

Shenzhen Victor Onward Textile Industrial Co., Ltd.

The First Quarterly Report 2007

§1 Important Notice

1.1. The Board of Directors, Supervisory Committee, Directors, Supervisors, Senior Executives of the Company guarantee that there are no significant omissions, fictitious or misleading statements carried in the Report and we will accept individual and joint responsibilities for the truthfulness, accuracy and completeness of the Report.

1.2. No director declares inability to warrant or objection to the authenticity, accuracy and completeness of the content of the Quarterly report.

1.3. All directors attended the meeting.

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

1.5. Mr. Hu Yongfeng, board chairman of the Company, Mr. Sun Zhiping, general manager, and Mr. Zhang Jinliang, the person in charge of financial accounting organ represent and warrant the financial report in this quarterly report is true and complete.

§ 2 Basic Information

2.1 Main accounting Highlights and financial indexes

Unit : RMB

	At the end of the report period	At the end of the last year	Increase/decrease of the end of report period than that of the end of the last year(%)
Total assets	381,631,137.37	456,160,048.00	-16.34%
Owner's equity(or shareholders' interest)	275,048,128.68	297,201,909.00	-7.45%
Net assets per share	1.626	1.757	-7.46%
	Year begin to end of report period		Increase/decrease of the report period than that of the same period of the last year (%)
Net cash flow arising from operating activities	-8,691,974.98		-184.76%
Net cash flow arising from operating activities per share	-0.05		-184.76%
	In the report period	Year begin to end of report period	Increase/decrease of the report period than that of the same period of the last year (%)
Net profit	-23,974,465.34	-23,974,465.34	-487.85%
Basic earnings per share	-0.14	-0.14	-487.85%
Diluted earnings per share	-0.14	-0.14	-487.85%
Return on Net assets	-8.72%	-8.72%	-7.19%
Return on net assets after deducting non-recurring gains and losses	-8.72%	-8.72%	-7.19%

Items of non-recurring gains and losses

Unit : RMB

Items of non-recurring gains and losses	Balance from year-begin to end of report period
Non-operating income-other	1,094.30
Non-operating expenses—losses of disposal of fixed assets	-471.41
Amount influenced by income tax	0.00
Total	622.89

2.2 Total number of shareholders in the end of the report period and shares held by the top ten shareholders with unrestricted conditions

Unit : Shares

Total number of shareholders	16,291	
Shares held by the top ten shareholders with unrestricted conditions		
Name of shareholder	Amount of unrestricted shares held	Type of shares
STYLE-SUCCESS LIMITED	24,466,029	Domestically listed foreign share
RICH CROWN INVESTMENT (HK) CO., LTD.	6,114,556	Domestically listed foreign share
Xin Yingjie	5,396,261	Domestically listed foreign share
GUOTAI JUAN SECURIES HONG KONG LIMITED	631,159	Domestically listed foreign share
Su Xiangling	450,066	RMB common shares
Chen Song	398,400	Domestically listed foreign share
Pan Xiaofen	312,000	Domestically listed foreign share

Zhang Jiongguang	300,604	Domestically listed foreign share
ABN AMRO BANK NV	299,600	Domestically listed foreign share
Xu Hui	237,267	Domestically listed foreign share

§ 3 Significant events

3.1 Particulars about material changes in items of main accounting statement and financial index, and explanations of reasons

applicable not applicable

1. Analysis of the reason for big change of the items of balance sheet of the Company as of the end of the report period:				
Unit : RMB				
Items	March 31,2007	December 31,2006	Amount of Increased/decreased	Proportion Increased/ decreased
Monetary capital	61,316,677.90	98,978,440.00	-37,661,762.10	-38.05%
Bills receivable	170,153.67	6,650,741.00	-6,480,587.33	-97.44%
Accounts receivable	39,410,753.38	62,003,774.00	-22,593,020.62	-36.44%
Short-term loan	25,000,000.00	62,000,000.00	-37,000,000.00	-59.68%
Bills payable		7,409,611.00	7,409,611.00	-100.00%
Accounts payable	16,725,810.19	25,017,704.00	-8,291,893.81	-33.14%
Advance collections	6,960,253.73	956,148.00	6,004,105.73	627.95%
Remuneration payable to staff and workers	1,151,905.72	2,232,164.00	-1,080,258.28	-48.40%
Estimated liabilities		4,758,816.00	-4,758,816.00	-100.00%
<p>(1) Monetary capital decreased by 38.05% and RMB 37.66 million mainly due to the repayment of short-term loan of RMB 37 million in current period.</p> <p>(2) Bills receivable decreased by 97.44% and RMB 6.48 million mainly due to recovery of funds concerning matured bills receivable in current period.</p> <p>(3) Accounts receivable decreased by 36.44% and RMB 22.59 million mainly due to recovery of payment for goods and provision of RMB 5.01 million for bad debts in respect of accounts receivable.</p> <p>(4) Short-term loan decreased by 59.68% and RMB 37 million mainly due to the repayment of short-term loan of RMB 37 million in current period.</p> <p>(5) Bills payable decreased by 100% and RMB 7.41 million due to payment of matured bills payable in current period.</p> <p>(6) Advance collections increased by 627.95% and RMB 6 million mainly due to receipt of the proceeds of disposal of printing and dyeing equipment in advance in current period.</p> <p>(7) Remuneration payable to staff and workers decreased by 48.4% and RMB 1.08 million mainly due to payment of wage for staff and workers in current period.</p> <p>(8) Estimated liabilities decreased by 100% and RMB 4.76 million due to payment of economic compensation for staff reduction in current period.</p>				
2. Analysis of the reason for big change of the items of profit statement as of the end of the report period:				
<p>In the period from January 2007 to March 2007, the Company earned operating income of RMB 19.02 million on accumulative basis, which decreased by 71.5% and RMB 47.147 million year on year. The net loss is RMB 23.975 million, which increased by 487.5% and RMB 19.891 million year on year.</p>				
(1) Analysis of reason for decrease of operating income:				
<p>In the report period, the printing and dyeing factory of the Company stopped production for rectification according to the resolutions of the board of directors. Meanwhile, the Company actively quickened the transfer of printing and dyeing industry to inland area in a planned way and step by step and strengthened subcontracted processing and production of printed and dyed fabrics. Influenced by this matter, the Company's output and sales volume of printed and dyed fabrics decreased by big margin year on year and its operating income decreased sharply in the report period.</p>				
(2) The main reason for increase of amount of loss:				
<p>1) Compensation of RMB 14.86 million for staff reduction was paid in current period, which was accounted for as administrative expenses for current period after deduction of estimated liabilities of RMB 4.76 million at the end of previous year.</p> <p>2) Provision of RMB 5.01 million for bad debts in respect of accounts receivable was made in current period, which was accounted for as assets impairment loss for current period.</p>				
3. Analysis of the reason for big change of the items of cash flow statement of the Company in the report period:				

Items	This period	Same period of last year	Unit : RMB	
			Amount of Increased/decreased	Proportion Increased/ decreased
Net cash flows arising form operating activities	-8,691,974.98	-3,052,408.12	-5,639,566.86	-184.76%
Net cash flows from investing activities	5,967,702.77	2,671,451.90	3,296,250.87	123.39%
Net cash flows from financing activities	-37,502,664.43	-1,909,625.67	-35,593,038.76	-1863.88%
The influence of change in exchange rate on cash and cash equivalents	2,559,204.43	-18,421.46	2,577,625.89	-13992.52%
Net increase of cash and cash equivalents	-37,667,732.21	-2,309,003.35	-35,358,728.86	1531.34%

(1) Net increase in cash and cash equivalents at the end of the report period decreased by 1531.34% and RMB 35.3587 million year on year mainly due to the Company's repayment of bank loan of RMB 37 million.

(2) Net cash flows from investing activities at the end of the report period increased by 123.39% and RMB 3.2963 million mainly due to receipt of the proceeds of disposal of printing and dyeing equipment in advance in current period.

(3) Net cash flows from financing activities at the end of the report period decreased by 1863.88% and RMB 35.5930 million year on year mainly due to repayment of bank loan in current period.

(4) The influence of change in exchange rate on cash and cash equivalents at the end of the report period increased by 13992.52% and RMB 2.5776 million year on year mainly due to appreciation of RMB.

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

Applicable Not applicable

1. The Company's subsidiary Nanhua Company officially shut down for rectification in February 2007. It has dismissed part of employees and signed an agreement to assign production equipment and auxiliary facilities. The determined cost of compensation for placement of employees is RMB 4,758,816, which has been recognized as estimated liabilities and accounted for as profits or losses for current period. The assignment price of production equipment and auxiliary facilities is RMB 8.7 million, which is less than net book value at the end of period by RMB 6,110,422. Provision for impairment of fixed assets has been made according to this amount and accounted for as profits or losses for current period.

2. The 20th meeting of the fourth board of directors of Shenzhen Victor Onward Textile Industrial Co., Ltd. held on March 15, 2007 examined and adopted the resolution concerning production stop and rectification of printing and dyeing factory of the Company. As the cost of the printing and dyeing enterprise has been high in Shenzhen, the Company's printing and dyeing business has suffered big loss for two successive years. Serious difficulties have been met in production and operation. It has been difficult to continue normal operation. Meanwhile, the meeting approved the production stop and rectification of the Company's printing and dyeing factory in Shenzhen in order to actively quicken the transfer of printing and dyeing industry to inland area in a planned way and step by step. The management was required to properly handle the dismissal of relevant employees and satisfactorily complete subsequent work including settlement of relevant claims and debts, asset disposal and business transfer. At present, this work is under way.

3. The 20th meeting of the fourth board of directors of Shenzhen Victor Onward Textile Industrial Co., Ltd. held on March 15, 2007 examined and adopted the proposal for increasing the capital of Nanjing East Asia Textile Printing and Dyeing Co., Ltd. The proposal was examined and adopted at the first provisional shareholders' general meeting of Shenzhen Victor Onward Textile Industrial Co., Ltd. in 2007 held on April 6, 2007. The said share capital increase is subject to approval by the department in charge of foreign capital in Nanjing.

3.3 Implementations of commitments by the Company, shareholders and actual controller

Applicable Not applicable

Union Holdings Co., Ltd., the largest shareholder of the Company, made special commitment during the Company's share holding structure reform.: The original non-negotiable shares shall not be listed and sold through Shenzhen Stock Exchange within 36 months after the date of execution of share holding structure reform. At present, this commitment is under fulfillment.

3.4 Estimation of 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 of reason.

Applicable Not applicable

Asset loss and redundancy payment for relevant employees were incurred by the production stop and rectification of the Company's printing and dyeing business. The accumulative net profit for the period from the beginning of the year to the end of the next report period is estimated to still be negative. The amount of loss is about RMB 30 million - RMB 35 million.

3.5 Differences between the shareholders' equity in period-begin of 2007 listed in balance sheet of the quarterly report and shareholders' equity in period-begin of 2007 listed in Reconciliation Statement on Differences of Shareholders' Equity Based on old and New accounting standards, and explanations of reasons.

Applicable Not applicable

1.Reconciliation statement of shareholders' equity difference caused by change of accounting standards.

In accordance with new accounting standards, on January 1, 2007, if there is credit balance for long-term equity investment calculated on equity basis, except that generated by the merger of enterprises under the same control, credit balance shall be written off and retained earnings shall be adjusted. As a result, shareholders' equity shall be increased by RMB 2,375,633. The owner's equity belonging to the parent company is RMB 2,375,633.

2.Financial assets calculated according to fair value whose change is accounted for as profits or losses for current period and financial assets available for sale

In accordance with new accounting standards, the Company shall calculate tradable financial assets and financial assets available for sale according to fair value on January 1, 2007 and adjust retained earnings according to the difference between book value and fair value. As a result, shareholders' equity shall be increased by RMB 44,726. The owner's equity belonging to the parent company is RMB 44,726.

3. Income tax

In accordance with new accounting standards, income tax shall be calculated with balance sheet debt method. On January 1, 2006 and January 1, 2007, As for the temporary difference between book value of assets and liabilities and their tax base, deferred income tax as assets or liabilities shall be recognized according to relevant conditions. Retained earnings shall be adjusted according to the amount affected. As a result, shareholders' equity shall be increased by RMB 3,592,677. The owner's equity belonging to the parent company is RMB 2,105,024 and the equity belonging to minority shareholders is RMB 1,487,653.

4. Minority interests

In accordance with new accounting standards, the minority interests in the consolidated statements prepared by the Company on December 31, 2006 in accordance with prevailing accounting standards shall be stated as Minority shareholders' equity on January 1, 2007. As a result, shareholders' equity shall be increased by RMB 7,956,207.

5. Difference from translation of foreign currency statements

After retroactive adjustment of the above items in accordance with new accounting standards, the data of relevant items of the Company's balance sheet changed. As the Company's base currency for bookkeeping is HKD, difference of RMB - 96,905 from translation of foreign currency statements was generated.

§ 4 Appendix

4.1 Balance sheet

Prepared by Shenzhen Victor Onward Textile Industrial Co., Ltd.

March 31,2007

Unit : RMB

Items	Amount of period-end		Amount of period-begin	
	Consolidation	Parent Company	Consolidation	Parent Company
Current assets :				
Monetary funds	61,316,677.90	19,231,970.30	98,978,440.00	66,770,592.00
Settlement provisions				
Capital lent				

Transaction finance assets	99,985.84	8,672.59	90,825.00	
Bill receivable	170,153.67		6,650,741.00	
Accounts receivable	39,410,753.38	26,268,613.06	62,003,774.00	48,812,324.00
Accounts in advance	271,126.63	35,710.65	343,832.00	35,000.00
Insurance receivable				
Reinsurance receivables				
Contract reserve of reinsurance receivable				
Interest receivable				
Other receivables	1,907,431.45	84,488,846.30	560,239.00	65,871,140.00
Purchase restituted finance assets				
Inventory	62,993,233.38	50,072,252.11	71,078,373.00	54,583,050.00
Non-current assets due within one year				
Other current assets	72,622.50		239,423.00	36,709.00
Total current assets	166,241,984.75	180,106,065.01	239,945,647.00	236,108,815.00
Non-current assets :				
Granted loans and advances				
Finance assets available sales	300,909.09		299,300.00	
Held-to maturity securities				
Long-term account receivable				
Long-term equity investment	58,071,069.13	35,906,171.09	57,940,866.00	35,714,181.00
Investment property	26,701,648.84	8,721,116.72	26,973,333.00	8,778,949.00
Fixed assets	120,446,907.04	68,953,290.03	121,024,953.00	69,632,697.00
Construction in progress			312,859.00	312,859.00
Engineering material				
Disposal of fixed assets	282.14			
Consumable biological assets				
Oil and gas assets				
Intangible assets	1,564,050.70	542,896.41	1,403,207.00	227,135.00
Expense on research and development				
Goodwill				
Long-term expenses to be apportioned				
Deferred income tax assets	8,304,285.68	4,056,290.40	8,259,883.00	4,034,601.00
Other non-current assets				
Total non-current assets	215,389,152.62	118,179,764.65	216,214,401.00	118,700,422.00
Total assets	381,631,137.37	298,285,829.66	456,160,048.00	354,809,237.00
Current liabilities :				
Short-term loans	25,000,000.00		62,000,000.00	37,000,000.00
Loan form central bank				
Absorbing deposit and interbank deposit				
Capital borrowed				
Transaction financial liabilities				
Bill payable			7,409,611.00	

Accounts payable	16,725,810.19	14,245,090.44	25,017,704.00	15,286,311.00
Accounts received in advance	6,960,253.73		956,148.00	125,462.00
Selling financial assets of repurchase				
Commission charge and commission payable				
Wage payable	1,151,905.72	277,677.79	2,232,164.00	718,465.00
Taxes payable	2,009,704.47	58,641.28	1,779,269.00	-16,694.00
Interest payable	44,095.88			
Other accounts payable	25,520,566.37	635,827.56	24,450,580.00	616,460.00
Reinsurance payables				
Insurance contract reserve				
Security trading of agency				
Security sales of agency				
Long-term non-current liabilities due within 1 year				
Other current liabilities	2,249,107.32	592,705.34	2,540,053.00	864,824.00
Total current liabilities	79,661,443.68	15,809,942.41	126,385,529.00	54,594,828.00
Non-current liabilities :				
Long-term loans	2,140,284.26		2,147,933.00	
Bonds payable				
Long-term accounts payable	10,574,300.00		10,517,759.00	
Special accounts payable	1,042,611.11	1,042,611.11	1,037,036.00	1,037,036.00
Projected liabilities			4,758,816.00	
Deferred income tax liabilities	4,692,295.76	3,359,134.55	4,667,206.00	3,341,173.00
Other non-current liabilities				
Total non-current liabilities	18,449,491.13	4,401,745.66	23,128,750.00	4,378,209.00
Total liabilities	98,110,934.81	20,211,688.07	149,514,279.00	58,973,037.00
Owner's equity (or shareholder's equity) :				
Share capital	169,142,356.00	169,142,356.00	169,142,356.00	169,142,356.00
Capital public reserve	34,729,784.00	34,729,784.00	34,729,784.00	34,729,784.00
Less : Inventory shares				
Surplus public reserve	26,102,183.00	26,102,183.00	26,102,183.00	26,102,183.00
Provision of general risk				
Retained profit	7,753,717.66	10,904,273.88	31,728,183.00	30,114,054.00
Balance difference of foreign currency translation	37,320,088.02	37,195,544.71	35,499,403.00	35,747,823.00
Total owner's equity attributable to parent company	275,048,128.68	278,074,141.59	297,201,909.00	295,836,200.00
Minority interests	8,472,073.88		9,443,860.00	
Total owner's equity	283,520,202.56	278,074,141.59	306,645,769.00	295,836,200.00
Total liabilities and owner's equity	381,631,137.37	298,285,829.66	456,160,048.00	354,809,237.00

4.2 Profit statement

Prepared by Shenzhen Victor Onward Textile Industrial Co., Ltd.

January-March 2007

Unit : RMB

Items	This period	Same period of last year
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	Consolidation	Parent Company	Consolidation	Parent Company
I. Total operating income	19,022,950.46	11,246,030.80	66,165,640.12	40,980,051.73
Including : Operating income	19,022,950.46	11,246,030.80	66,165,640.12	40,980,051.73
Interest income				
Insurance gained				
Commission charge and commission income				
II. Total operating cost	43,897,821.26	30,697,917.84	71,469,557.94	46,279,977.53
Including : operating cost	18,656,362.45	14,094,119.69	61,262,387.14	42,142,210.48
Interest expense				
Commission charge and commission expense				
Cash surrender value				
Net amount of expense of compensation				
Net amount of withdrawal of insurance contract reserve				
Bonus expense of guarantee slip				
Reinsurance expense				
Operating tax and extras	1,270.79			
Sales expenses	4,784,513.36	297,710.12	3,996,899.95	623,945.12
Administration expenses	14,866,810.39	11,294,209.51	3,701,316.21	2,027,982.03
Financial expenses	575,579.07	-1,406.68	2,508,954.64	1,485,839.90
Losses of devaluation of assets	5,013,285.20	5,013,285.20		
Add : changing income of fair value				
Investment income	-115,235.99	242,106.92	113.98	
Including :Investment income on affiliated company and joint venture				
Exchange income				
III. Operating profit	-24,990,106.79	-19,209,780.12	-5,303,803.84	-5,299,925.80
Add : non-operating income	1,094.30		1,308,911.10	20,000.00
less : non-operating expense	471.41		60,243.85	59,240.99
Including : disposal loss of non-current assets	471.41			
IV. Total profit	-24,989,483.90	-19,209,780.12	-4,055,136.59	-5,339,166.79
Less : expense of income tax				
V. Net profit	-24,989,483.90	-19,209,780.12	-4,055,136.59	-5,339,166.79
Net profit attributable to owner's equity of parent company	-23,974,465.34		-4,078,315.86	
Minority shareholders' gains and losses	-1,015,048.56		23,179.27	
VI. Earnings per share				
(i) basic earnings per share	-0.14		-0.02	
(ii) Diluted earnings per share	-0.14		-0.02	

4.3 Cash Flow Statement

Prepared by Shenzhen Victor Onward Textile Industrial Co., Ltd.

January-March 2007

Unit : RMB

Items	This period		Same period of last year	
	Consolidation	Parent Company	Consolidation	Parent Company
I. Cash flows arising from operating activities:				
Cash received from selling commodities and providing labor services	46,575,869.55	11,995,065.75	78,003,216.82	26,482,636.26
Net increase of customer deposit and interbank deposit				
Net increase of loan from central bank				
Net increase of capital borrowed from other financial institution				
Cash received from original insurance contract fee				
Net cash received from reinsurance business				
Insured savings and net increase of investment				
Net increase of disposal of transaction financial assets	237,093.18	237,093.18		
Cash received from interest, commission charge and commission				
Net increase of capital borrowed				
Net increase of returned business capital				
Write-back of tax received	1,013,651.71	838,117.58	5,148,495.59	4,455,830.88
Other cash received concerning operating activities	1,264,794.52	880,303.13	3,761,420.87	565,468.27
Subtotal of cash inflow	49,091,408.96	13,950,579.64	86,913,133.28	31,503,935.41
Cash paid for purchasing commodities and receiving labor service	30,979,956.22	8,721,276.96	73,697,122.05	20,139,590.83
Net increase of customer loans and advances				
Net increase of deposits in central bank and interbank				
Cash paid for original insurance contract compensation				
Cash paid for interest, commission charge and commission				
Cash paid for bonus of guarantee slip				
Cash paid to/for staff and worker	21,607,030.33	11,665,347.99	6,438,205.81	3,264,034.87
Taxes paid	973,752.23	857,633.52	268,311.29	167,789.63
Other cash paid concerning operating activities	4,222,645.16	3,604,850.99	9,561,902.25	3,691,463.45

Subtotal of cash outflow	57,783,383.94	24,849,109.46	89,965,541.40	27,262,878.78
Net cash flows arising form operating activities	-8,691,974.98	-10,898,529.82	-3,052,408.12	4,241,056.63
II. Cash flows arising form investing activities				
Cash received form recovering investment				
Cash received form investment income			114.22	
Net cash received form disposal of fixed , intangible and other long-term assets	5,976,185.49		3,550,740.81	2,304,660.81
Net cash received from disposal of subsidiaries and other units				
Other cash received concerning investing activities				
Subtotal of sash inflow	5,976,185.49		3,550,855.03	2,304,660.81
Cash paid for purchasing fixed, intangible and other long-term assets			879,403.13	358,383.99
Cash paid for investment	8,482.72	8,482.72		
Net increase of mortgaged loans				
Net cash received from subsidiaries and other units				
Other cash paid concerning investing activities				
Subtotal of cash outflow	8,482.72	8,482.72	879,403.13	358,383.99
Net cash flows arising from investing activities	5,967,702.77	-8,482.72	2,671,451.90	1,946,276.82
III. Cash flows arising from financing activities				
Cash received from absorbing investment				
including : Cash received from absorbing minority shareholders' investment by subsidiaries				
Cash received from loans			32,939,728.92	4,990,868.02
Cash received from issuing bonds				
Other cash received concerning financing activities				
Subtotal of cash inflow			32,939,728.92	4,990,868.02
Cash paid form settling debts	36,924,764.10	36,924,764.10	32,944,050.44	4,995,189.54
Cash paid for dividend and profit distributing or interest paying	577,900.33	120,190.10	1,905,304.15	1,013,421.70
including :Dividend and profit of minority shareholder paid by subsidiaries				
Other cash paid concerning financing activities				
Subtotal of cash outflow	37,502,664.43	37,044,954.20	34,849,354.59	6,008,611.24
Net cash flows arising from	-37,502,664.43	-37,044,954.20	-1,909,625.67	-1,017,743.22

financing activities				
IV. Influence on cash due to fluctuation in exchange rate	2,559,204.43	311,314.64	-18,421.46	-9,892.72
V. Net increase of cash and cash equivalents	-37,667,732.21	-47,640,652.10	-2,309,003.35	5,159,697.51
Add :Balance of cash and cash equivalents at the period -begin	91,671,898.00	66,770,592.00	30,395,152.00	4,901,295.00
VI. balance of cash and cash equivalents at the period-end.	54,004,165.79	19,129,939.90	28,086,148.65	10,060,992.51

4.4 Auditor' report

Auditor's opinions : Unaudited.