

Chairman's Statement



Dear Shareholders,

On behalf of the Board, I am pleased to present the audited consolidated financial results of the Group for the year ended 31st December, 2005.

1. REVIEW OF OPERATIONS

The heavy-duty truck and construction machinery industries in the PRC experienced great changes in 2005. The relevant departments of the State issued and implemented various new policies and regulations governing the design, sale and operation of commercial vehicles. Such new policies and regulations included 《道路車輛外廓尺寸、軸荷及質量限值》(Vehicles' Maximum Measurement On Size, Weight and Loading Capacity) ("GB1589") and 《機動車運行安全技術條件》(Safety Specifications for Power-driven Vehicles Operating on Roads) ("GB7258"). It took time for the truck manufacturers and customers to adapt to such new policies and regulations, and thus leading to a drop in market's sale volume. In addition, sale of trucks was also hard hit by the easing off of nationwide crackdown on truck overloading. Further, sales of trucks and construction machinery were adversely affected, to a certain extent, by the structural change in investments in infrastructures as a result of a series of macroeconomic adjustments carried out by the State in 2005.

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Due to the above changes in the operating environment in 2005, the heavy-duty truck industry in the PRC had experienced its first overall decline since 1997 with a drop in annual sales volume of approximately 36.2% in 2005, following the swift growth in 2003 and 2004. Under such severe market condition, the management team of the Company still managed to survive the predicament by adopting active measures. With its established technology, a sound sales network, well-structured manufacturing operations and a reputable brand name, the Company maintained its leading position in the market and remained the no. 1 driving force according to key industry indicators.

The Company sold a total of 114,000 units of diesel engines of different models in 2005, representing a decline of 15.1% over the corresponding period last year, and sales dropped 14.7% to approximately RMB5.25 billion. When compared to the previous year, the net profit attributable to shareholders decreased by 40.9% to approximately RMB320 million and earnings per share dropped by 44.5% to RMB0.96. The Group continued to play a leading role in the internal combustion engine industry in the PRC with market coverage of approximately 80% and 78% of the high-speed heavy-duty diesel engines used in heavy-duty trucks with a load capacity of 15 tonnes (and above) and in wheel loaders with a load capacity of 5 tonnes (and above), respectively.

In March 2005, the Company commenced bulk sale of its Euro III emission standard compliant high-speed heavy-duty diesel engines, the "Landking" ("藍擎"); whereas "Weichai" brand diesel engine was awarded Chinese Famous Product in September 2005, and was subsequently accredited as a "model enterprise of independent innovation" by the State Statistics Bureau. In November 2005, the Company was assessed and awarded 《中國製造、行業內最具影響力品牌》 ("China Made, the Most Influential Brand Name") by the State Statistics Bureau. In December 2005, the Company received various awards including 《專利進步企業十強》 (Top Ten Enterprises of Patent Development) and 《柴油機製造金牌企業》 (Diesel Engine — Gold Medal Manufacturer) from the relevant departments of the PRC.

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 a final dividend of RMB0.165 per share for the year ended 31st December, 2005. With the interim dividend of RMB0.165 per share paid during the year, the total dividend for the full year of 2005 amounted to RMB0.33 per share (2004: RMB0.30 per share), representing an increase of 10% when compared to that for the full year of 2004, and the dividend payout ratio was approximately 34.4%. To optimise the return to our shareholders, the Company will continue paying efforts in realising a long-term, continuous and steady dividend payout.

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3. ACQUISITION AND CONSOLIDATION

On 8th November, 2005, 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), a associate in which the Company holds 45% equity interest, successfully acquired approximately 28.12% equity interest in 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd) ("TAGC") and became its single largest shareholder.

Accordingly, the Company, through its shareholding in TAGC, will be in possession of a most-valued core resources of vehicle parts as well as the resources of heavy-duty trucks and mountain vehicles with promising growth potential. A manufacturer of the core parts of heavy-duty trucks in the PRC, TAGC boasts a core strength in terms of resources and development potential. 陝西重型汽車有限公司 (Shaanxi Heavy Duty Company Limited), a 51% subsidiary of TAGC, is one of the fastest-growing manufacturers of heavy-duty trucks with a load capacity of 15 tonnes and above with an annual capacity of 60,000 units. 陝西法士特齒輪有限公司 (Shaanxi Fast Gear Co., Ltd.), a 51% subsidiary of TAGC, has the largest production volume in the world in terms of single-factory gear production and commands 50% share of the PRC market of heavy-duty trucks with a load capacity of 8 tonnes and above and more than 90% share of the PRC markets of heavy-duty trucks with a load capacity of 15 tonnes and above. 陝西漢德車橋公司 Shaanxi Hande Auto Body Co., Ltd, a subsidiary of TAGC, is the largest centre of production of specialized heavy-duty vehicle axles in the world Torch Spark Plug Co., Ltd., a subsidiary of TAGC, is no. 1 in the PRC in terms of sales and production volume and assembling processes and no. 6 in the world in terms of the specialized production of spark plugs. The Company believes that with the firm support of the shareholders, it will be in a position to achieve sustainable innovation and product excellence with its internationally advanced product technology and corporate management experience by leveraging on available resources of core vehicle parts as well as heavy-duty trucks and mountain vehicles with sound growth potential. The management of the Company will be committed to the effective integration of all available resources to achieve the greatest synergy and create value for our shareholders.

Reference is made to an announcement of the Company dated 22nd March, 2006, in which the Company announced that 中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Co. Ltd.) ("CHDTGL") would transfer its entire ownership in its wholly-owned subsidiary, 濰坊柴油機廠 (Weifang Diesel Engine Works) ("Weichai Factory"), to 山東省國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shandong Province People's Government) ("Shandong SASAC") for its direct holding. In other words, Shandong SASAC will indirectly hold approximately 23.53% equity interest in the Company through its wholly-owned interest in Weichai Factory.

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4. DEVELOPMENT OPPORTUNITIES FOR THE COMPANY IN 2006

Year 2006 marks the commencement of the 11th Five-Year Plan (the "11th Five-Year Period") of the State which will provide excellent development opportunities for the Company.

Industries related to the Company are steadily recovering. First, the heavy-duty truck industry is expected to return to a growth track following the perfection and implementation of a range of industrial 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) which will further guide and facilitate its development and provide opportunities for the development of our products. Second, during the 11th Five-Year Period, the State's focus on the "3 Agricultural Issues ("三農")" will facilitate active and smooth urbanisation of villages with resources to be channelled to the "3 Agricultural Issues", whereas the "Village to Village project ("村村通")" will further drive the demand for construction machinery and passenger cars which would in turn foster the development of the internal combustion engine industry. Third, the 11th Five-Year Period plan emphasises focus on innovation, leapfrog advances in key areas, sustainable development and future vision in developing science and technology, and the importance of enhancing the innovative capability of an enterprise. The State's strong emphasis on independent innovation and its enhanced support for enterprises with such capability will generate opportunities for the sound development of the Company.

5. DEVELOPMENT STRATEGIES OF THE COMPANY DURING THE 11TH FIVE-YEAR PERIOD

During the 11th Five-Year Period, the Company will strive to catch up with the technology in engine manufacturing by establishing an all-round diesel engine group with diversified target markets. We will seek to cooperate with foreign corporations, keep ourselves abreast of the global trend 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.

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

Tan Xuguang

Chairman and Chief Executive Officer

Hong Kong, 19th April, 2006