

V. MANAGEMENT DISCUSSION AND ANALYSIS

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

1. To address market competitions during the reporting period, the Company made downward price adjustments to certain traditional products. Meanwhile, the high-end press products were yet to take shape for bulk production, leading to the high manufacturing cost. In addition, the Company incurred additional operating expenses including energy costs after moving to new plants. As a result, the Company saw a diminished profit margin. In accordance with the PRC accounting standards, revenue from principal operations was RMB514,525,600 and net profit amounted to RMB10,289,500. In accordance with the generally accepted accounting principles in Hong Kong, revenue from principal operations was RMB513,060,000 and net profit amounted to RMB10,230,000.
2. The first half year saw a recovery of sales. On the one hand, with the PRC's change of import control on high-end machinery, market demand witnessed a gradual rebound for domestically made high-end printing machinery. On the other hand, the Company made reforms to its marketing system to focus on customer-oriented and product-specific concepts, so as to provide all-around customer services to cater for their needs.
3. Taking timely initiatives against problems in product development, the Company made improvements to 10 categories of products in the reporting period. Also advanced technologies were introduced to speed up corporate growth. BEIREN75A which is developed addressing practical needs won recognitions of customers and experts on its superior performance and sound quality.
4. The Company enhanced fundamental management to improve safety management. During the reporting period, the Company drafted the Compilation of Safety Management Measures and Protection Rules of Intellectual Property Rights. Aiming at "Enhanced protection and convenience", it is designed to improve safety management and protection of intellectual property rights through establishing management bodies and perfecting management measures and workflows.
5. During the reporting period, the Company participated in two printing press exhibitions - IPEX Expo 2006 in Birmingham (UK) and All In Print China 2006 in Shanghai, allowing more customers' understanding and recognition of the Company's technological and manufacturing edges. Especially during the session of All In Print China 2006 in Shanghai, the Company organised a panel of newspaper industry to take a field investigation of BEIREN75A web mid-scale newspaper press and BEIREN3840 commercial rotary press for tailored promotion. BEIREN75A, the domestic first newspaper press with a capacity of 75,000 sheets per hour featuring high printing speed and non-shaft transmission advanced technologies, made itself a cynosure of the exhibition the field investigation contributed to the development of equipment manufacture to a high standard in China.
6. During the reporting period, the Company accomplished the share reform plan as scheduled pursuant to the "Guidelines for Promoting the Reform and Opening-up and Sustained Development of the Capital Market" promulgated by the State Council of the PRC and the "Guiding Opinions on the Share Reform of Listed Companies" jointly promulgated by the China Securities Regulatory Commission and other four authorities.

(II) Scope and status of principal operations

1. The principal operations of the Company include development, design, production and sale of printing presses, pressing machines, packing machines, business forms printing presses, commercial revolving presses, commercial soft cover presses, intaglio presses, the parts and components of the aforesaid machines; technical consultancy, technical support, own export and export of member enterprises' self-produced products and technology; import of raw and auxiliary materials, instruments and meters, machines, parts and components and technology (excluding those products restricted by the State from operating by enterprises and those from being imported and exported) for production of own enterprises and member enterprises; processing on customer-supplied materials and "processing raw materials on clients' demands, assembling parts for clients and processing according to clients' samples or compensations trade".

2. 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	243,116,674.18	197,506,366.04	18.10	3.93	12.95	Increase by 6.6 percentage points
Sale of web-fed offset printing presses	131,257,265.17	92,385,209.28	28.96	0.26	15.13	Decrease by 9.21 percentage points
Sale of intrusion printers	90,416,268.75	69,464,791.85	22.51	14.70	9.18	Increase by 3.76 percentage points
Sale of form-printing machines	31,318,222.55	25,660,032.52	18.07	47.18	64.20	Decrease by 8.50 percentage points
Printing business	8,426,901.06	6,127,788.53	26.62	(35.57)	(31.08)	Decrease by 4.85 percentage points
Spare parts	6,604,113.74	4,351,465.86	33.45	(9.59)	(37.26)	Increase by 28.95 percentage points
Others	3,386,177.99	2,257,523.46	32.67	77.19	72.11	Increase by 1.85 percentage points

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 RMB7,276,400.

3 Principal operations by geographical segment

Unit: RMB

By region	Principal operating income	Increase (+)/ decrease (-) as compared with the same period last year (%)
Domestic	491,407,956.60	2.87
Overseas	23,117,666.84	142.24

(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

During the reporting period, the Company and Mitsubishi Heavy Industries, Ltd. jointly established Beijing Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited (北京三菱重工北人印刷機械有限公司). The registered capital of the joint venture amounted to RMB46,000,000, of which the Company contributed RMB22,540,000, representing 49% of the total registered capital, while Mitsubishi Heavy Industries, Ltd. contributed RMB23,460,000, representing 51% of the total registered capital. The company has commenced its operation.

(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	
	2006	2005
	RMB'000	RMB'000
Operating profit for the period was arrived at after charging (crediting) the following:		
Depreciation and amortisation	22,807	24,739
Share of income tax of associated companies (included in share of results of associates)	101	216
Interest income	(541)	(358)
Loss (profit) on disposal of property, machinery and equipment	152	(1,054)
Reversal of impairment loss of leasehold property (Note)	(3,500)	—
	<u>22,807</u>	<u>24,739</u>

Note: At 30 June 2006, the Group has reversed the impairment loss of RMB3,500,000 of the leasehold properties in Hong Kong which was recognized in the income in prior years.

(VI) Taxation (prepared under HK GAAP)

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
The charge represents:		
Provision for the PRC enterprise income tax for the current period	3,307	7,867
Deferred tax credit	(841)	(2,475)
	<u>2,466</u>	<u>5,392</u>

The PRC income tax of the Company and one of its subsidiaries, Shanxi Beiren Printing Machinery Company Limited, is calculated at the rate of 15% (2005: 15%) of the estimated assessable profit for the year. In accordance with the relevant rules and regulations in PRC, all other PRC subsidiaries are subject to PRC income tax levied at rate of 33% (2005: 33%), except for Beijing Beiren Fuji Printing Machinery Company Limited which is taxed at 12% (2005: 12%).

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

(VII) Dividend and distribution of dividends

Dividend for 2005 of RMB29,540,000 was approved by the shareholders in the annual general meeting held on 27 June 2006. Dividend for 2004 of RMB33,760,000 was approved by the shareholders in the annual general meeting held on 8 June 2005.

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 RMB9,894,000 (2005: RMB38,398,000) and the number of 422,000,000 shares in issue during the period (2005: 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 2006 amounted to RMB1,756,000.

As at 30 June 2006, the Group had new bank loans amounting to RMB243,218,000 (2005: RMB172,675,000). During the reporting period, it repaid the loan of RMB180,451,000 (2005: RMB128,627,000) received in previous years. The aforesaid new loan bear interest at market rates.

The gearing ratio of the Group as at 30 June 2006 was 40.83% calculated on its total liabilities and total assets.

(X) Share capital

	Amount
	RMB'000
Share capital registered, in issue and fully paid:	
As at 1 January 2005, 30 June 2005, 31 December 2005 and 30 June 2006	
322,000,000 A shares with par value of RMB1.00	322,000
100,000,000 H shares with par value of RMB1.00	100,000
	<u>422,000</u>

(XI) 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.

(XII) Contingent liabilities

As at 30 June 2006, the Company did not have any material contingent liabilities.

(XIII) Business outlook for the second half of 2006

1. Take more efforts in market promotion of high-end products in the second half of 2006. Marching into high-end product market is a strategic goal of the Company, as with the growing economy of China, the printing market has evolved from low-end to high-end and exquisite finished products, calling for high efficiency and low defectiveness. To meet market demands for high-end presses, the Company will enhance its services for better customer satisfaction, aiming at a well-established brand image across customers.
2. For new product development, the Company will follow its established target set out in its 11th Five-year Plan, amassing resources to speed development of major products under definite positioning and ensuring completion of relevant product certifications.
3. Lower cost to increase profitability. Ex-budget expenses will be under strict control, together with strengthened monitoring of budget implementation. Based on the established standard cost accounting, a standard cost accounting system will be set up for subsidiaries, whereby in-depth analysis of the difference between actual cost and standard cost will be taken to strengthen cost management and increase product gross margin.
4. Enhance capital management to hedge operating risks. During the first half year, the Company's accounts receivable recorded an increase in order to speed up new product development and secure larger market share, thereby increasing operating risks. To resolve it, the Company will include reserve capital, working capital and finished product capital into accountability system for assessment, while shortening production cycle and accelerating capital turnover days to minimise carrying capital and alleviate capital calls. At the same time, the Company will take active measures to cut down accounts receivable, and strictly control instalment size to hedge risks, trying hard to maintain a reasonable cash flow for positive development of the Company.
5. Improve quality management to ensure product quality consistence and reliability. Starting from improving complete set quality and streamlining work processes, the Company will tackle key technology nuts based on market feedbacks, taking efforts in enhancing assembly quality consistence to ensure high quality delivery.
6. As healthy paces of subsidiaries are vital for the Company's investment return and strategic development, the Company will continue its in-process check and internal auditing on subsidiaries in the second half of 2006. The Company will exercise rational management over subsidiaries so as to contribute to the interest of the Company and its shareholders at a whole.

(XIV) Warning made to the forecasted loss incurred for accumulated net profit or potential significant change occurred from the beginning of the year to the end of next reporting period and the explanation thereof

Given the keen competition in the printing machine manufacturing industry, adjustment of product prices and rising price of materials, the Company predicted that the accumulated net profit from the beginning of the year to the end of next reporting period may subject to substantial decrease when compared with the same period of last year.

VI. SIGNIFICANT EVENTS

(I) Corporate Governance

In implementing the documents relating to standard operation of listed companies issued by China Securities Regulatory Commission, the Company timely adjusted its Articles of Association, Rules of Procedure for General Meetings, Rules of Procedures for the Board of Directors and Rules of Procedure for the Supervisory Committee to improve its corporate governance and regulate its operation in compliance with the newly promulgated Company Law, Securities Act and A Guide on Articles of Association of Listed Companies.

During the reporting period, the Company has carried out its corporate governance in strict compliance with Rules for Corporate Governance of Listed Companies, Rules Governing the Listing of Securities on Shanghai Stock Exchange, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and its Articles of Association. Its current corporate governance is in line with the requirements of regulatory authorities.

(II) Profit distribution plan and its implementation during the reporting period

At the Company's 2005 Annual General Meeting on 27 June 2006, the Company's profit distribution plan for 2005 was approved, pursuant to which a cash dividend shall be paid to all shareholders at RMB0.7 (tax inclusive) for every 10 shares. Based on the 422,000,000 share in issue (nominal value is RMB1), a total of RMB29,540,000 will be distributed. The relevant announcement on dividend distribution for H Shares was published in Shanghai Securities News, Hong Kong Economic Times and The Standard on 28 June 2006. The announcement on dividend distribution for A Shares was published in Shanghai Securities News on 8 August 2006. For A Shares, the date of registration of shares is 11 August 2006 and the ex-dividend date is 14 August 2006. Dividends for A Shares and H Shares will be paid on 18 August 2006.