



Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of China Infrastructure Machinery Holdings Limited (hereinafter referred to as "the Company" or "China Infrastructure") for the year ended 31 December 2005, which is the first report of annual results of the Company since its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2005.

BUSINESS REVIEW

China Infrastructure achieved remarkable growth and encouraging performance in 2005. The Company successfully met both targets on wheel loader production and sales in 2005. Our market share in the wheel loaders segment has increased to approximately 16% in 2005 as compared with approximately 14% in 2004, reinforcing our status as one of the three largest wheel loaders manufacturers in China. With strengthened research and development (R&D) capabilities, the Company successfully launched a number of new models in wheel loaders and new products such as road rollers, which further broadened our product portfolio. Such new products were well received by the market, reflected through the impressive sales throughout the year. Our sales and service network also expanded, together with continuing increase in brand recognition and goodwill. The Company was listed on the Main Board of the Stock Exchange on 17 November 2005 and became the first Chinese based infrastructure machinery enterprise listed in Hong Kong Special Administrative Region ("Hong Kong"). With a total net proceeds of approximately HK\$443 million, the financial condition of the Company became more stable and the Company was provided with sufficient funds for its future development. Following its successful listing, the Company has been committed to maintaining corporate transparency and enhancing corporate governance. I believe that the performance of our stock price in some extent is a reflection of investors' extensive recognition of the Company's development strategies and an indication of confidence in the Company's future prospect.

For the year ended 31 December 2005, the Company achieved remarkable financial results. Our turnover for the year amounted to approximately RMB2.7 billion, an increase of approximately 27% as compared to the corresponding period last year; net profit attributable to shareholders of the Company increased by approximately 79% from last year to RMB236 million, which exceeded the profit forecast set out in the prospectus of the Company dated 8 November 2005.

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The People's Republic of China (the "PRC", which for the purpose of this annual report only, excludes Hong Kong, Macau Special Administrative Region and Taiwan) economy has been growing rapidly with significant development in recent years and people's purchasing power has increased dramatically. All these offered a favorable operating environment to the Company for future development. In the midst of the implementation of numerous large scale projects by the PRC Government, including the Western development, West-to-East gas project, South-to-North water diversion project, the revitalization of the old industrial base in Northeastern China, Beijing Olympics Games 2008, Shanghai World Expo 2010, and the "11th Five-Year Plan", will bring more infrastructure works in the PRC such as railways, highways, energy, hydraulic and hydro-electric engineering, urbanization and new-countryside infrastructure as anticipated. The Company believes that such construction projects will provide us with new opportunities to the development of the infrastructure machinery industry and offer vast room for expansion to the Company.

China Infrastructure has been striving to build up its core competitive advantages in the industry, including leading market status and strong brandname loyalty, strategic geographical location, vertically integrated operating model, strong distribution and service network throughout the country, strong R&D capabilities, excellent value for money products, experienced management and superior corporate control mechanism. The Company will fully integrate all these competitive edges by adding values in each stage of the Company's value chain process, which starts from products research, materials acquisitions, production, marketing and then finally up to post-sales services to our customers. This will enhance our operating efficiency and help us seize opportunities should they arise.

COMPANY STRATEGIES

To ensure the sustainable development of the Company, we are determined to be a specialized and leading enterprise in the infrastructure machinery industry by focusing on the following: (i) expanding production capacity, (ii) increasing R&D capabilities, (iii) expanding our distribution and service network and (iv) developing overseas markets. Our mission is to become one of the leading infrastructure machinery manufacturers in the world through continuous growth and sustainable profitability.

We will increase the existing production capacity of our production facilities in our two strategically located manufacturing bases in Shanghai and Fujian so as to satisfy market demand and to reduce production costs resulting from the advantages of economies of scale. It is expected that by the end of 2007, production capacity of wheel loaders, road rollers, axles and transmissions will increase to 26,000 units, 1,000 units, and 29,000 units respectively.

In order to enhance our R&D capabilities, the Company has set up a technology research institute with more than 100 professional engineers and technicians in 2005. The Company will increase investment and recruit more professionals for the R&D team. It will also increase cooperation with international professional organizations and renowned universities to develop more new models in wheel loaders, road rollers and other infrastructure machinery products to meet the different requirements of our end users and to boarden our product portfolio.



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In order to increase our market share, the Company will continue to develop its own distribution and service network by encouraging and supporting existing dealers to become the Company's exclusive sales agents. The Company believes that the success of the business relies upon a faithful partnership with the Company's sales agents.

The positive trade balance for the first time between the import and export of Chinese infrastructure machinery products in 2005 further boosted the Company's confidence in joining international competition. The Company will develop customized products for overseas markets, select local competent sales agents stringently and build up the quality "China Longgong" brand in the international market by using pricing advantage and providing excellent services to international customers.

APPRECIATION

We are proud to have a Board which possess different skills and with professional ethics, an experienced management team that is dedicated to their duties, and also hard-working and intelligent staff. We would like to take this opportunity to express our gratitude to every director and staff for their efforts and hard work over the past year. We promise to recruit more talents to ensure the continued development of the Company.

Last but not the least, our mission is to become the leading manufacturer in the infrastructure machinery sector through continuous growth and sustainable profitability, to create values for our products end users and to bring better returns to all of our shareholders.

Li San Yim

Chairman

20 March 2006