

BOARD OF DIRECTORS' REPORT

(I) DETAILS OF MEETINGS AND RESOLUTIONS

1. The 5th meeting of the fifth Board was convened on 20 March 2006, at which the proposal for application to banks for entrusted loans was considered and approved.
2. On 29 March 2006, the 6th meeting of the fifth Board was convened, at which, the establishment of Beijing Mitsubishi Heavy Industry Beiren Printing Machinery Company Limited jointly invested by the Company and Mitsubishi Heavy Industries, Ltd. was considered and approved; and the amount of credit line for bank loans was considered and approved to be Rmb300,000,000.
3. On 20 April 2006, the 7th meeting of the fifth Board was convened, at which, the following proposals were considered and approved: 1. the 2005 Annual Report and its summary; 2. the Board of Directors Work Report for 2005; 3. the 2005 Annual Financial Report; 4. the reappointment of the accountants; 5. the profit distribution plan for 2005; 6. the 2006 Budget Report; 7. provisions for assets impairment for 2005; 8. the 2005 General Meeting; 9. the extension of issuing H shares by one year; 10. the repurchase of H shares; 11. the amendments to The Articles of Association and its appendixes Rules of Procedures for the General Meeting and Rules of Procedures for the Board of Directors. The resolutions of the meeting were published on Shanghai Securities News, Hong Kong Economic Times and The Standard on 21 April 2006.
4. On 26 April 2006, the 8th meeting of the fifth Board was convened, at which, the 2006 First Quarterly Report was considered and approved, and the Company estimated a significant decrease in the business results for the first half year. The resolutions of the meeting were published on Shanghai Securities News, Hong Kong Economic Times and The Standard on 27 April 2006.
5. On 24 August 2006, the 9th meeting of the fifth Board was convened, at which, the 2006 Interim Report and its summary was considered and approved, the proposal of provisions for impairment was considered and approved, and the Company estimated a significant decrease in the business results for the third quarter of the year. The resolutions of the meeting were published on Shanghai Securities News, Hong Kong Economic Times and The Standard on 25 August 2006.
6. On 26 October 2006, the 10th meeting of the fifth Board was convened, at which, the 2006 Third Quarterly Report was considered and approved, and the Company estimated a significant decrease in the annual business results for 2006, and the proposal of changing directors in the subsidiaries was considered and approved. The resolutions of the meeting were published on Shanghai Securities News, Hong Kong Economic Times and The Standard on 27 October 2006.
7. On 28 December 2006, the 11th meeting of the fifth Board was convened, at which the authorization of signing the e-submission system on Hong Kong Exchanges and Clearing Limited was considered and approved.

(II) IMPLEMENTATION OF THE RESOLUTIONS OF THE ANNUAL GENERAL MEETING BY THE BOARD OF DIRECTORS

1. Implementation of the Share Segregation Reform: On 20 March 2006, the Share Segregation Reform Proposal was considered and approved at the Extraordinary General Meeting related to Share Segregation Reform for A shares market, and as at the end of the reporting period, the reform had been completed, announcement of which was published on Shanghai Securities News on 21 March 2006.
2. The 2005 Profit Distribution Plan of the Company was considered and approved at the 2005 Annual General Meeting and was implemented. The announcements regarding dividend distribution for A Shares and H Shares were published in Shanghai Securities News, Hong Kong Economic Times and The Standard on 28 June 2006 and 8 August 2006 respectively. The date of dividend distribution was 18 August 2006 and the dividend before taxation was Rmb0.07 per share.

(III) PROFIT DISTRIBUTION PLAN OR PLAN TO CONVERT SURPLUS RESERVES INTO SHARE CAPITAL

As at 31 December 2006, the undistributed profit of the Company was Rmb139,909,400. As approved at the 2005 General Meeting, the Company declared a cash dividend of Rmb29,540,000, with the remaining profit of Rmb110,369,400 undistributed. The Company realized a net profit of Rmb-87,894,800 during the reporting period; the net undistributed profit was 22,474,600 via the undistributed profit at the beginning of the year less the loss in 2006. In accordance with the section of Employees' Remuneration under the new accounting rules effective from 1 January 2007, as at the first implementation date, the undistributed profit must deduct the remuneration for the employees' who early retired in the previous years, and the profit to be distributed to shareholders would be small after this adjustment under the new accounting rules. In view of the above, the Board did not recommend to distribute profit and to transfer capital reserve to share capital for 2006.

(IV) FIXED ASSET

Movements in fixed assets for the year are set out in the accounts prepared under accounting principles generally accepted in Hong Kong ("HK GAAP") and the notes to financial statements prepared under PRC accounting standards.

(V) CONSTRUCTION IN PROGRESS

Particulars and movements in construction-in-progress for the year are set out in the accounts prepared under HK GAAP and the notes to the financial statements prepared under PRC accounting standards.



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(VI) INVESTMENTS IN SUBSIDIARIES

Particulars of subsidiaries are set out in the accounts prepared under HK GAAP.

(VII) INTERESTS IN ASSOCIATES

Particulars of associates are set out in the accounts prepared under HK GAAP.

(VIII) OTHER ASSETS

Particulars of other assets are set out in the accounts prepared under HK GAAP.

(IX) RESERVES

Movements in reserves for the year are set out in the accounts prepared under HK GAAP and in the notes to the financial statements prepared under PRC accounting standards.

(X) BANK LOANS

Bank loans as at 31 December 2006 are set out in notes to the financial statements prepared under PRC Accounting Standards.

(XI) THE COMPANY'S PENSION PLANS

In accordance with the relevant regulations to the State Council's Decisions Regarding Reform of the Employee Retirement Insurance Scheme, the Company is required to pay to the Chinese government an amount equivalent to 20% of total amount of salary as the basic contribution to the Employee Retirement Insurance Scheme. In 2006, a total amount of Rmb21,930,300 was contributed to the Employee Retirement Insurance Scheme. Apart from the said contribution, the Company has no other commitments or liabilities related to pensions.

(XII) CONNECTED TRANSACTIONS

- (1) Please refer to the notes to the accounts prepared under HK GAAP and the notes to the financial statements prepared under PRC accounting standards for the particulars of connected transactions during the year.
- (2) Each independent non-executive director confirmed that all the connected transactions were entered into on normal commercial terms in ordinary and usual course of business of the Group and its member companies. All the terms were either normal business terms or were not less favourable than the preferential treatments offered to the third parties, and were fair and reasonable as far as the Company's shareholders were concerned.

(XIII) CODE ON CORPORATE GOVERNANCE PRACTICES

During the reporting period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company has not identified and appointed an appropriate candidate of qualified accountant being a fellow or associate member of the Hong Kong Institute of Certified Public Accountants as required by Rule 2.24 of the Listing Rules.

(XIV) STAFF QUARTERS

The Company didn't sell any public housing flats to staff during the year of 2006. In accordance with the policy of the State, the Company contributed to the public housing fund on the basis of 10% of the average monthly salary of the existing employees for the previous year, which did not have any significant impact on the Company's results. In accordance with the spirit of the "(2000) Jing Fang Gai Ban, Zi Document No. 080" Notice in relation to issues of the Increase in Beijings Public Housing Rents and Allowances issued by the Housing Reform Office of Beijing Municipal Government, Beijing Financial Bureau and Commodity Price Bureau of Beijing, Beijing State Land Resources Bureau, Housing Administration Bureau, and integrating with the Company's actual situation, the Company provided a housing allowance of Rmb70 to Rmb80 per month to its staff starting from 1 April 2000 onwards.

(XV) EMPLOYEE'S BASIC MEDICAL INSURANCE

Since October 2001, the Company has carried out Provisions regarding Beijing Basic Medical Insurance, and implemented employee's basic medical insurance system in accordance with the provisions. Medical expenses for former and retired employees are paid out of staff welfare funds and administrative expenses separately. After carrying out new provisions, the Company is required to pay basic medical insurance calculated as 9% of employees' total wages, in which 4% is paid out of cost expense and 5% is paid out of staff welfare fund; Material medical expenses for mutual help, calculating on the basis of 1% of employees' total wages, shall be paid out of the welfare fund; Provision of supplementary medical insurance shall be prepared on the basis of 4% of employees' total wages for the medical expenses in accordance with supplementary qualifications on reimbursement of medical insurance set out in Provisions regarding Beijing Basic Medical Insurance. No change has been made to the provision standard of employees' welfare fund, which still calculated as 14% of total wages of existing employees. Such provision was still carried out in 2006.

(XVI) ANNUAL GENERAL MEETING

The Board of Directors has fixed the date of Annual General Meeting on 18 June 2007.

(XVII) THE COMPANY DESIGNATED THE FOLLOWING NEWSPAPERS FOR DISCLOSURE OF INFORMATION FOR 2006: SHANGHAI SECURITIES NEWS, HONG KONG ECONOMIC TIMES AND THE STANDARD.

