

## Report of the Supervisory Committee

In 2005, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "Company Law") and Articles of Association of the Company, and in compliance with the principle of integrity, all members of the Supervisory Committee of the Company (the "supervisory committee") performed their duties of supervision with a view to protecting shareholders' interests in line with their accountability to all shareholders. They monitored the operations and financial position as well as the performance of senior management of the Company for the year of 2005. On behalf of the Supervisory Committee, I hereby present our report for 2005:

### (I) OVERVIEW OF THE WORK OF THE SUPERVISORY COMMITTEE

In 2005, the supervisory committee conducted inspections of the operations and financial position of the Company, and reviewed the financial statements regularly.

In 2005, the supervisors of the Company attended all the Board meetings and shareholders' meeting of the Company.

### (II) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2005

#### 1. Compliance of the Company's Operations with Legal Requirements

Pursuant to the laws and regulations of China and Hong Kong, the Supervisory Committee has duly supervised and examined the procedures for convening board meetings, resolutions, execution of resolutions of shareholders' general meetings by the Board, performance of duties by senior management of the Company, as well as the healthy establishment and consistent implementation of the Company internal management system.

The Supervisory Committee is of the view that the Board and senior management of the Company operated in accordance with the Company Law, Securities Law of the PRC, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong. With integrity and diligence, they performed their duties, executed all resolutions and authorities of the shareholders' general meetings and conducted all operations in compliance with laws and regulations. Through the adoption of various systems, the Company further improved its corporate governance structure and internal management policies which have formed the basic internal control system of the Company. When examining the financial position of the Company and monitoring the performance of directors and senior management of the Company, the Supervisory Committee was not aware of any act harmful to the interests of the Company and shareholders, nor was there any act in breach of laws, regulations, the Articles of Association or rules and policies.

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### **2. Examination of Financial Position of the Company**

The Supervisory Committee earnestly examined the financial statements of the Company for 2005, the Company's profit distribution plan for 2005 and the unqualified auditors' report for 2005 issued by the PRC and international auditors of the Company and other relevant information.

The Supervisory Committee is of the view that the financial statements of the Company reflect the financial position and operating results of the Company in all material respects in an objective, authentic and fair manner, and the financial statements is authentic and reliable. The Supervisory Committee has agreed on the audited financial statements issued by the auditors as well as the profit distribution plan of the Company for 2005.

### **3. Use of Proceeds from the IPO of the Company**

The Supervisory Committee exercised inspection over the use of the proceeds raised. After the Company received proceeds raised from the listing of its shares, the Board has been observing its undertakings as stated in the prospectus of the Company dated 26th February, 2004 (the "Prospectus"), and has effectively used the proceeds in a manner responsible to the shareholders. The Supervisory Committee is of the opinion that up to the end of this year, all the projects set out in the prospectus have been implemented and completed in accordance with the statements and progresses of the Company.

### **4. Transactions of the Company for Acquisition of 湘火炬汽車集團股份有限公司 (Torch Automobile Group Co., Ltd) ("TAGC")**

On 8th November, 2005, 濰柴動力(濰坊)投資有限公司 (Weichai Power (Weifang) Investment Co., Ltd.), an associate company in which the Company holds 45% equity interest, successfully acquired 28.12% interest in TAGC and became its single largest shareholder. The Supervisory Committee is of view that the acquisition was in compliance with the Company Law, Securities Law of the PRC, the Articles of Association of the Company as well as other relevant regulations and rules of Hong Kong.

### **5. Fairness of Connected Transactions**

For the year ended 31 December 2005, the Supervisory Committee reviewed all the connected transactions of the Company and is of the view that the connected transactions of the Company for 2005 were conducted on the principles of fairness and equality at reasonable prices and not exceed the annual caps approved by shareholders. No act harmful to shareholders' interests was found.

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The supervisory committee expects that the Company will continue to uphold the principle of rapid and coordinated development, continue to increase its reserve of resources, and further enhance the use of resources through technological improvement and management innovation. Also, the Company should improve internal control and maximise its profits through a standardised financial management system. Furthermore, the senior management is expected to develop a sense of macro management, inculcate team spirit, advocate in-depth development and make good decisions to lead the Company towards continued growth.

In 2006, the supervisory committee will continue to perform its duties of supervision diligently for the protection of the interests of shareholders and the Company in accordance with the Company Law and the Articles of Association of the Company.

By Order of the Supervisory Committee  
**Sun Chengping**  
*Chairman*

Weifang, Shandong Province

19th April, 2006