

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group's principal activities are the design, manufacturing and sale of wheel loaders and other infrastructure machinery in the PRC. The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 32 to the financial statements.

GROUP REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 11 May 2004.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 6 December 2004.

Details of the reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited with effect from 17 November 2005.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend prior to the Company being listed, amounting to approximately RMB67,684,000, was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

TRADING RESULTS AND PUBLISHED FORECAST

The Group's consolidated profit of RMB235.9 million, represents an excess of approximately 4.8% over the profit forecast in the Company's prospectus dated 8 November 2005. This difference is principally attributable to (1) robust growth in demand for infrastructure machinery in the People's Republic of China market. (2) increase in product quality that attract customers; (3) "China Longgong", awarded China top brand, enjoys high market recognition and is well received by the market. This reputable brand name is a solid foundation to further strengthen our customer base and (4) strong distribution and after sales coverage, which is one of the Group's competitive edges.



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DONATIONS

Donations made by the Group during the year amounted to RMB988,000 (for details, please refer to page 32 under the section of Corporate Governance Report to this annual report) and HK\$1,000,000 was donated to the Community Chest of Hong Kong for fixing the stock code of 3339.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure of RMB123 million in the acquisition of property, plant and equipment which mainly comprised building and plant and machinery. Details of these and other movements in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last four financial years is set out on page 74 of the annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group and the Company during the year are set out on page 36 of the annual report.

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB566 million as at 31 December 2005. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association (the "Articles of Association"), dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

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DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Executive directors:

Li San Yim (<i>Chairman</i>)	(appointed on 11 May 2004)
Qiu Debo (<i>Chief Executive Officer</i>)	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Feng Wanru	(appointed on 17 February 2005)
Chen Chao	(appointed on 17 February 2005)
Zhu Yong Sheng	(appointed on 17 February 2005)
Zhang Hong	(appointed on 17 February 2005)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)
Zhu, Mantian Myron	(appointed on 26 August 2005)

Independent non-executive directors:

Yang Hongqi	(appointed on 13 June 2005)
Qian Shizheng	(appointed on 17 February 2005)
Lo Peter	(appointed on 17 February 2005)

Pursuant to the Articles of Association, all directors will retire and all are being offered for re-election at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The non-executive directors are subject to retirement by rotation in the same manner as the executive directors. The biographical details of the directors are set out on pages 12 to 17 of this annual report.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

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DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the interests of the directors in the shares and share options of the Company and its associated corporations (as defined in Part XV of the SFO) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Director of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares and underlying shares of the Company

Name of directors	Capacity	Number of shares held	Percentage of issued share capital as at 31 December 2005
Mr. Li San Yim (Note 1)	Held by controlled corporation (Note 2)	700,000,000	67.5
Ms. Ngai Ngan Ying (Note 1)	Held by controlled corporation (Note 2)	700,000,000	67.5

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest and short position in shares.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that was wholly owned by Mr. Li, San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, is the registered shareholder of these 700,000,000 shares.

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(2) Short positions in shares and underlying shares of the Company

Name of directors	Capacity	Number of shares relating to the relevant short position	Percentage of issued share capital as at 31 December 2005
Mr. Li San Yim (<i>Note 1</i>)	Held by controlled corporation (<i>Notes 2 and 3</i>)	88,652,620	8.55
Ms. Ngai Ngan Ying (<i>Note 1</i>)	Held by controlled corporation (<i>Notes 2 and 3</i>)	88,652,620	8.55

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest and short position in shares.

Note 2: A warrant agreement dated 6th December 2004 (the "Warrant Agreement") was entered into between China Longgong and DBS Nominees Pte Ltd., pursuant to which China Longgong has granted and issued HK\$91,450,000.00 of warrants ("Warrants") to DBS Nominees Pte Ltd. to purchase Shares from China Longgong. Based on the initial exercise price of approximately HK\$1.032 per Share, DBS Nominees Pte Ltd. is entitled to purchase 88,652,620 Shares under the Warrant Agreement.

Note 3: The Warrants were issued by China Longgong to DBS Nominees Pte Ltd. in relation to shares owned by China Longgong. Mr. Li San Yim and Ms. Ngai Ngan Ying own 55% and 45%, respectively, of all the issued shares in the share capital of China Longgong.

(3) Long positions in shares and underlying shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Co., Ltd.

Name of directors	Capacity	registered share capital	Percentage of issued share capital as at 31 December 2005
Mr. Li San Yim (<i>Note 1</i>)	Corporate (<i>Note 2</i>)	480,000	1
Ms. Ngai Ngan Ying (<i>Note 1</i>)	Corporate (<i>Note 2</i>)	480,000	1

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest and short position in shares.

Note 2: The 1% interest is held by Shanghai Longgong Machinery Co., Ltd. which is owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 39.5% and 60.5% respectively.

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Other than the interests as disclosed above as at 31 December 2005, none of the directors, chief executives and their associates, had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Percentage of issued share capital as at 31 December 2005
China Longgong Group Holdings Limited (Note 1)	Beneficial owner	700,000,000	67.5
DBS Nominees (Private) Ltd	Beneficial owner	88,652,620	8.55
DBS Bank Ltd	Beneficial owner	88,652,620 (Note 2)	8.55
DBS Group Holdings Ltd	Beneficial owner	88,652,620 (Note 3)	8.55
Horseman Global Fund Ltd	Beneficial owner	75,500,000	7.28
Cazenove Asia Limited	Beneficial owner	60,414,000	5.83
J P Morgan Cazenove Ltd	Beneficial owner	60,414,000 (Note 4)	5.83
J P Morgan Cazenove Holdings	Beneficial owner	60,414,000 (Note 5)	5.83
Cazenove Holdings Ltd	Beneficial owner	60,414,000 (Note 6)	5.83
Government of Singapore Investment Corporation Pte Ltd.	Beneficial owner	56,500,000	5.45

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Note 1: A Warrant Agreement was entered into between China Longgong and DBS Nominees Pte Ltd., pursuant to which China Longgong has granted and issued HK\$91,450,000.00 of warrants to DBS Nominees Pte Ltd. to purchase Shares from China Longgong. Based on the initial exercise price of approximately HK\$1.032 per Share, DBS Nominees Pte Ltd. is entitled to purchase 88,652,620 Shares under the Warrant Agreement.

Note 2: These shares were held through DBS Nominees (Private) Ltd., a wholly owned subsidiary of DBS Bank Ltd.

Note 3: These shares were held through DBS Nominees (Private) Ltd., a wholly owned subsidiary of DBS Bank Ltd., which is in return wholly owned by DBS Group Holdings Ltd.

Note 4: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited.

Note 5: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings.

Note 6: These shares were held through Cazenove Asia Limited, a wholly owned subsidiary of JPMorgan Cazenove Limited, which is in return wholly owned by JPMorgan Cazenove Holdings. JPMorgan Cazenove Holdings is owned by Cazenove Holdings Limited as to 49.99%.

Saved as disclosed above, as at 31 December 2005, the Company has not been notified of any interests in the issued share capital of the Company as recorded and kept under section 336 of the SFO as having an interest of 5% or more of or any short positions in the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sales or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2005.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence and reviewed by the remuneration committee (please refer to page 31 for the function and responsibilities of remuneration committee).

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.



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MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 27% of the Group's total turnover for the year and the largest customer accounted for approximately 8% of the Group's total turnover. The five largest suppliers accounted for approximately 31% of the Group's total purchases for the year and the largest supplier accounted for approximately 19% of the Group's total purchases.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2005 are set out in note 22 to the financial statements.

AUDIT COMMITTEE

The Company has an audit committee which was established on 10 October 2005 to assist the Board of Directors in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters.

The audit committee, comprising one non-executive director and two independent non-executive directors, is responsible for reviewing the accounting principles and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit and remuneration committees in respect of their policy submissions. Since, the Company does not have a separate nomination committee, the nomination and appointment of new directors is a function of the executive committee. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector. The Committee was established on 10 October 2005 which consists of seven executive directors.

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REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee on 10 October, 2005 currently comprising a non-executive director and two independent non-executive directors. The primary duties and responsibilities of the remuneration committee is to advise the Board on the remuneration policy, review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

In addition, the remuneration committee needs to review other human resources issues, including group-wide remuneration policies and the development of human resources.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to be held at 1/F., Lecture Room, Jucai Office Building, 26 Minyi Road, Xingqiao, Songjiang Industrial, Shanghai 201612, PRC on Friday, 28 April 2006 at 10:00 a.m. to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Li San Yim
CHAIRMAN

Shanghai, 20 March 2006