
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Zhuzhou CSR Times Electric Co., Ltd., you should at once hand this circular together with the enclosed proxy form and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3898)

CONTINUING CONNECTED TRANSACTIONS

Independent financial adviser to the
Independent Board Committee and the Independent Shareholders



CSC Asia Limited

A letter from the Board of the Company is set out on pages 6 to 18 of this circular. A letter from the Independent Board Committee is set out on page 19 of this circular. A letter from the independent financial adviser, CSC Asia, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 32 of this circular.

A notice convening the EGM to be convened on Friday, 27 June 2008 is set out on pages 37 to 39 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

If you intend to attend the EGM in person or by proxy, you should also complete and return the accompanying reply slip in accordance with instructions printed thereon on or before Friday, 6 June 2008.

9 May 2008

CONTENTS

| | <i>Page</i> |
|----------------------------------------------------------|-------------|
| Definitions | 1 |
| Letter from the Board | 6 |
| Letter from the Independent Board Committee | 19 |
| Letter from CSC Asia | 20 |
| Appendix — General Information | 33 |
| Notice of EGM | 37 |

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

| | |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Board” | the board of Directors |
| “Company” | 株洲南車時代電氣股份有限公司 (Zhuzhou CSR Times Electric Co., Ltd.), a joint stock company incorporated in the PRC with limited liability. The Group is the leading train-borne electrical system provider and integrator for the PRC railway industry. |
| “CSC Asia” | CSC Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders |
| “CSR” | 中國南車股份有限公司 (China South Locomotive & Rolling Stock Corporation Limited), a joint stock company incorporated in the PRC with limited liability; CSR is indirectly wholly-owned by CSRG and holds the entire equity interest in the Parent Company. |
| “CSR Zhuzhou” | 南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), formerly known as 中國南車集團株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Company, Ltd.), held as to 69.01% by CSR, as to 16.31% by the Parent Company, as to 13.05% by New Leap and as to 1.63% by 株洲聯誠集團有限責任公司 (Zhuzhou Lince Group Co., Ltd.); a promoter of the Company |
| “CSRG” | 中國南方機車車輛工業集團公司 (China Southern Locomotive & Rolling Stock Industry (Group) Corporation), a PRC State-owned enterprise |
| “CSRG Group” | CSRG and its subsidiaries (including the Parent Group); and “CSRG Group Companies” means any one of them |
| “CSRG Mutual Supply Agreement” | a mutual supply framework agreement between CSRG and the Company dated 4 December 2006, under which the Company agreed to supply and procure its subsidiaries to supply to the CSRG Group train-borne electrical systems and electrical components, whereas CSRG agreed to supply and procure its subsidiaries to supply to the Group certain parts and components (including motors) for the Group’s production of train-borne electrical systems for a term commencing on the date of Listing and ending on 31 December 2008 |
| “Director(s)” | the director(s) of the Company |

DEFINITIONS

| | |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Domestic Share(s)” | domestic share(s) of RMB1.00 each in the share capital of the Company |
| “Effective Date” | 1 January 2009 |
| “EGM” | an extraordinary general meeting of the Company to be convened on Friday, 27 June 2008 for the purpose of, among other things, approving the Renewed Agreements and the Renewed Annual Caps by the Independent Shareholders, details of which are set out in the notice of EGM on pages 37 to 39 of this circular |
| “Group” | the Company and its subsidiaries; and “Group Companies” means any one of them |
| “H Share(s)” | overseas listed foreign share(s) of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock Exchange and traded in HKD |
| “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent committee of the Board, comprising all the independent non-executive Directors, namely Messrs. Zhou Heliang, Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao’ao, formed to advise the Independent Shareholders in relation to the Renewed Agreements, the transactions contemplated thereunder and the Renewed Annual Caps |
| “Independent Shareholders” | Shareholders other than those who are required by the Listing Rules to abstain from voting on the respective resolution to approve the Renewed Agreements (as the case may be) |
| “KCR” | 昆明中鐵大型樣路機械集團有限公司 (Kunming China Railway Large Road Maintenance Machinery Co., Ltd.), a limited liability company under the laws of the PRC; a promoter of the Company and a wholly-owned subsidiary of China Railway Construction Corporation Limited, a joint stock company incorporated in the PRC with limited liability listed on the Main Board of the Stock Exchange (Stock code: 1186) |
| “KCR Group” | KCR and its subsidiaries; and “KCR Group Companies” means any one of them |

DEFINITIONS

| | |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “KCR Mutual Supply Agreement” | a mutual supply framework agreement between KCR and the Company dated 4 December 2006, under which the Company agreed to supply and procure its subsidiaries to supply to KCR Group certain electrical control systems for large railway maintenance vehicles, whereas KCR agreed to supply and procure its subsidiaries and associates to supply to the Group certain parts and components in relation to large railway maintenance vehicles for a term commencing on the date of Listing and ending on 31 December 2008 |
| “Latest Practicable Date” | 7 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “Listing” | the listing of the Company’s shares on the Main Board of the Stock Exchange on 20 December 2006 |
| “Listing Rules” | The Rules Governing the Listing of Securities on the Stock Exchange |
| “MOR” | the Ministry of Railways of the PRC |
| “New Leap” | 新力搏交通裝備投資租賃有限公司 (New Leap Transportation Equipment Investment & Leasing Co., Ltd.), formerly known as 新力搏交通裝備投資發展有限公司 (New Leap Communication Equipment Invest Development Co., Ltd.); a promoter of the Company and a wholly-owned subsidiary of CSR |
| “Parent Company” or “ZELRI” | 南車株洲電力機車研究所有限公司 (CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.), previously known as 中國南車集團株洲電力機車研究所 (CSR Zhuzhou Electric Locomotive Research Institute), a limited liability company established under the laws of the PRC; a promoter and the controlling shareholder of the Company, and a wholly-owned subsidiary of CSR |
| “Parent Group” | the Parent Company and its subsidiaries (excluding the Group); and “Parent Group Companies” means any one of them (excluding the Group Companies) |
| “PRC” or “China” | The People’s Republic of China |
| “PRC Government” | the government of the PRC, including any provincial, municipal and other regional or local governmental entities and any regulatory authorities in the PRC |
| “Prospectus” | the prospectus of the Company dated 8 December 2006 |

DEFINITIONS

| | |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Qishuyan Works” | 中國南車集團戚墅堰機車車輛廠 (CSR Qishuyan Locomotive & Rolling Stock Works), a promoter of the Company and a wholly-owned subsidiary of CSRG |
| “Renewed Agreements” | the Renewed CSRG Mutual Supply Agreement and the Renewed KCR Mutual Supply Agreement |
| “Renewed Annual Caps” | the CSRG Caps and the KCR Caps |
| “Renewed CSRG Mutual Supply Agreement” | a mutual supply framework agreement between CSRG and the Company dated 28 April 2008 |
| “Renewed KCR Mutual Supply Agreement” | a mutual supply framework agreement between KCR and the Company dated 28 April 2008 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | Domestic Share(s) and/or H Share(s) |
| “Shareholder(s)” | the holder(s) of Share(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subsisting Agreements” | the ZELRI Mutual Supply Agreement, the CSRG Mutual Supply Agreement and the KCR Mutual Supply Agreement |
| “Waiver” | the waiver granted by the Stock Exchange to the Company on 5 December 2006 from strict compliance with the announcement and/or the independent shareholders’ approval requirement pursuant to Rule 14A.42(3) respectively of the Listing Rules in respect of the ZELRI Mutual Supply Agreement, the CSRG Mutual Supply Agreement and the KCR Mutual Supply Agreement for the period commencing on the date of Listing and ending on 31 December 2008 |

DEFINITIONS

“ZELRI Mutual Supply Agreement”

a mutual supply framework agreement between the Parent Company and the Company dated 4 December 2006, under which the Company agreed to supply and procure its subsidiaries to supply to the Parent Company certain electrical parts and components (including power semiconductors, sensors, printed circuit board assemblies, control system components and converters and related components) for the production of the Parent Company’s products, whereas the Parent Company agreed to supply and procure its subsidiaries to supply to the Group certain mechanical and electro-mechanical parts and components (including reactors and heat sinks) for the production of the Group’s train-borne electrical systems for a term commencing on the date of Listing and ending on 31 December 2008

“%”

per cent.

For illustrative purposes of this circular, RMB89.7 = HKD100 save as otherwise stated.

LETTER FROM THE BOARD



(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3898)

Executive Directors:

Mr. Ding Rongjun (*Chairman*)

Mr. Lu Penghu

Non-executive Directors:

Mr. Liao Bin

Mr. Song Yali

Mr. Ma Yunkun

Independent non-executive Directors:

Mr. Zhou Heliang

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Mr. Tan Xiao'ao

Registered office:

Tims Road

Shifeng District

Zhuzhou

Hunan Province

PRC 412001

Principal Place of Business

in Hong Kong:

Unit 1106, 11th Floor

Jubilee Centre

18 Fenwick Street

Wanchai

Hong Kong

9 May 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. BACKGROUND

Reference is made to the announcement dated 28 April 2008 issued by the Company in relation to the Renewed Agreements and the transactions contemplated thereunder.

Immediately prior to Listing, the Company entered into the Subsisting Agreements with the Parent Company, CSRG and KCR respectively for a term commencing on the date of Listing and ending on 31 December 2008, details of which were set out in the Prospectus.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company applied for, and the Stock Exchange granted, the Waiver from strict compliance with the announcement and/or the independent shareholders' approval requirement under the Listing Rules in respect of the Subsisting Agreements for the period commencing on the date of Listing and ending on 31 December 2008.

In view of the prospective expiry of the Subsisting Agreements and the Waiver, on 28 April 2008, the Company entered into the Renewed Agreements with CSRG and KCR respectively, details of which are set out below. The Subsisting Agreements shall be terminated upon the Effective Date.

LETTER FROM THE BOARD

As set out in the paragraph headed “Listing Rules Requirements” below, each of the Renewed Agreements constitutes a non-exempt continuing connected transaction for the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

The Directors propose to seek the Independent Shareholders’ approval for the Renewed Agreements and the transactions contemplated thereunder at the EGM.

The purposes of this circular are to provide you with, among other things, (i) details of the Renewed Agreements; (ii) a letter from CSC Asia containing its advice to the Independent Board Committee and the Independent Shareholders on the Renewed Agreements; (iii) the recommendation of the Independent Board Committee as advised by CSC Asia to the Independent Shareholders in respect of the Renewed Agreements; and (iv) a notice of the EGM to consider and, if thought fit, approve the Renewed Agreements, the Renewed Annual Caps and the transactions contemplated thereunder.

2. RENEWED CSRG MUTUAL SUPPLY AGREEMENT

| | |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date: | 28 April 2008 |
| Parties: | CSRG and the Company |
| Supply of products: | <p>The Company agreed to supply and procure its subsidiaries to supply to the CSRG Group (including the Parent Group but excluding the Group) certain products (including train-borne electrical systems and electrical components), parts and components and after-sales services, and related facilities for production, testing and research and development purposes.</p> <p>CSRG agreed to supply and procure its subsidiaries (including the Parent Group but excluding the Group) to supply to the Group certain parts and components and after-sales services for the Group’s integration and assembly of train-borne electrical systems and other products, and related facilities for production, testing and research and development purposes.</p> |
| Term: | A term of five (5) years commencing on the Effective Date and ending on 31 December 2013 |

LETTER FROM THE BOARD

Pricing basis: The pricing for the products and services supplied by and/or to the CSR Group will be determined on the following basis in the order of priority:

- the prices prescribed by the PRC Government (if any);
- the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
- the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin, where none of the above prices are available or applicable.

Payment terms: Payments for the products and services supplied by and/or to the CSR Group will be made upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies and the CSR Group Companies. The payments terms will be on market terms which are not less favourable than those offered to the Group by independent third parties.

3. RENEWED KCR MUTUAL SUPPLY AGREEMENT

Date: 28 April 2008

Parties: KCR and the Company

Supply of products: The Company agreed to supply and procure its subsidiaries to supply to the KCR Group certain products (including electrical control systems for large railway maintenance vehicles) and after-sales services.

KCR agreed to supply and procure its subsidiaries and associates to supply to the Group certain imported parts and components for the Group's production of electrical control systems for large railway maintenance vehicles.

Term: A term of five (5) years commencing on the Effective Date and ending on 31 December 2013

LETTER FROM THE BOARD

Pricing basis:

The pricing for the products and services supplied by and/or to the KCR Group will be determined on the following basis in the order of priority:

- the prices prescribed by the PRC Government (if any);
- the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
- the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin, where none of the above prices are available or applicable.

Payment terms:

Payments for the products and services supplied by and/or to the KCR Group will be made upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies and the KCR Group Companies. The payments terms will be on market terms which are not less favourable than those offered to the Group by independent third parties.

LETTER FROM THE BOARD

4. HISTORICAL TRANSACTION RECORDS

Set out below is a summary of the transaction records of the transactions under the Subsisting Agreements for the two years ended 31 December 2006 and 2007:

| | Year ended 31 December | |
|-----------------------------------------------------------------------------------------------|-------------------------------|--------------------|
| | 2006 | 2007 (Note) |
| | <i>(RMB millions)</i> | |
| ZELRI Mutual Supply Agreement | | |
| 1. Amount paid to the Parent Group by the Group for the products provided by the Parent Group | 140.7 | 63.4 |
| 2. Amount paid to the Group by the Parent Group for the products provided by the Group | 37.9 | 22.2 |
| CSRG Mutual Supply Agreement | | |
| 1. Amount paid to the CSRG Group by the Group for the products provided by the CSRG Group | 22.0 | 21.3 |
| 2. Amount paid to the Group by the CSRG Group for the products provided by the Group | 260.9 | 610.5 |
| Subtotal of amount paid to the Parent Group and the CSRG Group | <u>162.7</u> | <u>84.7</u> |
| Subtotal of amount paid by the Parent Group and the CSRG Group | <u>298.8</u> | <u>632.7</u> |
| KCR Mutual Supply Agreement | | |
| 1. Amount paid to the KCR Group by the Group for the products provided by the KCR Group | 23.8 | 38.4 |
| 2. Amount paid to the Group by the KCR Group for the products provided by the Group | 108.6 | 106.1 |

Note: These amounts are derived from the audited financial statements of the Group for the year ended 31 December 2007.

LETTER FROM THE BOARD

5. SUBSISTING ANNUAL CAPS APPROVED BY THE WAIVER

Set out below is a summary of the maximum aggregate annual values for the transactions under the Subsisting Agreements for the three financial years ended 31 December 2006, 2007 and 2008 as approved by the Waiver:

| | Year ended 31 December | | |
|-----------------------------------------------------------------------------------------------|-------------------------------|--------------|--------------|
| | 2006 | 2007 | 2008 |
| | <i>(RMB millions)</i> | | |
| ZELRI Mutual Supply Agreement | | | |
| 1. Amount paid to the Parent Group by the Group for the products provided by the Parent Group | 169.3 | 79.7 | 87.7 |
| 2. Amount paid to the Group by the Parent Group for the products provided by the Group | 54.9 | 55.0 | 60.0 |
| CSRG Mutual Supply Agreement | | | |
| 1. Amount paid to the CSRG Group by the Group for the products provided by the CSRG Group | 31.0 | 34.1 | 37.5 |
| 2. Amount paid to the Group by the CSRG Group for the products provided by the Group | 450.0 | 675.1 | 806.1 |
| Subtotal of amount paid to the Parent Group and the CSRG Group | <u>200.3</u> | <u>113.8</u> | <u>125.2</u> |
| Subtotal of amount paid by the Parent Group and the CSRG Group | <u>504.9</u> | <u>730.1</u> | <u>866.1</u> |
| KCR Mutual Supply Agreement | | | |
| 1. Amount paid to the KCR Group by the Group for the products provided by the KCR Group | 50.0 | 61.0 | 74.4 |
| 2. Amount paid to the Group by the KCR Group for the products provided by the Group | 160.0 | 192.0 | 230.4 |

The aggregate annual amounts of the transactions under the Subsisting Agreements for the two financial years ended 31 December 2006 and 2007 did not exceed the respective maximum aggregate annual values as approved by the Waiver. The Board also anticipates that the aggregate annual amounts of the transactions under the Subsisting Agreements for the financial year ended 31 December 2008 will not exceed the respective maximum aggregate annual values for the year as approved by the Waiver.

Should the aggregate annual amounts of the transactions under any of the Subsisting Agreements for the financial year ended 31 December 2008 exceed the respective maximum aggregate annual values for the year as approved by the Waiver, the Company will publish an announcement to inform its Shareholders of the same pursuant to the Listing Rules.

LETTER FROM THE BOARD

6. RENEWED ANNUAL CAPS

The Company expects that the maximum aggregate annual values of the transactions under the Renewed CSRG Mutual Supply Agreement and the Renewed KCR Mutual Supply Agreement (the “**CSRG Caps**” and the “**KCR Caps**”, respectively) in each of the financial years in which such agreements will be in effect will be as follows:

| | Year ended 31 December | | | | |
|-------------------------------------------------------------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| | <i>(RMB millions)</i> | | | | |
| Renewed CSRG Mutual Supply Agreement | | | | | |
| 1. Amount paid to the CSRG Group by the Group for the products provided by the CSRG Group | 200.0 | 260.0 | 340.0 | 440.0 | 570.0 |
| 2. Amount paid to the Group by the CSRG Group for the products provided by the Group | 1,400.0 | 1,820.0 | 2,366.0 | 3,075.0 | 4,000.0 |
| Renewed KCR Mutual Supply Agreement | | | | | |
| 1. Amount paid to the KCR Group by the Group for the products provided by the KCR Group | 100.0 | 130.0 | 170.0 | 221.0 | 287.0 |
| 2. Amount paid to the Group by the KCR Group for the products provided by the Group | 300.0 | 400.0 | 550.0 | 670.0 | 817.0 |

7. BASIS OF DETERMINATION OF THE RENEWED ANNUAL CAPS

CSRG Caps

The CSRG Caps are determined with reference to the following: (1) the historical transaction amounts under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement; (2) the Group’s committed supply to a member of the CSRG Group certain train-borne electrical systems in connection with the 200-250km/h electric multiple units (“**EMUs**”) project for a consideration of RMB596.64 million with a supply schedule commenced in the first term of 2008 and expected to end in the first term of 2009 under a sales contract entered into on 26 November 2007; (3) the Group’s committed supply to a member of the CSRG Group certain train-borne electrical systems in connection with the 300km/h EMUs project for a consideration of RMB1,030 million with a supply schedule commenced in the fourth term of 2007 and expected to end in the fourth term of 2009 under a sales contract entered into prior to Listing; (4) anticipated supply of electrical systems for six-axle

LETTER FROM THE BOARD

locomotives from 2009 to 2011 from the Group to a member of the CSR Group; (5) purchase orders for the production of electrical systems from 2008 to 2010 currently under negotiation between the Group and a member of the CSR Group; (6) an estimated average annual increase of approximately 30% for the amount payable to the CSR Group by the Group; (7) an estimated annual increase of approximately 30% for the amount payable to the Group by the CSR Group.

The estimated annual increase of 30% for both the amount payable by and the amount payable to the Group were primarily based on: (1) the anticipated average annual increase rate of the procurement of new rail vehicles by the MOR between 2009 and 2013, which was approximately 30%; (2) the anticipated growth of the PRC railway industry; and (3) the business development potential of the CSR Group.

As a result of the “Eleventh 5-year Plan” set out by the State government, the MOR has formulated certain development plans and policies for the PRC railway industry. The MOR has therefore substantially increased the government procurement of new rail vehicles since 2006. The Directors believe that this would provide room for business growth both for the Group and the CSR Group in the relevant period.

Moreover, following the Listing, CSR, through its indirectly wholly-owned subsidiary, acquired the entire equity interest in the Parent Company (the “**CSR Reorganisation**”). Subsequent to the Parent Company becoming a wholly-owned subsidiary of CSR, the Directors anticipate that there will be business expansion of the CSR Group, leading to an increase in the aggregate annual amounts of mutual supply transactions between the Group and the CSR Group starting from the year 2009.

KCR Caps

The KCR Caps are determined with reference to the following: (1) the historical transaction amounts under the KCR Mutual Supply Agreement; (2) an estimated annual increase of approximately 30% for the amount payable to the KCR Group by the Group; and (3) an estimated average annual increase of approximately 29% for the amount payable to the Group by the KCR Group.

The estimated annual increase rates of 30% and 29% were primarily based on: (1) the anticipated growth of the PRC railway industry; and (2) KCR’s committed supply to the MOR certain equipment in connection with a total of 181 maintenance vehicles in the amount of approximately RMB4,739 million to be completed from 2008 to 2010. KCR has formed a consortium with the Parent Company (implemented by the Group) and three other companies to manufacture large railway maintenance vehicles, details of which were set out in the Prospectus. As a result of the said consortium, the Company shall provide electrical systems to KCR in connection with its commitment with the MOR. In this regard, the Directors anticipate that there will be an increase in the aggregate annual amounts of mutual supply transactions between the Group and the KCR Group in the relevant period.

LETTER FROM THE BOARD

8. REASONS FOR ENTERING INTO THE RENEWED AGREEMENTS

The Group has been procuring certain parts and components for the manufacture of its products from the CSRG Group and the KCR Group (and vice versa) for many years. As a result of such long-term business relationships, the CSRG Group and the KCR Group are all familiar with the Group's standards and specifications, and have been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request. Further, the Group's engagement with and/or purchases from the CSRG Group and the KCR Group are on terms which are not less favourable than those offered to the Group by independent third parties. The Board believes that the Renewed Agreements will not bring any disadvantage to the Group.

The Group will continue to supply electrical parts and components to the Parent Group for the production of its products and the Parent Group will continue to supply mechanical and electro-mechanical parts and components to the Group for its production of train-borne electrical systems. Given the fact that the Parent Company has become an indirectly wholly-owned subsidiary of CSRG subsequent to the CSRG Reorganisation, the Company will enter into one single Renewed CSRG Mutual Supply Agreement with CSRG which shall cover the sales and purchases between the Group and the Parent Group. The ZELRI Mutual Supply Agreement shall be terminated upon the Effective Date.

Justification for a Term Exceeding Three Years

The Group is principally engaged in the production and sale of train-borne electrical systems and electrical components to train manufacturers in the PRC. According to the MOR's current policy on technology import, the Group has to procure production technologies for its manufacturing process by obtaining technology cooperation or licenses from foreign suppliers. Considerable investment and planning is required on the part of the Group such that the durations of the mutual supply agreements with the domestic suppliers and customers need to be of a reasonable length, normally spanning over four to five years, to justify the capital investment.

Given that the transactions contemplated under each of the Renewed Agreements fall within the core business of the Group, the Directors consider that it is normal business practice within the PRC railway industry and commercially beneficial to both the Group and to the CSRG Group or the KCR Group (as the case may be) to enter into the Renewed Agreements for a period of five years rather than three years.

9. LISTING RULES REQUIREMENTS

INFORMATION ON CSRG

CSRG is a PRC State-owned enterprise principally engaged in the areas of research and development, manufacturing, sales, refurbishment and leasing of rolling stock, including locomotives, passenger carriages, freight wagons, multiple units, rapid transit vehicles and key related components as well as other business that utilize proprietary rolling stock technologies.

CSRG directly and indirectly holds the entire equity interest in CSR. CSR directly holds the entire equity interest in the Parent Company and New Leap respectively, and directly and indirectly

LETTER FROM THE BOARD

holds 98.37% of the equity interest in CSR Zhuzhou. CSRG also directly holds the entire equity interest in Qishuyan Works. Each of the Parent Company, New Leap, CSR Zhuzhou and Qishuyan Works is a promoter of the Company. The Parent Company is also the controlling shareholder of the Company. Mr. Ding Rongjun, the chairman of the Board, is an executive Director and a vice general manager of the Parent Company. Mr. Liao Bin, a non-executive Director, is an executive director of the Parent Company. Mr. Song Yali, the vice chairman of the Board and a non-executive Director, is a vice general manager of the Parent Company. CSRG is therefore a connected person of the Company under the Listing Rules.

INFORMATION ON KCR

KCR is a limited liability company under the laws of the PRC principally engaged in the production of special equipment and accessories for railway, metallic structures and components and railway transportation equipment; export of self-manufactured mechanical and electrical products, self-contained equipment and related techniques; import of raw and ancillary materials, mechanical equipment and instruments, parts and accessories and techniques.

KCR is a promoter of the Company. Mr. Ma Yunkun, a non-executive Director, is the chairman of the board of KCR. KCR is therefore a connected person of the Company under the Listing Rules.

Non-exempt Continuing Connected Transactions

As each of the applicable percentage ratios (other than the profits ratio) for each of the Renewed Annual Caps is more than 2.5%, each of the Renewed Agreements constitutes a non-exempt continuing connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

A meeting of the Board was held on 21 April 2008 at which the Renewed Agreements and the respective Renewed Annual Caps were reviewed and approved. Messrs. Ding Rongjun (the chairman of the Board and an executive Director and a vice general manager of the Parent Company), Liao Bin (a non-executive Director and an executive director of the Parent Company) and Song Yali (the vice chairman of the Board and a non-executive Director and a vice general manager of the Parent Company) abstained from the examination of and voting on the Renewed CSRG Mutual Supply Agreement due to conflict of interests. Mr. Ma Yunkun (a non-executive Director and the chairman of the board of KCR) abstained from the examination of and voting on the Renewed KCR Mutual Supply Agreement due to conflict of interests.

The Directors, excluding Messrs. Ding Rongjun, Liao Bin, Song Yali and Ma Yunkun (as the case may be), consider that the Renewed Agreements were entered into in the ordinary and usual course of business of the Group and the terms thereof are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned. The Board's approval in respect of the Renewed Agreements is conditional upon, among others, the Independent Shareholders' approval in respect thereof.

The Company will disclose information in relation to the Renewed Agreements in its subsequent published annual report and accounts in accordance with Rule 14A.45 of the Listing Rules.

LETTER FROM THE BOARD

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Zhou Heliang, Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao'ao has been formed to advise the Independent Shareholders in relation to the Renewed Agreements, the transactions contemplated thereunder and the Renewed Annual Caps, taking into account the recommendations on the same by the independent financial adviser.

CSC Asia has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among others, whether the Renewed Annual Caps have been determined on a fair and reasonable basis, and whether the term of each of the Renewed Agreements being in excess of three years is normal business practice within the PRC railway industry.

10. EGM

The Directors propose to seek the approvals of the Renewed Agreements by the Independent Shareholders at the EGM. Notice of the EGM to be held at Times Hotel, Zhuzhou City, Hunan Province, the PRC, on Friday, 27 June 2008 at 2:00 p.m. is set out on pages 37 to 39 of this circular.

For the purposes of the EGM, the register of members of the Company will be closed from Wednesday, 28 May 2008 to Friday, 27 June 2008, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged, for holders of H Shares, with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or, for holders of Domestic Shares, the registered office address of the Company at Times Road, Shifeng District, Zhuzhou, Hunan Province, 412001, PRC no later than 4:30 p.m. on Tuesday, 27 May 2008.

A form of proxy for appointing proxy is despatched with this circular and published on the website of the Stock Exchange (www.hkex.com.hk). Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time scheduled for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

If you intend to attend the EGM in person or by proxy, you should also complete and return the accompanying reply slip in accordance with the instructions printed thereon on or before Friday, 6 June 2008.

11. POLL PROCEDURE

The votes at the EGM will be taken by poll. Pursuant to Article 70 of the Articles of Association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded by: (i) the chairman

LETTER FROM THE BOARD

of the meeting; (ii) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting or (iii) any Shareholder or Shareholders present in person or by proxy and representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

12. VOTING ARRANGEMENTS

As at the Latest Practicable Date, the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works are interested in 54.38%, 0.92%, 0.90%, 0.87% and 0.87% respectively of the issued share capital of the Company.

As set out in the paragraph headed “Information on CSRG” above, each of the Parent Company, CSR Zhuzhou, New Leap and Qishuyan Works is an associate of CSRG and shall therefore abstain from voting at the EGM on resolutions to consider and approve the Renewed CSRG Mutual Supply Agreement and the CSRG Caps.

KCR and its associates shall abstain from voting at the EGM on resolutions to consider and approve the Renewed KCR Mutual Supply Agreement and the KCR Caps.

As at the Latest Practicable Date, as far as the Company is aware, having made all reasonable enquiries:

- (a) each of the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works controlled or were entitled to exercise control over the voting rights in respect of its respective Shares;
- (b) (i) there were no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any of the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works;
- (ii) there were no obligation on or entitlement of any of the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works as at the Latest Practicable Date, whereby any of the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of its respective Shares to other third parties, either generally or on a case-by-case basis; and
- (c) there were no discrepancies between the beneficial shareholding interest of any of the Parent Company, CSR Zhuzhou, KCR, New Leap and Qishuyan Works in the Company as disclosed in this circular and the number of shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

13. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular, the letter from CSC Asia set out on pages 20 to 32 of this circular which contains the recommendation of CSC Asia to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Agreements, and the principal factors and reasons considered by CSC Asia in arriving at its recommendation.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of CSC Asia and the principal factors and reasons considered by CSC Asia, considers that the Renewed Agreements and the relevant Renewed Annual Caps are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and the Independent Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the Renewed Agreements and the related Renewed Annual Caps at the EGM.

14. FURTHER INFORMATION

Further information of the Company is set out in the Appendix to this circular for your information.

Yours faithfully,
By order of the Board
Ding Rongjun
Chairman

Zhuzhou, China, 9 May 2008

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3898)

9 May 2008

To the Independent Shareholders

Dear Sir or Madam,

Continuing Connected Transactions

We refer to the circular issued by the Company to the Shareholders of even date (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into the Renewed Agreements constitute non-exempt continuing connected transactions for the Company and are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Renewed Agreements and to advise the Independent Shareholders as to whether, in our opinion, its terms are fair and reasonable insofar as the interests of the Company and the Independent Shareholders as a whole are concerned. CSC Asia has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from CSC Asia as set out in the Circular. Having taking into account the principal factors and reasons considered by and the advice of CSC Asia as set out in its letter of advice, we consider that (1) the Renewed Agreements were entered into in the ordinary and usual course of business of the Group; and (2) the terms thereof (each of which is for a duration exceeding three years) and the relevant Renewed Annual Caps are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Renewed Agreements and the related Renewed Annual Caps at the upcoming EGM.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Zhou Heliang

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Mr. Tan Xiao'ao

Independent non-executive Directors

LETTER FROM CSC ASIA

The following is the text of a letter of advice from CSC Asia which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Agreements and the respective Renewed Annual Caps.



CSC Asia Limited
Units 3204-07, 32/F
Cosco Tower
183 Queen's Road Central
Hong Kong

9 May 2008

*To: The independent board committee and
the independent shareholders of Zhuzhou CSR Times Electric Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Renewed Agreements and the respective Renewed Annual Caps, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company to the Shareholders date 9 May 2008 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

CSRG indirectly holds the entire equity interest in the Parent Company. The Parent Company is a promoter and the controlling shareholder of the Company. KCR is a promoter of the Company. Each of CSRG and KCR is therefore a connected person of the Company under the Listing Rules.

Immediately prior to the Listing, the Company entered into the Subsisting Agreements with the Parent Company, CSRG and KCR respectively for a term commencing on the date of Listing and ending on 31 December 2008, details of which were set out in the Prospectus. On 5 December 2006, the Stock Exchange granted the Waiver to the Company from strict compliance with the announcement and the independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules in relation to the transactions contemplated under the Subsisting Agreements for the period commencing on the date of the Listing and ending on 31 December 2008. In view of the prospective expiry of the Subsisting Agreements and the Waiver, and the intention of the Group to continue to carry out the mutual supply transactions between the Group and the CSRG Group and the KCR Group, the Company entered into the Renewed Agreements with CSRG and KCR respectively.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the annual consideration for each of the Renewed Annual Caps is more than 2.5% and more than HK\$10 million,

LETTER FROM CSC ASIA

each of the Renewed Agreements constitutes a non-exempt continuing connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Renewed Agreements and the respective Renewed Annual Caps at the EGM to be conducted by poll. CSRG, KCR, and their respective associates are required to abstain from voting at the EGM.

The Independent Board Committee comprising all of the five independent non-executive Directors namely Messrs. Zhou Heliang, Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao'ao, has been constituted to make recommendations to the Independent Shareholders as to whether (i) the transactions contemplated under each of the Renewed Agreements are in the ordinary and usual course of business of the Group; (ii) the terms of the Renewed Agreements are on normal commercial terms; (iii) the entering into of the Renewed Agreements is in the interests of the Company and the Shareholders as a whole; and (iv) the terms of the Renewed Agreements and the Renewed Annual Caps are fair and reasonable insofar as the Independent Shareholders are concerned. We, CSC Asia, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

CSC Asia is independent from, and not connected with, the Company or any of its substantial shareholders, directors or chief executive, or any of their respective associates, and is accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our recommendations, we have relied on the information and facts supplied by the Company and the representations of, the Directors and management of the Company. We have assumed that all the information and representations so supplied by the Company and/or the Directors and all information and representations referred to or contained in the Circular, for which the Company and the Directors are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be so as the date hereof. No representation or warranty, expressed or implied, is made by us on the accuracy of such information or representation. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading.

We consider that we have reviewed sufficient information and documents to reach an informed view to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Directors and management of the Company. We have not, however, conducted any independent investigation into the businesses or affairs or assets and liabilities or future prospects of the Group, the CSRG Group, the KCR Group or their respective associates, nor have we carried out any independent verification of information supplied.

LETTER FROM CSC ASIA

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the transactions contemplated under the Renewed Agreements and the Renewed Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for entering into the Renewed Agreements

The Company is a member of the CSRG Group and was incorporated in the PRC as a joint stock limited company and its H Shares are listed on the main board of the Stock Exchange since December 2006. The Group is principally engaged in the production and sale of train-borne electrical systems and electrical components to train manufacturers in the PRC.

Immediately prior to the Listing, the Company entered into the Subsisting Agreements with the Parent Company, CSRG and KCR respectively for a term commencing on the date of the Listing and ending on 31 December 2008 in respect of mutual supply of products between the Group and the counterparty to the Subsisting Agreements, details of which were set out in the Prospectus. Pursuant to Rule 14A.42(3) of the Listing Rules, the Company had applied for, and the Stock Exchange had granted the Waiver from strict compliance with the announcement and the independent shareholders' approval requirements under the Listing Rules in relation to the Subsisting Agreements for the period commencing on the date of Listing and ending on 31 December 2008.

Taking into consideration that the Subsisting Agreements and the Waiver are going to expire by the end of 2008, on 28 April 2008, the Company entered into the Renewed Agreements with the intention to renew the Subsisting Agreements so as to regulate mutual supply of certain products and provision of services between the Group and the CSRG Group and the KCR Group for the five years ending 31 December 2013.

As stated in the Letter from the Board, as the Parent Company has become an indirectly wholly-owned subsidiary of CSRG subsequent to the CSRG Reorganisation, the Company has entered into one single Renewed CSRG Mutual Supply Agreement with CSRG which shall also cover the sales and purchases between the Group and the Parent Group. Accordingly, it is no longer necessary for the Group to renew the ZELRI Mutual Supply Agreement which shall be terminated upon the Effective Date.

As advised by the Directors, the Group has been procuring certain parts and components for the manufacture of its products from the CSRG Group and the KCR Group (and vice versa) for many years, in fact before the Listing, and these transactions fall within the ordinary and usual course of business of the Group. According to the Directors, the Group has been satisfied with the quality of parts and components provided by the CSRG Group and the KCR Group as well as their after-sales services. The Directors have further advised that with the CSRG Group's and the KCR Group's familiarity with the Group's standards and specifications stemming from the long-term co-operation, they have been able to meet and respond to any of the Group's new requirements that the Group may request.

LETTER FROM CSC ASIA

Having considered the long history of cooperation between the Group and the CSRG Group and the KCR Group in respect of the products and services mutually provided between the parties in the past years, the transactions contemplated under the Renewed Agreements are consistent with the Group's established relationship with the CSRG Group and the KCR Group and will facilitate the smooth operation of the Group's business in the coming years and minimise any disruptions to the Group's existing business.

Taking into account the CSRG Group's and the KCR Group's capability in providing quality parts and components and services and allowing the Group to secure revenue from each of them, we consider that the entering into of the Renewed Agreements is a natural extension of the business relationship between the Group and the CSRG Group and the KCR Group.

Having considered the above and in particular that the nature of the transactions contemplated under the Renewed Agreements falls within the ordinary and usual course of business of the Group, we consider that the entering into of the Renewed Agreements is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Renewed Agreements

Pursuant to the Renewed CSRG Mutual Supply Agreement, the Group agreed to supply to the CSRG Group certain products (including train-borne electrical systems and electrical components), parts and components and after-sales services, and related facilities for production, testing and research and development purposes, and the CSRG Group agreed to supply to the Group certain parts and components and after-sales services for the Group's integration and assembly of train-borne electrical systems and other products, and related facilities for production, testing and research and development purposes. Pursuant to the Renewed KCR Mutual Supply Agreement, the Group agreed to supply to the KCR Group certain products (including electrical control systems for large railway maintenance vehicles) and after-sales services, and the KCR Group agreed to supply to the Group certain imported parts and components for the Group's production of electrical control systems for large railway maintenance vehicles.

The Renewed Agreements set out the major terms such as pricing basis, term and payment method for the transactions contemplated under the Renewed CSRG Mutual Supply Agreement and the Renewed KCR Mutual Supply Agreement. Furthermore, the Directors have confirmed that the transactions contemplated under the Renewed Agreements will be conducted in accordance with similar terms and conditions as those of the transactions contemplated under the Subsisting Agreements of same nature and on normal commercial terms.

(a) *Pricing Basis*

Pursuant to the Renewed CSRG Mutual Supply Agreement and the Renewed KCR Mutual Supply Agreement, the pricing basis for the products and services supplied by and/or to the CSRG Group and the KCR Group will be determined on the following basis in the order of priority:

- (i) the prices prescribed by the PRC Government (if any);

LETTER FROM CSC ASIA

- (ii) the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- (iii) the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
- (iv) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin, where none of the above prices are available or applicable.

We note that priority is set from (i) to (iv) such that the pricing mechanism (ii), (iii) and (iv) will be applied only if the preceding pricing mechanism(s) are not applicable. Having considered the above, we are of the view that the above pricing basis, by reference to the prices or pricing guidelines stipulated by the PRC Government or absence of which, the market prices and finally actual or reasonable costs plus reasonable profit margin, is reasonable and justifiable.

In addition, in regards to the transactions contemplated under the Renewed CSR Group Mutual Supply Agreement, we have conducted a sample review of the historical contracts/invoices/information in respect of (i) the Group's provision of products and services to the CSR Group, and independent third party customers; and (ii) the Group's procurement of products and services from the CSR Group, and independent third party suppliers.

Based on our review, we noted that the prices charged by/or to the CSR Group in respect of the products and services contemplated under the Renewed CSR Group Mutual Supply Agreement are similar to that offered to the Group by independent third parties and are not less favourable than those offered to the Group by independent third parties for the same transaction.

As advised by the Directors, the Group has exclusively procured from/sold to the KCR Group in respect of the products and services contemplated under the Renewed KCR Mutual Supply Agreement and the terms of which are based on arm's length commercial negotiations between the Group and the KCR Group with primary reference to the respective historical pricing policies and similar transactions between the Group and the KCR Group. We have enquired into the reason for exclusivity of the mutual supply transactions, between the Group and the KCR Group, and the Directors have advised that the products supplied to/from the KCR Group are based on the niche technology owned by the consortium formed between KCR with the Parent Company (implemented by the Group) and three other companies to manufacture large railway maintenance vehicles (the "Consortium"). As at the Latest Practicable Date, the Directors have confirmed that the Group has not purchased from or sold to independent third party in respect to the products and services contemplated under the Renewed KCR Mutual Supply Agreement. Accordingly, there were no meaningful comparable transactions or quotations available for our review in this respect. As advised by the Directors, KCR is the dominant market player which accounted for around 80% of the market share in the PRC for large railway maintenance vehicles in 2006 and the Group is currently the exclusive supplier to KCR for the electrical control systems of large railway maintenance vehicles in the PRC. Taking into account that (i) the Group's sales and purchase transactions with the KCR Group, a prominent player in the PRC large railway maintenance vehicles market, are conducted on an exclusive basis; (ii) the pricings

LETTER FROM CSC ASIA

of the transactions between the Group and the KCR Group are agreed upon between the two parties after arm's length commercial negotiations; (iii) the pricings are determined primarily based on historical transactions; (iv) the historical transactions had been reviewed by the independent non-executive Directors with the view that the transactions had been conducted on normal commercial terms; (v) the auditors of the Company had conducted annual review of the historical transactions pursuant to Rule 14A.38 of the Listing Rules and were of the view that the historical transactions were conducted in accordance with the pricing terms of the agreement governing such transactions; and (vi) the independent non-executive Directors and auditors of the Company will continue to conduct annual review of the aforesaid transactions, we consider that the pricing mechanism of the products and services contemplated under the Renewed KCR Mutual Supply Agreement to be fair and reasonable and on normal commercial terms.

In this regards, we consider that the pricing basis of the Renewed Agreements are on normal commercial terms and are fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

(b) *Payment terms*

Pursuant to the Renewed CSR Group Mutual Supply Agreement and the Renewed KCR Mutual Supply Agreement, the payments for the products and services supplied by and/ or to the CSR Group and the KCR Group will be made upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies; and (i) the CSR Group Companies and (ii) the KCR Group Companies. The payment terms will be on market terms which are not less favourable than those offered to the Group by independent third parties.

Upon our sample review of the contracts/invoices/information in relation to the payment terms of transactions as contemplated under the Renewed CSR Group Mutual Supply Agreement, which includes (i) the Group's provision of products and services to the CSR Group and independent third party customers; and (ii) the Group's procurement of products and services from the CSR Group, and independent third party suppliers, we noted that the payment terms in relation to the transactions as contemplated under the Renewed CSR Group Mutual Supply Agreement are similar to that offered to the Group by independent third parties and are not less favourable than those offered to the Group by independent third parties for the same transaction.

In relation to the Renewed KCR Mutual Supply Agreement, although no reference to independent third party transactions can be made, we have enquired into and the Directors have advised that the payment terms have been determined after arm's length negotiations between the Group and the KCR Group with primary reference to the historical transactions between the two parties. Taking into account (i) the exclusivity of the mutual supply transactions between the Group and the KCR Group, being the dominant market player in the PRC large railway maintenance vehicles; (ii) the payment terms are determined after arm's length negotiations between the two parties primarily based on historical payment terms which were considered to be in normal commercial terms after the review of historical transactions by the independent

LETTER FROM CSC ASIA

non-executive Directors; (iii) the historical payment terms were determined with reference to the average credit period granted by/to the Group in conducting its business; and (iv) the independent non-executive Directors and auditors of the Company will conduct annual review of the aforesaid transactions pursuant to the Listing Rules, we consider that the payment terms of the Renewed KCR Mutual Supply Agreement to be fair and reasonable and on normal commercial terms.

In light of the above, we consider that the payment terms of the Renewed Agreements are on normal commercial terms and are fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

(c) *Term*

Each of the Renewed Agreements has a term of five years commencing on 1 January 2009 and ending on 31 December 2013.

In accordance with the MOR's current policy on technology import, the Group has to procure production technologies by obtaining technology cooperation or licenses from foreign suppliers for its manufacturing process. As advised by the Directors, before the commercialisation of the technologies being procured by the Group from foreign companies, a period of approximately four to five years will be required, after taking into account staff training, internal trial-testing and mastering of such technologies, as well as manufacturing process and delivery of products. Taking into consideration the investment and planning being made by the Group on such technologies, we concur with the view of the Directors that in order to justify the Group's capital investment, the durations of the mutual supply agreements need to be of reasonable length of approximately five years.

Apart from the reasons above, we have been further advised by the Directors that a member of the CSRG Group has committed to supply six-axle locomotives to the MOR and the Group is currently negotiating with the CSRG Group regarding the supply of electrical control systems by the Group for the CSRG Group's production of locomotives. We are advised by the Directors that the Group's delivery schedule to the CSRG Group is subject to the CSRG Group's delivery arrangement with the MOR, which is anticipated to cover a period from four to five years. In this regards, we concur with the view of the Directors that the Renewed Agreements with a term of five years to be commercially justifiable.

In view of the above, we consider that it is commercially justifiable and is in the interests of the Company and its Shareholders as a whole to enter into the Renewed Agreements with a term of over three years.

Given the above, we consider that the terms of the Renewed Agreements are on normal commercial terms and are fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

LETTER FROM CSC ASIA

3. The Renewed Annual Caps

The Renewed Annual Caps set out the maximum aggregate annual values of the transactions under the Renewed Agreements in each of the five financial years ending 31 December 2013. The transactions contemplated under the Renewed Agreements are related to the business prospects of the Group, the CSRG Group and the KCR Group, which are all influenced by the market outlook of the PRC railway industry.

In assessing the reasonableness of the Renewed Annual Caps, we have discussed with the Directors and the management of the Company the basis and underlying assumptions for the purpose of setting the Renewed Annual Caps.

We note from the “Eleventh 5-year Plan” set out by the State government and the PRC Railway Statistics Bulletin published by the MOR Statistics Centre in 2006, the MOR has formulated certain development plans and policies for the PRC railway industry and substantially increased the government procurement of new rail vehicles. As set out in the Letter from the Board, it is anticipated by the Company that average annual increase rate of the procurement of new rail vehicles by the MOR between 2009 and 2013 will be approximately 30%. According to the PRC Railway Statistics Bulletin, procurement of new locomotives by the MOR recorded a steady growth for the period from year 2001 to 2005 with compound annual growth rate (“CAGR”) of approximately 13.78% and the railway’s fixed assets investment also recorded a steady growth from year 2003 to 2007 with CAGR of approximately 30.85%. Further, according to the MOR’s Eleventh 5-year Plan, it is forecasted that the total operational lengths of the PRC railways will increase to approximately 90,000 km in year 2010 from approximately 75,438 km in year 2005. Based on the above, we concur with the view of the Directors that the market outlook of the PRC railway industry seems promising.

Starting from 2007, the MOR will mainly focus on procuring electric multiple units (“EMUs”), AC driven electric locomotives and diesel locomotives. Further, as announced by the MOR on 7 September 2007, one of the objectives of the MOR is to develop large EMUs by developing 300-350km/h EMUs system based on the technology of the 200-250km/h EMUs system being developed. In this regards, it is reasonable to believe that the markets of the EMUs system seems to have a positive outlook.

Set out below are financial information as extracted from the annual report of the Company for the year ended 31 December 2007 (the “2007 Annual Report”):

| | Year ended 31 December | | |
|-----------------|------------------------|-----------|-----------|
| | 2005 | 2006 | 2007 |
| | <i>(RMB millions)</i> | | |
| Revenue | 997,976 | 1,255,926 | 1,541,804 |
| Growth rate (%) | 26.69% | 25.85% | 22.76% |

LETTER FROM CSC ASIA

As shown in the table above, we note that the Group's revenue recorded an annual growth rate of over 20% for the three years ended 31 December 2007. According to the 2007 Annual Report, one of the reasons for leading to the Group's revenue growth in 2007 was due to the increase in sales of 200 km/h EMUs products. Further, as set out in the Letter from the Board, the Group has committed to supply certain train-borne electrical systems in connection with 200-250km/h and 300 km/h EMUs system to the CSR Group for the year ending 31 December 2009. In light of the above, the Directors envisage that the Group's business which includes the manufacturing of products related to the EMUs, can be benefited from the positive outlook of the EMUs products as well as the PRC railway industry as a whole.

Further to the above, we are given to understand that the Directors have set the Renewed Annual Caps at slightly higher amounts by including buffers for the anticipation of projected procurement growth from the MOR for the period between 2009 to 2013. The Directors have advised that the buffers are included so as to enable the Group to have greater degree of flexibility in transacting business with the CSR Group and the KCR Group to cope with unexpected growth in the PRC railway industry.

(a) *CSR Caps*

Set out below are the maximum aggregate annual values of the transactions under the Renewed CSR Mutual Supply Agreement for the five years ending 31 December 2013:

| | | Year ending 31 December | | | | |
|-----------------------------------------------------------------------------------------|-----------------------|--------------------------------|---------------|---------------|---------------|--|
| | 2009 | 2010 | 2011 | 2012 | 2013 | |
| | <i>(RMB millions)</i> | | | | | |
| 1. Amount paid to the CSR Group by the Group for the products provided by the CSR Group | 200.0 | 260.0 | 340.0 | 440.0 | 570.0 | |
| <i>Growth rate (%)</i> | <i>59.74%</i> | <i>30.00%</i> | <i>30.77%</i> | <i>29.41%</i> | <i>29.55%</i> | |
| 2. Amount paid to the Group by the CSR Group for the products provided by the Group | 1,400.0 | 1,820.0 | 2,366.0 | 3,075.0 | 4,000.0 | |
| <i>Growth rate (%)</i> | <i>61.64%</i> | <i>30.00%</i> | <i>30.00%</i> | <i>29.97%</i> | <i>30.08%</i> | |

As set out in the above table, for the four years ending 31 December 2013, the CSR Caps have an annual growth rate of approximately 30%. We note that the CSR Caps for the amount payable by the Group and payable to the Group for the year ending 31 December 2009 have

LETTER FROM CSC ASIA

growth rate of approximately 60% as compared with the annual capped amounts for the year ending 31 December 2008. As advised by the Directors, as at the Latest Practicable Date, over 80% of the Group's committed sales under a sales contract which was originally scheduled to be delivered in 2008 is now rescheduled to be delivered in 2009. Taking into consideration the positive outlook in the PRC railway industry as well as such a substantial amount in rescheduling of delivery, the estimated sales and purchases for 2009 will be relatively higher than that in 2008, resulting in such large increment as compared with the annual growth rate of approximately 30% for 2010 to 2013.

As set out in the Letter from the Board, the CSRG Caps have been determined with reference to the following: (i) historical transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement; (ii) the Group's committed supply to a member of the CSRG Group certain train-borne electrical systems in connection with the 200-250km/h EMUs project for a consideration of RMB 596.64 million with a supply schedule commenced in the first term of 2008 and expected to end in the first term of 2009 under a sales contract entered into on 26 November 2007; (iii) the Group's committed supply to a member of the CSRG Group certain train-borne electrical systems in connection with the 300km/h EMUs project for a consideration of RMB 1,030 million with a supply schedule commenced in the fourth term of 2007 and expected to end in the fourth term of 2009 under a sales contract entered into prior to Listing; (iv) anticipated supply of electrical systems for six-axle locomotives from 2009 to 2011 from the Group to a member of the CSRG Group; (v) purchase orders for the production of electrical systems from 2008 to 2010 currently under negotiation between the Group and a member of the CSRG Group; (vi) an estimated average annual increase of approximately 30% for amount payable to the CSRG Group by the Group; and (vii) an estimated annual increase of approximately 30% for amount payable to the Group by the CSRG Group.

As the Parent Company has become an indirectly wholly-owned subsidiary of CSRG subsequent to the CSRG Reorganisation, transactions originally contemplated under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement will continue to be contemplated under the Renewed CSRG Mutual Supply Agreement upon expiry of the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement. In view of the above, we consider that it is reasonable to make reference to the historical transaction amounts under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement in determining the CSRG Caps.

In assessing the reasonableness of the CSRG Caps, we have discussed with the management of the Company regarding the assumptions used in determining the CSRG Caps. We note that (i) the Group's aggregate committed supply to the CSRG Group in relation to 200-250 km/h EMUs project and 300 km/h EMUs project for the year ending 31 December 2009 according to the supply schedule of the relevant sales contracts; (ii) the Group's anticipated supply of electrical systems for six-axle locomotives from 2009 to 2011 to the CSRG Group; and (iii) potential purchase orders from 2008 to 2010 currently under negotiation between the Group and the CSRG Group have been referred to for the purpose of determining the CSRG Caps. As advised by the Directors, the aforesaid anticipated supply and purchase orders have been determined with

LETTER FROM CSC ASIA

reference to the Group's understanding on the CSRG Group's business development potential based on their discussions and negotiations between the Group and the CSRG Group. Taking into account the above, we consider that it is reasonable to make reference to the Group's committed and potential supply to the CSRG Group in determining the CSRG Caps.

Taking into consideration anticipated average annual growth rate of new rail vehicles procurement by the MOR between 2009 and 2013 of approximately 30%, the Directors anticipated that there will be growth in the PRC railway industry. Taking into consideration of the Group's business growth in recent years and business expansion of the CSRG Group following the CSRC Reorganisation, the Directors envisage that there will be business growth for both the Group and the CSRG Group. In view of the above, we consider that using an annual growth rate of approximately 30% in determining the CSRG Caps to be justifiable.

Based on the foregoing, we consider that the basis of determining the CSRG Caps for the five years ending 31 December 2013 to be fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

(b) *KCR Caps*

Set out below are the maximum aggregate annual values of the transactions under the Renewed KCR Mutual Supply Agreement for the five years ending 31 December 2013:

| | | Year ending 31 December | | | | |
|----|--------------------------------------------------------------------------------------|--------------------------------|---------------|---------------|---------------|---------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | |
| | <i>(RMB millions)</i> | | | | | |
| 1. | Amount paid to the KCR Group by the Group for the products provided by the KCR Group | 100.0 | 130.0 | 170.0 | 221.0 | 287.0 |
| | <i>Growth rate (%)</i> | <i>34.41%</i> | <i>30.00%</i> | <i>30.77%</i> | <i>30.00%</i> | <i>29.86%</i> |
| 2. | Amount paid to the Group by the KCR Group for the products provided by the Group | 300.0 | 400.0 | 550.0 | 670.0 | 817.0 |
| | <i>Growth rate (%)</i> | <i>30.21%</i> | <i>33.33%</i> | <i>37.50%</i> | <i>21.82%</i> | <i>21.94%</i> |

LETTER FROM CSC ASIA

As set out in the Letter from the Board, the KCR Caps have been determined with reference to the following: (i) historical transaction amounts under the KCR Mutual Supply Agreement; (ii) an estimated annual increase of approximately 30% for amount payable by the Group; (iii) an estimated average annual increase of approximately 29% for the amount payable by the KCR Group.

As further set out in the Letter from the Board, the estimated annual increase of approximately 30% and 29% were primarily based on (i) the anticipated growth of the PRC railway industry; and (ii) KCR's committed supply to the MOR with total value of approximately RMB4,793 million to be completed from 2008 to 2010 in respect of 181 maintenance vehicles (the "KCR Supply Commitment").

Taking into account the KCR Mutual Supply Agreement is a natural extension of the existing mutual supply transactions between the Group and the KCR Group, we consider that it is reasonable to make reference to the historical transaction amounts under the KCR Mutual Supply Agreement in determining the KCR Caps.

As mentioned above, KCR is the dominant market player which accounted for approximately 80% of the market share in large railway maintenance vehicles market in the PRC in 2006 and the Group is currently the sole supplier to KCR of electrical control systems for large railway maintenance vehicles in the PRC. Further, as set out in the Letter from the Board, the Consortium was formed between KCR with the Parent Company (implemented by the Group) and three other companies to manufacture large railway maintenance vehicles. We have been advised by the Directors that pursuant to the Articles of the Consortium, the Consortium is led by KCR which will coordinate among the parties to the Consortium for the transactions to be undertaken by the Consortium. Accordingly, the anticipated increase in sales and purchase transactions in relation to the KCR Supply Commitment will be coordinated by KCR among the parties to the Consortium which will be transacted through KCR. As a result of the Consortium, the Group will provide electrical control systems to KCR in relation to the KCR Supply Commitment. Taking into consideration (i) the promising outlook of the PRC railway industry; (ii) the Group is KCR's exclusive supplier of electrical control systems for large railway maintenance vehicles in the PRC; and (iii) the anticipated increase in sales and purchase transactions of the KCR Group as a result of the KCR Supply Commitment, it is reasonable to believe that this will lead to an increase in mutual supply transactions between the Group and the KCR Group.

In view of the above, we are of the view that the basis of determining the KCR Caps for the five years ending 31 December 2013 to be fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

Based on aforesaid, we consider that the Renewed Annual Caps for the five years ending 31 December 2013 are fair and reasonable as far as the Company and the Independent Shareholders are concerned. However, the Shareholders should note that the Renewed Annual Caps for each of the five years ending 31 December 2013 relate to future events and are based on assumptions which may or

LETTER FROM CSC ASIA

may not remain valid for the entire period up to 31 December 2013, and they do not represent forecasts of turnover to be generated from the transactions contemplated under the Renewed Agreements. Consequently, we express no opinion as to how closely the actual turnovers to be generated under the transactions correspond with the Renewed Annual Caps.

4. Annual review of the Renewed Agreements

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the transactions contemplated under the Renewed Agreements are subject to certain annual review requirements. As advised by the Directors, the Company will comply with the annual review requirements of the transactions contemplated under the Renewed Agreements as required by the Listing Rules and will re-comply with the relevant Listing Rules if the Renewed Annual Caps are exceeded or, when the relevant agreements are renewed or, when there is a material change to the terms of the Renewed Agreements. In light of the above, we are of the view that there are appropriate measures in place to govern the conduct of the transactions contemplated under the Renewed Agreements and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons in respect to the Renewed Agreements and the Renewed Annual Caps, we are of the view that the transactions contemplated under the Renewed Agreements are in the ordinary and usual course of business of the Group and the terms (each of which is for a duration exceeding three years) of the Renewed Agreements are on normal commercial terms. We also consider that the terms of the Renewed Agreements and the Renewed Annual Caps are fair and reasonable insofar as the Independent Shareholders are concerned and that the entering into of the Renewed Agreements is in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to approve the Renewed Agreements and the Renewed Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
CSC Asia Limited

Andrew Chiu
Managing Director

Winnie Yau
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

2.1 Directors, supervisors and chief executive

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange in other ways pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

2.2 Substantial Shareholders

As at the Latest Practicable Date, so far as it was known to, or can be ascertained after reasonable enquiry by, the Directors, supervisors or chief executive of the Company, the persons/entities (other than a Director, supervisor or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

| Name of substantial shareholder | Number of Shares held | Capacity | % of Domestic Share share capital | % of H Share share capital | % of issued share capital |
|---------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|---------------------------|
| Parent Company | 589,585,699 (Long position) | Beneficial owner | 93.86% | — | 54.38% |
| CSRG (<i>Note 1</i>) | 618,347,237 (Long position) | Interest of controlled corporation | 98.43% | — | 57.03% |
| UBS AG | 32,890,256 (Long position) | Beneficial owner/ Interest of controlled corporation | — | 7.21% | 3.03% |
| | 29,405,000 (Short position) | Beneficial owner/ Person having a security interest in shares/ Interest of controlled corporation | — | 6.45% | 2.71% |

APPENDIX**GENERAL INFORMATION**

| Name of substantial shareholder | Number of Shares held | Capacity | % of | | |
|----------------------------------------------------|-------------------------------|--------------------|------------------------------|----------------------------|---------------------------|
| | | | Domestic Share share capital | % of H Share share capital | % of issued share capital |
| Mirae Asset Global Investments (Hong Kong) Limited | 36,701,000 (Long position) | Investment manager | — | 8.05% | 3.38% |
| The Hamon Investment Group Pte Limited | 36,810,000 (Long position) | Investment manager | — | 8.07% | 3.39% |

Note:

1. CSRG directly and indirectly holds the entire equity interest in CSR. CSR directly holds the entire equity interest in the Parent Company and New Leap respectively, and directly and indirectly holds 98.37% of the equity interest in CSR Zhuzhou. CSRG also directly holds the entire equity interest in Qishuyan Works. Accordingly, CSRG is deemed under the SFO to be interested in the Shares held by each of the Parent Company, New Leap, Qishuyan Works and CSR Zhuzhou.

As at the Latest Practicable Date, so far as it was known to, or can be ascertained after reasonable enquiry by, the Directors, supervisors or chief executive of the Company, the persons/entities (other than a Director, supervisor or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

| Name of subsidiary | Name of shareholder | % of equity interest |
|-------------------------------------------------------------------|------------------------------------------------------------|----------------------|
| Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd. | Zhuzhou Zhuoyue High Technology Enterprise Company Limited | 39% |

Save as disclosed above, as at the Latest Practicable Date and so far as it was known to, or can be ascertained after reasonable enquiry by, the Directors, supervisors and chief executive of the Company, there was no other entity who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the Latest Practicable Date, save for Messrs. Ding Rongjun (the chairman of the Board and an executive Director and a vice general manager of the Parent Company), Liao Bin (a non-executive Director and an executive director of the Parent Company), Song Yali (the vice chairman of the Board and a non-executive Director and a vice general manager of the Parent Company) and Ma Yunkun (a non-executive Director and the chairman of the board of KCR), the Directors are not aware of any Director who is a director or employee of the entities which had interests or short positions in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors nor supervisors had entered into, or proposed to enter into, any service contract with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the date of this circular.

5. INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates were interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

6. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors or CSC Asia had any interest, direct or indirect, in any asset which since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGES

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

8. CONSENT AND QUALIFICATION OF EXPERT

CSC Asia is a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO. Its letter of advice to the Independent Board Committee and the Independent Shareholders dated as of the date of this circular was given for the purpose of incorporation herein.

CSC Asia has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which they respectively appear.

As at the Latest Practicable Date, CSC Asia did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, CSC Asia did not have any interest, direct or indirect, in any assets which since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Jones Day in Hong Kong at 29/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 23 May 2008:

- (a) ZELRI Mutual Supply Agreement;
- (b) CSRG Mutual Supply Agreement;
- (c) KCR Mutual Supply Agreement;
- (d) the Renewed CSRG Mutual Supply Agreement;
- (e) the Renewed KCR Mutual Supply Agreement;
- (f) the letter from the Independent Board Committee, the text of which is set out on page 19 of this circular; and
- (g) the letter from CSC Asia, the text of which is set out on pages 20 to 32 of this circular.

10. MISCELLANEOUS

The English text of this circular shall prevail over its Chinese text in case of any discrepancies.

NOTICE OF EGM



(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3898)

Notice of the First Extraordinary General Meeting of 2008

Notice is hereby given that the First Extraordinary General Meeting of 2008 (the “EGM”) of Zhuzhou CSR Times Electric Co., Ltd. (the “Company”) will be held at Times Hotel, Zhuzhou City, Hunan Province, the People's Republic of China (the “PRC”) on Friday, 27 June 2008 at 2:00 p.m. to consider and, if thought fit, pass with or without amendments, the following resolutions:

AS ORDINARY RESOLUTIONS

“THAT:

1. the Renewed CSRG Mutual Supply Agreement dated 28 April 2008 entered into between CSRG and the Company (the details of which are set out in the circular dated 9 May 2008 despatched by the Company to its shareholders (the “Circular”)), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purpose, the CSRG Caps and the transactions contemplated thereunder; and
2. the Renewed KCR Mutual Supply Agreement dated 28 April 2008 entered into between KCR and the Company (the details of which are set out in the Circular), a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for identification purpose, the KCR Caps and the transactions contemplated thereunder;

be and are hereby approved and that the directors of the Company be and are hereby authorised to take any step as they consider necessary, desirable or expedient in connection therewith.”

By order of the Board
Ding Rongjun
Chairman

Zhuzhou, China, 9 May 2008

NOTICE OF EGM

Notes:

1. The register of members of the Company will be closed from Wednesday, 28 May 2008 to Friday, 27 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company (for holders of H shares) or the registered office address of the Company (for holders of domestic shares) no later than 4:30 p.m. on Tuesday, 27 May 2008.
2. Holders of H shares and domestic shares whose names appear on the register of members of the Company at the close of business on Tuesday, 27 May 2008 are entitled to attend and vote at the EGM and may appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or other authority, must be deposited to the H share registrar of the Company (for holders of H shares) or the registered office address of the Company (for holders of domestic shares) not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof.
4. Shareholders who intend to attend the EGM should complete and return the reply slip by hand or by post to the principal place of business of the Company in Hong Kong (for holders of H shares) or to the registered office address of the Company (for holders of domestic shares) on or before Friday, 6 June 2008.
5. Voting at the EGM will be conducted by way of poll.
6. The address of the H share registrar of the Company is as follows:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

7. The registered office address of the Company is as follows:

Times Road
Shifeng District
Zhuzhou
Hunan Province, 412001
PRC
Tel: 86 733 849 8028

NOTICE OF EGM

8. The principal place of business of the Company in Hong Kong is as follows:

Unit 1106 on 11th floor
Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong
Tel: 2189 7268

9. The EGM is expected to take half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.

As at the date of this circular, our chairman of the Board and executive Director is Ding Rongjun, our other executive Director is Lu Penghu, our non-executive Directors are Liao Bin, Song Yali and Ma Yunkun, and our independent non-executive Directors are Zhou Heliang, Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao'ao.