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## **WEICHAI POWER CO., LTD.**

### **Terms of Reference of the Audit Committee**

*(Approved by the 2006 Annual General Meeting held on 29<sup>th</sup> June 2007, amended subsequently by the 15<sup>th</sup> Meeting of the Second Term of the Board of Directors held on 29<sup>th</sup> March 2012 and to be tabled for approval by the 2011 Annual General Meeting of Shareholders)*

#### **Chapter 1 General Provisions**

Article 1 With a view to strengthening the decision-making function of the Board of Directors of Weichai Power Co., Ltd., accomplishing pre-audit and professional audit so as to ensure the effective supervision over the management level by the Board and refining the corporate governance structure, the Company has set up an audit committee of the Board and formulated these terms of reference in accordance with the “Company Law of the People’s Republic of China”, the “Standards for Corporate Governance of Listed Companies”, “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited”, the “Articles of Association of Weichai Power Co., Ltd.” and the other relevant regulations.

Article 2 The Audit Committee is a dedicated body established by the Board to be primarily responsible for the communication, supervision and checking in relation to the internal and external audits of the Company.

#### **Chapter 2 Composition**

Article 3 The Audit Committee shall consist of three to seven non-executive Directors as members; and more than half of the members shall be independent Directors. At least one member in the Audit Committee must be an independent Director with professional qualifications in accounting.

Article 4 Members of the Audit Committee shall be nominated by the chairman of the Board, by more than one-half of the independent Directors or by one-third of all Directors, and shall be elected by the Board.

Article 5 The Audit Committee shall have a chairman (the convener) who shall be an independent Director and be responsible for chairing the Audit Committee. The

chairman shall be elected from among the members and approved by the Board.

Article 6 The term of office of the Audit Committee shall be the same as the term of the Board. A member may be re-elected upon the expiration of his/her term of office. Any member who ceases to act as a Director during the term shall lose his/her membership of the Audit Committee automatically and the vacancy shall be filled by the Audit Committee as required under Articles 3 to 5 above.

Article 7 The Audit Committee shall have an audit working unit as its daily operating body, which is responsible for daily communications and organising meetings, etc.

### **Chapter 3 Duties and Authorities**

Article 8 The main duties and authorities of the Audit Committee include:

- (1) to supervise the Company's internal control policies and its implementation;
- (2) to review the internal control policies and material connected transactions of the Company, including but not limited to:
  1. to discuss with the Company's management on matters relating to internal control policies so as to ensure that the management has implemented an effective internal control system.

The said internal control system includes but is not limited to the Company's accounting and financial resources, staff qualifications and work experience, the budget and adequacy of staff training programmes, financial control and risk management etc.;
  2. to ensure the normal operation of the Company's internal control policies and to monitor and comment on its effectiveness; and
  3. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.
- (3) to recommend the appointment or change of external auditors, including but not limited to:
  1. the right to recommend to the Board for approval of the appointment, re-appointment and removal of external auditors (including any entity under

common control, equity control or management control of the external auditors, or any third party having regard to all reasonable relevant information which under reasonable circumstances would be deemed to be a part of the domestic or international division of the external auditors). Such recommendations include the external auditors' remuneration and terms of engagement, or to deal with matters relating to the resignation or removal of the auditors, as the case may be;

2. to confirm with the auditors on the nature, scope and reporting responsibilities prior to the commencement of audit work;
  3. to comment on and supervise the work of the external auditors based on applicable standards, including but not limited to the independence and objectivity of the auditors' work and the effectiveness of the audit procedures;
  4. to develop and implement policy on engaging an external auditor to supply non-audit services; and
  5. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- (4) to be responsible for the communication between the internal and external auditors, including but not limited to:
1. to coordinate the work of the internal and external auditors;
  2. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management response;
  3. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
  4. regarding paragraph 5 below, to liaise with the Board and senior management and to meet with the Company's external auditors twice a year.
- (5) to audit the Company's financial information and its disclosure, including but not limited to:
1. to be entitled to submit financial statements and reports to the Board;
  2. to ensure monitoring of the integrity of the Company's financial statements

and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgment contained in them;

3. to review the financial statements and reports before submitting them to the Board for approval, focusing particularly on:

- (1) any change in the Company's accounting policies and its implementation;
- (2) significant adjustments arising from the audit;
- (3) compliance with accounting standards by the Company;
- (4) compliance by the Company with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relevant legal requirements in relation to financial reporting;
- (5) the going concern assumptions and any qualification;
- (6) significant or unusual items that are, or may need to be, reflected in the reports and accounts;
- (7) matters that have been raised by the issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors; and
- (8) other major judgmental areas.

(6) to report on matters arising from these terms of reference to the Board; and

(7) to deal with other matters authorised by the Board.

Article 9 The Audit Committee shall be accountable to the Board. The Audit Committee shall submit proposals to the Board for consideration and decisions. The Audit Committee shall coordinate with the Supervisory Committee on its supervisory audit work.

#### **Chapter 4 Procedures of Decision-making**

Article 10 The audit working unit is responsible for the preliminary preparations and providing the Audit Committee with the relevant written information of the Company for decision-making:

- (1) relevant financial reports of the Company;
- (2) work reports of internal and external audit institutions;
- (3) external audit contract and the relevant work reports;
- (4) public disclosure of information made by the Company;
- (5) audit reports regarding material connected transactions of the Company;
- (6) other relevant matters.

Article 11 The Audit Committee shall convene meetings to discuss reports submitted by the audit working unit, and shall submit its relevant written resolutions to the Board for consideration:

- (1) work appraisal on external audit institutions, and the engagement and change of external audit institutions;
- (2) reports on whether the internal audit system of the Company has been effectively implemented and whether the financial reports of the Company are true in all aspects;
- (3) reports on whether information disclosed publicly by the Company are objective and true, and whether the material connected transactions of the Company are in compliance with the relevant laws and regulations;
- (4) work appraisal of the internal financial department and audit department, including its persons-in-charge;
- (5) other relevant matters.

## **Chapter 5 Rules of Procedures**

Article 12 The Audit Committee shall hold meetings at least four times each year and one meeting shall be held in each quarter. Two days' notice shall be given to all members before each meeting. The chairman of the Audit Committee or, if he is absent, another member (independent Director) delegated by the chairman shall chair the meetings.

Article 13 Meetings of the Audit Committee shall only be held where more than two-thirds of its members are present. Each member shall be entitled to one vote. Resolutions at any meeting shall be passed by a simple majority of votes of all the

members. In the case of an equality of votes, the chairman shall be entitled to a casting vote.

Article 14 Votes shall be taken by a show of hands or on a poll at the meetings of the Audit Committee. The voting at a provisional meeting may be done by way of voting correspondence.

Article 15 Members of the audit working unit may attend the meetings of the Audit Committee. Directors, supervisors and other senior management officers of the Company may also be invited to attend meetings of the Audit Committee if necessary.

Article 16 Intermediaries may be engaged by the Audit Committee at the expense of the Company to give professional advice on its decision-making if considered necessary.

Article 17 The proceedings and voting methods of a meeting of the Audit Committee and the resolutions passed at such meetings must comply with the requirements of the relevant laws, regulations, the Articles of Association and these terms of reference.

Article 18 Minutes shall be taken on all meetings of the Audit Committee. The minutes of meetings shall be signed by each attending member and kept by the secretary to the Board of the Company.

Article 19 Resolutions passed at a meeting of the Audit Committee and the voting results thereon shall be reported to the Board of the Company in writing.

Article 20 All members present at a meeting are obliged to keep confidential all matters discussed at the meeting and shall not disclose such information without authorisation.

## **Chapter 6 Supplementary Provisions**

Article 21 These terms of reference shall take effect from the date on which they are passed by the general meeting.

Article 22 Any matter not regulated under these terms of reference shall be enforced under the requirements of the relevant laws and regulations of the State, the listing rules of the place of listing of the Company's shares and the Articles of Association. In case where any of these terms of reference is inconsistent with the laws and regulations which are to be promulgated by the State in future or the Articles of Association as

legally modified, these terms of reference shall be enforced subject to the requirements of the relevant laws and regulations of the State and the Articles of Association. In such case, corresponding amendments shall be made immediately and be submitted to the general meeting for consideration and approval.

Article 23 These terms of reference shall be interpreted by the Board of the Company.

WEICHAI POWER CO., LTD.

29 March 2012

(Important notice: This Terms of Reference is published in Chinese and English version. In case of inconsistency, the Chinese version shall prevail.)