

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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HONG KONG RESEARCH**8th November 2005****Main Board Listing - Research**

中國龍工控股有限公司

China Infrastructure Machinery Holdings Limited [Stock Code: 3339]**Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager** : Cazenove Asia Limited**Sector** : Capital Goods**Business** : Manufacturer of wheel loader in the PRC

Total share offer: <u>300,000,000</u> shares (30% of the enlarged share capital) Public Offer: 30,000,000 shares (10%) Placing: 270,000,000 shares (90%) Greenshoe: 45,000,000 shares (15%)	<u>Business of China Infrastructure ("The Group")</u> The Group is the third-largest wheel loader manufacturer and the largest non-state owned wheel loader manufacturer in the PRC with approximately 14% of domestic market share as measured by the number of wheel loaders sold in the PRC in 2004. The Group manufactures 3 principal series of wheel loaders – the ZL30, ZL40 and ZL50 series – with loading power ranging from 3 to 5 tons, and markets them under its own brand name "Longgong". The Group's wheel loaders are used in a variety of infrastructure activities, including construction of roads, railways, tunnels and bridges, as well as mining activities. For the 6 months ended 30 th June 2005, approximately 42.5%, 39.4% and 8.0% of the Group's turnover was attributable to entities involved in infrastructure projects, mining, and water and power supply respectively. The Group also manufactures axles and transmissions – 2 critical components for wheel loaders – that leads it to a high degree of vertical integration in its production process.
Price: HK\$1.41 – HK\$1.51 per share Market Cap.: HK\$1,410 million – HK\$1,510 million Pro Forma FY2005E P/E: 6.5x – 7.0x Adjusted NTA per share: HK\$0.94 – HK\$0.97 Staffing: 3,457	
HK Public Offer period: 8 th November 2005 – 11 th November 2005 Receiving bank: Bank of China (Hong Kong) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 17 th November 2005	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)China Longgong Group Holdings Limited ⁽¹⁾ 70.0% ⁽²⁾

⁽¹⁾ 55% owned by Mr. Li San Yim, Chairman, and 45% owned by his wife Ms. Ngai Ngan Ying, Non-executive Director.

⁽²⁾ Pursuant to a Warrant Agreement, DBS Nominees Pte Ltd has been granted HK\$91.45 million of warrants from China Longgong to purchase 88,652,620 shares of the Group, representing approximately 8.87% of the issued share capital. DBS Nominees may not, and is not obligated to, purchase shares of the Group from China Longgong.

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$395 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.46 each, being the mid-point of the indicative price range)

	HK\$ million
To expand production capacity for wheel loaders and to develop production capacity for road rollers and excavators	240
Upgrading R&D capabilities	45
Repayment of short-term bank loans	60
To strengthen sales and marketing efforts and to commence overseas expansion plan	25
To implement a management information system	8
General working capital	17

Financial Highlights

	Year ended 31 st December			6 months ended
	2002	2003	2004	30 th June 2005
	RMB million	RMB million	RMB million	RMB million
Turnover	919.5	1,492.2	2,108.6	1,506.8
Gross profit	168.5	294.0	420.0	296.4
Operating profit	90.4	164.3	234.8	167.8
Net profit	58.3	118.7	131.9	140.0
Earnings per share – Basic	RMB0.08	RMB0.17	RMB0.19	RMB0.20

Strengths/Opportunities

- ✓ The Group enjoys a high degree of vertical integration as it also engaged in the manufacture of axles and transmissions, which are key components for wheel loaders.
- ✓ Between 2001 and 2004, the aggregate market share of the top 5 domestic wheel loader manufacturers has grown from 47% to 70% as measured by sales volume. The Group should likely be benefited from further consolidation of the wheel loader market.
- ✓ In order to better achieve product diversification, the Group plans to develop road rollers and excavators by leveraging its prominent position in wheel loader manufacturing.

Weaknesses/Threats

- × The growth in the sale of wheel loader is primarily driven by the continuous growth of the infrastructure and mining-related industries, which are vulnerable to any further austerity measures in the PRC.
- × Because of rising steel prices, steel cost has increased from 13.8% in 2002 to 21.5% in 2004 of the Group's total cost of production. Any further rise in steel prices could add pressure on the Group's profitability if such increased costs could not be passed on to its customers.
- × Valuation of the counter at 6.5x to 7.0x FY2005E P/E is not very attractive.

Recommendation: Unexciting