V. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Discussion and analysis of the overall operations during the reporting period

1. Due to the impact of the PRC's macroeconomic policies, the Company experienced declined market demands for ordinary products, worsen by the high prices of raw materials. As a result, the Company's products saw a diminished profit margin. In accordance with the PRC accounting standards, revenue from principal operations was RMB487,242,600 and net profit amounted to RMB35,636,200. In accordance with the accounting principles generally accepted in Hong Kong ("HK GAAP"), revenue from principal operations was RMB495,310,000 and net profit amounted to RMB38,886,000, each representing a decrease from the same period last year.

2. On 11 May 2005, the Company exhibited series of products on the Sixth Beijing International Printing Technology Fair including sheet-fed offset printing presses, web-fed offset printing presses, intaglio printers and soft cover presses. A total of 13 products were showcased, including sheet-fed 4-colour offset presses, two ply 4-colour offset presses, four ply 4-colour offset presses, single-fed glazing machine and shaftless medium-size newspaper presses. Such market-targeted, high-grade and sophisticated products with good cost performance and stable quality demonstrated the Company's leading position in the industry and its strength in building a global renowned proprietary brand. Both of the Company's new arrivals on exhibition, the high-grade single-fed two ply multi-colour (plus glazing) BEIREN300 offset press and the four ply 4-colour BEIREN200 offset press, have attained the printing speed of 15,000 pieces/hour. Thanks to the shaftless technology, the high-grade small-size newspaper presses with printing speed of 45,000 rounds/hour and the high-grade medium-size newspaper presses with printing speed of 75,000 copies/hour have filled the blank in the domestic production and market. The FR-300 high-speed unit intaglio printer, another new proprietary product of the Company mainly used in multi-colour printing on film (20-60um) and paper (30-80g/m^2), is one of the most advanced intaglio printers in the PRC.

3. A remarkable progress was seen in the Company's partnership and cooperation. Commercial revolving presses jointly produced with GI (USA) were widely recognised in the American market, and were well applauded by domestic users in the sixth Beijing International Printing Technology Exhibition. Beiren75A medium-size newspaper presses jointly developed with Seiken Graphics Inc. (Japan) is expected to launch the market within the year. Such successful partnership and cooperation have consolidated the manufacturing technology strength of Beiren web-fed offset printing presses, laying a solid foundation for the Company's long term development.

4. During the reporting period, the Company carried out a strict examination on the implementation of Budget Approval System, breaking down each management goal. Recognising the key role of effective internal control in attaining its objectives, the Company has carried out control on approval, authorisation, verification, reconciliation, review of operating results and safety of assets, which are necessary in assisting the management to ensure the implementation of operating strategies. This has ensured the dynamic implementation of budgets, strictly limiting the off-budget expenditure.

(II) Operating status of the Company

1. The Company's principle operations cover development, design, manufacturing and sales of printing presses, packing machines, business forms printing presses, commercial revolving presses, commercial soft cover presses, intaglio presses, the parts and components for the aforesaid machines; technical consultancy, technical support; export of own enterprises' and member enterprises' self-produced products and technology; import of own enterprises and member enterprises production of the required auxiliary materials, instruments and meters, machines, parts and components and technology (apart from those products restricted by the State from import and export); operation of throughput processing and the "three categories of processing and one category of compensation" businesses.

2. Principal operations of the Company

(1) Principal operations by sector or product

Unit: RMB

By product	Principal operating income	Principal operating costs	Gross profit margin (%)	Increase (+)/ decrease (-) in principal operating income as compared with the same period last year (%)	Increase (+)/ decrease (-) in principal operating costs as compared with the same period last year (%)	Increase (+)/ decrease (-) in gross profit margin as compared with the same period last year (%)
Sale of sheet-fed offset printing presses	233,916,416.83	174,857,349.69	25.25	-11.19	5.38	Decreased by 11.75 percentage points
Sale of web-fed offset printing presses	130,921,058.57	80,242,481.00	38.71	16.59	8.42	Increased by 4.62 percentage points
Sale of intaglio printers	78,831,310.25	63,621,898.18	19.29	-4.27	-0.17	Decreased by 3.32 percentage points
Sale of form-printing machines	21,279,401.70	15,626,906.94	26.56	-46.07	-53.06	Increased by 10.93 percentage points
Printing services	13,078,600.89	8,891,397.21	32.02	-6.25	-4.23	Decreased by 1.43 percentage points
Spare parts	7,304,732.13	6,936,235.16	5.04	1.23	39.54	Decreased by 26.08 percentage points
Others	1,911,065.92	1,311,664.36	31.36	-68.18	-64.72	Decreased by 6.73 percentage points
Including: connected transactions	50,425,268.31	36,541,476.74	27.53	—	—	—

Pricing policy for connected transactions

The pricing policy for products sold by the Company to the connected companies mentioned above is based on the market prices for similar products.

Of which: the total connected transactions in respect of sale of products by the Company to the controlling shareholder and its subsidiaries during the reporting period amounted to RMB2,179,000.

(2) Principal operations by geographical segment

Unit: RMB

By region	Principal operating income	Increase (+)/ decrease (-) as compared with the same period last year (%)
Domestic	477,699,153.44	-3.10
Overseas	9,543,432.85	-69.97

3. Operational difficulties and solutions

Due to the less strict requirement for equipment upgrading of downstream enterprises under the industrial policies, ordinary products suffered shrinking market demands during the reporting period. On the other hand, demands for high-end multi-colour presses are increasing with the rapid development of the domestic printing market and the continuous technological renovation of printing houses. To address market competitions and increase its market share of high-end products, the Company adjusted the product mix. However, the underdeveloped sales scale of high-end products, together with the increasing costs, had an adverse impact on the Company's profitability. Faced with such unfavourable factors, the Company took the following initiatives:

(1) With efforts in marketing focusing on promotion and inducing on potential customer base, the Company implemented CRM (Customer Relationship Management) system to utilise and respond quickly to the market information and customer demand. By establishing scientific after-sale service procedures, marketing activities were enchanced at economical cost of human resources and assets with improved sales revenue.

(2) the Company accelerated its improvement in existing products and development of new products to satisfy the market demands, securing more market shares.

(3) the Company strengthened cost management to curb expenses for cost reduction, offsetting the burden from the increased provision for depreciation as a result of new plant construction.

(III) Investment

1. Use of proceeds

The initial raised proceeds of the Company had been used up as at 31 December 1998. The second raised proceeds had also been used up as at 31 March 2003. No utilisation of proceeds subsisted in this reporting period.

2. Projects financed by non-raised funds

During the reporting period, no non-raised fund was used.

(IV) Business and geographical segments

The Group's revenue and results are substantially derived from the manufacture and sale of printing machines in Mainland China. Revenue and results derived outside Mainland China are insignificant. Accordingly, no segmental analysis of financial information is presented.

(V) Operating profit (prepared under HK GAAP)

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Operating profit for the period was arrived at after charging (crediting) the following:		
Depreciation and amortisation	**24,739**	23,022
Provision for impairment of buildings, machinery and equipment	**—**	942
Share of income tax of associated companies	**216**	161
Interest income	**(358)**	(875)
Income from disposal of buildings, machinery and equipment	**(1,054)**	—

(VI) Taxation (prepared under HK GAAP)

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
The charge represents:		
Provision for the PRC enterprise income tax for the current period	**7,867**	11,371
Deferred tax credit	**(2,475)**	(1,029)
	5,392	10,342

The Company is subject to the PRC enterprise income tax levied at a rate of 15% (2004: 15%) of the taxable income. All the domestic subsidiaries and associates are subject to the PRC income tax levied at a rate as specified under the rules and regulations of the PRC.

The Group does not incur any significant tax liability in any other jurisdiction.

(VII) Dividend

Profit distribution proposal for 2004 was approved by the shareholders in the annual general meeting held on 8 June 2005 with total divident amounted to RMB33,760,000. The directors do not recommend the payment of any interim dividend.

(VIII) Earnings per share (prepared under HK GAAP)

The calculation of earnings per share for the period is based on the net profit for the period attributable to the ordinary equity holders of the parent of RMB38,398,000 (2004: RMB61,496,000) and the number of 422,000,000 shares in issue for the period (2004: the weighted average number of 422,000,000 shares).

(IX) Liquidity and sources of capital (prepared under HK GAAP)

The Group's net cash outflow from operating business for the six months ended 30 June 2005 amounted to RMB55,026,000.

As at 30 June 2005, the Group's total loans amounted to RMB284,085,000, of which RMB277,085,000 will fall due within one year, RMB7,000,000 will fall due in August 2007. The aforesaid loans were all fixed interest rate loans denominated in Renminbi.

The gearing ratio of the Group as at 30 June 2005 was 37.52% calculated on its total liabilities and total assets.

(X) Staff employment

As at 30 June 2005, the Company had approximately 2,970 employees, of which 1,692 were production staff, representing 56.97% of the total number of employees. Remuneration packages are structured with reference to the industry practice and individual's performance. Apart from the basic remuneration, bonus may be granted to the eligible with reference to the Company's results as well as individual performance.

(XI) The Group's assets pledged

As at 30 June 2005, the Group's time deposit, properties, plants and equipment and construction in progess with a total value of approximately RMB52,669,875.23 (31 December 2004: RMB30,563,853.63) were pledged for bank acceptance and bank loans.

(XII) Exposure to fluctuations in exchange rates and any related hedges

Transactions of the Company are mainly dominated in Renminbi, Hong Kong dollars or US dollars. The risk of exposure to fluctuations in exchange rates is comparatively low. Therefore, no financial instruments are used by the Company for hedging the exchange rate risk.

(XIII) Contingent liabilities

As at 30 June 2005, the Company did not have any material contingent liabilities.

(XIV) Business outlook for the second half of 2005

1. Capitalising on its technological strengths and with introduction of advanced foreign technology, the Company will speed up development of new products based on the leading technology. With focus on the domestic and overseas market demands, the Company will extend the use life of regular products and improve the performance and stability of medium- and high-grade products through technology innovation and improvement.

2. Product quality concerns a lot for the Company's existence and development and is a systematic engineering project, which shall be assured throughout each processes from design to technique to manufacture. The Company will speed up the treatment of product quality feedback, uncovering the causes of quality problems to continuously lift product quality to the expected level.

3. Leveraging CRM's advanced marketing philosophy and technology platform, the Company will take initiatives in marketing engineering as well as regulation and organisation frameworks, aiming to reinforce and expedite after-sale services based on the one-stop service system for customer satisfaction.

4. The Company will continue to strengthen and rationalise fundamental management to increase its anti-risk capability and cater for the volatile and changing market.