



## Corporate Governance Report

Weichai Power Co., Ltd. (the “Company”) has long considered that corporate governance is, above all, a question of culture — a conscious decision to do the right thing as a company.

Our cultural imperative stems from:

- a clear and long-standing decision by the Board and management to adopt and promote good ethical behaviour;
- the obligations that come from being a public company with responsibilities to the communities we serve and the public scrutiny that this involves; and
- an awareness that the long-term interests of the Company are best served by maintaining a strong commitment to honest and open business practices.

Making good this cultural commitment requires the Company to:

- conduct our businesses in an honest and responsible manner;
- establish and implement the mechanisms necessary to measure and enforce compliance with ethical standards; and
- recognise that corporate governance is not just a question of technical and regulatory compliance, but involves management of the key relationships between the Company and stakeholders interested in the proper conduct of the Company’s affairs.

In this section of the Annual Report, we focus on the roles of the key players within the following corporate governance framework.



### Shareholders

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholders value.

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The Company is incorporated in the PRC and listed its H-Shares in Hong Kong. We believe that it is appropriate to have chosen to be subject to the company law of the jurisdiction in which our business is based, our shares are listed.

The Company uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly summary statements of production and sales volume of products. In addition, the Annual General Meeting (“AGM”) and Extraordinary General Meeting (“EGM”) provides an opportunity for communication between the Board and the Company’s shareholders. The Company regards the AGM and EGM as important events in the corporate year and all Directors, Supervisors and senior management make a special effort to attend. The chairman of the Audit Committee will usually attend the AGM and EGM and answer questions (if any).

It is our policy to involve shareholders in the Company’s affairs and to communicate with them face-to-face at the AGM and EGM and during visits to the Company about our activities and prospects. Shareholders are able to vote, by way of separate resolutions, on each substantive issue at the AGM and EGM. Voting results are made available at the meeting. In addition, the Company Securities Department responds to letters and telephone enquiries from shareholders throughout the Period. Shareholders can also contact the Company through our shareholders’ hotline (86-536-229 7777) and e-mail (zbyy@weichai.com).

### Shareholders’ relationship with the Board and external auditors



### The Board of Directors

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company. The Board establishes the strategic direction of the Company, sets objectives for management



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and monitors its performance. The Board also oversees the management of the Company's relationships with customers, suppliers and others who have a significant interest in the responsible conduct of the Company's business.

The Board has established procedures to determine which issues require a decision of the Board and which can be delegated to Board Committees or management. Matters reserved to the Board for decision include any matters involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposals of assets, significant investments including large capital projects, delegation of authority, treasury and risk management policies and key human resources issues.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and withdraw from the meetings as appropriate.

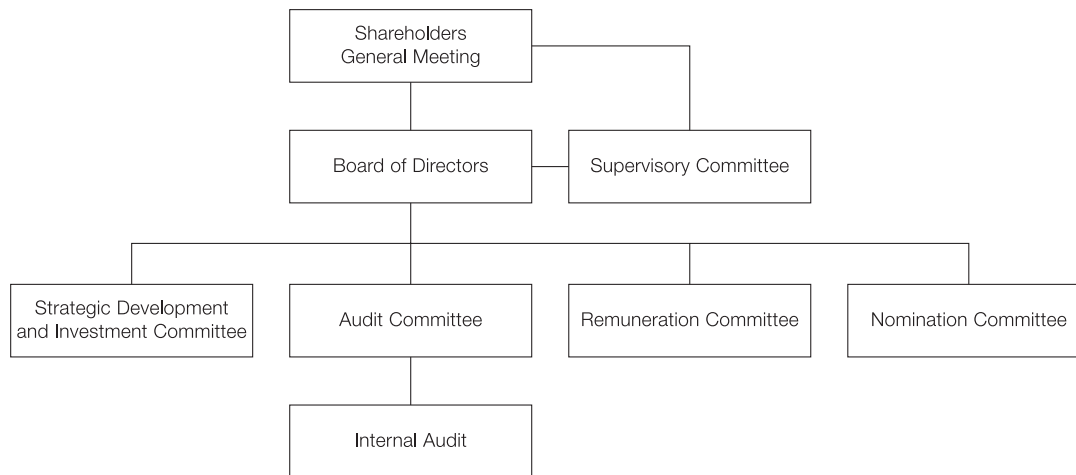
The Board has 15 directors, whose details are given on page 17 to page 19 of this Annual Report. The Board includes four Executive Directors and eight Non-executive Directors and three Independent Non-executive Directors to whom shareholder concerns can be conveyed. Directors are elected or replaced at the General Meeting, where the election is conducted by way of cumulative voting. The office of Independent Non-Executive Directors shall be undertaken by appointees not related to the Company's management and substantial shareholders in any aspect. The roles of the Chairman and the General Managers are distinctively separated and the positions are undertaken by different persons. The Chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, whilst the General Managers are responsible for managing and overseeing the Company's business operating, technology, marketing strategies and manufacturing laid down by the Board and making day-to-day operating decisions with the support and assistance of the Board and senior management of the Company.

The Board currently has three Independent Non-executive Directors, representing 1/5 of the total number of Directors. They all participated in the Board in a highly conscientious and responsible manner. They have played an important check-and-balance role to safeguard the interests of the Company and the shareholders as a whole by ensuring that the Company's financial or other matters is properly conducted and reporting on in respect of significant matters and connected transactions of the Company.

The Company held 10 board meetings in 2004 for discussion and approval of important items such as initial public offering, 2004 interim results and annual results, dividends and investment projects etc. There was an 100% attendance rate (including attendance by appointing another Director as his representative to attend and vote at the meeting on his behalf was treated as having attended the meeting in person) for all Board meetings in 2004, details of which are set out on page 41 of this report.

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Matters pertaining to Directors and Supervisors' remuneration are determined at the General Meeting. Details of directors and supervisors' remuneration are set out in note 8 to the financial statements.



### Audit Committee

The Audit Committee was established on 20th October, 2003. It comprises all the Independent Non-executive Directors, they are Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang, with Mr. Koo Fook Sun, Louis, acts as the Chairman of the Audit Committee, having appropriate professional qualifications and experience in financial matters. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee's main duties include those to:

- review the completeness, accuracy and fairness of half-yearly and annual financial statements;
- retain, dismiss and replace the Company's external auditors, subject to endorsement by the Board and final approval and authorisation by the shareholders of the Company in General Meeting;
- review the work of the Company's external auditors and the relevant fees and terms;
- review results of audits performed by the Company's external auditors and appropriate action required on significant control weaknesses;
- meet with the Company's external auditors, whenever they consider it necessary; and
- review the system of internal controls in use by the Company.

The Audit Committee held 2 meetings during 2004, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 41 of this report.



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Major jobs accomplished by the Audit Committee during the Period as follows;

- Review the annual, interim financial statements of the Company, as well as management recommendations furnished by the external auditors and responses from the Company's management;
- Review the accounting policies and practices adopted by the Company and related matters;
- Review the revised caps for existing connected transactions and recommended to independent shareholders to vote in favour of the ordinary resolutions at the EGM to approve the new caps for the non-exempt continuing connected transactions.
- Recommending the setting up a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparency, offering full protection to the interests of minority shareholders.
- Assisting the Board to monitor the Company's internal audit.

Throughout the year under review, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company.

### **Strategic Development and Investment Committee**

Established in April 2005, the Strategic Development and Investment Committee (the "Committee") is principally responsible for examining and reviewing the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Committee currently comprises Mr. Tan Xuguang (Chairman of the Board and the Committee), Mr. Sun Shao Jun, Mr. Tong Jingen, Mr. Chen Xue Jian, Mr. Zhang Quan, Mr. Li San Yim and Mr. Zhang Xiaoyu.

### **Remuneration Committee**

The Company founded the Remuneration Committee (the "Committee") in April 2005. The Committee is responsible for recommendation to the Board on the remuneration packages and terms of employment for Directors, Supervisors and senior management. The Committee also determines relevant remuneration policy for Directors, Supervisors and senior management and their participation in incentive schemes operated by the Company.

The Committee currently comprises all the Independent Non-executive Directors and two Non-executive Directors, they are Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu, Mr. Fang Zhong Chang, Ms. Zhang Fusheng and Mr. Yao Yu.

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### Nomination Committee

The Nomination Committee was founded in April 2005. It comprises all the Independent Non-executive Directors and two Executive Directors, they are Mr. Fang Zhong Chang, (Chairman), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meeting of the Nomination Committee will be arranged and held on an as-needed basis. The Nomination Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises, it will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

Attendance at meetings of the Board/Supervisory Committee and specialised committees (attendance in person/number of meetings) during the Period is as follows:

Name	Board/ Supervisory Committee	Audit Committee
<b>Directors</b>		
Tan Xuguang	10/10	
Xu Xinyu	10/10	
Zhang Quan	10/10	
Sun Shaojun	10/10	
Yeung Sai Hong	10/10	
Chen Xue Jian	6/10	
Yao Yu	10/10	
Liu Zheng	4/10	
Li San Yim	10/10	
Tong Jingen	10/10	
Zhang Fusheng	10/10	
Feng Gang	10/10	
Julius G. Kiss	10/10	
<b>Independent Non-executive Directors</b>		
Koo Fook Sun, Louis ( <i>Chairman</i> )	10/10	2/2
Zhang Xiaoyu	10/10	2/2
Fang Zhong Chang	1/1	1/1
<b>Supervisors</b>		
Sun Chengping ( <i>Chairman</i> )	2/2	
Wang Yong	2/2	
Jiang Jianfang	2/2	

Any Director who was unable to attend any meeting in person had appointed another Director as his representative to attend and vote at the meeting on his behalf and was treated as having attended the meeting in person.



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### Control Mechanisms

#### *Supervisory Committee*

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held 2 meetings during Period to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee members attended all Board meetings and diligently performed its supervisory duties. Details of attendance of the Supervisory Committee meetings are set out on the above table of this page.

#### **Internal Control and Audit**

Internal control systems have been designated to allow the Board to monitor the Company's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Company Internal Audit Department plays a major role in monitoring the internal governance of the Company. Key tasks of the department include:

- unrestricted access to and review of all aspects of the Company's activities and internal controls;
- comprehensive audits of the practices, procedures and internal controls of all business and support units and subsidiaries on a regular basis;
- liaison with external auditors on the quality and effectiveness of internal controls, systems and procedures;
- investigation of business ethics, conflicts of interest and other Company policy violations; and
- special reviews of areas of concern identified by management.

#### **Open Communication**

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders with the information necessary for them to form their own judgment and to provide feedback to us. However, we understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.

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### Financial Reporting

The Company aims to present a clear and balanced assessment of its financial position and prospects. The Directors ensure that accounts are prepared so as to give a true and fair view of the financial status of the Company. Financial results are announced as early as possible, and audited accounts are published within four months after the end of the financial year. Quarterly summary statements of production and sales volume of products are published on the company's own website: [www.weichai.com](http://www.weichai.com) at the early date of next quarter to keep shareholders informed of the performance and operations of the Company.

We are not able to measure the extent to which corporate governance directly creates shareholder value. However, we have no doubt that a commitment to strictly adhere to the major principles of good corporate governance practices will help sustain the support of the stakeholders on whose goodwill we rely for our long-term survival and prosperity.