

## VII. FINANCIAL STATEMENTS (UNAUDITED)

## BALANCE SHEET

(prepared under PRC accounting standards)

As at 30 June 2006

Assets	Note	Group		Company	
		30 June 2006 (unaudited) RMB	12 December 2005 RMB	30 June 2006 (unaudited) RMB	12 December 2005 RMB
Current assets					
Cash and bank balances	6	100,383,009.78	100,860,695.33	48,342,219.48	43,551,113.63
Bills receivable	7	25,739,584.38	26,931,784.60	12,628,047.85	10,989,834.60
Dividends receivable		227,200.00	—	227,200.00	—
Accounts receivable	8	460,180,633.57	371,415,628.85	374,567,006.99	303,700,631.49
Other receivables	9	26,322,391.39	32,657,230.27	25,954,666.72	26,203,242.76
Prepayment	11	21,704,233.79	15,429,480.53	10,458,591.83	8,566,445.94
Inventories	12	683,121,651.66	719,812,008.30	494,526,282.24	529,096,509.44
Deferred expenses		720,965.71	248,855.86	252,774.56	10,500.00
Total current assets		1,318,399,670.28	1,267,355,683.74	966,956,789.67	922,118,277.86
Long term investment					
Long term equity investment	13	41,194,018.07	19,787,520.32	240,947,222.92	218,797,377.79
Total long term investment		41,194,018.07	19,787,520.32	240,947,222.92	218,797,377.79
Fixed assets					
Fixed assets, at cost	14	1,260,095,195.85	1,262,176,690.64	962,299,693.63	965,258,018.77
Less: accumulated depreciation	14	492,594,085.74	483,990,572.40	321,220,920.37	319,211,046.42
Fixed assets, net book value					
Less: Provision for diminution in value of fixed assets	14	767,501,110.11 25,178,986.05	778,186,118.24 30,258,656.35	641,078,773.26 22,178,986.05	646,046,972.35 23,758,656.35
Fixed assets, net		742,322,124.06	747,927,461.89	618,899,787.21	622,288,316.00
Construction in progress	15	91,041,325.30	53,961,998.07	31,072,278.20	27,584,261.86
Total fixed assets		833,363,449.36	801,889,459.96	649,972,065.41	649,872,577.86
Intangible assets and other assets					
Intangible assets	16	25,405,482.11	26,132,662.01	20,286,239.21	20,513,840.39
Long term deferred expenses	17	12,179,396.10	12,218,786.10	12,161,291.10	12,194,291.10
Total intangible assets and other assets		37,584,878.21	38,351,448.11	32,447,530.31	32,708,131.49
Total assets		2,230,542,015.92	2,127,384,112.13	1,890,323,608.31	1,823,496,365.00

**BALANCE SHEET (CONTINUED)**

(prepared under PRC accounting standards)

As at 30 June 2006

Liabilities and shareholders' equity	Note	Group		Company	
		30 June 2006 (unaudited) RMB	12 December 2005 RMB	30 June 2006 (unaudited) RMB	12 December 2005 RMB
Current liabilities					
Short term loans	18	353,170,383.32	290,402,766.70	266,020,383.32	202,752,766.70
Bills payable	19	50,413,999.59	41,358,636.90	29,413,999.59	27,608,636.90
Accounts payable	20	244,371,758.10	259,170,965.18	184,718,173.57	196,598,882.97
Receipts in advance	21	52,812,396.96	35,431,652.65	13,470,071.78	7,208,361.34
Wages payable		2,568,007.24	2,866,278.68	—	26,950.00
Staff welfare		24,754,730.97	25,021,608.11	18,532,770.09	18,884,497.25
Taxes payable	22	21,063,142.63	19,525,478.07	11,718,021.45	10,054,121.18
Sundry payable	23	518,214.00	305,316.27	192,425.61	106,126.41
Other payable	24	85,055,722.17	69,167,434.52	53,171,236.33	56,968,383.95
Expected liabilities	25	18,381,310.04	18,381,310.04	18,381,310.04	18,381,310.04
Accruals		2,217,552.75	2,227,864.55	625,946.98	1,363,932.37
Dividend payable	26	29,540,000.00	—	29,540,000.00	—
Long term liabilities payable within one year	27	32,550,000.00	32,550,000.00	—	—
Total current liabilities		917,417,217.77	796,409,311.67	625,784,338.76	539,953,969.11
Long term liabilities					
Long term loans	28	4,000,000.00	4,000,000.00	—	—
Specific payable		700,000.00	—	—	—
Total long term liabilities		4,700,000.00	4,000,000.00	—	—
Deferred tax					
Deferred tax credit	29	242,941.38	242,941.38	242,941.38	242,941.38
Total liabilities		922,360,159.15	800,652,253.05	626,027,280.14	540,196,910.49
Minority interests		46,904,965.64	46,231,826.25	—	—
Shareholders' equity					
Share capital	30	422,000,000.00	422,000,000.00	422,000,000.00	422,000,000.00
Capital reserve	31	520,864,095.43	520,864,095.43	521,882,315.91	521,882,315.91
Surplus reserve	32	198,719,902.30	197,666,214.93	193,618,476.66	192,564,789.29
Including: statutory public welfare fund	32	—	72,246,838.09	—	71,966,365.27
Retained profits	33	119,605,243.41	139,909,389.09	126,795,535.60	146,852,349.31
Including: Cash dividend approved after the balance sheet date	33	—	29,540,000.00	—	29,540,000.00
Translation differences in foreign exchange statement		87,649.99	60,333.38	—	—
Total shareholders' equity		1,261,276,891.13	1,280,500,032.83	1,264,296,328.17	1,283,299,454.51
Total liabilities and shareholders' equity		2,230,542,015.92	2,127,384,112.13	1,890,323,608.31	1,823,496,365.00

The notes form an integral part of the financial statements.

**PROFIT AND LOSS ACCOUNT AND PROFITS DISTRIBUTION**

(prepared under PRC accounting standards)

For the period from 1 January 2006 to 30 June 2006

	Note	Group		Company	
		Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB
Income from principal operations	34	514,525,623.44	487,242,586.29	362,859,452.84	358,252,745.90
Less: Principal operating cost	34	397,753,177.54	351,487,932.54	284,024,767.07	253,967,931.51
Principal operation tax and surcharge	35	3,183,691.94	2,532,410.70	2,692,060.63	1,738,713.55
Profit from principal operations		113,588,753.96	133,222,243.05	76,142,625.14	102,546,100.84
Add: Profit from other operations		1,809,068.77	1,384,916.63	2,266,649.30	1,187,440.87
Less: Operation expenses		27,440,542.36	19,739,250.41	14,634,722.55	11,735,495.42
Administrative expenses		69,880,388.86	68,141,912.76	44,422,325.18	45,769,422.28
Financial expenses	36	8,465,501.47	5,976,759.30	5,768,474.90	3,504,727.87
Operating profit		9,611,390.04	40,749,237.21	13,583,751.81	42,723,896.14
Add: Investment income					
(less: loss)	37	(53,708.96)	1,614,915.29	(162,954.87)	1,145,763.85
Non-operating income	38	881,308.56	1,252,996.32	196,719.55	339,261.99
Less: Non-operating expenses	39	(3,012,898.34)	530,623.19	413,438.27	386,330.68
Total profits		13,451,887.98	43,086,525.63	13,204,078.22	43,822,591.30
Less: Income tax	40	3,307,404.35	7,650,819.44	2,667,204.56	7,415,717.14
Minority interests		(145,058.06)	(200,499.99)	—	—
Net profit for the period		10,289,541.69	35,636,206.18	10,536,873.66	36,406,874.16
Add: Retained profits at the beginning of the period	33	139,909,389.09	101,184,772.52	146,852,349.31	107,177,316.79
Distributable profits		150,198,930.78	136,820,978.70	157,389,222.97	143,584,190.95
Less: Transfer to statutory surplus reserve	33	1,053,687.37	3,640,687.42	1,053,687.37	3,640,687.42
Transfer to statutory public welfare fund	33	—	3,640,687.42	—	3,640,687.42
Profits distributable to shareholders		149,145,243.41	129,539,603.86	156,335,535.60	136,302,816.11
Less: Dividend payable - cash dividend for the last year approved at the general meeting		29,540,000.00	—	29,540,000.00	—
Retained profits carried forward		119,605,243.41	129,539,603.86	126,795,535.60	136,302,816.11

**SUPPLEMENTARY**

	Group		Company	
	Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB
Profit from sale and disposal of invested companies	—	—	—	—
Loss arising from natural disaster	—	—	—	—
Increase / (decrease) in profit due to change in accounting policies	—	—	—	—
Increase / (decrease) in profit due to change in accounting estimate	—	—	—	—
Loss arising from debt restructuring	—	—	—	—
Others	—	—	—	—

The notes form an integral part of the financial statements.

**CASH FLOW STATEMENT**

(prepared under PRC accounting standards)

For the period from 1 January 2006 to 30 June 2006

	Note	Group		Company	
		Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB
Cash flow from operating activities					
Cash received from sales of goods or rendering of services		559,891,567.23	520,747,064.89	363,704,226.86	390,857,353.67
Other cash received relating to operating activities		11,272,719.56	3,074,240.31	6,611,745.40	2,493,088.81
Sub-total of cash inflows		571,164,286.79	523,821,305.20	370,315,972.26	393,350,442.48
Cash paid for goods and services		395,907,516.86	352,548,192.34	260,675,747.16	258,374,878.03
Cash paid to and on behalf of employees		88,268,675.51	75,011,939.95	60,449,344.35	50,643,226.53
Taxes and surcharges paid		42,558,303.05	55,273,058.30	31,330,691.99	40,602,319.32
Other cash paid relating to operating activities	42	46,143,483.57	89,236,839.92	31,198,738.11	58,187,644.21
Sub-total of cash outflows		572,877,978.99	572,070,030.51	383,654,521.61	407,808,068.09
Net cash flows from operating activities		(1,713,692.20)	(48,248,725.31)	(13,338,549.35)	(14,457,625.61)
Cash flow from investing activities					
Cash received from investment income		—	454,400.00	—	544,170.16
Increase due to change in the scope of consolidation		1,060,572.74	—	—	—
Net cash received from disposal of fixed assets, intangible assets and other long term assets		405,500.00	2,903,028.42	15,500.00	529,230.07
Other cash received relating to investing activities	43	20,001,000.00	—	—	—
Sub-total of cash inflows		21,467,072.74	3,357,428.42	15,500.00	1,073,400.23
Cash paid to acquire fixed assets, intangible assets and other long term assets		52,195,958.30	31,887,711.11	17,101,118.92	27,606,766.80
Cash paid for equity investment		22,540,000.00	—	22,540,000.00	—
Sub-total of cash outflows		74,735,958.30	31,887,711.11	39,641,118.92	27,606,766.80
Net cash flows from investing activities		(53,268,885.56)	(28,530,282.69)	(39,625,618.92)	(26,533,366.57)
Cash flows from financing activities					
Cash received from loans		243,217,616.62	172,675,233.28	193,267,616.62	110,000,400.00
Sub-total of cash inflows		243,217,616.62	172,675,233.28	193,267,616.62	110,000,400.00
Cash repayments of debentures		180,450,000.00	128,627,400.00	130,000,000.00	82,127,400.00
Cash payments for distribution of dividends of profits and payment of interest expenses		8,290,041.02	6,051,161.36	5,512,342.50	3,631,891.72
Other cash paid relating to financing activities		—	13,700,000.00	—	—
Sub-total of cash outflows		188,740,041.02	148,378,561.36	135,512,342.50	85,759,291.72
Net cash flows from financing activities		54,477,575.60	24,296,671.92	57,755,274.12	24,241,108.28
Effect of changes in foreign exchange rate on cash		27,316.61	(129,704.36)	—	313.54
Net increase (decrease) in cash and cash equivalents		(477,685.55)	(52,612,040.44)	4,791,105.85	(16,749,570.36)

**CASH FLOW STATEMENT (CONTINUED)**

(prepared under PRC accounting standards)

For the period from 1 January 2006 to 30 June 2006

**SUPPLEMENTARY INFORMATION**

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2006 (Accumulated) (Unaudited) RMB	Six months ended 30 June 2005 (Accumulated) (Unaudited) RMB
Reconciliation of profit after taxation to cash flow from operating activities					
Net profit		10,289,541.69	35,636,206.18	10,536,873.66	36,406,874.16
Add: Provision (reversal) for diminution in assets value		3,853,090.90	7,780,600.97	3,373,325.46	4,700,599.13
Depreciation of fixed assets		23,691,191.93	24,377,109.38	16,623,804.98	16,770,784.00
Amortisation of intangible assets		727,179.90	838,548.18	227,601.18	227,601.18
Amortisation of deferred expenses		39,390.00	39,390.00	33,000.00	33,000.00
Decrease in deferred expenses (less: increase)		(444,509.85)	(154,677.14)	(242,274.56)	21,854.00
Increase in accruals (less: decrease)		(10,311.80)	(354,124.78)	(737,985.39)	(800,964.26)
Loss on disposal of fixed assets, intangible assets and other long term assets (less: gains)		151,599.50	(628,454.26)	362,326.39	587,037.31
Finance expenses		8,290,041.02	6,051,161.36	5,512,342.50	3,631,891.72
Investment loss (less: gains)		53,708.96	(1,614,915.29)	162,954.87	(1,145,763.85)
Loss on minority interests (less: gains)		(145,058.06)	(200,499.99)	—	—
Decrease in inventories (less: increase)		33,526,657.65	(57,004,660.71)	30,904,688.59	(48,662,609.60)
Decrease in operating receivables (less: increase)		(79,882,286.16)	(73,573,812.98)	(73,855,945.45)	(56,631,405.31)
Increase in operating payables (less: decrease)		(1,853,927.88)	10,559,403.77	(6,239,261.58)	30,403,475.91
Net cash flows from operating activities		(1,713,692.20)	(48,248,725.31)	(13,338,549.35)	(14,457,625.61)
Investing and financing activities not involving cash balances					
Factoring of accounts receivable due	18 Note (3)	19,952,383.38	19,883,500.06	19,952,383.38	19,883,500.06
Net increase (decrease) in cash and cash equivalents					
Cash and bank balance at the end of the period		100,383,009.78	103,620,483.29	48,342,219.48	59,634,307.71
Less: Cash and bank balance at the beginning of the period		100,860,695.33	156,232,523.73	43,551,113.63	76,383,878.07
Increase (decrease) in cash and cash equivalents		(477,685.55)	(52,612,040.44)	4,791,105.85	(16,749,570.36)

The notes form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

(prepared under PRC accounting standards)

For the period from 1 January 2006 to 30 June 2006

### 1. GENERAL

Beiren Printing Machinery Holdings Limited (the "Company") is a joint stock limited company established in the People's Republic of China by Beiren Group Corporation ("BGC") as the sole promoter. The Company was established on 13 July 1993. The Company's A Shares and H Shares have been listed in Shanghai and Hong Kong respectively. Upon the issue, the Company's total share capital is 400,000,000 shares, including 250,000,000 state-owned legal person shares, 50,000,000 domestic public shares and 10,000,000 overseas public shares with the par value of RMB1 per share. The Company is principally engaged in the development, design, manufacturing and sales of printing machines, pressing machines, packing machines and parts and components of such machines. Other operations include technological consultancy and technical support services related to the principal operations.

Based on the resolutions passed at the shareholders' general meetings held on 16 May 2001 and 11 June 2002 and approved by the document Zheng Jian Fa Xing Zi [2002] No. 133 of China Securities Regulatory and Supervisory Commission, the Company can issue not more than 22,000,000 new shares of renminbi ordinary shares (A Shares) to the social public shareholders with par value of RMB1 for each share on 7 January 2003.

Pursuant to the document (Jing Guo Zi Chan Quan Zi [2006] No. 25) in relation to the Share Reform of Beiren Printing Machinery Holdings Limited issued by the State-owned Assets Supervision and Administration Commission of Beijing Municipal Government, the Company converted 27,360,000 original state-owned legal person shares to Renminbi ordinary shares on 29 March 2006. Following the completion of the Share Reform, the Company had 222,640,000 state-owned legal person shares, 99,360,000 domestic public shares and 100,000,000 overseas public shares.

Details of the Company's share capital are set out in *Note 30*.

### 2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE

#### Accounting systems and standards

The Company prepares its financial statements in accordance with the "Accounting Standards" and the "Accounting Regulations for Business Enterprises".

#### Basis of accounting and valuation

It is in accordance with the accrual concept and valuation is based on historical cost. Once diminution in value occurs in future, provision shall be made in accordance with relevant regulations.

#### Financial year

The Company adopts the calendar year as its financial year i.e. from 1 January to 31 December.

#### Reporting currency

The Company's books of accounts are maintained in Renminbi.

#### Foreign currencies

Transactions denominated in foreign currency are translated into Renminbi at the medium exchange rate ("Market Rate") quoted at the market ruling on the first date of the transaction month. Monetary accounts denominated in foreign currencies as at year end are translated into Renminbi at the Market Rate ruling at year end. The exchange differences arising from specific foreign currency loans relating to acquisition or construction of fixed assets are included as cost of those fixed assets before they are capable of being put in use or charged to long term deferred expense if they are still under construction; and the remaining are charged as financial expense.

#### Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were held for a short term. Cash equivalents are subject to insignificant risk of changes in value.

**Provision for bad debts****(1) Basis of recognition of bad debts**

A debtor who is bankrupt and makes repayment according to legal procedure. After that, the related account receivable is confirmed as unrecoverable;

A debtor who is dead and there is no estate for repayment and no obligatory guarantor. The related account receivable is confirmed as unrecoverable;

A debtor do not make repayment as agreed and there is genuine evidence that the related account receivable is unrecoverable or the possibility of recovering the account receivable is minimal.

**(2) Accounting for loss arising from bad debts**

Provision for unrecoverable method is adopted. Provision for bad debt is made based on the unrecoverability of accounts receivable at the end of the year. According to the past experience, the financial position and cash flow of the defaulting party and other information, analysis is made for accounts receivable on a case-by-case basis, determining the amount of provision for bad debt.

**Transfer/discount of bills receivable and accounts receivable**

The bills receivable and accounts receivable transferred/ discounted by the Company to financing institutions, when the risks and rewards relating to the credit receivable have been passed, is charged to the profit and loss account in the period when they are incurred after deduction of the carrying value of the credit receivable and related tax and expenses. In the event that the risks and rewards relating to the credit receivable have not been passed, the credit receivable is accounted for as pledged for bank loan.

**Inventories**

Inventories are stated at actual cost upon acquisition. Actual cost includes acquisition cost, processing cost, and other cost of bringing inventories to their working condition and location for its intended use. Inventories include raw materials, work-in-progress and finished goods.

The cost of inventories sold is reviewed based on actual cost and calculated on a weighted average basis.

Consumables are charged to profit and loss account when acquired.

**Provision for diminution in value of inventories**

At the end of the year, inventories are stated at the lower of cost and net realisable value. Whenever the net realisable value is lower than cost, provision is made for diminution in value of inventories based on the difference between cost and net realisable value for each inventory.

Net realisable value is based on estimated selling price less further cost expected to be incurred to completion and disposal and less the relevant tax in the normal course of business.

## Long term investments

### (1) Long term investments

Long term equity investments are stated at historical cost upon acquisition.

The investee company to which the Company is unable to control, by itself or jointly with other parties, or to exert significant influence is accounted for using the cost method. The investee company to which the Company is able to control, by itself or jointly with other parties, or to exert significant influence is accounted for using the equity method;

When the cost method is adopted, the amount of investment income is limited to the attributable amount of the accumulated net profits of the invested company after being acquired by the Company. The amount of profits or cash dividends declared to be distributed by the investee company in excess of the above should be treated as recovery of investment cost, and reduce the carrying amount of investments accordingly;

When the equity method is adopted, the amount of investment income arising from the investee company is the share of net profit (loss) generated by the investee company in the relevant period. In the event that share of net loss generated by the investee company is recognised, the carrying amount of investment is to be reduced until zero. In the event that the investee company recognises net profit in the following periods and share of income exceeds share of unrecognised net loss, the carrying amount of investment is recovered to be positive.

In the event the equity method is adopted for long term equity investment, the difference of initial investment cost greater than percentage of equity interest in the investee is recorded as debit balance in equity investment and is amortized on a straight-line basis for the terms in investment charged to the profit and loss account. If there is specific term stated in the contract, amortization is carried out over the investment period. If there is no specific term stated in the contract, amortization is carried out over within 10 years. The difference of initial investment cost lesser than percentage of equity interest in the investee is charged to capital reserve.

### (2) Provision for diminution in value of long term investment

At the end of the period, the Company determines whether it is necessary to make provision for diminution in value based on the indication of diminution in value for long term debt investment. In the event the recoverability of long term debt investment is less than its carrying amount, provision is made based on such difference.

## Recognition of the recoverable

The recoverable represents the higher of the net selling price of assets and cash flow arising from continuous use of assets and the disposal of such assets before the end of useful lives.

## Fixed assets and depreciation

Fixed assets are stated as actual cost upon acquisition. Following the second month after reaching its intended working condition, fixed assets are depreciated based on a straight-line method. Estimated residual ratio, depreciation period and annual depreciation rate of various fixed assets are as follows:

Item	Estimated residual ratio	Depreciation period	Annual depreciation rate
Buildings	3%	40	2.425%
Plant and machinery	3%	8-14	12.125%-6.929%
Electronic equipment, furniture & fixture	3%	8	12.125%
Transportation equipment	3%	8	12.125%

Subsequent expenditures relating to fixed assets are charged to the carrying amount of fixed assets when the potential economic benefits to the Company has exceeded the estimation, provided that the increased amount shall not exceed the recoverable amount of such assets.

## Provision for diminution in value of fixed assets

At the end of the period, the Company determines whether it is necessary to make provision for diminution in value based on the indication of diminution in value for fixed assets. In the event the recoverability of fixed assets is less than its carrying amount, provision is made based on such difference.

## Construction in progress

Construction in progress is stated at cost of construction<sup>a</sup>including all construction, expenditure, borrowing costs of specific loans directly related to the construction and eligible for capitalisation and other relevant expenses attributable to such projects. The cost of construction in progress will be transferred to fixed assets when the construction in progress is capable of being put in use as planned.

At the end of the period, the Company determines whether it is necessary to make provision for impairment based on the indication of impairment for construction in progress. In the event the recoverability of construction in progress is less than its carrying amount, provision is made based on such difference.



## Intangible assets

Intangible assets are stated as actual costs upon acquisition. The actual costs of acquired intangible assets are calculated on the basis of the price actually paid. For intangible assets that are internally generated and acquired by means of application according to legal procedures, their actual costs are calculated on the basis of the registration fees, legal costs, etc. incurred upon acquisition according to the law. Materials, wages and other expenses incurred during the course of research and development are directly charged into the profit and loss account for the current period. The acquired intangible assets are recognised as the actual price.

Land use right acquired by the Company before the implementation of Accounting Regulations for Business Enterprises or obtained by way of land grant premiums is recorded as intangible assets and is amortized based on the following periods. Land use right acquired by the Company after the implementation of Accounting Regulations for Business Enterprises or obtained by way of land grant premiums before the development or construction of self-use project is recorded as intangible assets and is amortized based on the following periods. Because of the construction of self-use project, the carrying amount of land use right is transferred to construction cost.

Intangible assets are amortized on straight-line basis over the estimated life of such intangible assets from the month they are acquired, and charged to the profit and loss account for the corresponding period. If expected useful life is longer than the beneficial period as stipulated by the relevant contract or the effective period as stipulated by the law, the amortization period should not exceed the shorter of the beneficial period or the effective period. If there are no specific periods as stipulated by the relevant contract or the effective period as stipulated by the law, the amortization period should not exceed 10 years.

## Provision for diminution in value of intangible assets

At the end of the period, the Company determines whether it is necessary to make provision for diminution in value based on the indication of diminution in value for intangible assets. In the event the recoverability of intangible assets is less than its carrying amount, provision is made based on such difference.

## Long term deferred expenses

Long term deferred expenses represent expenses incurred for acquiring fixed assets. Expenses incurred during the incorporation of the Company are included in the profit and loss account in the first month after commencement of its operations.

Other long term deferred expenses are amortized on a straight-line basis for the beneficial terms.

## Expected liabilities

In the event the related obligations of contingent liabilities meet the following conditions, the Company will recognise the amount as expected liabilities: (1) that obligations are the current obligations that the Company is responsible for; (2) the implementation of that obligations will probably lead to outflow of economic benefits; (3) the monetary amount of that obligations can be reliably ascertained.

## Borrowing expenses

Borrowing expenses represent interest arising from borrowing, amortization of discount and premium and other auxiliary expenses, as well as difference in translation of foreign loan. Borrowing expense by way of special borrowing for acquiring fixed assets are capitalized based on the principle of capitalized amount of borrowing expenses recognised before such assets reaching their intended working condition. Other borrowing expenses are charged to the profit and loss account as incurred.

## Revenue Recognition

### Sales of goods

Sales of goods are recognised at the time when the substantial risks and rewards of ownership of the goods has been passed to the buyers, the Company no longer manages or physically controls the goods, the economic benefit relating to the transaction has been received by the Company and the related income and expenses can be reliably ascertained.

### Interest income

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable as well as its recoverability.

### Leases

Rentals applicable to operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Rental applicable to operating leases are credited to the profit and loss account on a straight-line basis over the lease term.

## Income tax

Income tax is accounted for using the tax accruing method. Income tax for the period is provided on the assessable income which is calculated on basis of the accounting profit adjusted in accordance with the relevant tax laws and regulations.

### 3. BASIS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Principle of determination of consolidation

Scope of consolidation includes the Company and its subsidiaries as set out in *Note 5* as at the end of the period. Subsidiaries represent enterprises in which the Company's direct or indirect investment amount accounts for 50% or more of the total capital or enterprises over which the Company has actual control over their operations by way of other means.

When each ratio of total assets, sales revenue and net profit for the period of a subsidiary falls below 10% based on the asset test, sales revenue test and profit test set out in the "Reply letter in relation to the submission of the scope of consolidation for consolidated financial statements" [Cai Kuai Er Zi (1996) No. 2], the subsidiary is excluded from the scope of consolidation pursuant to the principle of importance. For those subsidiaries not included in the scope of consolidation, equity method is adopted for accounting in the consolidated financial statements.

#### (2) Accounting method adopted in consolidated financial statements

Subsidiaries adopt the same principal accounting policy as the Company.

The Company determines the date of purchase or the date of disposal as the time when the transfer of risks and rewards relating to purchase and disposal of ownership of equity interests takes place. The operating results and cash flows of subsidiaries for the period after their acquisition and before their disposals are properly included in the Group's profit and loss account and cash flow statement.

Significant accounts and transactions between the Company and its subsidiaries and among its subsidiaries are eliminated upon consolidation.

#### (3) Translation of the foreign currency financial statements

In the course of consolidation, foreign currency financial statements are translated to Renminbi financial statements according to the following:

Shareholders' funds other than the "undistributed profit" are translated into Renminbi at the rate ruling on the transaction date. All of the assets and liabilities are translated into RMB at the rate ruling on 30 June 2006. Items as set out in profit and loss account and profit distribution statement are translated into Renminbi at the average rate of the consolidated accounting period. Opening undistributed profit is the balance of closing undistributed profit for the previous year after translation. Closing undistributed profit is stated as other amount on the profit and loss account after translation. Difference in the total of assets and liabilities and shareholders' fund is stated as "difference in translation of foreign currency statements" which is disclosed as a separate item in the balance sheet.

All items as set out in the cash flow statement are translated into Renminbi at an average rate. Effect on cash flow from change in exchange rate is stated as "Effect on cash flow from change in exchange rate", as an adjustment, which is disclosed as a separate item in the cash flow statement.

Opening balance and the amount in the corresponding period of the previous year are respectively stated after translation at rates set out in the financial statements for the previous year rate and the corresponding period of the previous year.

### 4. TAXATION

#### Value added tax

It is charged at 17% of sales and other operating revenues for output value added tax and after deducting for input value added tax.

#### Income tax

In accordance with the document Cai Shui Zi (1997) No. 38 dated 10 March 1997 issued by the Ministry of Finance and State Tax Bureau, income tax is calculated at 15% of the total assessable income of the Company.

The subsidiaries have adopted the relevant applicable tax rates.

#### Other Tax

Business tax is applicable to the 5% assessable income of the Company.

Urban development tax is calculated on the basis of 5-7% of the assessable amount of value-added tax and business tax.

Education surcharge is calculated on the basis of the assessable amount of value-added tax and business tax. The applicable tax rate is 3%.

## 5. SCOPE OF CONSOLIDATION, PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 30 June 2006, the particulars of subsidiaries directly owned by the Company are as follows:

Name of subsidiaries	Registered address	Registered share capital	Percentage of equity directly held by the Company (%)	Principal activities	Nature and type of corporation	Consolidated for the period
Beijing Beiren Fuji Printing Company Limited	Chao Yang District, Beijing	USD5,100,000.00	70.00	Manufacturing of printing machines and sale of self-manufactured products	Sino-joint venture	Yes
Beijing Beiren Jing Yan Printing Machinery Factory	Yan Qing Xi'an, Beijing	RMB21,050,000.00	99.76	Manufacturing of printing machines and spare parts and provision of technical consultancy services	Joint stock associated	Yes
Beijing Beiren Tai He Printing and Casting Factory	Da Xing District, Beijing (Note 1)	RMB4,000,000.00	62.50	Manufacturing of casting parts for printing machinery	Collectively owned	No
Hebei Beiren Gei Zhi Ji Company Limited	Shi Jia Zhuang, Hebei Province	RMB5,000,000.00	50.68	Manufacturing and sale of paper feeder machines and related accessories	Limited company	Yes
Haimen Beiren Printing Machinery Company Limited	Hai Men, Jiangsu Province	RMB51,000,000.00	82.54	Manufacturing of printing machines and related accessories	Limited company	Yes
Sheenlite Limited	Hong Kong	HK\$3.00	100.00	Provision of Hong Kong representative office and asset custodial service to the Group	Limited company	Yes
Beijing Beiren Yuxin Plastic Printing Company Limited	Dong Cheng District, Beijing	RMB22,430,000.00	68.66	Printing, binding, typesetting and film-setting of books and periodicals	Limited company	Yes
Shaanxi Beiren Printing Machinery Company Limited	Wei Nan, Shaanxi Province	RMB115,000,000.00	86.24	Manufacturing, sales and maintenance of printing machines, compound machines, packaging machines, engineering machines, electromechanical machines and parts	Limited company	Yes
Zhejiang Beiren Printing Machinery Operating and Sale Company Limited	Hangzhou, Zhejiang Province	RMB1,500,000.00	55.00	Sale, installation and testing of printing machines and related accessories and provision of technical consultancy services	Limited company	Yes
Hubei Beiren Printing Machinery Operating and Sale Company Limited	Wuhan, Hubei Province (Note 2)	RMB1,500,000.00	51.00	Sale, installation and testing of printing machines and related accessories and provision of technical consultancy services	Limited company	Yes
Xi'an Beiren Xi'an, Beifu Printing Operating and Sale Company Limited	Xi'an Shaanxi Province (Note 3)	RMB1,500,000.00	84.70	Sale, installation and testing of printing machines and related accessories and provision of technical	Limited company	No

## Notes:

- (1) In 2003, the Company commenced liquidation on Beijing Beiren Tai He Printing and Casting Factory ("Beiren Tai He"). In accordance with the "The Provisional Requirement of Consolidated Accounting Statement", the financial statement of the subsidiary was not included into the consolidated financial statements. The Company adopts the equity method for consolidated financial statements to recognise its investment in the subsidiary. As at 30 June 2006, the liquidation for Beiren Tai He was not yet finished.
- (2) During 2005 and the previous years, the total asset value, sales revenue and net profit of the year of Hubei Beiren Printing Machinery Operation and Sale Company Limited ("Hubei Beiren") as computed based on the formulae set out in the "Reply to the Request for Classification on the Scope of Preparing Consolidated Accounts" [Cai Kuai Er Zi (1996) No.2] issued by the Accounting Bureau of the Ministry of Finance are less than 10%, therefore they are not included in the consolidated statements. Hubei Beiren recorded a loss during the period, therefore they are included in the consolidated statements.
- (3) In 2004, the Company commenced liquidation on Xi'an Beiren Beifu Printing Machinery Sales Company Limited (Xi'an Beiren). In accordance with the "The Provisional Requirement of Consolidated Accounting Statement" [Cai Kuai Zi (1996) No.11] issued by the Ministry of Finance, the financial statement of the subsidiary was not included into the consolidated financial statements. The Company adopts the equity method for consolidated financial statements to recognise its equity investment in the subsidiary. As at 30 June 2006, the liquidation for Xi'an Beiren was not yet finished.

Save as circumstances mentioned in Notes (1) and (3), the above subsidiaries are included in consolidated statements. The consolidated financial statements for the period have additional Hubei Beiren as compared with that of the corresponding period last year in terms of the scope of consolidation.

As at 30 June 2006, the particulars of associated companies owned by the Company are as follows:

Name of the associated companies	Registered place	Registered share capital RMB	Percentage of equity directly held by the Company (%)	Nature of Business	Type of Corporation
Beijing Beiren Hengtong Printing Machinery Operation and Sale Company Limited	Beijing	2,000,000.00	45	Sale, installation and testing of printing machinery and related accessories and provision of technical consultancy services	Limited company
Liaoning Beiren Printing Machinery Operation and Sale Company Limited	Shenyang, Liaoning Province	700,000.00	49	Sale, installation and testing of printing machinery and related accessories and provision of technical consultancy services	Limited company
Beijing Monigraf Automatic Systems Company Limited	Beijing	7,500,000.00	49	Development, design, manufacturing and sale of ink control system, printing apparatus, printing consumption production as well as installation, testing and provision of technical consultancy and training for self-produced products	Sino-joint venture
Beijing Beijing Printing and Casting Company Limited	Beijing	5,680,000.00	20	Processing and sale of standard and non-standard spare parts, manufacturing of mould parts, processing of moulds, and technology development, transfer, consultancy and service	Limited company
Beijing Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited (Note)	Beijing	46,000,000.00	49	Manufacturing and sale of printing machinery, printing machinery technical Services, and technical consultancy	Sino-joint venture

**Note:** 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) in 25 May 2006. The registered capital of the joint venture amounted to RMB46,000,000, of which RMB22,540,000 was contributed by the Company in the form of cash and bank balances, representing 49% equity interests in the company. The company is mainly engaged in manufacturing and sale of printing machinery.

## 6. CASH AND BANK BALANCES

	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB	Amount in foreign currency	Exchange rate	Rmb
Cash						
Renminbi			59,803.46			26,547.44
Foreign currency						
- U.S. dollars	—	7.995600	—	30.12	8.070200	243.10
- Korea Won	—	0.008200	—	8,930.00	0.007978	71.24
- Hong Kong dollars	—	1.029,400	—	4,618.20	1.040300	4,804.31
			<u>59,803.46</u>			<u>31,666.09</u>
Bank balances						
Renminbi			88,715,621.32			96,519,819.71
Foreign currency						
- Japanese Yen	1,641,854.41	0.069467	114,054.70	1,722,304.41	0.068716	118,349.87
- Hong Kong dollars	3,764,602.41	1.029400	3,875,281.72	856,363.92	1.040300	890,875.39
- U.S. dollars	952,192.25	7.995600	7,613,348.34	407,017.01	8.070200	3,284,708.67
- Euro	483.67	10.13130	4,900.24	1,594.58	9.579700	15,275.60
			<u>100,323,206.32</u>			<u>100,829,029.24</u>
Total			<u>100,383,009.78</u>			<u>100,860,695.33</u>

## 7. BILLS RECEIVABLE

	Closing balance RMB	Opening balance RMB
Bank acceptance notes	<u>25,739,584.38</u>	<u>26,931,784.60</u>
Including: Closing balance of the Company's bills receivable pledged. (Note)	<u>5,250,000.00</u>	<u>—</u>

Outstanding bills receivable did not have any due from shareholders who hold more than 5% shares of the Company.

**Note:** The closing balance of pledged accounts receivable represents the pledge placed by Shaanxi Beiren Printing Machinery Company Limited ("Shaanxi Beiren", a subsidiary of the Company) in favour of China Agricultural Bank, Weinan Branch for issuing bank acceptance during the period.

## 8. ACCOUNTS RECEIVABLE

The aging of accounts receivable is analysed as follows:

	Closing balance				Opening balance			
	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB
Within 1 year	408,580,298.68	81.13	2,262.53	408,578,036.15	329,568,006.85	80.14	—	329,568,006.85
1 year - 2 years	52,454,054.49	10.41	13,271,772.92	39,182,281.57	46,047,822.51	11.20	13,011,474.74	33,036,347.77
2 years - 3 years	25,177,070.84	5.00	12,966,180.91	12,210,889.93	19,158,891.25	4.66	12,023,695.35	7,135,195.90
Over 3 years	17,451,133.81	3.46	17,241,707.89	209,425.92	16,482,899.92	4.00	14,806,821.59	1,676,078.33
Total	<u>503,662,557.82</u>	<u>100.00</u>	<u>43,481,924.25</u>	<u>460,180,633.57</u>	<u>411,257,620.53</u>	<u>100.00</u>	<u>39,841,991.68</u>	<u>371,415,628.85</u>

**Note:** During the period, the Company entered into various contracts on factoring of accounts receivable relating to sales of printing machinery with China Merchants Bank, Beijing Branch and Shanghai Pudong Development Bank so as to obtain cash and bank deposits. In accordance with the notice of the Provisional Regulations on Accounting Treatment of Creditor Financing between Enterprises and Banks/Financial Institutions issued by the Ministry of Finance (Cai Kuai [2003] No. 14), the Company included the balance of factoring of accounts receivable as short term loans (please refer to Note 18(3) for details). As at 30 June 2006, the balance of factoring of accounts receivable amounted to RMB46,020,383.32.

The five largest accounts receivable are as follows:

Total amount of the five largest accounts receivable RMB	Percentage to the total value of the accounts receivable %
<u>71,495,628.95</u>	<u>14.20</u>

The details of the balance of the accounts receivable due from shareholders who hold more than 5% of the Company's shares are as follows:

Name of shareholder	Closing balance RMB	Opening balance RMB
Beiren Group Corporation	<u>9,916,120.00</u>	<u>10,248,370.00</u>

## 9. OTHER RECEIVABLES

The aging of other receivables is analysed as follows:

	Closing balance				Opening balance			
	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB
Within 1 year	13,713,431.17	31.10	—	13,713,431.17	16,620,037.44	32.23	—	16,620,037.44
1 year - 2 years	7,622,744.57	17.29	983,359.67	6,639,384.90	6,228,254.96	12.07	967,429.67	5,260,825.29
2 years - 3 years	807,438.15	1.83	10,000.00	797,438.15	3,896,691.65	7.56	25,930.00	3,870,761.65
Over 3 years	21,951,199.93	49.78	16,779,062.76	5,172,137.17	24,824,156.13	48.14	17,918,550.24	6,905,605.89
Total	<u>44,094,813.82</u>	<u>100.00</u>	<u>17,772,422.43</u>	<u>26,322,391.39</u>	<u>51,569,140.18</u>	<u>100.00</u>	<u>18,911,909.91</u>	<u>32,657,230.27</u>

The five largest other receivable are as follows:

Total amount of the five largest accounts receivable RMB	Percentage to the total value of the accounts receivables %
<u>22,420,726.75</u>	<u>50.90</u>

The balance of other receivables did not have any due from shareholders who hold more than 5% shares of the Company.

The balance of other receivables included accounts receivable of RMB12,899,240.24 from South-east Asia Investment and Development Company Limited, which was the deposit of the Company for purchase of four flats in Macau in 1995. Due to the change of title in 2005, the net value of debt investment originally held by the Company was transferred to other receivables. Considering the age of the above debts and the uncertainty of recovery, the management of the Company made a provision for bad debts amounting to RMB11,891,800.00 based on the expected recoverable amount.

## 10. PROVISION FOR BAD DEBTS

	Opening balance RMB	Provision during the year RMB	Other transfer during the year RMB	Reversal during the year RMB	Closing balance RMB
Provision for bad debts					
Amounts receivable	39,841,991.68	4,120,313.26	(410,031.50)	(70,349.19)	43,481,924.25
Other receivables	18,911,909.91	—	(1,101,500.00)	(37,987.48)	17,772,422.43
Total	<u>58,753,901.59</u>	<u>4,120,313.26</u>	<u>(1,511,531.50)</u>	<u>(108,336.67)</u>	<u>61,254,346.68</u>

## 11. PREPAYMENT

The aging analysis of prepayment is as follows:

	Closing balance		Opening balance	
	RMB	%	RMB	%
Within 1 year	21,066,462.82	97.06	15,026,425.79	97.39
1 year - 2 years	482,938.37	2.23	271,530.29	1.76
2 year - 3 years	128,887.47	0.59	110,263.50	0.71
Over 3 years	25,945.13	0.12	21,260.95	0.14
Total	21,704,233.79	100.00	15,429,480.53	100.00

Details of the prepayments due from shareholders who hold more than 5% of the Company's shares are as follows:

	Closing balance RMB	Opening balance RMB
Beiren Group Corporation	—	490,000.00

## 12. INVENTORIES AND PROVISION FOR DIMINUTION IN VALUE OF INVENTORIES

	Closing balance			Opening balance		
	Amount RMB	Provision for diminution in value RMB	Net balance RMB	Amount RMB	Provision for diminution in value RMB	Net balance RMB
Raw materials	82,283,314.59	1,977,640.41	80,305,674.18	67,288,112.26	1,977,640.41	65,310,471.85
Work in progress	398,628,449.79	9,471,321.48	389,157,128.31	404,259,615.30	9,795,745.78	394,463,869.52
Finished goods	227,562,739.59	39,983,598.97	187,579,140.62	272,155,262.81	37,418,168.60	234,737,094.21
Semi-finished goods	24,513,247.68	—	24,513,247.68	24,784,659.22	—	24,784,659.22
Low value consumables	1,566,460.87	—	1,566,460.87	515,913.50	—	515,913.50
Total	734,554,212.52	51,432,560.86	683,121,651.66	769,003,563.09	49,191,554.79	719,812,008.30

Movement of the provision for diminution in value of inventories is as follows:

	Opening balance RMB	Provision during the year RMB	Other transfer during the year RMB	Reversal during the year RMB	Closing balance
Provision for diminution in value of inventories					
Raw materials	1,977,640.41	—	—	—	1,977,640.41
Work in progress	9,795,745.78	—	—	(324,424.30)	9,471,321.48
Finished goods	37,418,168.60	3,665,538.61	(1,100,108.24)	—	39,983,598.97
Total	49,191,554.79	3,665,538.61	(1,100,108.24)	(324,424.30)	51,432,560.86

## 13. LONG TERM EQUITY INVESTMENTS

	Closing balance RMB	Opening balance RMB
Investment in subsidiaries not included in scope of consolidation (Note 13 (1))	5,296,639.36	6,567,942.22
Investment in associated companies (Note 13 (1))	34,728,530.86	11,988,216.99
Other equity investment (Note 13 (2))	50,000.00	100,000.00
Consolidation difference (Note 13 (3))	1,168,847.85	1,231,361.11
Total	41,244,018.07	19,887,520.32
Less: provision for diminution of long term equity investment	50,000.00	100,000.00
Long term equity investment, net	41,194,018.07	19,787,520.32

Changes in provision for diminution in value of long term equity investment are as follows:

	RMB	RMB
Opening balance	100,000.00	100,000.00
Increase during the year	—	—
Other reversals during the year	(50,000.00)	—
Closing balance	50,000.00	100,000.00

(1) Details of subsidiaries and associated companies not included in scope of consolidation are as follows:

Name of invested companies	Initial investment RMB	Increase / decrease in investment during the period RMB	Share of registered equity holding (%)	Increase / decrease in interest in invested companies RMB	Dividend payable RMB	Accumulated increase/decrease RMB	Provision for diminution in value RMB	Closing book value RMB
Subsidiaries not included in consolidation								
Beijing Beiren Tai He Casting Factory	2,500,000.00	—	62.50	(376,423.58)	—	2,474,783.78	—	4,974,783.78
Xi'an Beiren Beifu Printing Machinery Operation	1,500,000.00	—	84.70	(43,285.99)	—	(1,178,144.42)	—	321,855.58
	<u>4,000,000.00</u>	<u>—</u>		<u>(419,709.57)</u>	<u>—</u>	<u>1,296,639.36</u>	<u>—</u>	<u>5,296,639.36</u>
Associated Companies								
Beijing Beiren Hengtong Printing Machinery Operation and Sale Company Limited	900,000.00	—	45.00	(176,684.06)	—	(254,021.72)	—	645,978.28
Liaoning Beiren Printing Machinery Operation and Sale Company Limited	343,000.00	—	49.00	(402,860.81)	—	(71,660.23)	—	271,339.77
Beijing Beiyong Casting Company Limited	1,136,000.00	—	20.00	931,707.86	(227,200.00)	2,692,660.15	—	3,828,660.15
Beijing Monigraf Automatic Systems Company	3,675,000.00	—	49.00	75,350.88	—	3,767,552.66	—	7,442,552.66
Beijing Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited	22,540,000.00	—	49.00	—	—	—	—	22,540,000.00
	<u>28,594,000.00</u>	<u>—</u>		<u>427,513.87</u>	<u>(227,200.00)</u>	<u>6,134,530.86</u>	<u>—</u>	<u>34,728,530.86</u>
	<u>32,594,000.00</u>	<u>—</u>		<u>7,804.30</u>	<u>(227,200.00)</u>	<u>7,431,170.22</u>	<u>—</u>	<u>40,025,170.22</u>

Note: The Company increased the investment on Beijing Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited, details of which are set out in Note 5.

(2) Changes in the other equity investment are as follows:

	Closing balance RMB	Opening balance RMB
Ying Shen Associated Company (Note)	50,000.00	50,000.00
Xi'an Printing Joint Development Company (Note)	—	50,000.00
Total	50,000.00	100,000.00
less: provision for diminution of other equity investment	(50,000.00)	(100,000.00)
	<u>—</u>	<u>—</u>

Note: Investment to Ying Shen Associated Company and Xi'an Printing Joint Development Company amounted to RMB100,000.00 during the previous years. Since the Company had no control or material influence on the said investment for which it is highly uncertain in determining the recoverable amount, provision was made in full for such investment amount during the previous years. During the period, the Company transferred all its interests in Xian Printing Joint Development Company and transferred provision for diminution in value of long term investment made during the previous years with transfer gain of RMB1,000.

(3) Consolidation difference

Name of investee Companies	Initial amount RMB	Amortisation period	Opening balance RMB	Addition during the year RMB	Amortisation during the year RMB	Closing balance RMB	Reason for forming difference
Haimen Beiren	1,250,265.16	10 years	1,231,361.11	—	(62,513.26)	1,168,847.85	Note

Note: Haimen Beiren Fuji Printing Machinery Limited ("Haimen Beiren") is mutually interested by the Company and its subsidiary Beijing Beiren Fuji Printing Machinery Limited. The difference of equity investment amounting to RMB1,250,265.16 arising from the Company's capital increase in Haimen Beiren during 2005 was amortised over 10 years.



#### 14. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR DIMINUTION IN VALUE

	Buildings RMB	Plant and machinery RMB	Furniture, fixture and equipment RMB	Motor vehicle RMB	Total RMB
Cost					
At beginning of the period	653,376,099.69	526,588,627.87	61,343,032.85	20,868,930.23	1,262,176,690.64
Additions	—	371,780.00	525,332.90	935,509.92	1,832,622.82
Transfer from construction in progress	6,443,904.00	7,010,372.71	9,260.00	—	13,463,536.71
Increase due to change in the scope of consolidation	—	—	60,148.66	—	60,148.66
Reduction	—	(16,596,316.51)	(205,739.22)	(635,747.25)	(17,437,802.98)
At end of the period	659,820,003.69	517,374,464.07	61,732,035.19	21,168,692.90	1,260,095,195.85
Accumulated depreciation					
At beginning	114,003,088.40	310,079,844.67	46,317,109.05	13,590,530.28	483,990,572.40
Provision for the period	7,539,303.17	12,182,303.75	3,199,708.39	769,876.62	23,691,191.93
Increase due to change in the scope of consolidation	—	—	33,826.12	—	33,826.12
Reduction	—	(14,306,909.84)	(200,492.81)	(614,102.06)	(15,121,504.71)
At end of the year	121,542,391.57	307,955,238.58	49,350,150.75	13,746,304.84	492,594,085.74
Provision for diminution in value					
At beginning	6,500,000.00	23,758,656.35	—	—	30,258,656.35
Increase for the period	—	—	—	—	—
Transfer for the period	(3,500,000.00)	—	—	—	(3,500,000.00)
Other reversals for the period	—	(1,579,670.30)	—	—	(1,579,670.30)
At end of the period	3,000,000.00	22,178,986.05	—	—	25,178,986.05
Net book values					
At beginning	532,873,011.29	192,750,126.85	15,025,923.80	7,278,399.95	747,927,461.89
At end of the period	535,277,612.12	187,240,239.44	12,381,884.44	7,422,388.06	742,322,124.06
Including: net assets pledged at end of the year (Note 1)	15,173,328.79	13,753,762.26	—	—	28,927,091.05
Assets leased out under operating leases at end of the year (Note 2)	55,445,911.62	—	—	—	55,445,911.62

**Note 1:** The closing balance of assets under pledge covers a short term loan amounting to RMB7,700,000.00 (please refer to Note 18 (2) for details) granted to the Company's subsidiary, Shaanxi Beiren from China Industrial and Commercial Bank (Weinan Branch) and a short term loan amounting to RMB8,000,000.00 granted to the Company's subsidiary company Haimen Beiren as well as a short term loan amounting to RMB1,950,000.00 from Haimen City Credit Cooperative (please refer to Note 18 (2) for details).

**Note 2:** During the period, the Company respectively leased out certain fixed assets with cost as RMB56,125,507.87 and RMB1,229,794.51 to Beijing Beiying Printing and Casting Company Limited ("Beiying Casting") and Beijing Monigraf Automatic Control System Limited. As at 30 June 2006, the net book value of the above fixed assets amounted to Rmb54,833,495.75 and Rmb612,415.87. Details are set out in Notes 3 and 2 of Note 45 (c).

## 15. CONSTRUCTION IN PROGRESS

	Opening balance RMB	Addition in the period RMB	Transfer upon completion in the period RMB	Closing balance RMB
Construction in progress	55,127,825.89	50,542,863.94	(13,463,536.71)	92,207,153.12
Less: provision for diminution in value	(1,165,827.82)	—	—	(1,165,827.82)
Construction in progress, net	<u>53,961,998.07</u>	<u>50,542,863.94</u>	<u>(13,463,536.71)</u>	<u>91,041,325.30</u>
Pledged net assets at the end of 2005 (Note 3)	<u>16,200,000.00</u>			<u>16,690,592.40</u>

Project name	Budget Amount RMB	Opening balance RMB	Addition in the period RMB	Transfer upon completion in the period RMB	Provision for diminution in value RMB	Closing balance RMB	Source of funds	Progress
(Note 2)								
Equipment renovation	28,154,864.34	28,694,144.06	910,976.45	(7,019,632.71)	(1,165,827.82)	21,419,659.98	Internal resources	81%
Development of new plant site	102,400,000.00	24,310,796.31	33,414,720.49	—	—	57,725,516.80	Internal resources	57%
Workshop improvements	11,098,490.50	2,122,885.52	16,217,167.00	(6,443,904.00)	—	11,896,148.52	Internal resources	98%
	<u>141,653,354.84</u>	<u>55,127,825.89</u>	<u>50,542,863.94</u>	<u>(13,463,536.71)</u>	<u>(1,165,827.82)</u>	<u>91,041,325.30</u>		

- Note: (1) During the period, there was no interest capitalised.
- (2) The Company has made full provision for diminution in value for construction in progress including resin sand which has been suspended for a long term and is not expected to restart in the future.
- (3) The closing balance of assets under pledge covers a short term loan amounting to RMB24,500,000.00 (please refer to Note 18 (2) for details) granted to the Company's subsidiary, Shaanxi Beiren.

	Closing and Opening balance RMB
Provision for diminution in value of construction in progress	<u>1,165,827.82</u>

## 16. INTANGIBLE ASSETS

	Land use right RMB (Note1)	Industrial property right and technical knowledge RMB (Note2)	Others RMB	Total RMB
At cost				
Opening balance	26,751,557.30	11,085,296.13	660,268.00	38,497,121.43
Addition in the period	—	—	—	—
Reduction in the period	—	—	—	—
Closing balance	26,751,557.30	11,085,296.13	660,268.00	38,497,121.43
Accumulated amortisation				
Opening balance	3,017,955.31	9,229,650.11	116,854.00	12,364,459.42
Provision in the period	267,515.58	409,870.32	49,794.00	727,179.90
Reduction in the period	—	—	—	—
Closing balance	3,285,470.89	9,639,520.43	166,648.00	13,091,639.32
Provision for diminution in value				
Opening and closing balances	—	—	—	—
Net value				
Opening balance	23,733,601.99	1,855,646.02	543,414.00	26,132,662.01
Closing balance	23,466,086.41	1,445,775.70	493,620.00	25,405,482.11
Remaining amortisation period	39.5-43 years	0.5-8.75 years	4 years	

**Note 1:** Except for the land use right of Shaanxi Printing granted by the local government for the restructuring, other land use rights of the Company were purchased from local land administration bureaus at consideration of land premium.

**Note 2:** The industrial property rights and technical know-how of the Company were either invested by or purchased from investors.

## 17. LONG TERM DEFERRED EXPENSES

Type	Opening balance RMB	Addition in the period RMB	Amortised during the period RMB	Closing balance RMB	Remaining Amortisation period
Land development cost	12,194,291.10	—	33,000.00	12,161,291.10	37.5 years
Others	24,495.00	—	6,390.00	18,105.00	0.5 year
	12,218,786.10	—	39,390.00	12,179,396.10	

The land development cost was contributed at valued amount into the Company by Beiren Group Corporation upon the Company's reorganisation as a joint stock company.

## 18. SHORT TERM LOAN

Type of loan	Closing Balance RMB	Opening Balance RMB
Guaranteed bank loans (Note 1)	45,000,000.00	45,000,000.00
Secured bank loans (Note 2)	42,150,000.00	42,650,000.00
Mortgaged bank loans (Note 3)	46,020,383.32	22,752,766.70
Pledged bank loans	220,000,000.00	180,000,000.00
	<u>353,170,383.32</u>	<u>290,402,766.70</u>

Note 1: Among the guaranteed bank loans as at 30 June 2006, RMB34,000,000.00 bearing annual interest rates from 5.022% to 5.580% was guaranteed by Beiren Group Corporation, and RMB11,000,000.00 bearing an annual interest of 6.138% was guaranteed by Weinan City Cinder Real Estate Development Company Limited.

Note 2: Secured bank loans as at 30 June 2006 included the bank loans of Shaanxi Printing and Haimen Beifu.

The 1-year term loan of RMB14,500,000.00 bearing an annual interest rate of 7.371% and 1-year term loan of RMB10,000,000.00 bearing an annual interest of 5.859% provided to Shaanxi Beiren by China Industrial and Commercial Bank, Weinan Branch and China Construction Bank, Weinan Branch were secured by land use right at net value of RMB16,690,592.40; the 1-year term loan of RMB7,700,000.00 bearing an annual interest rate of 6.138% provided to Shaanxi Beiren by China Industrial and Commercial Bank, Weinan Branch was secured by machinery at net value of RMB11,984,489.10.

The 1-year term loan of RMB1,950,000.00 bearing an annual interest rate from 7.8% to 8.196% provided to Haimen Beifu by Haimen City Credit Cooperative was secured by machinery at net value of RMB1,769,273.16. The 1-year term loan of RMB3,500,000.00 bearing an annual interest rate of 6.696% provided to the Company by China Industrial and Commercial Bank, Haimen Branch was secured by land use right at net value of RMB4,803,180.66. The 1-year term loan of RMB4,500,000.00 bearing an annual interest rate of 7.02% provided to the Company by China Industrial and Commercial Bank, Haimen Branch was secured by buildings at net value of RMB10,370,148.13.

Note 3: During the period, the Company, China Merchants Bank, Beijing Branch and Shanghai Pudong Development Bank entered into a Contract on Factoring of Accounts Receivable amounting to RMB43,220,000.00. The factoring of accounts receivable due amounted to RMB19,952,383.38. As at 30 June 2006, the balance of short term loans under the said Contract on Factoring of Accounts Receivable amounted to RMB46,020,383.32.

## 19. BILLS PAYABLE

Type of loan	Closing Balance RMB	Opening Balance RMB
Bills payable due within one year	<u>50,413,999.59</u>	<u>41,358,636.90</u>

Bills payable due to shareholders who hold more than 5% (5% inclusive) of the share capital of the Company are as follows:

Name of shareholder	Closing Balance RMB	Opening Balance RMB
Beiren Group Corporation	<u>—</u>	<u>500,000.00</u>

## 20. ACCOUNTS PAYABLE

Accounts payable to shareholders who hold more than 5% (5% inclusive) of the share capital of the Company:

Name of shareholder	Closing Balance RMB	Opening Balance RMB
Beiren Group Corporation	<u>1,406,080.00</u>	<u>1,031,080.00</u>

## 21. RECEIPTS IN ADVANCE

There was no receipts in advance from shareholders who hold more than 5% (5% inclusive) of the share capital of the Company.

**22. TAXES PAYABLES**

	<b>Closing Balance</b> <i>RMB</i>	<b>Opening Balance</b> <i>RMB</i>
Income tax	<b>4,317,979.50</b>	4,165,972.96
Value added tax	<b>15,253,838.41</b>	13,607,772.63
Business tax	<b>46,344.11</b>	371,077.78
Urban maintenance and construction tax	<b>503,253.72</b>	458,176.44
Others	<b>941,726.89</b>	922,478.26
	<b><u>21,063,142.63</u></b>	<b><u>19,525,478.07</u></b>

**23. SUNDRY PAYABLES**

<b>Nature</b>	<b>Basis of charges</b>	<b>Closing balance</b> <i>RMB</i>	<b>Opening balance</b> <i>RMB</i>
Education surcharge	3% of value added tax and business tax payable	<b>256,929.79</b>	147,439.20
Others		<b>261,284.21</b>	157,877.07
		<b><u>518,214.00</u></b>	<b><u>305,316.27</u></b>

**24. OTHER PAYABLES**

The balance of other payables due to shareholders who hold more than 5% (5% inclusive) of the share capital of the Company is as follows:

<b>Name of shareholder</b>	<b>Closing Balance</b> <i>RMB</i>	<b>Opening Balance</b> <i>RMB</i>
Beiren Group Corporation	<b><u>20,460,112.16</u></b>	<b><u>20,460,112.16</u></b>

As at 30 June 2006, the Company had payments of Rmb20,460,112.16 due to Beiren Group Corporation in respect of the acquisition of assets of Beijing No. 4 Plant.

**25. ACCRUED LIABILITIES**

	<b>Closing Balance</b> <i>RMB</i>	<b>Opening Balance</b> <i>RMB</i>
Expected liabilities	<b><u>18,381,310.04</u></b>	<b><u>18,381,310.04</u></b>

The expected liabilities were incurred when the Company acquired subsidiary Shaanxi Printing in 2002 and were not repaid during the period.

**26. DIVIDENDS PAYABLE**

<b>Name of investor</b>	<b>Closing Balance</b> <i>RMB</i>	<b>Opening Balance</b> <i>RMB</i>
Circulating shares subject to trading moratorium - state-owned legal person shares	<b>15,584,800.00</b>	—
Circulating shares not subject to trading moratorium - domestic listed Renminbi ordinary shares	<b>6,955,200.00</b>	—
overseas listed foreign shares	<b>7,000,000.00</b>	—
	<b><u>29,540,000.00</u></b>	<b><u>—</u></b>

## 27. LONG-TERM DEBT DUE WITHIN ONE YEAR

	Closing Balance RMB	Opening Balance RMB
Long term debt due within one year (Note 1)	29,550,000.00	29,550,000.00
Long term loans due within one year (Note 2)	3,000,000.00	3,000,000.00
	<u>32,550,000.00</u>	<u>32,550,000.00</u>

**Note 1:** At the time the Company's subsidiary Beijing Beiren Yuxin Plastic Printing Company Limited ("Beiren Yuxin") was set up, its minority shareholder Beijing Plastic Printing Factory contributed part of its net assets to Beiren Yuxin in December 2001 as its long term investment therein, including a long term loan of RMB18,450,000.00 and a short term loan of RMB11,100,000.00. In 2002, Beiren Yuxin and Beijing Plastic Printing Factory reached an agreement upon negotiations that Beijing Plastic Printing Factory agreed to undertake the obligations of repaying the principal and interest thereon to bank. Beiren Yuxin shall repay the above mentioned amount to Beijing Plastic Printing Factory by equal installments.

**Note 2:** Long term loans due within one year were granted to the Company's subsidiary Shaanxi Printing by China Agricultural Bank, Weinan Branch. Details are set out in Note 28.

## 28. LONG TERM LOANS

Name of Lender	Closing balance RMB	Opening balance RMB	Term of loans	Interest rate	Terms of loans	Note
China Agricultural Bank (Wei Nan Branch)			17 August 2004 to August 2007	5.58	Pledged loans	
Business department	<u>7,000,000.00</u>	<u>7,000,000.00</u>				
	<u>7,000,000.00</u>	<u>7,000,000.00</u>				
Less: Long term debt due within one year	<u>(3,000,000.00)</u>	<u>(3,000,000.00)</u>				
Repayable due after one year	<u>4,000,000.00</u>	<u>4,000,000.00</u>				
Types of loans repayable within one year: Pledged loans	<u>3,000,000.00</u>	<u>3,000,000.00</u>				

**Note:** The long term loan of RMB7,000,000.00 provided by China Agricultural Bank, Weinan Branch was secured by the assets of Weinan City Cinder Real Estate Development Company Limited.

## 29. DEFERRED TAX CREDIT

	Closing and Opening balance RMB
Deferred tax credit	<u>242,941.38</u>

In accordance with the relevant regulations issued by the Ministry of Finance, the future tax payable arising from investment in non-cash assets before 1997 in respect of the excess of fair values over the book values of non-cash assets used for the purpose of investments is transferred to deferred tax credit.

### 30. SHARE CAPITAL

Share capital of the Company saw no changes in 2005. During the period from 1 January to 30 June 2006, the changes in share capital of the Company were as follows:

	Circulating shares					
	Non-circulating shares	Conditional circulating shares				
	Promoter's shares-state-owned	Promoter's shares-State-owned	Unconditional circulating shares			
	legal person shares	legal person shares	Domestic listed	Overseas listed	Sub-total	Total
1 January 2006	250,000,000.00	—	72,000,000.00	100,000,000.00	172,000,000.00	422,000,000.00
Addition in the period	—	222,640,000.00	27,360,000.00	—	27,360,000.00	250,000,000.00
Decrease in the period	250,000,000.00	—	—	—	—	250,000,000.00
30 June 2006	—	222,640,000.00	99,360,000.00	100,000,000.00	199,360,000.00	422,000,000.00

The nominal value of each of the above shares is RMB1.

**Note:** In accordance with Reply to Problems Regarding Share Merger Reform of Beiren Printing Machinery Holdings Limited (JGZCQZ [2006] No.25) issued by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, the Company changed the previous 27,360,000 state-owned legal person shares into RMB ordinary shares. For A Shares, the date of registration of shares is 29 March 2006 under the Share Merger Reform Plan. Upon completion of the Share Merger Reform Plan, Beiren Group Corporation will hold 222,640,000 state-owned legal person shares, representing 52.76% of the total share capital.

### 31. CAPITAL RESERVE

During the period from 1 January to 30 June 2006, changes in capital reserve are as follows:

	Share Premium RMB	Provision of equity investment RMB	Other capital reserve RMB	Total RMB
As at 1 January 2005	517,305,478.93	2,152,969.93	1,405,646.57	520,864,095.43
Addition in previous period	—	—	—	—
As at 31 December 2005	517,305,478.93	2,152,969.93	1,405,646.57	520,864,095.43
Addition in previous period	—	—	—	—
As at 30 June 2006	517,305,478.93	2,152,969.93	1,405,646.57	520,864,095.43

### 32. SURPLUS RESERVE

During 2005 and the period from 1 January to 30 June 2006, changes in surplus reserve are as follows:

	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Statutory public welfare fund RMB (Note)	Total RMB
As at 1 January 2005	77,406,796.93	42,979,710.17	67,213,968.35	187,600,475.45
Addition in the period	5,032,869.74	—	5,032,869.74	10,065,739.48
As at 31 December 2005	82,439,666.67	42,979,710.17	72,246,838.09	197,666,214.93
Addition in the period	1,053,687.37	—	—	1,053,687.37
Transfer of statutory public welfare fund to statutory surplus reserve	72,246,838.09	—	(72,246,838.09)	—
As at 30 June 2006	155,740,192.13	42,979,710.17	—	198,719,902.30

**Note:** Discretionary surplus reserve can be used to cover loss recorded before, expand production capacity and operations and increase capital. In accordance with the requirement of the "Notice of Corporate Accounting after the implementation of Company Law" (Lai Qi [2006] No. 67) issued by the Ministry of Finance People's Republic of China on 15 March 2006, statutory public welfare fund was incorporated into the statutory surplus reserve for the period.

### 33. RETAINED PROFITS

	For six months ended 30 June 2006 RMB	For six months ended 30 June 2005 RMB
Retained profits at 1 January 2006	139,909,389.09	134,944,772.52
Add: Net profits for the period	10,289,541.69	48,790,356.05
Less: Transfer to statutory surplus reserve (Note 1)	1,053,687.37	5,032,869.74
Transfer to statutory public welfare fund	—	5,032,869.74
Profits distributable to shareholders	149,145,243.41	173,669,389.09
Less: Cash dividend payable for the previous year approved by general meeting (Note 2)	29,540,000.00	33,760,000.00
Retained profit at 30 June 2006	119,605,243.41	139,909,389.09
Including: Cash dividend distribution approved after the balance sheet date	—	29,540,000.00

**Note 1:** Transfer to statutory surplus reserve

According to the Rule 177 of the Company Law and Articles of Association of the Company, 10% of net profit of the Company is transferred to statutory surplus reserve, subject to the approval of shareholders' general meeting.

In consolidated financial statements, profits are transferred to statutory surplus reserve according to the Company's share of transfer in its subsidiary for the period.

**Note 2:** In accordance with resolutions passed on 7th meeting of the fifth Board on 40 April 2005, based on the Company's total issued share capital of 422,000,000 shares, the Company proposed to distribute to all its shareholders a cash dividend of RMB0.70 (including tax) for every 10 shares, totalling RMB29,540,000.

The above profit distribution plan was passed at the 2005 Annual General Meeting of the Company on 27 June 2006.

### 34. PRINCIPAL OPERATING INCOME/COSTS

	For six months ended 30 June 2006 (Accumulated)		For six months ended 30 June 2005 (Accumulated)	
	Turnover RMB	Cost of sales RMB	Turnover RMB	Cost of sales RMB
Domestic sales				
Sheet-fed offset printing press	242,403,123.38	196,966,679.56	233,354,437.63	174,373,550.94
Web-fed offset printing press	131,257,265.17	92,385,209.28	127,102,905.77	78,816,074.58
Intrusion printing machines	72,099,743.82	57,591,391.93	73,668,009.40	60,553,858.90
Form-printing machines	27,305,982.90	21,545,610.46	21,279,401.70	15,626,906.94
Sale of spare parts	6,528,762.28	4,293,407.08	7,304,732.13	6,936,235.16
Printing operations	8,426,901.06	6,127,788.53	13,078,600.89	8,891,397.21
Others	3,386,177.99	2,257,523.46	1,911,065.92	1,311,664.36
	491,407,956.60	381,167,610.30	477,699,153.44	346,509,688.09
Overseas sales				
Sheet-fed offset printing press	713,550.80	539,686.48	561,979.20	483,798.75
Web-fed offset printing press	—	—	3,818,152.80	1,426,406.42
Intrusion printing machines	18,316,524.93	11,873,399.92	5,163,300.85	3,068,039.28
Form-printing machines	4,012,239.65	4,114,422.06	—	—
Sale of spare parts	75,351.46	58,058.78	—	—
	23,117,666.84	16,585,567.24	9,543,432.85	4,978,244.45
	514,525,623.44	397,753,177.54	487,242,586.29	351,487,932.54

Percentage of sales to the top five customers  
RMB'000

6,406.03

Percentage of the total sales  
%

12.45



**35. SALES TAX AND SURCHARGE OF PRINCIPAL OPERATIONS**

Type of tax	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Urban City Construction development Tax	2,203,809.62	1,752,362.26
Educational Surcharge	973,419.56	774,218.44
Business Tax	4,600.00	5,830.00
Other surcharges	1,862.76	—
	<u>3,183,691.94</u>	<u>2,532,410.70</u>

**36. FINANCE COSTS**

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Interest expenses	8,290,041.02	6,051,161.36
Less: Interest income	540,970.29	358,265.75
Exchange loss	457,783.37	131,562.74
Less: Exchange income	44,298.16	1,858.37
Handling charge of financial institutions and others	302,945.53	154,159.32
	<u>8,465,501.47</u>	<u>5,976,759.30</u>

**37. INVESTMENT INCOME**

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Long term investment income		
Profit recognized using equity method	7,804.30	1,614,915.29
Disposal of profit on long term equity investments	1,000.00	—
Amortisation of difference in equity investments	(62,513.26)	—
	<u>(53,708.96)</u>	<u>1,614,915.29</u>

**38. NON-OPERATING INCOME**

Item	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Net income from disposal of fixed assets	220,156.44	1,098,049.64
Penalty income	187,842.15	50.00
insurance compensation income	467,211.00	—
Others	6,098.97	154,896.68
	<u>881,308.56</u>	<u>1,252,996.32</u>

### 39. NON-OPERATING EXPENSE

Item	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Reversal of provision for diminution in value of fixed assets in the period	(3,500,000.00)	—
Net expense from disposal of fixed assets	371,755.94	469,595.38
Penalty expense	28,929.86	1,334.00
Others	86,415.86	59,693.81
	<u>(3,012,898.34)</u>	<u>530,623.19</u>

### 40. INCOME TAX

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Income tax of the Company	2,667,204.56	7,415,717.14
Income tax of subsidiaries	640,199.79	235,102.30
	<u>3,307,404.35</u>	<u>7,650,819.44</u>

### 41. NET PROFIT AFTER EXTRAORDINARY ITEMS

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Net profit	10,289,541.69	35,636,206.18
Add/less: extraordinary items		
Income (loss) from disposal of long term equity, investment and fixed assets	151,599.50	(628,454.26)
Other non-operating income chargeable	(661,152.12)	(154,946.68)
Other non-operating cost chargeable	115,345.72	61,027.81
Reversal of provision for impairment for previous years	(3,932,760.97)	—
Impact from income tax on extraordinary items	59,131.04	108,355.97
Impact from minority interest on extraordinary items	199,890.93	104,429.69
	<u>6,221,595.79</u>	<u>35,126,618.71</u>

### 42. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	For six months ended 30 June 2006 (Accumulated) RMB
Agency commission paid	2,164,977.68
Payment for trademark fee	3,609,602.35
Audit fee	1,122,000.00
Research and development fee	7,882,488.31
Installation and testing fee	1,996,858.91
Repairs and maintenance	2,527,109.11
Transportation fee and trip expenses	6,727,861.18
Entertainment fee	1,460,417.64
Water and electricity expenses	1,504,107.90
Leasing fee	1,791,985.51
Business and meeting fee	1,626,364.08
Others	13,729,710.90
	<u>46,143,483.57</u>

**43. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES**

	<b>For six months ended 30 June 2006 (Accumulated) RMB</b>
Removal compensation	20,000,000.00
Income from disposal of long-term investment	1,000.00
	<u>20,001,000.00</u>

**44. SEGMENT INFORMATION**

As over 90% of the Company's revenue and results are derived from the manufacture and sale of printing machines in the Mainland China, no segmental analysis of financial information is presented.

**45. CONNECTED TRANSACTIONS****(1) Connected parties that have controlling relationship, except subsidiaries as mentioned in Note 5**

Name of connected party	Place of registration	Main Business	Relations with the Company	Type of coporation	Legal representative
Beiren Group Corporation	Beijing Chaoyang District	Manufacturing and sales of printing machines, packing machines, machine beds and parts and components of such machines; technology development and consultation, services, provision of import services related to the production of enterprises within the Group and sub-contracting work of printing machinery project in overseas and international tendering project within the PRC	Controlling shareholder	Stated-owned company	Zhu Wuan

**(2) Changes in shares or equity held by connected parties with controlling relationship**

Name of connected party	Opening balance		Addition in the period		Decreases in the period		Closing balance	
	RMB	%	RMB	%	RMB	%	RMB	%
Beiren Group Corporation	<u>250,000,000.00</u>	<u>59.24</u>	<u>—</u>	<u>—</u>	<u>(27,360,000.00)</u>	<u>6.48</u>	<u>222,640,000.00</u>	<u>52.76</u>

**(3) changes in registered capital of connected parties with controlling relationship**

Name of connected party	Closing balance and opening balance RMB
Beiren Group Corporation	<u>200,266,000.00</u>

(4) Relations with connected parties that have no controlling relationship

Name of connected party	Relations with the Company
Beijing Yan Long Import and Export Company	Fellow subsidiary of the controlling shareholder
Beijing Beiren Hengtong Printing Machinery Operation and Sale Company Limited	Associated Company
Liaoning Beiren Printing Machinery Operation and Sale Company Limited	Associated Company
Beijing Monigraf Automatic Systems Company Limited	Associated Company
Beijing Beiyong Casting Company Limited	Associated Company
Beijing Mitsubishi Heavy Industrial	
Beiren Printing Machinery Company Limited	Associated Company

(5) The Company had the following significant connected transactions with the above connected parties

(a) Sales and purchases

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
<b>Sales</b>		
Sales revenue		
– Hubei Beiren	—	23,113,076.92
– Beijing Beiren Hengtong Printing Machinery Operation and Sale Company Limited	12,876,367.52	16,425,897.44
– Beiren Group Corporation	1,963,076.92	8,707,051.28
	7,276,410.26	2,179,242.68
	<u>22,115,854.70</u>	<u>50,425,268.32</u>
<b>Purchase</b>		
Expenditure of purchases of materials		
– Beiren Group Corporation	9,154,956.74	3,521,841.45
– Beijing Beiyong Casting Company Limited	13,434,566.95	20,255,874.84
– Beijing Monigraf Automatic Systems Company Limited	5,612,256.77	12,064,284.00
	<u>28,201,780.46</u>	<u>35,842,000.29</u>

Prices of goods sold to the above connected parties are made with reference to those of similar goods in the market.

(b) Guarantee

As at 30 June 2006, Beiren Group Corporation provided a guarantee of RMB34,000,000.00 for the short term loans of the Company.

(c) Others

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
<b>Trademark fee paid (Note 1)</b>		
– Beiren Group Corporation	3,609,602.35	3,468,739.77
<b>Rental income</b>		
– Beijing Monigraf Automatic Systems Company Limited (Note 2)	50,000.00	50,000.00
– Beijing Beiyong Casting Company Limited (Note 3)	2,203,532.34	1,265,503.38
	<u>2,253,532.34</u>	<u>1,315,503.38</u>

Notes:

1. On 14 July 1993, the Company and Beiren Group Corporation entered into an agreement, according to which the Company could have the right to use "Beiren" brand name for a consideration of the higher of 1% of sales revenue of good sold under "Beiren" brand name during that year, and RMB15,000.00 per quarter.
2. The Company signed a plant leasing agreement, pursuant to which the Company leased a plant originally valued at RMB1,229,794.51 to Beijing Monigraf Automatic Systems Company Limited ("Monigraf") for a term with effect from December 2001 to 30 June 2005, for a rent of RMB100,000.00 per year. In 2005, the Company re-signed the above leasing agreement with "Monigraf", with the same leasing terms and fee, which shall expire at 30 June 2007. During the period, "Monigraf" paid total rental of RMB50,000.00 to the Company.
3. Since 1 January 2005, the Company has leased its plant originally valued at RMB56,125,507.87 to Beijing Beiyong Casting Company Limited ("Beiyong"), for a rent of RMB367,255.39 per month. During the period, Beiyong paid total rental of RMB2,203,532.34 to the Company.

(d) Current accounts with connected parties

Item	Name of connected party	Closing balance RMB	Opening balance RMB
Accounts receivable	Hubei Beiren	—	8,893,980.00
	Xi'an Beiren	292,000.00	1,092,000.00
	Liaoning Beiren Printing Machinery Limited	19,557,128.95	25,240,818.88
	Beijing Beiren Hengtong Printing Machinery Sales Limited	10,480,730.00	9,129,730.00
	Beiren Group Corporation	9,916,120.00	10,248,370.00
		<b>40,245,978.95</b>	<b>54,604,898.88</b>
Prepayment	Beiren Group Corporation	—	490,000.00
Other receivables	Beijing Mitsubishi Heavy Industrial Beiren Printing Machinery Company Limited	211,127.32	—
	Beijing Beiyong Casting Company Limited	—	2,973,132.50
		<b>211,127.32</b>	<b>2,973,132.50</b>
Bills payable	Beiren Group Corporation	—	500,000.00
	Beijing Beiyong Casting Company Limited	1,014,209.52	1,500,000.00
		<b>1,014,209.52</b>	<b>2,000,000.00</b>
Accounts payable	Beiren Group Corporation	1,406,080.00	1,031,080.00
	Beijing Yan Long Import and Export Company	—	12,240.00
		<b>1,406,080.00</b>	<b>1,043,320.00</b>
Other payables	Beiren Group Corporation	20,460,112.16	20,460,112.16
	Beiren Tai He	10,931,965.05	10,931,965.05
		<b>31,392,077.21</b>	<b>31,392,077.21</b>

The above mentioned amounts have no fixed repayment schedule, and are free of interest, pledge or guarantee.

## 46. CONTINGENT EVENTS

As at the balance sheet date, there was no significant contingent event that needs to be disclosed by the Company.

## 47. COMMITMENTS

### (1) Capital commitments

	Closing Balance RMB	Opening Balance RMB
Contracted but not executed for purchase of assets	<u>33,468</u>	<u>10,044</u>

### (2) Lease Commitments

As at the balance sheet date, irrevocable operating leases entered into with external parties are as follows:

	Closing Balance RMB	Opening Balance RMB
Minimum rental payment for irrevocable operating leases:		
Within one year after the balance sheet date	1,996	1,248
In the second year after the balance sheet date	525	846
In the third year after the balance sheet date	170	288
Subsequent years	<u>928</u>	<u>1,382</u>
Total	<u>3,619</u>	<u>3,764</u>

## 48. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### (1) Bills receivable

	Closing Balance RMB	Opening Balance RMB
Banker's acceptance	<u>12,628,047.85</u>	<u>10,989,834.60</u>

Bills receivable are not pledged at the end of the period.

There was no receivable from shareholders who hold more than 5% of the share capital of the Company.

### (2) Accounts Receivable

The ageing analysis of accounts receivable is as follows:

	Closing balance				Opening balance			
	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB	Amount RMB	Percentage (%)	Provision for bad debt RMB	Net amount RMB
Within 1 year	341,770,892.02	84.18	—	341,770,892.02	273,160,595.35	82.30	—	273,160,595.35
1-2 years	38,747,532.75	9.54	11,536,639.83	27,210,892.92	35,657,972.20	10.74	10,609,791.66	25,048,180.54
2-3 years	13,963,105.12	3.44	8,377,863.07	5,585,242.05	13,729,639.00	4.14	8,237,783.40	5,491,855.60
More than 3 years	11,511,157.02	2.84	11,511,157.02	—	9,370,318.01	2.82	9,370,318.01	—
Total	<u>405,992,686.91</u>	<u>100.00</u>	<u>31,425,679.92</u>	<u>374,567,006.99</u>	<u>331,918,524.56</u>	<u>100.00</u>	<u>28,217,893.07</u>	<u>303,700,631.49</u>

The five largest accounts receivable are as follows:

Total of the five largest accounts receivable RMB	Percentage of the total value of the accounts receivable %
71,495,628.95	17.61

Accounts receivable to shareholders who hold more than 5% of the Company's shares are as follows :

Name of shareholder	Closing Balance Rmb	Opening Balance Rmb
Beiren Group Corporation	9,916,120.00	10,170,370.00

### (3) Other receivables

The ageing analysis of other receivables is as follows:

	Closing balance			Opening balance			
	Amount RMB	Percentage (%)	Provision for Bad debt RMB	Amount RMB	Percentage (%)	Provision for Bad debt RMB	
Within 1 year	5,397,846.91	11.99	—	5,397,846.91	6,738,817.95	13.52	—
1-2 years	268,718.62	0.60	—	268,718.62	666,453.77	1.34	—
2-3 years	388,630.15	0.86	—	388,630.15	670,000.00	1.34	—
More than 3 years	38,949,967.87	86.55	19,050,496.83	19,899,471.04	41,779,967.87	83.80	23,651,996.83
Total	45,005,163.55	100.00	19,050,496.83	25,954,666.72	49,855,239.59	100.00	23,651,996.83

The five largest other receivables are as follows:

Total of the five largest other receivables RMB	Percentage of the total value of the other receivables %
19,439,705.67	43.24

There was no other receivable from shareholders who hold more than 5% of the share capital of the Company.

### (4) Provision for Bad Debt

	Opening balance RMB	Provision in the year RMB	Transfer in the year RMB	Reversal in the year RMB	Closing balance RMB
Provision for Bad Debt					
Accounts receivable	28,217,893.07	3,207,786.85	—	—	31,425,679.92
Other receivables	23,651,996.83	—	(1,101,500.00)	(3,500,000.00)	19,050,496.83
Total	51,869,889.90	3,207,786.85	(1,101,500.00)	(3,500,000.00)	50,476,176.75

(5) Prepayment

The ageing analysis of prepayment is as follows:

	Closing balance		Opening balance	
	RMB	%	RMB	%
Within 1 year	10,178,591.83	97.32	8,466,445.94	98.83
1-2 years	280,000.00	2.68	—	—
2-3 years	—	—	100,000.00	1.17
	<u>10,458,591.83</u>	<u>100.00</u>	<u>8,566,445.94</u>	<u>100.00</u>

Prepayment due from shareholders who hold more than 5% of the Company's shares are as follows :

	Closing Balance RMB	Opening Balance RMB
Beiren Group Corporation	<u>—</u>	<u>490,000.00</u>

(6) Inventories and provision for impairment in value of inventories

	Amount RMB	Closing balance Provision for diminution in value RMB	Net balance RMB	Amount RMB	Opening balance Provision for diminution in value RMB	Net balance RMB
Raw materials	38,671,669.92	1,759,853.66	36,911,816.26	27,995,701.84	1,759,853.66	26,235,848.18
Work in progress	267,536,951.31	5,230,957.86	262,305,993.45	269,392,606.75	5,230,957.86	264,161,648.89
Finished goods	215,974,576.13	36,119,656.82	179,854,919.31	253,907,785.05	33,554,226.45	220,353,558.60
Semi-finished goods	15,453,553.22	—	15,453,553.22	18,345,453.77	—	18,345,453.77
Total	<u>537,636,750.58</u>	<u>43,110,468.34</u>	<u>494,526,282.24</u>	<u>569,641,547.41</u>	<u>40,545,037.97</u>	<u>529,096,509.44</u>

Movement in the provision for impairment in value of inventories is as follows:

	Opening balance RMB	Provision in the period RMB	Other transfer out in the period RMB	Closing balance RMB
Provision for impairment in value of inventories				
Raw materials	1,759,853.66	—	—	1,759,853.66
Work in progress	5,230,957.86	—	—	5,230,957.86
Finished goods	33,554,226.45	3,665,538.61	(1,100,108.24)	36,119,656.82
Total	<u>40,545,037.97</u>	<u>3,665,538.61</u>	<u>(1,100,108.24)</u>	<u>43,110,468.34</u>

(7) Long term equity investments

	Closing Balance RMB	Opening Balance RMB
Investment in subsidiaries included in the scope of consolidation	198,950,041.74	198,177,859.19
Investment in subsidiaries not included in the scope of consolidation	5,132,493.01	6,381,720.02
Investment in associated companies	34,728,530.86	11,988,216.99
Difference in equity investment	2,136,157.31	2,249,581.59
Total	<u>240,947,222.92</u>	<u>218,797,377.79</u>
Less: provision for impairment of long term equity investment	<u>—</u>	<u>—</u>
Long term equity investments, net	<u>240,947,222.92</u>	<u>218,797,377.79</u>



Name of investee company	Initial Investment RMB	The Company's share of registered %	Investment Increase/ decrease in equity interest in investee RMB	Dividend receivable RMB	Accrued increase/ decrease RMB	Provision for impairment RMB	Closing booking value RMB
Subsidiaries included in the scope of consolidation							
Beijing Beiren Fuji Printing Machinery Operation and Sale Company Limited	29,632,699.26	70.00	904,783.04	—	6,155,838.30	—	35,788,537.56
Beijing Beiren Jing Yan Printing Machinery Sales Limited	20,972,023.06	99.76	(569,836.36)	—	(4,175,470.26)	—	16,796,552.80
Hebei Beiren Gei Zi Ji Chong	2,534,000.00	50.68	(265,270.90)	—	(393,134.56)	—	2,140,865.44
Haimen Beiren Fuji Printing Machinery Company Limited	31,911,194.70	68.33	(637,753.87)	—	(15,446,489.81)	—	16,464,704.89
Sheenlite Limited	3.51	100.00	—	—	(3.51)	—	—
Beijing Beiren Yuxin Plastic Printing Company Limited	15,400,000.00	68.66	(412,838.18)	—	1,730,904.73	—	17,130,904.73
Shaanxi Beiren Printing Machinery Company Limited	98,968,505.71	86.24	1,040,947.09	—	10,050,030.67	—	109,018,536.38
Zhejiang Beiren Printing Machinery Operation	825,000.00	55.00	76,097.62	—	148,885.83	—	973,885.83
Hubei Beiren Printing Machinery Sales Company Limited	765,000.00	51.00	(215,539.18)	—	(128,945.89)	—	636,054.11
	201,008,426.24		(79,410.74)	—	(2,058,384.50)	—	198,950,041.74
Subsidiaries not included in the scope of consolidation							
Beijing Beiren Tai He Printing and Casting Factory	2,500,000.00	62.50	(376,423.58)	—	2,474,783.78	—	4,974,783.78
Xi'an Beiren Beifu Printing Machinery Sales Company Limited	735,000.00	49.00	(21,210.14)	—	(577,290.77)	—	157,709.23
	3,235,000.00		(397,633.72)	—	1,897,493.01	—	5,132,493.01
Associated Companies							
Beijing Beiren Hengtong Printing Machinery Operation and Sale Company Limited	900,000.00	45.00	(176,684.06)	—	(254,021.72)	—	645,978.28
Liaoning Beiren Printing Machinery Operation and Sale Company Limited	343,000.00	49.00	(402,860.81)	—	(71,660.23)	—	271,339.77
Beijing Beiyong Casting Company Limited	1,136,000.00	20.00	931,707.86	(227,200.00)	2,692,660.15	—	3,828,660.15
Beijing Monigraf Automatic Systems Company Limited	3,675,000.00	49.00	75,350.88	—	3,767,552.66	—	7,442,552.66
Beijing Mitsubishi Heavy Industrial Beiren Printing Machinery Company Limited	22,540,000.00	49.00	—	—	—	—	22,540,000.00
	28,594,000.00		427,513.87	(227,200.00)	6,134,550.86	—	34,728,530.86
	232,837,426.24		(49,530.59)	(227,200.00)	5,973,639.37	—	238,811,065.61

# (8) Principal operating income/costs

	For six months ended 30 June 2006 (Accumulated)		For six months ended 30 June 2005 (Accumulated)	
	Revenue RMB	Cost RMB	Revenue RMB	Cost RMB
Domestic sales				
Sheet-fed offset printing press	229,249,903.43	189,951,072.75	223,542,175.24	170,547,785.19
Web-fed offset printing press	131,257,265.17	92,385,209.28	127,102,905.77	78,816,074.58
Sales of spare parts	1,391,200.35	920,534.80	1,763,422.52	1,592,857.47
Others	377,309.83	368,187.04	1,464,110.37	1,101,009.10
	<u>362,275,678.78</u>	<u>283,625,003.87</u>	<u>353,872,613.90</u>	<u>252,057,726.34</u>
Export sales				
Sheet-fed offset printing press	583,774.06	399,763.20	561,979.20	483,798.75
Web-fed offset printing press	—	—	3,818,152.80	1,426,406.42
	<u>583,774.06</u>	<u>399,763.20</u>	<u>4,380,132.00</u>	<u>1,910,205.17</u>
Total	<u>362,859,452.84</u>	<u>284,024,767.07</u>	<u>358,252,745.90</u>	<u>253,967,931.51</u>

# (9) Investment Income

	For six months ended 30 June 2006 (Accumulated) RMB	For six months ended 30 June 2005 (Accumulated) RMB
Long term investment income	(49,530.59)	1,145,763.85
Income recognized using equity method	(113,424.28)	—
Amortisation on the differences of equity investment	<u>(162,954.87)</u>	<u>1,145,763.85</u>

**SUPPLEMENTARY INFORMATION**

For the period from 1 January 2005 to 30 June 2006

**1. Effect on the financial statements from differences between the domestic and international accounting standards**

Under the PRC accounting standards, the Company recorded net profit of RMB10,290,000 and had net assets of RMB1,261,277,000 as at 30 June 2006. Major adjustments to the net profit and net assets for the period under HK GAAP are as follows:

	Net profit		Shareholders' equity	
	For the period RMB'000	For the same period last year RMB'000	Closing balance RMB'000	Opening balance RMB'000
Prepared under PRC GAAP	10,290	35,636	1,261,277	1,280,500
Adjusted under HK GAAP				
Difference in valuation of net assets contributed to the Company by Beiren Group Corporation	—	—	(60,198)	(60,198)
Consequential adjustment on net assets contributed by Beiren Group Corporation	33	156	48,244	48,211
Difference in valuation of capital contribution to subsidiaries	16	16	(274)	(290)
Difference in recognition of deferred tax	841	2,475	20,525	19,684
Difference in recognition of goodwill upon acquisition of a subsidiary	—	—	4,479	4,479
Difference in amortisation of goodwill upon acquisition of a subsidiary	113	—	(1,231)	(1,344)
Difference arising from minority interests stated as equity	337	488	51,366	51,029
Others	(1,399)	115	(700)	726
Prepared under HK GAAP	<u>10,231</u>	<u>38,886</u>	<u>1,323,488</u>	<u>1,342,797</u>

**2. Returns on net assets and earnings per share on fully diluted basis and weighted average basis**

Profit for the period	Returns on net assets (%)				Earnings per share (RMB/share)			
	Fully diluted		Weighted average		Fully diluted		Weighted average	
	current	period	current	period	current	period	current	period
	period	last year	period	last year	period	last year	period	last year
					RMB	RMB	RMB	RMB
Profit from principal operations	9.01	10.51	8.84	10.38	0.27	0.32	0.27	0.32
Operating profit	0.76	3.22	0.75	3.18	0.02	0.10	0.02	0.10
Net profit	0.82	2.81	0.80	2.78	0.02	0.08	0.02	0.08
Net profit, net of extraordinary items	0.49	2.76	0.48	2.73	0.01	0.08	0.01	0.08

3. Analysis of provision for diminution value as at 30 June 2006

Item	1 January 2006		Increase in the year		Other transfer out in the year		Reversal in the year		30 June 2006	
	Group	Company	Group	Company	Group	Company	Group	Company	Group	Company
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Provision for bad debts	58,753,901.59	51,869,889.90	4,120,313.26	3,207,786.85	(1,511,531.50)	(1,101,500.00)	(108,336.67)	(3,500,000.00)	61,254,346.68	50,476,176.75
Including: Accounts receivable	39,841,991.68	28,217,893.07	4,120,313.26	3,207,786.85	(410,031.50)	—	(70,349.19)	—	43,481,924.25	31,425,679.92
Other receivables	18,911,909.91	23,651,996.83	—	—	(1,101,500.00)	(1,101,500.00)	(37,987.48)	(3,500,000.00)	17,772,422.43	19,050,496.83
Provision for diminution in value of inventories	49,191,554.79	40,545,037.97	3,665,538.61	3,665,538.61	(1,100,108.24)	(1,100,108.24)	(324,424.30)	—	51,432,560.86	43,110,468.34
Including: Raw materials	1,977,640.41	1,759,853.66	—	—	—	—	—	—	1,977,640.41	1,759,853.66
Finished goods	37,418,168.60	33,554,226.45	3,665,538.61	3,665,538.61	(1,100,108.24)	(1,100,108.24)	—	—	39,983,598.97	36,119,656.82
Work in progress	9,795,745.78	5,230,957.86	—	—	—	—	(324,424.30)	—	9,471,321.48	5,230,957.86
Provision for diminution in value of long term investments	100,000.00	—	—	—	(50,000.00)	—	—	—	50,000.00	—
Including: Long term Investment in equity	100,000.00	—	—	—	(50,000.00)	—	—	—	50,000.00	—
Provision for diminution in value of fixed assets	30,258,656.35	23,758,656.35	—	—	(1,579,670.30)	(1,579,670.30)	(3,500,000.00)	—	25,178,986.05	22,178,986.05
including: Plant and machinery	23,758,656.35	23,758,656.35	—	—	(1,579,670.30)	(1,579,670.30)	—	—	22,178,986.05	22,178,986.05
Housing Construction	6,500,000.00	—	—	—	—	—	(3,500,000.00)	—	3,000,000.00	—
Provision for diminution in value of intangible assets	—	—	—	—	—	—	—	—	—	—
Provision for diminution in value of construction in progress	1,165,827.82	—	—	—	—	—	—	—	1,165,827.82	—
Total	139,469,940.55	116,173,584.22	7,785,851.87	6,873,325.46	(4,241,310.04)	(3,781,278.54)	(3,932,760.97)	(3,500,000.00)	139,081,721.41	115,765,631.14

**4. Analysis on the changes of 30% or above in the financial statements or the amount representing 5% or more of the Company's total assets as at the balance sheet date or 10% or more of the profit for the reporting period:**

- (1) Dividends receivable increased from the beginning of year, mainly due to dividends declared by associated companies.
- (2) Accounts receivable increased by 23.9% over the opening balance, mainly attributable to the closing balance of factoring of accounts receivable stated as short term loans and the increase in trade receivable.
- (3) Prepayments increased by 40.67% over the opening balance, mainly resulting from the increase in prepayments for goods.
- (4) Inventories decreased by 5.1% from the opening balance, principally attributable to the decrease in storage and work in progress.
- (5) Deferred expenses increased by 189.71% over the opening balance, mainly attributable to newly amortised items.
- (6) Long term equity investments increased by 115.7% over the opening balance, mainly attributable to the investment in Beijing Mitsubishi Heavy Industrial Beiren Printing Machinery Company Limited during the period.
- (7) Fixed assets, at cost and fixed assets, net book value decreased by 0.16% and 1.37% over the opening balance respectively, which is normal.
- (8) Construction in progress increased by 67.26% over the opening balance. A mainly resulting from construction of a new factory of Shaanxi Beiren.
- (9) Short term loans increased by 21.61% over the opening balance, mainly arising from the closing balance of factoring of accounts receivable stated as short term loans and the increased bank loans.
- (10) Accounts payable decreased by 5.71% from the opening balance, mainly as result of the less amount due from the Company.
- (11) Receipts in advance increased by 49.05% over the opening balance, principally attributable to the increase of trade deposit.
- (12) Other payables increased by 69.73% over the opening balance, principally attributable to the payables due.
- (13) Operating profits for the period decreased by 76.41% as compared with the same period last year, of which profit from principal operations decreased by 5.6%, and principal operating cost increased by 13.16%, which led to a decrease of 14.74% in profit from principal operations from the same period last year. The consolidated gross profit margin decreased 5.26% as compared with the same period last year, mainly due to the year-on-year increase in sales and the reducing price of certain products. Other operating profits increased by 30.63% year on year. Period expenses increased by 12.71% over the same period last year, mainly due to the rise in all expenses for the period.
- (14) Investment income decreased by 103.33% from the same period last year, mainly due to the decline in profitability of investments by the Company.
- (15) Net non-operating income increased by 439.09% over the same period last year, mainly as a result of the reversal of provision for impairment of fixed assets of subsidiaries.



## INDEPENDENT REVIEW REPORT

### TO THE BOARD OF DIRECTORS OF BEIREN PRINTING MACHINERY HOLDINGS LIMITED

*(established in the People's Republic of China with limited liability)*

#### Introduction

We have been instructed by the Company to review the interim financial report set out on pages 56 to 62.

#### Responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Deloitte Touche Tohmatsu**  
**Certified Public Accountants**  
Hong Kong  
24 August 2006

**CONDENSED CONSOLIDATED INCOME STATEMENT**

(prepared under accounting principles generally accepted in Hong Kong)  
 FOR THE SIX MONTHS ENDED 30 JUNE 2006

	NOTES	Six months ended	
		30 June 2006 RMB'000 (unaudited)	30 June 2005 RMB'000 (unaudited)
Turnover	3	513,057	495,310
Cost of sales		(401,355)	(360,135)
Gross profit		111,702	135,175
Other income		4,753	2,977
Distribution costs		(27,910)	(20,411)
Administrative expenses		(67,983)	(69,451)
Finance costs		(8,293)	(6,047)
Share of results of associates		428	2,035
Profit before taxation	5	12,697	44,278
Income tax expense	6	(2,466)	(5,392)
Profit for the period		10,231	38,886
Attributable to:			
Equity holders of the parent		9,894	38,398
Minority interests		337	488
		10,231	38,886
Earnings per share - Basic (in RMB: fen)	8	RMB2.34 fen	RMB9.10 fen

# CONDENSED CONSOLIDATED BALANCE SHEET

(prepared under accounting principles generally accepted in Hong Kong)  
AT 30 JUNE 2006

	NOTES	30 June 2006 RMB'000 (unaudited)	31 December 2005 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	676,703	645,994
Investment properties		55,413	56,124
Goodwill		4,434	4,434
Intangible assets		1,171	1,566
Interests in associates		35,013	12,274
Prepaid lease payments			
— non-current portion		122,740	123,845
Deferred tax assets		20,525	19,684
		<b>915,999</b>	<b>863,921</b>
Current assets			
Inventories		683,122	719,988
Trade and other receivables	10	523,832	432,067
Amount due from minority shareholders of subsidiaries		10,290	10,034
Prepaid lease payments - current portion		2,672	2,338
Bank balances and cash		90,539	93,696
Restricted cash		10,323	8,776
		<b>1,320,778</b>	<b>1,266,899</b>
Current liabilities			
Trade and bills payables	11	303,214	304,468
Other payables		118,726	100,143
Sales deposits received		53,389	36,811
Amount due to ultimate holding company		12,150	13,204
Taxation payable		6,550	6,444
Dividend payable		29,540	—
Borrowings - due within one year	12	385,720	322,953
		<b>909,289</b>	<b>784,023</b>
Net current assets		<b>411,489</b>	<b>482,876</b>
Total assets less current liabilities		<b>1,327,488</b>	<b>1,346,797</b>
Capital and reserves			
Share capital	13	422,000	422,000
Reserves		850,122	869,768
Equity attributable to equity holders of the parent		1,272,122	1,291,768
Minority interests		51,366	51,029
Total equity		<b>1,323,488</b>	<b>1,342,797</b>
Non-current liabilities			
Borrowings - due after one year	12	4,000	4,000
		<b>1,327,488</b>	<b>1,346,797</b>

The interim financial report on page 55 to 62 was approved and authorised for issue by the Board of Directors on 24 August 2006



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(prepared under accounting principles generally accepted in Hong Kong)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent													
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	General reserve fund	Enterprise expansion fund	Discretionary surplus reserve	Retained profits	Dividend reserve	Total	Minority interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
At 1 January 2006	422,000	435,834	51,155	78,047	72,385	1,717	3,845	42,979	154,266	29,540	1,291,768	51,029	1,342,797	
Net profit for the period	—	—	—	—	—	—	—	—	9,894	—	9,894	337	10,231	
Profit appropriations for the period	—	—	—	1,054	—	—	—	—	(1,054)	—	—	—	—	
Dividend	—	—	—	—	—	—	—	—	—	(29,540)	(29,540)	—	(29,540)	
Adjustment as required by the Company Law (Note)	—	—	—	72,385	(72,385 )	—	—	—	—	—	—	—	—	
At 30 June 2006	422,000	435,834	51,155	151,486	—	1,717	3,845	42,979	163,106	—	1,272,122	51,366	1,323,488	
At 1 January 2005	422,000	435,834	51,155	73,014	67,352	1,717	3,845	42,979	136,319	33,760	1,267,975	45,698	1,313,673	
Net profit for the period	—	—	—	—	—	—	—	—	38,398	—	38,398	488	38,886	
Profit appropriations for the period	—	—	—	3,641	3,641	—	—	—	(7,282)	—	—	—	—	
Investment assets of the Group attributable to minority interest	—	—	—	—	—	—	—	—	—	—	—	—	—	
Dividend	—	—	—	—	—	—	—	—	—	(33,760)	(33,760)	—	(33,760)	
At 30 June 2005	422,000	435,834	51,155	76,655	70,993	1,717	3,845	42,979	167,435	—	1,272,613	46,186	1,318,799	

**Note:** The Ministry of Finance (MOF) issued a notice which requires the balance of statutory public welfare fund as of 31 December 2005 to be managed and utilized as surplus reserve from 1 January 2006 onwards. Accordingly, the statutory public welfare fund was transferred to statutory surplus reserve.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(prepared under accounting principles generally accepted in Hong Kong)  
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended	
	30 June 2006 RMB'000 (unaudited)	30 June 2005 RMB'000 (unaudited)
Net cash used in operating activities	(1,756)	(55,026)
Net cash used in investing activities		
Proceeds from disposal of property, plant and equipment	405	10,273
Purchase of property, plant and equipment	(51,706)	(29,788)
Prepaid lease payments in relation to land use right	(490)	(2,000)
Investment in an associate	(22,540)	—
Removal compensation received in advance	20,000	—
Increase in restricted cash	(1,547)	(13,700)
	(55,878)	(35,215)
Net cash from financing activities		
Repayments of bank borrowings	(180,451)	(128,627)
New bank borrowings raised	243,218	172,675
Other financing cash flows	(8,290)	(6,047)
	54,477	38,001
Net decrease in cash and cash equivalents	(3,157)	(52,240)
Cash and cash equivalents at 1 January	93,696	157,078
Cash and cash equivalents at 30 June, represented by bank balances and cash	90,539	104,838

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(prepared under accounting principles generally accepted in Hong Kong)  
FOR THE SIX MONTHS ENDED 30 JUNE 2006

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005 to 1 January 2006 respectively. The application of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

At the date of authorization of these financial statements, the following HKFRSs, HKASs and Interpretations were issued by the HKICPA but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK (IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK (IFRIC) - Int 8	Scope of HKFRS <sup>2</sup>
HK (IFRIC) - Int 9	Reassessment of Embedded Derivative <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

The directors anticipate that the adoption of these HKFRSs, HKASs and Interpretations in future periods will have no material impact on the financial statements of the Group.

### 3. TURNOVER

	Six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Sales of printing machines	495,850	473,404
Sales of spare parts	9,991	11,424
Provision of printing services	10,400	13,079
Total sales	516,241	497,907
Less: Sales tax and other surcharges	(3,184)	(2,597)
	<u>513,057</u>	<u>495,310</u>

### 4. SEGMENT INFORMATION

The Group's revenue and results are substantially derived from the manufacture and sale of printing machines in PRC. Moreover, as substantially all of the Group's assets and liabilities are located in China, no segmental analysis of financial information is presented.

## 5. PROFIT BEFORE TAXATION

	Six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Depreciation and amortisation	22,807	24,739
Share of tax of associates (included in share of results of associates)	101	216
Interest income	(541)	(358)
Loss (profit) on disposal of property, plant and equipment	152	(1,054)
Reversal of impairment loss of leasehold property (Note)	(3,500)	—
	<u>22,929</u>	<u>23,543</u>

*Note:* At 30 June 2006, the Group has reversed the impairment loss of RMB 3,500,000 of the leasehold properties in Hong Kong which was recognized in the income in prior years.

## 6. INCOME TAX EXPENSE

	Six months ended	
	30 June 2006 RMB'000	30 June 2005 RMB'000
The charge comprises:		
PRC income tax	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 a 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 have any significant tax liability in any other jurisdiction.

## 7. 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.

## 8. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share attributable to the ordinary equity holders of the parent is based on the net profit for the period attributable to equity holders of the parent of RMB9,894,000 (2005: RMB38,398,000) and on the number of 422,000,000 shares (2005: 422,000,000 Shares) in issue during the period.

## 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB1,833,000 (2005: RMB1,517,000) on the acquisition of property, plant and equipment and approximately RMB49,873,000 (2005: RMB28,271,000) on construction in progress.

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB557,000 (2005: RMB9,219,000) for a total consideration of RMB405,000 (2005: RMB10,273,000), resulting in a loss on disposal of RMB152,000 (2005: gain of RMB1,054,000).

## 10. TRADE AND OTHER RECEIVABLES

At 30 June 2006, the balances of trade and other receivables included accounts receivable of RMB457,030,000 (31 December, 2005: RMB396,566,000). Customers are normally granted a credit period of 90-360 days.

The aged analysis of trade and bills receivable at the balance sheet is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 1 year	392,745	352,657
1-2 year	51,748	33,628
2-3 year	11,384	9,069
Over 3 years	1,153	1,212
	<u>457,030</u>	<u>396,566</u>

## 11. TRADE AND BILLS PAYABLES

	30 June 2006 RMB'000	31 December 2005 RMB'000
The aged analysis of trade and bills payable at the balance sheet date is as follows:		
Within 1 year	275,455	295,684
1-2 year	20,507	3,811
2-3 year	3,002	2,812
Over 3 years	4,250	2,161
	<u>303,214</u>	<u>304,468</u>

## 12. BORROWINGS

The Group obtained new bank loans of RMB243,218,000 (2005: RMB172,675,000), and repaid RMB180,451,000 (2005: RMB128,627,000) during the period. The newly raised loans bear interest at market rates.

## 13. SHARE CAPITAL

	Amount RMB'000
Registered, issued and fully paid:	
At 1 January 2005, 30 June 2005, 31 December 2005 and 30 June 2006	322,000
322,000,000 A shares of RMB1 each	100,000
100,000,000 H shares of RMB1 each	<u>422,000</u>

## 14. CAPITAL COMMITMENTS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Contracted but not provided for the purchase of property, plant and equipment	<u>33,469</u>	<u>10,044</u>

## 15. RELATED PARTY TRANSACTIONS

(1) The Group entered into the following transactions with its related parties during the period:

	Six months ended 30 June 2006 RMB'000	30 June 2005 RMB'000
Sales of goods, net of sales return		
— Beijing Beiren Hengtong Printing Machinery Sales Limited (an associate)	12,876	16,426
— Liaoning Beiren Printing Machinery Sales Limited (an associate)	1,963	8,707
Sale of materials		
— Beiren Group Corporation ("BGC", ultimate holding company)	7,276	2,179
Purchase of materials		
— BGC (ultimate holding company)	9,155	3,522
— Beijing Beiyong Moulding Company Limited (an associate)	13,434	20,256
— Beiren Monigraf Automations Co., Ltd. (an associate)	5,612	12,064
— Fujikikai Kogyo Co., Ltd. (a minority shareholder of a subsidiary)	1,163	1,317
— Hebei Decoration Printing Machinery Co., Ltd. (a minority shareholder of a subsidiary)	1,070	1,043
Trademark fee paid		
— BGC (ultimate holding company)	3,610	3,469
Rental income received		
— Beiren Monigraf Automations Co., Ltd. (an associate)	50	50
— Beijing Beiyong Moulding Company Limited (an associate)	<u>1,948</u>	<u>1,266</u>

- (2) Balance with related party at the balance sheet date

	<b>30 June 2006</b> <b>RMB'000</b>	31 December 2005 <b>RMB'000</b>
Amount due from associates	<b>31,497</b>	37,344
Amount due to minority shareholders of subsidiaries	<b>4,026</b>	4,133
Amount due to associates	<b>3,598</b>	3,242

Included in borrowings at the balance sheet date, an amount of RMB34,000,000 (2005: RMB35,000,000) is guaranteed by BGC.

- (3) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of the larger group of BGC, which is ultimately controlled by the PRC government. Apart from the transactions with BGC and its subsidiaries disclosed in section (1) above, the Group also conducts businesses with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

Material transactions/balances with other state-controlled entities are as follow:

	<b>Six months ended</b>	
	<b>2006</b> <b>RMB'000</b>	2005 <b>RMB'000</b>
Trade sales	<b>44,465</b>	30,584
Trade purchase	<b>22,038</b>	16,569
	<b>30 June 2006</b> <b>RMB'000</b>	31 December 2005 <b>RMB'000</b>
Trade balance due from other state-controlled entities	<b>34,584</b>	37,763
Trade balance due to other state-controlled entities	<b>12,150</b>	13,125

In addition, the Group has entered into various transactions, including utilities services and surcharges / taxes charged by the PRC government, and deposits and borrowings and other general banking facilities with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of these transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

- (4) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the period is approximately RMB510,000 (2005: RMB437,000).

## VIII. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) Text of the interim report signed by the Chairman;
- (II) The financial statements signed and sealed by the legal representative and the chief accountant of the Company and the head of accountants;
- (III) Text of the Articles of Association;
- (IV) Texts of all documents disclosed in Shanghai Securities News, Hong Kong Economic Times and The Standard during the reporting period.

The above documents are available for inspection at the Company's Secretary Office, No.6 Rong Chang Dong Street, Beijing Economic and Development Technological Zone, Beijing, the PRC.

**Beiren Printing Machinery Holdings Limited**  
**Zhu Wuan**  
*Chairman*

24 August 2006