

CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board, I am pleased to present the unaudited interim results of the Group for the Period.

1. Review of Operations

In 2006, the PRC government has continued to implement its stable financial policies with the national economy maintaining its growth in a rapid but stable pace. For the first six months of the year, China recorded an increase in its GDP by 10.9% over the same period last year, while fixed asset investments had a period-on-period increase of 29.8%.

With the rapid growth of the national economy and the gradual sophistication of the expressway network nationwide, logistics, transportation and automobile industries in China have entered a phase of robust growth. Concurrently, following the perfection and implementation of a series of industry policies, such as 《GB1589》, 《GB7258》, 《貨運汽車及汽車列車推薦車型工作規則的通知》 (Notice Concerning the Working Rules on Recommended Types for Trucks and Vehicles) and 《收費公路試行計重收費指導意見》 (Guiding Opinion on the Trial of Charge-by-Weight on Toll Roads), we believe that these policies will further guide and facilitate the continuous development of high-speed, heavy-duty trucks. According to the China Association of Automobile Manufacturers, during the Period under review, the aggregate sales of heavy-duty trucks in China reached 153,334 units, representing a period-on-period growth of 4.51%, in particular, the demand for high-speed, heavy-duty trucks (with 280 horsepower or above) surged by over 70%. This development momentum generated excellent opportunities for the sales of the Company's high-speed engines. During the Period under review, the Company has been actively expanding into new markets by establishing long-term strategic partnerships with 中國第一汽車集團公司 (China First Automobiles Group Corporation), 陝西重型汽車有限公司 (Shaanxi Heavy-duty Company Limited), 北汽福田汽車有限公司 (Beiqi Foton Motor Co., Ltd.), 重慶紅岩重型汽車有限公司 (Chongqing Hongyan Heavy Duty Motor Co., Ltd), 包頭北方奔馳重型汽車有限責任公司 (Baotou North-Benz Heavy-Duty Truck Co., Ltd), 安徽華菱重型汽車有限公司 (Anhui Hualing Heavy-Duty Truck Co., Ltd.) and 安徽江淮汽車股份有限公司 (Anhui Jianghuai Automotive Co., Ltd.). For the Period under review, total sales of engines for heavy-duty trucks were approximately 44,197 units, representing a period-on-period increase of approximately 10.2%. The increase in sales overcame the impact of losses in several ancillary markets arising from the segregation of ownership of Weichai Factory from 中國重型汽車集團有限公司 (China Heavy Duty Truck Group Co., Ltd.) and still continued to maintain a relatively stable market share in heavy duty trucks when compared with that of the same period in 2005.

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In the meantime, demand for construction machinery went into overdrive with the increase in infrastructure investments in PRC, such as the gradual implementation of large-scale projects such as the “West to East Gas Pipelines”, the “South to North Water Channels” and the “Qinghai-Tibet Railway”, and the State's focus on the “3 Agricultural Issues (“三農”)” in actively promoting rural urbanisation. During the Period under review, a total of 97,331 units of construction machinery were sold in PRC, representing an increase of 15% over the same period last year. Such increase was mainly driven by large construction machinery (such as wheel loaders and excavators with a load capacity of 5 tonnes or above), which maintained a strong growth of 18%. During the Period under review, our sales of engines for construction machinery were approximately 36,425 units, representing a period-on-period increase of approximately 41.6%. The Company continued to play a leading role in the market for wheel loaders with a load capacity of 5 tonnes (and above), with a relatively stable market share when compared with that of the same period in 2005.

During the Period under review, the Company sold approximately 83,027 units of various types of diesel engines, representing an increase of approximately 20.9% over the same period last year. Sales rose by approximately 8.2% over the same period last year to approximately RMB3,493.6 million, while profit for the Period increased by approximately 28.2% over the same period last year to approximately RMB320.7 million. Basic earnings per share was approximately RMB0.97, representing an increase of approximately 27.6% over the same period last year.

In June 2006, “Landking” (“藍擎”) series, the Company's proprietary Euro III emission standard compliant high-speed heavy-duty diesel engines, passed the provincial accreditation; and the “Weichai” trademark owned by the Company was recognised as a well-known trademark by the Trademark Bureau of the State Administration for Industry and Commerce in the same month. In March 2006, heavy-duty engine products produced by the Company were given complete exemption from inspection in respect of environmental-friendly production by the State Environmental Protection Administration of China. The Company was granted a certificate for environmental/occupational health and safety management from CAQC Certification Inc. in January. In May 2006, the Company was granted the honorary title of “Top 100 Suppliers for Parts and Components for Automobiles” (全國百佳汽車零部件供應商) for the third time. In April 2006, the Company was accredited as a “model enterprise of independent innovation” by the Propaganda Department of the Central Government. Major media in the PRC, such as CCTV, People's Daily, Economic Daily, Science and Technology Daily, Guangming Daily and Dazhong Daily, had extensive reports on the Company's experience on developing a model enterprise of independent innovation.

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2. Dividend

Putting shareholders' interests and return as its top priority, especially those of the minority shareholders, the Company has been maintaining a relatively stable dividend policy. Taking into account all relevant factors, including the continuous and relatively steady cash flow recorded by the Company and the need for sustainable future development, the Board has recommended the payment of an interim dividend of RMB0.20 per share for the Period, representing an increase of RMB0.035 per share over the 2005 interim dividend of RMB0.165 per share, and the dividend payout ratio was approximately 20.6%. To optimise the return to our shareholders, the Company will continue its endeavour in realising a long-term, continuous and steady dividend payout.

3. Acquisition

As stated in the announcement of the Company dated 12 May 2006, the Company acquired 55% equity interest in Weichai Power (Weifang) Investment Co., Ltd., for a consideration of approximately RMB684.7 million. The acquisition consolidated the Company's position as the single largest shareholder of TAGC, with a 28.12% equity interest in 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd.) ("TAGC") held through Weichai Power (Weifang) Investment Co., Ltd., a wholly-owned subsidiary of the Company. We believe that this will enable the Company to exploit further potential business opportunities, effectively integrate resources and capitalise on the synergy with the TAGC group in the near future, with a view to creating better returns for our Shareholders.

4. Outlook and Prospects

Looking ahead, despite the fact that competition within the China diesel engines market is getting ferocious and challenging, the Directors have full confidence in the outlook of the Company's future operations. In addition to fortifying and consolidating the Company's leading position in the heavy-duty trucks (15 tonnes and above) and wheel loaders (5 tonnes and above) markets, the Company will actively seek to develop new market areas, such as coaches and the international ancillary markets, so as to further expand and strengthen customer base and the Company's business.

The Company will fully launch the development work of the Landking market and speed up the research and development work of Euro IV diesel engines, targeting for completion at the end of 2006.

Meanwhile, we will adhere to our cooperation strategy with foreign corporations, keep ourselves abreast of the global trends of diesel engines development, collaborate with world-renowned enterprises and famous brands and adopt international advanced technology in our products, with a view to leading the development of the high-speed heavy-duty diesel engine industry and creating better returns for our shareholders.

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5. Appreciation

Last but not the least, I would like to take this opportunity to express my sincere appreciation to all our shareholders, the general public and our customers for their care and support, as well as all our staff, my fellow Directors and senior management for their hard work and dedication.

On behalf of the Board
Tan Xuguang
Chairman and CEO

Hong Kong, 31st August, 2006