company could be climbing up, in additionally, the competition among the industry was very keen, the similar enterprises universally working under capacity, prices of sales of products had no space to rise, it estimated that the full year operating achievement of the Company still be deficit amounting to RMB 35 million or so.

3.1.1 Particulars about core industries or products taking over 10% of the total amount of income from main operations or profit of main operations

Applicable

Inapplicable

Unit: RMB'0000

Main operation classified by industries			
	Income from main operations	Cost of main operations	Gross profit ratio
Other textile industries	17,657.60	17,488.34	0.96%
Including: related transaction	0.00	0.00	0.00%
Main operation classified by products			
Clothing bleaching and dyeing	16,971.87	16,937.54	0.20%
Including: related transaction	0.00	0.00	0.00%

3.1.2 Seasonal or periodic characteristic of the operation of the Company

Applicable Inapplicable

3.1.3 Profit structure in the report period (material changes in proportions of profit from main operations, profit from other operations, period expense, investment income, subsidy income and net income and expense of non-operating in total profits than those of the last report period and reasons)

Applicable Inapplicable

Items	Amount		the ratio to total profit	
	In this report period	the last report period	this report period	the last report period
Total profit	-14,943,213.30	-6,225,808.50	100%	100%
Profit from main operation	-4,376,813.63	6,069,448.32	29%	-97%
Profit from other operation	851,017.86	1,262,967.53	-6%	-20%
Period expense	11,301,766.85	13,722,031.44	-76%	-220%
Investment income	-118,329.43	189,839.87	1%	-3%
Net income and cost of non-operation	2,678.75	-26,032.78	0%	0%

Compared with the last report period (Jan.-Jun.) to this report period (July-Sep.), the orders for main operation fell short, rising cost and change of exchange produced financial expenses increased deficit in this period.

3.1.4 Explanation on reason and material change in main operations and its structure compared with the previous report period

Applicable Inapplicable

3.1.5 Explanation on reason and material change in profitability capability of main operations (gross profit ratio) compared with the previous report period

Applicable Inapplicable

Gross profit rate of main operation in the report period was – 8.35%, the last one was 4.89% and it was 0.96% from the year beginning to the end of report period. Earning power of main operation in the report period decreased 13.2 percentage point comparing with the previous report period. The key reasons are as follows:	
1. Orders in the report period still fall short, cost volume profit relationship monthly average still be under the level of break even point;	
2. Cost of gray cloth in the report period kept rising successively, fuel price climbing up rapidly, resulting in the mounting-up of unit production cost;	
3. Due to the competition was very keen in the industries, sales price of products had no space to raise.	

3.2 Analysis and explanation on significant events and their influence and solutions

Applicable Inapplicable

3.3 Particulars about changes in accounting policies, accounting estimate, consolidated scope and significant accounting errors and explanation on reasons

Applicable Inapplicable

3.4 Relevant explanation on the Board of Directors and the Supervisory Committee under the situation of being audited and provided “Qualified opinion”

Applicable

Inapplicable

3.5 Estimation on accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation on reason

Applicable

Inapplicable

It estimated that net profit from year beginning to the end of the next report period accumulated to be deficit which amounted to RMB 35 million.

3.6 Rolling adjustment to annual business plan or budget ever disclosed

Applicable

Inapplicable

3.7 Special commitment made by original shareholders of circulation during the period of Share Merger Reform and its implementation

Applicable

Inapplicable

Chairman of the Board: Hu Yongfeng
Shenzhen Victor Onward Textile Industrial Co., Ltd.
October 26, 2005