



Dear Shareholders,

1. Review of Operations

In 2006, the China government continued to implement its stable financial policies, resulting in a rapid but stable growth of the country's economy. China recorded a GDP growth of 10.7% over the same period last year, while its fixed asset investments achieved a year-on-year increase of 24%. With the rapid growth of its economy, the heavy-duty truck and construction machinery industries in China have entered a new era of development.

In line with the continuous improvement of the nationwide road facilities and, in particular, the increase in the miles of expressways, a concrete foundation for the growth of the heavy-duty truck industry was laid down. The continual improvement of the relevant national laws and regulations, the intensified control on truck overloading and the large-scale implementation of the 《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) directly facilitated the rapid development of the heavy-duty truck industry in China towards the direction of high-tonnage, high-power and high-efficiency. According to the

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statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the sales of heavy-duty trucks in the automobile industry in China reached over 300,000 units in 2006, representing a year-on-year growth of approximately 30%.

The heavy-duty truck market became increasingly competitive in China following its full development in 2006. According to the statistics of 中國汽車工業協會 (China Association of Automobile Manufacturers), the Company's major customers such as 陝西重型汽車有限公司 (Shaanxi Heavy-duty Motor Company Limited), 北汽福田汽車股份有限公司 (Beiqi Futian Motor Company Limited), 重慶紅岩汽車有限公司 (Chongqing Hongyan Heavy Duty Motor Company Limited), 包頭北方奔馳有限公司 (Baotou North-Benz Heavy-Duty Truck Co., Ltd.), 安徽華菱重型汽車集團有限公司 (Anhui Hualing Heavy-Duty Automobile Group Co., Ltd.) and 安徽江淮汽車股份有限公司 (Anhui Jianghuai Automotive Co., Ltd.), etc. recorded strong growths with significant increases in market shares over 2005, driving the growth in sales of the Company's products. The Company's aggregate sales of heavy-duty truck engines reached approximately 80,480 units in 2006, representing a year-on-year increase of 26.8%.

At the same time, the growth of the construction machinery industry was further enhanced by the increase in infrastructure investments in China, such as the gradual implementation of large-scale projects such as “西氣東輸” (“West to East Gas Pipelines”), “南水北調” (“South to North Water Channels”), “青藏鐵路” (“Qinghai-Tibet Railway”), “奧運項目” (“Olympic Games”) and the State's active promotion of urbanisation of the rural areas. A total of approximately 179,000 units of construction machinery were sold in China during the year, representing a year-on-year increase of 24.4%. Such increase was mainly driven by the sales of large construction machinery (wheel loaders with a load capacity of 5 tonnes (and above)), which recorded a growth of 15.0%. The production of construction machinery is further centralised. According to the statistics of 中國工程機械工業協會 (China Construction Machinery Association), the Company's major customers such as 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd.), 中國龍工控股份有限公司 (China Infrastructure Machinery Holdings Limited), 山東臨工工程機械有限公司 (Shandong Lingong Construction Machinery Co., Ltd.), 徐州徐工物資供應有限公司 (Xuzhou Xugong Material Supplying Co., Ltd.), etc. recorded relatively strong growths over 2005. The Company's sales of engines for construction machinery were approximately 59,210 units in 2006, representing a year-on-year increase of 30.2%. According to the information published on the website of 中國工程機械信息網 (China Construction Machinery Network), the Company had a market share of 79.7% in the market of wheel loaders with a load capacity of 5 tonnes (and above) in 2006, representing a growth of approximately 2% over 2005.

With its technology innovation capability, the Company continued to lead the advancement of power technologies in China. Following the production of the first proprietary Euro III emission standard compliant high-power, high-speed “Landking” (「藍擎」) engines in China and the exclusive application of the new 2006 model of WD615 engines with WEVB technology and reduction in fuel and noise in China, the Company successfully launched the first proprietary 12-litre and 480-horsepower WD12 engines in October, which have already been introduced in the market and orders have already been received. Specifically designed for commercial heavy-duty trucks in China, this new product significantly reduced the reliance on the import of high-emission and high-speed engines in China.

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In 2006, the management of the Company enhanced its internal management, introducing an effective management model and lowering its costs, leading to an increase in the Company's operation quality. The gross profit rate of the Company's products amounted to approximately 28.5%, representing an increase of approximately 6.5%, when compared with that in 2005.

The Company sold a total of approximately 145,890 units of different models diesel engines in 2006, representing an increase of approximately 27.8% over the corresponding period in 2005, and sales increased by approximately 26.3% to approximately RMB6,633.7 million. The net profit attributable to shareholders increased by approximately 123.0% over the previous year to approximately RMB702.7 million while earnings per share increased by 121.9% to approximately RMB2.13.

In June 2006, the "Weichai" trademark owned by the Company was recognised as a 中國馳名商標 (well-known trademark in China) by the 國家工商行政管理總局 (State Industry and Commerce Administrative Bureau). 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 國家環境保總局 (State Environmental Protection Administration of China). The Company was granted a 環境/職業健康安全管理體系 認證證書 (certificate for environmental/occupational health and safety management) from 天津華城認證中心 (CAQC Certification Inc.) in January 2006. In May 2006, the Company was granted the honorary title of 全國百佳汽車零部件供應商 ("Top 100 Suppliers for Parts and Components for Automobiles") in the third consecutive year. In April 2006, the Company was accredited as a 自主創新典型企業 ("model enterprise of independent innovation") by the 中共中央宣傳部 (Propaganda Department of the Central Government). In December 2006, the "Weichai" trademark was ranked the 81st among the 中國最有價值商標500強 (Top 500 most valuable trademark in China) conducted by the 中國品牌研究院 (China Brand Research Institute). It also topped the most valuable trademark in the diesel engine industry in China.

2. Dividend

The proposed merger with TAGC by the issue of A Shares is close to completion (subject to the Shenzhen Stock Exchange granting its approval for the listing of the A Shares). The A Shares will be listed on the Shenzhen Stock Exchange in the near future. According to the provisions of the relevant merger agreement, the Company and TAGC will not distribute their unallocated profit prior to the completion of the merger (provided that, in the event that the merger is not completed before 30th April, 2007, the Board may propose a final dividend for 2006 in the amount not exceeding that of the interim dividend declared and paid by the Company for the six months ended 30th June, 2006). In the event that the said merger is completed, the then accrued unallocated profit will be shared by the holders of the A Shares and H Shares of the Company. A Board meeting will be held after the completion of the merger to consider the declaration of final dividend for the year of 2006.

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3. Acquisition and Consolidation

On 29th December, 2006, the merger of the Company and TAGC was considered and approved by a large majority of votes at the Extraordinary General Meeting of the shareholders, the Extraordinary General Meeting of the holders of H Shares and the Extraordinary General Meeting of the holders of domestic shares and foreign shares of the Company.

The merger is expected to be completed in the second quarter of 2007, after which the Company will bring better and more stable return to the shareholders.

4. Outlook and Prospects

Looking ahead, in view of the strong demand for downstream products, the Directors are optimistic about the prospect of the Company's business in the future.

As its focus mission in 2007, the Company will facilitate the resources integration with TAGC. After the completion of the Merger (if completed), the Company will have the advantage of the most distinguished power assembly, comprising engines, transmissions and vehicle axles, in China and become the only and the most comprehensive production chain for vehicles and components in China, creating more room for the development of the Company.

Utilising its unique resources and technical advantages, the Company will also shift its focus on 10-litre high-speed heavy-duty diesel engines to 12-litre engines in order to meet the demand for high-tonnage, high-power and high-efficiency heavy-duty trucks and lead the development of the high-speed heavy-duty diesel engine industry in China. Meanwhile, the Company will continue to persist in the development strategy of internationalization by aggressively developing its international market, speeding up the development of international ancillary market and maximizing its production capability to generate better investor returns.

5. Appreciation

Last but not 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 for their hard work and dedication.

Tan Xuguang

Chairman and Chief Executive Officer

Hong Kong, 17th April, 2007