

Chairman's Report

I have great pleasure in presenting China Infrastructure Machinery Holdings Limited (the "China Longgong") annual report for the year ended of 31 December 2006 ("the period") on behalf of the board of directors (the "Board").

Review of Business

Year 2006 is the first year since China Longgong got listed on main board of Stock Exchange of Hong Kong . Thanks to the rapid growth of China's economy, the general business of the Company has a good development, and the result is very inspiring. The Company has successfully reached its' 2006 targets of manufacture and sales of the loader. In 2006, China Longgong made its' manufacture and sales number of the wheel loader exceed 20,000.00 units, and the sales of the road roller was also increased; the quality and output of the transmission, axle, hydraulic cylinder, gear, pipe and other parts were improved a great deal, with the vertical integrated strategy operating favorably; The export was increased rapidly, and a sales network was successfully established in Russia, Middle East, Australia and some places of Africa, which provides us with a broader market. The Company has announced that since 18 December, 2006, we would take the lead in offering one-year free guarantee for the loader, this decision would not only make our products more competitive, but also promote the reputation and business credit of China Longgong . The R&D capability of the Company was strengthened greatly in 2006, and more than 20 different types of new products of loaders, road rollers have been created, which contributed to the satisfying sales amount of 2006. The newly designed forklift and excavator were serialized and began to come into the market. The Company's composite strength has been greatly elevated, such indexes as the profit realized, the tax paid and the employee income have hit the historical high, and both the management team and employees are filled with great confidence and passion. In 2006, the Company obtained another 1,233,703.21 square meters industry land in Shanghai, Fujian, Jiangxi, etc, which laid a solid foundation for the further development of China Longgong in the next few years.

Since listing, China Longgong has engaged in enhancing the corporate governance and transparency, and establishing and keeping good communication with various investors. I believe that the good performances of the share price, in a way, reflect the investors' recognition to our strategies and show their confidence to the Company's future development.

In the last fiscal year, the financial indexes of the Company presented a good condition: the annual turnover is approximately RMB3,717 million, up 38.8 % year on year; the net profit of the shareholders is approximately RMB625 million, up 164.2% year on year.

In recent years, China's economy has been under a rapid progress, the development tendency is very strong and the purchasing power of Chinese people is remarkably increased, which constitute a good business environment for the Company's future development. Now, our country is implementing many mega projects, such as the Go-West Program, West-to-East gas transmission project, South-to-North water diversion projects, revitalizing the old industrial base in northeast, Beijing 2008 Olympic Games, Shanghai World Expo 2010, and the construction in railway, highway, energy, water conservancy & hydropower, urbanization, new village construction during the period of China's 11th "Five-Year Plan". All these projects will bring new opportunities for the development of China's construction machinery industry and greater scope of development to China Longgong.



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China Longgong has been dedicated to forming the core competence, and secures a series of outstanding competitive advantages: A leading market position and brand awareness; the strategic sites; the operation pattern of vertical integrated strategy; a powerful distribution and service network covering the whole country; the strong R&D capability; the advantage of favorable value-price ratio. The Company will make the best of the existing competitive advantages to consolidate the R&D, purchasing, manufacture, sale, service and even very link of the value chain, and make it extend and develop to the largest extent. Also, the Company will effectively control the cost of management, purchasing, operation, etc. to improve the operating efficiency, hold the opportunities for development and create good results in the industry integrity and future development.

Corporate Strategy

In order to ensure the future sustainable development of the Company, we have made a limited diversified development guideline which is centered on the construction machinery. Lay stress on such five aspects of work as increasing the production capability, strengthening R&D capability, developing the market for new products, expanding the sales and service network, developing the overseas market, Our aim is to become one of the leading manufactures of construction machinery of the world through continuous growth and improving the profit-earning capability.

Increasing the production capability. Expanding our production capability in two manufacture bases located in Shanghai and Fujian—two strategic sites, to keep up with the market demand, take the scale effect further and decrease the cost. It is predictable that till the end of 2008, the production capability of wheel loaders will reach 40,000 units, road construction machines of 1,000 units, excavators of 3,000 units and harvesting machines 10,000 units.

Strengthening R&D capability. The Company will increase the investment in the technology academy, invite more professionals to join in our R&D team and enhance the cooperation with the international professional institutions and noted universities in order to develop more loaders, road rollers, excavators and forklifts according to various demands of out clients and to serialize and diversify our products.

Developing the market for new products. Such new products as the road roller, excavator and forklift are new sources for the future development of China Longgong. So, the Company will strengthen the market development of such products, and increase the market share and gross profit of them.

Intensifying the construction of the distribution and after-sales service network. In order to obtain more market shares, the Company will continue to increase the investment in the distribution and service network, encourage and support the agents to develop, and make them our exclusive sales agents and loyal partners.

Expanding the overseas markets. Since the Company's products were exported in batch oversea in 2006, our products have won the recognition of overseas agents and clients, which enhances our confidence to take part in the international competition. The Company will actively research and develop new products to meet

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the various oversea demands, establish the oversea agent network, take the advantage of value-price ratio to promote the brand of China Longgong internationally, and realize the leap-forward development of our oversea business.

We are very fortunate to have such a professional board, such an experienced and responsible management team and such industrious and intelligent employees. I wish to take this opportunity to thank every director and employee for your great efforts. We will try our best to recruit talents to realize the Company's sustainable development.

China Longgong will, just as in the past, stick to our decision to become a leading manufacturer in construction machinery industry, keep the sustainable development and profit-earning capability, and do our best to bring the greatest value to our clients and best returns to our shareholders.

Li San Yim

Chairman

12 March 2007