

CHAIRMAN'S REPORT



Chairman
Wang Guohua

As affected by the change in the national tax policies, monetary policies and market demand, and the enhanced investment in China from the global renowned printers during the reporting period, the printing industry market demonstrated a trend of slowing growth and declining benefits. The Company recorded a loss during the year, mainly attributable to the following three reasons: firstly, the price of existing regular machinery was lowered, resulting in the rise in unit product cost; secondly, the new product of its high-end multi-colour presses was still in the fostering period and had not yet realized a reasonable output; thirdly, provisions for impairment of accounts receivable, other receivables and inventories were made based on the accounting standards and the existing assets of the Company. Facing the harsh reality, the Company has took scientific development view to actively change the mode of economic growth and carry out the operating principal of "Customer-centered and market-oriented". The Company has also significantly implemented the reform and is gradually changing the adverse situation.

(I) REVIEW

1. Strategic pilot to play a significant instructive role

Insisting on the principal of scientific development view during the reporting period, the Company revised the development strategy of the "11th Five-year" Plan and fully analyzed the domestic and overseas market environment and competing strategies of competitors. The Company's internal capability was systemically sorted out in accordance with the corporate value chain, covering research and development, manufacture, sales, finance, human resources, information system and corporate culture, and the goal was put forwarded in respect of becoming the global competitive supplier with integration of printing machinery manufacture and service. Further, the Company was expected to maintain sustainable and healthy development under the strategic pilot of the "11th Five-year" Plan.

2. Smooth completion of the share segregation reform

During the reporting period, the Company accomplished the share segregation reform plan as scheduled pursuant to the "Guidelines for Promoting the Reform and Opening-up and Sustained Development of the Capital Market" promulgated by the State Council of the PRC and the "Guiding Opinions on the Share Reform of Listed Companies" jointly promulgated by the China Securities Regulatory Commission and other four authorities.

3. Focusing on market to accelerate the improvement and research and development of products

In light of the market-oriented guidance and the customer-satisfactory objective, the Company carried out its research and development and upgraded and improved its BEIREN200 and BEIREN300 products during the reporting period. BEIREN75A medium-sized newspaper press passed the technological appraisal of the Company. Installation and testing and printing testing of 578 size commercial rotary press was completed.

(I) REVIEW (Continued)

4. Centering on customers to fully implement reform and change marketing philosophy

- (1) Based on the market investigation and internal investigation, the Company upgraded its philosophy to emphasize on the "Customer-centered and market-oriented" principal. The Company fully implemented new operating models of marketing companies, which were more closely related to customers and market and were able to rapidly gave market estimation and feedback.
- (2) Through participating in IPEX Expo in Birmingham (UK) and All in Print in Shanghai, the Company held on-spot product exhibition to fully demonstrate its technological and manufacturing level, thus actively promoting the further exploration of the international and domestic market

5. Initial achievements accomplished in the Company's joint venture through pooling bilateral strengths

During the reporting period, Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited, jointly established by the Company and Mitsubishi Heavy Industries, Ltd., produced the first batch of diamond 1000B printing machines, which were favoured by customers. In addition to introduction of advanced management philosophies and manufacturing technologies, the establishment of the company was also expected to bring new economic growth to the Company.

6. Strict control of budget plan and continual improvement of management methods

With focus on annual budget index during the reporting period, the Company strictly reviewed the budget expenditures on itemised basis to reduce the budget expenditures of RMB10,000,0000 by cutting down its cost to improve its efficiency.

(II) PROSPECT

1. To enforce the management on strategic implementation of "11th Five-Year" plan

Under the requirements of the strategic goals, position and measures determined based on the "11th Five-Year" development strategy in 2007, the Company is set to actively promote strategic implementation and set up the procedures monitoring and strategic dynamic evaluation system to evaluate the strategic implementation and the realization of its operating performance. Taking the comprehensive budget system as the key point of strategic implementation, the Company will link budget to the evaluation of senior management's performance to enable the operators to know about strategies and the budget implementation, thus realizing the undertakings made to the Board.

2. To advance the reform management and build the flattered high-efficiency management system with focus on customers

To obtain an advantageous position in the fierce market competition, the Company will further reform the management systems. While establishing the rapid market response mechanism with center on customers, the Company will reduce the hierarchies of management to implement flattered management for better economic operation.

3. to explore the synergy and jointly allocate resources

Through establishing the overall unified management system and build the common system platform, the Company will strengthen the horizontal integration of each business unit and improve the sharing synergy with its subsidiaries in sales, procurement and information system, so as to effectively reduce cost and improve corporate efficiency.

4. To strengthen the control over its subsidiaries and improve its overall operating efficiency

The Company will strengthen the management on its subsidiaries to pursue the growth investment gains. On the one hand, the Company will perfect the control models on its subsidiaries. On the other hand, the Company will endeavour to reduce product cost and strengthen product sales and improve its overall operating efficiency by coping with the actual situation.

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(II) PROSPECT (Continued)

5. To put more efforts on the improvement and research and development of high-end products to cater for customers' needs

More efforts will be made to improve and research and develop high-end products to ensure that high-end products participate in market competition by high quality, well-round function and sound adaptivity to cater for customers' needs.

6. To perfect its marketing system and actively explore international market to foster the ability of international operation

Based on the reform of its marketing system, the Company will enforce the evaluation and incentive mechanism and business training on the marketing staff to improve their working ability. By earnest analysis of the development trend of the international market, the Company will attach importance to the internal function requirements of the international department to foster the ability of international operation.

7. To strengthen cost control and ensure the completion of each target

The Company will strictly control purchase prices of raw materials and sales prices of products by rolling control realized through adoption of the principal of matching sales cost with sales revenue. With acceleration of domestic production of imported spare parts of high-end products, the Company will strengthen the cost analysis and improve the principal operating profit margin.

By order of the Board
Wang Guohua
Chairman

24 April 2007



On 17 September 2006, Mr. Wang Guohua, Chairman of the Company, delivered a speech in BEIREN300 customer conference cum product presentation.