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If you are in doubt about this circular, you should consult your stockbroker, other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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 accompanying form of proxy 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.

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株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

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

(Stock Code: 3898)

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

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



A letter from the Board of the Company is set out on pages 5 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 and 14 of this circular. A letter from the independent financial adviser, Celestial Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 25 of this circular.

A notice convening the EGM to be convened on Friday, 10 June 2011 is set out on pages 30 to 31 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, 20 May 2011.

18 April 2011

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DEFINITIONS

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

“2011 Approved CSRG Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for the year ending 31 December 2011 approved by the then Independent Shareholders on 23 June 2009
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Celestial Capital”	Celestial Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Company”	Zhuzhou CSR Times Electric Co., Ltd. (株洲南車時代電氣股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange. The Group is the leading train-borne electrical system provider and integrator for the railway industry in the PRC
“CSR”	CSR Corporation Limited (formerly known as China South Locomotive & Rolling Stock Corporation Limited) (中國南車股份有限公司), a joint stock company incorporated in the PRC with limited liability, the A shares and the H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange respectively; CSR is directly and indirectly held as to approximately 55.07% by CSRG and holds the entire equity interest in the Parent Company
“CSR Investment”	南車投資租賃有限公司 (CSR Investment & Leasing Co., Ltd.), formerly known as 新力搏交通裝備投資租賃有限公司 (New Leap Transportation Equipment Investment & Leasing Co., Ltd.), a wholly-owned subsidiary of CSR
“CSR Zhuzhou”	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), a wholly-owned subsidiary of CSR

DEFINITIONS

“CSRG”	中國南車集團公司(CSR Group) (formerly known as 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 which is 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; the controlling shareholder of CSR
“CSRG Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for a term of five years commencing from 1 January 2009 to 31 December 2013 approved by the then Independent Shareholders on 23 June 2009
“CSRG First Supplemental Mutual Supply Agreement”	a supplemental agreement to the CSRG Renewed Mutual Supply Agreement entered into between CSRG and the Company on 14 April 2009
“CSRG Group”	CSRG and its subsidiaries (including the Parent Group but excluding the Group) and “CSRG Group Company” means any of them
“CSRG Renewed Mutual Supply Agreement”	a mutual supply framework agreement entered into between CSRG and the Company dated 28 April 2008
“CSRG Second Supplemental Mutual Supply Agreement”	a supplemental agreement to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) entered into between CSRG and the Company on 25 March 2011
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	domestic share(s) of RMB1.00 each in the share capital of the Company
“EGM”	an extraordinary general meeting of the Company to be convened on Friday, 10 June 2011 for the purpose of approving, among others, the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps by the Independent Shareholders, details of which are set out in the notice of EGM on pages 30 to 31 of this circular

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“Group”	the Company and its subsidiaries and “Group Company” means any 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 (which shall consist only of independent non-executive Directors) formed to advise the Independent Shareholders in relation to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps
“Independent Shareholders”	shareholders of the Company other than those who are required by the Listing Rules to abstain from voting on the resolution to approve the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps
“Latest Practicable Date”	13 April 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MOR”	Ministry of Railways of the PRC
“New CSRG Caps”	the revised maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Second Supplemental Mutual Supply Agreement for a term of three years commencing from 1 January 2011 to 31 December 2013
“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.), a limited liability company established under the laws of the PRC which is principally engaged in the research and development of electric locomotives and related products; the controlling shareholder of the Company, and a wholly-owned subsidiary of CSR
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)
“PRC”	the People’s Republic of China

DEFINITIONS

“Qishuyan Works”	中國南車集團戚墅堰機車車輛廠 (CSR Qishuyan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG
“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

For illustrative purposes of this circular, RMB84.17 = HKD100 save as otherwise stated.

LETTER FROM THE BOARD



株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

(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. Li Donglin

Non-executive Directors:

Mr. Deng Huijin
Mr. Yan Wu
Mr. Ma Yunkun

Independent non-executive Directors:

Mr. Gao Yucai
Mr. Chan Kam Wing, Clement
Mr. Pao Ping Wing
Mr. Tan Xiao'ao
Ms. Liu Chunru

Registered office:

Times 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

18 April 2011

To the Independent Shareholders

Dear Sir or Madam

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

1. BACKGROUND

Reference is made to the announcement dated 25 March 2011 issued by the Company in relation to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

The purpose of this circular is to provide you with, among other things, (i) details of the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps; (ii) a letter from Celestial Capital containing its advice to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation of the Independent Board Committee as advised by Celestial Capital to the Independent Shareholders; and (iv) a notice of the EGM to consider and, if thought fit, to approve the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

LETTER FROM THE BOARD

2. CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

Historical Transaction Records with CSRG Group

Set out below is a summary of the transaction records of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for the two years ended 31 December 2009 and 2010:

	Year ended 31December	
	2009	2010
	(RMB millions)	
CSRG Renewed Mutual Supply Agreement		
(as supplemented by the CSRG First Supplemental		
Mutual Supply Agreement)		
1. Amount paid to the CSRG Group by the Group for the products and services provided by the CSRG Group	181.19	520
2. Amount paid to the Group by the CSRG Group for the products and services provided by the Group	1,687.96	3,716

Reasons for Revision of CSRG Caps

Having taken into account of the projected growth in the relevant transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement), it is expected that the aggregate annual values of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for the three years from 1 January 2011 to 31 December 2013 will exceed the CSRG Caps.

Accordingly, on 25 March 2011, the Company entered into the CSRG Second Supplemental Mutual Supply Agreement with CSRG to revise the CSRG Caps for each of the three years ending 31 December 2011, 2012 and 2013 as follows:

	Year ending 31December		
	2011	2012	2013
	(RMB millions)		
CSRG Caps			
1. Amount to be paid to the CSRG Group by the Group for products and services provided by the CSRG Group	900	1,100	1,300
2. Amount to be paid to the Group by the CSRG Group for products and services provided by the Group	5,000	6,000	7,000

LETTER FROM THE BOARD

	Year ending 31December		
	2011	2012	2013
	<i>(RMB millions)</i>		
New CSRG Caps			
1. Amount to be paid to the CSRG Group by the Group for products and services provided by the CSRG Group	1,500	2,500	3,500
2. Amount to be paid to the Group by the CSRG Group for products and services provided by the Group	6,500	9,500	12,500

The New CSRG Caps are determined with reference to the following: (1) during the “Twelve Five” period, a large number of new railways such as the Beijing-Shanghai High-speed Railway will successively be put into operation, and investment in railways will be more towards procurement of locomotive equipment. As such, locomotives and electric multiple units electrical system related products of the Company will be benefited from this round of procurement peak; (2) the expected growth of railway industry in the PRC; (3) the business development potential of the CSRG Group; (4) the business development plan of the Group; (5) the historical transaction amounts under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) as shown in the section headed “Historical Transaction Records with CSRG Group”; (6) a sales contract and supply schedule regarding the 7,200 kilowatt electric locomotives entered into between the Group and a member of the CSRG Group; (7) a sales contract and supply schedule regarding the 350km/h electric multiple units entered into between the Group and a member of the CSRG Group in 2010; and (8) the anticipated demand for city railways.

As at the Latest Practicable Date, the 2011 Approved CSRG Caps have not been exceeded.

Principal Terms of CSRG Second Supplemental Mutual Supply Agreement

Under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement), 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 facilities for related research and development, production and testing purposes. 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 related products, and facilities for related research and development, production and testing purposes.

Pursuant to the CSRG Second Supplemental Mutual Supply Agreement, the parties agreed to revise the scope of products and services provided under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) by including technical services and providing electrical system, instead of train-borne electrical systems. 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 electrical systems and

LETTER FROM THE BOARD

electrical components), parts and components, technical services and after-sales services, and facilities for related research and development, production and testing purposes. 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, technical services and after-sales services for the Group's integration and assembly of electrical systems and other related products, and facilities for related research and development, production and testing purposes.

Save and except for the New CSRG Caps and the revised scope of products and services as stated in this circular, the principal terms of the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) (including the pricing and payment terms) which have been set out in the announcements of the Company dated 28 April 2008 and 14 April 2009 remain unchanged under the CSRG Second Supplemental Mutual Supply Agreement and are summarised as follows:

- Pricing basis : The pricing for the products and/or services supplied by and/or to the CSRG Group will be determined on the following basis in the order of priority:
- (a) the prices prescribed by the PRC Government (if any);
 - (b) the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
 - (c) 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
 - (d) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group's forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.

LETTER FROM THE BOARD

Payment terms : Payments for the products and/or services supplied by and/or to the CSRG Group will be settled by way of cash or such other means as agreed by the parties upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies and the CSRG 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. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Parent Company is the controlling shareholder of the Company. CSRG directly and indirectly holds approximately 55.07% equity interest in CSR. CSR directly holds the entire equity interest in the Parent Company. CSRG is therefore a connected person of the Company under the Listing Rules.

As the CSRG Caps for the three years from 1 January 2011 to 31 December 2013 are expected to be exceeded, pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with Rules 14A.35(3) and (4) of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) for the New CSRG Caps is more than 25% and the annual consideration is more than HK\$10,000,000, the CSRG Second Supplemental Mutual Supply Agreements and the New CSRG Caps are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

4. LISTING RULES REQUIREMENTS

A meeting of the Board was held on 25 March 2011 at which the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps were reviewed and approved. At the said meeting of the Board, Mr. Ding Rongjun (the chairman of the Board, an executive Director and a general manager of the Parent Company) and Mr. Deng Huijin (a non-executive Director and a deputy general manager of the Parent Company) were abstained from the examination of and voting on the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps due to conflict of interests.

The Directors (excluding Mr. Ding Rongjun and Mr. Deng Huijin but including the independent non-executive Directors after receiving the advice from Celestial Capital, the independent financial adviser) consider that the CSRG Second Supplemental Mutual Supply Agreement were entered into in the ordinary and usual course of business of the Group and the terms thereof and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties which are fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned. The CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps are conditional upon, among others, the Independent Shareholders' approval in respect thereof.

LETTER FROM THE BOARD

The Company will disclose information in relation to the CSRG Second Supplemental Mutual Supply Agreement in its subsequent published annual report and accounts in accordance with Rule 14A.45 of the Listing Rules.

5. AN INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all the independent non-executive Directors, namely Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao-ao and Ms. Liu Chunru, has been formed to advise the Independent Shareholders in relation to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps, taking into account the recommendations on the same by the independent financial adviser.

Celestial Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

6. EGM

The Directors propose to seek the Independent Shareholders' approval at the EGM to approve the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps. Notice of the EGM to be held at Qingdao Kilin Crown Hotel, Qingdao, the PRC, on Friday, 10 June 2011 at 11:00 a.m. is set out on pages 30 to 31 of this circular.

For the purposes of the EGM, the register of members of the Company will be closed from Wednesday, 11 May 2011 to Friday, 10 June 2011, 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 Monday, 9 May 2011.

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, 20 May 2011.

LETTER FROM THE BOARD

7. POLL PROCEDURE

The votes at the EGM will be taken by poll.

8. VOTING ARRANGEMENTS

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

Each of the Parent Company, CSR Zhuzhou, CSR Investment and Qishuyan Works is an associate of CSRG and shall therefore abstain from voting at the EGM on resolutions to consider and approve the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG 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, CSR Investment 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, CSR Investment and Qishuyan Works;
 - (ii) there were no obligation on or entitlement of any of the Parent Company, CSR Zhuzhou, CSR Investment and Qishuyan Works as at the Latest Practicable Date, whereby any of the Parent Company, CSR Zhuzhou, CSR Investment 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, CSR Investment 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.

9. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 13 and 14 of this circular, the letter from Celestial Capital set out on pages 15 to 25 of this circular which contains the recommendation of Celestial Capital to the Independent Board Committee and the Independent Shareholders in relation to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps, and the principal factors and reasons considered by Celestial Capital in arriving at its recommendation.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Celestial Capital and the principal factors and reasons considered by Celestial Capital, considers that the CSRG Second Supplemental Mutual Supply Agreement were entered into in the ordinary and usual course of business of the Group and the terms thereof and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties which are fair and reasonable insofar as the interests of the Company and the Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

10. 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, 18 April 2011

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

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

18 April 2011

To the Independent Shareholders Dear Sir or Madam

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

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 CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps 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 CSRG Second Supplemental Mutual Supply Agreement and to advise the Independent Shareholders as to whether, in our opinion, such transactions were and such terms are fair and reasonable insofar as the interests of the Company and the Independent Shareholders as a whole are concerned. Celestial Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Celestial Capital as set out in the Circular. Having taking into account the principal factors and reasons considered by and the advice of Celestial Capital as set out in its letter of advice, we consider that the CSRG Second Supplemental Mutual Supply Agreement were entered into in the ordinary and usual course of business of the Group, the terms of the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties which are fair and reasonable

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

insofar as the interests of the Company and the Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote at the upcoming EGM in favour of the ordinary resolutions to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Mr. Tan Xiao'ao

Ms. Liu Chunru

Independent non-executive Directors

LETTER FROM CELESTIAL CAPITAL

The following is the text of a letter of advice from Celestial Capital to the Independent Board Committee and the Independent Shareholders in relation to the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps for the purpose of incorporation in this circular.



Celestial Capital Limited
21st Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

18 April 2011

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the CSRG Second Supplemental Mutual Supply Agreement entered into between the Company and CSRG for the purpose of further supplementing the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement), together with the New CSRG Caps set out therein, particulars of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 18 April 2011 (the "Circular") issued by the Company to the Shareholders, of which this letter forms part. Terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Parent Company is the controlling Shareholder. CSR directly holds the entire equity interest in the Parent Company. CSRG directly and indirectly holds approximately 55.07% equity interest in CSR. CSRG is therefore a connected person of the Company under the Listing Rules.

The CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) was entered into by the Group and the CSRG Group for the purpose of governing the mutual supply transactions between the two groups for the five years from 1 January 2009 to 31 December 2013. As set out in the Letter from the Board, the CSRG Caps under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for the three years from 1 January 2011 to 31 December 2013 are expected to be exceeded. On 25 March 2011, the Company entered into the CSRG Second Supplemental Mutual Supply Agreement with CSRG to revise the CSRG Caps for the three years from 1 January 2011 to

LETTER FROM CELESTIAL CAPITAL

31 December 2013 and the scope of products and services provided under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement). Pursuant to rule 14A.36 of the Listing Rules, the Company is therefore required to re-comply with rules 14A.35(3) and (4) of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) for the New CSRG Caps set out in the CSRG Second Supplemental Mutual Supply Agreement is more than 25% and the annual consideration is more than HKD10,000,000, the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps are subject to the reporting, announcement and independent shareholders' approval requirements set out in rules 14A.45 to 14A.48 of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing, Tan Xiao'ao and Ms. Liu Chunru, has been established to advise the Independent Shareholders as to whether the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders which are concerned as a whole. In this regard, we have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, amongst other things, the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps.

BASIS OF OUR OPINION

In formulating our opinion and recommendation in relation to the terms of the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps, we have relied on the information, facts and representations provided by, and the opinions expressed by the Directors and management of the Company and its subsidiaries. We have also relied on the information, facts and representations contained or referred to in the Circular and have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate on the date of the Circular. We have also assumed that all statements of beliefs, and opinions made by the Directors in the Circular were reasonably made after due enquiry and the expectations and intentions made by the Directors and management of the Company and its subsidiaries will be met or carried out as the case may be. We consider that we have reviewed sufficient information on which to form a reasonable basis for our opinion and have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

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We have relied on such information and opinions and have not, however, carried out any independent verification of the information provided by the Directors and management of the Company and its subsidiaries, nor have we conducted any independent investigation into the businesses, affairs, assets and liabilities or future prospects of the Group, the CSRG Group or their respective associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation regarding the terms of the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into the CSRG Second Supplemental Mutual Supply Agreement

(a) Established business relationship with the CSRG Group

The Group is principally engaged in the areas of research, development, manufacture and sale of locomotive train power converters, control systems and other train-borne electrical systems, as well as the development, manufacture and sale of urban railway train electrical systems. In addition, the Group is engaged in the design, manufacture and sale of electrical components, rapid transit vehicles, passenger cars and railway maintenance machinery for the railway industry, urban railway industry and non-railway purposes.

CSRG, a PRC State-owned enterprise, is principally engaged in the areas of research, development, manufacture, sale, 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 businesses that utilise proprietary rolling stock technologies.

The Directors have advised us that the Group has an established business relationship in respect of the mutual provision of products and services between the Group and the CSRG Group for years and such transactions fall within the respective ordinary and usual course of businesses of the Group and the CSRG Group. At present, the mutual supply transactions between the two groups have been governed by the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement).

As advised by the Directors, after years of mutual supply transactions between the Group and the CSRG Group, they are of the opinion that the CSRG Group is familiar with the Group's standards and specifications, and vice versa; in addition, the two groups have been able to meet and respond promptly to any of the other's new requirements throughout the years.

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Furthermore, we have noticed that the terms of the mutual supply transactions between the Group and the CSRG Group under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) are subject to the quarterly review by the independent non-executive Directors, and the disclosure of their view in respect of such transactions to the Shareholders by way of announcements (the “Quarterly Announcements”). As set out in the Quarterly Announcements, up to the fourth quarter ended 31 December 2010, the transactions carried out pursuant to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) were, amongst other things, on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders which are concerned as a whole, and were conducted in accordance with the Group’s pricing policies and the terms of the relevant agreements governing such transactions.

(b) *Anticipated growth in transactions with the CSRG Group*

At present, the mutual supply transactions between the Group and the CSRG Group are contemplated under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) and subject to the CSRG Caps, details of which are set out in the announcements of the Company dated 28 April 2008 and 14 April 2009 and the Company’s circulars to the Shareholders dated 9 May 2008 and 5 May 2009. The CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) and the CSRG Caps were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 23 June 2009.

As set out in the paragraph headed “New CSRG Caps” below, the transactions carried out by the Group and the CSRG Group pursuant to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) were within the CSRG Caps for each of the two years ended 31 December 2010. However, having taken into account the projected growth in the relevant transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) based on the reasons set out in the paragraph headed “Reasons for Revision of CSRG Caps” in the Letter from the Board, the Directors expect that the aggregate annual values of such transactions for the three years from 1 January 2011 to 31 December 2013 will exceed the CSRG Caps. Accordingly, the Company and CSRG entered into the CSRG Second Supplemental Mutual Supply Agreement for the purposes of revising upward the CSRG Caps for each of the three years ending 31 December 2013, and revising the scope of products and services provided by each of the Group and the CSRG Group under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement).

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2. New CSRG Caps

By entering into the CSRG Second Supplemental Mutual Supply Agreement, the Group and the CSRG Group have agreed to revise upward the CSRG Caps to the New CSRG Caps for each of the three years ending 31 December 2013, details of which are as follows:

		Year ending 31 December		
		2011	2012	2013
		(RMB millions)		
CSRG Caps				
1.	Amount to be paid to the CSRG Group by the Group for the products and services provided by the CSRG Group	900	1,100	1,300
2.	Amount to be paid to the Group by the CSRG Group for the products and services provided by the Group	5,000	6,000	7,000
New CSRG Caps				
1.	Amount to be paid to the CSRG Group by the Group for the products and services provided by the CSRG Group	1,500	2,500	3,500
	Growth rate from the preceding year	188.46% (Note 1)	66.67%	40%
2.	Amount to be paid to the Group by the CSRG Group for the products and services provided by the Group	6,500	9,500	12,500
	Growth rate from the preceding year	74.91% (Note 2)	46.15%	31.58%

Notes:

1. The growth rate is calculated on the basis of the amount paid to the CSRG Group by the Group for the products and services provided by the CSRG Group for the year ended 31 December 2010 of approximately RMB520 million and the corresponding New CSRG Cap for the year ending 31 December 2011.
2. The growth rate is calculated on the basis of the amount paid to the Group by the CSRG Group for products and services provided by the Group for the year ended 31 December 2010 of approximately RMB3,716 million and the corresponding New CSRG Cap for the year ending 31 December 2011.

Details of the bases for determining the New CSRG Caps are set out in the Letter from the Board. We note in the Letter from the Board that in determining the New CSRG Caps, references have been

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principally made to the following: (1) during the “Twelve Five-year Plan” period (from 2011 to 2015), a large number of new railways such as the Beijing-Shanghai High-speed Railway will successively be put into operation, and investment in railways will be more towards procurement of locomotive equipment. As such, locomotives and electric multiple units (“EMU”) electrical system related products of the Company will be benefited from this round of procurement peak; (2) the expected growth of China’s railway industry; (3) the business development potential of the CSRG Group; (4) the business development plan of the Group; (5) the historical transaction amounts under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) as shown in the section headed “Historical Transaction Records with CSRG Group” of the Letter from the Board; (6) a sales contract and supply schedule regarding the 7,200 kilowatt electric locomotives entered into between the Group and a member of the CSRG Group; (7) a sales contract and supply schedule regarding the 350 km/h EMU entered into between the Group and a member of the CSRG Group in 2010; and (8) the anticipated demand for city railways.

(a) *Historical transactions under the CSRG Renewed Mutual Supply Agreement*

Set out below is the a summary of the records of the transactions carried out under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) for each of the two years ended 31 December 2010 as extracted from the Letter from the Board:

	Year ended 31 December	
	2009	2010
	(RMB millions)	
1. Amount paid to the CSRG Group by the Group for the products and services provided by the CSRG Group (Note 1)	181.19	520
2. Amount paid to the Group by the CSRG Group for the products and services provided by the Group (Note 2)	1,687.96	3,716

Notes:

1. *The CSRG Caps for the amount paid to the CSRG Group by the Group for its products and services were RMB400 million and RMB700 million in respect of each of the two years ended 31 December 2010 respectively.*
2. *The CSRG Caps for the amount paid to the Group by the CSRG Group for its products and services were RMB2,800 million and RMB4,000 million in respect of each of the two years ended 31 December 2010 respectively.*

As demonstrated in the table above, the transactions carried out by the Group and the CSRG Group pursuant to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) were within the CSRG Caps for each of the two years ended 31 December 2010.

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Given that the CSRG Second Supplemental Mutual Supply Agreement has been entered into by the Company and CSRG for the purposes of revising upward the CSRG Caps for each of the three years ending 31 December 2013 and revising the scope of products and services provided by each of the Group and the CSRG Group under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement), we consider that, in setting the New CSRG Caps, it is reasonable for the parties to make reference to, amongst other things, the historical transaction amounts under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement).

(b) *Expected growth of the PRC railway market*

We have discussed with the Group's management and understand that, in revising upward the CSRG Caps to the New CSRG Caps, the Directors have taken into consideration, amongst other things, the expected growth of the PRC railway market, in particular the continuous development of electrification of railway lines, which in turn is expected to boost the transactions between the Group and the CSRG Group under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) in the coming future.

According to information respectively released by the National Bureau of Statistics of China (中華人民共和國國家統計局) and the Ministry of Railways of the PRC,

- (i) the total capital investments in the PRC railways (including investments in railway construction and procurement of locomotives) amounted to approximately RMB834 million in 2010;
- (ii) the total capital investments in the PRC railways increased by 20.7%, 61.5%, 69.1% and 18.8% during 2007, 2008, 2009 and 2010, respectively;
- (iii) it is expected that the total operational lengths of the PRC railways will increase by approximately 8.79% from approximately 91,000 km by the end of 2010 to approximately 99,000 km by the end of 2011; and
- (iv) the rate of electrification of railway lines increased from 31.2% in 2005 to 46.2% in 2010.

We note that although the growth in the PRC railway market was slow down in 2010, it is expected that the market will continue to grow given the total operational lengths of the PRC railways will increase from 91,000 km in 2010 to more than 120,000 km by 2015. In particular, the rate of electrification of railway lines is expected to increase from 46.2% in 2010 to 60% by 2015. Accordingly, we concur with the Directors' view that the development in the PRC railway market, including the opportunities related to the expected continuous growth in the electrification of railway lines in the PRC (for instance the Group's business in supplying electrical locomotives and electrical systems), is positive in the coming future.

(c) *Business development of the Group*

We have also discussed with the management of the Group in respect of its business development plan. As set out in the Letter from the Board and the paragraph headed "Outlook" of the Company's

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announcement dated 25 March 2011 regarding the financial results of the Group for the year ended 31 December 2010, it is expected that as a large number of new railways such as the Beijing-Shanghai High-speed Railway will successively be put into operation during the “Twelve Five-year Plan” period, investment in railways will be more towards procurement of locomotive equipment and rolling stock. As such, the locomotives and EMU electrical system related products of the Group will be benefited from this round of procurement peak. In addition, the Company plans to extend its operations to the three major industry markets, including mainline railways, metropolitan rails and extension of core technology. As a whole, in order to cope with the expected business growth and extension of the operation of the Company, the expected procurement by the Group from its suppliers, including the CSR Group, throughout the course of manufacturing and provision of the products of the Group will increase accordingly. As mentioned above, the amounts paid by the Group to the CSR Group for its products and services increased substantially by approximately 186.99% from RMB181.19 million in 2009 to RMB520 million in 2010.

With regard to the supply of 7,200 kilowatt electric locomotives and 350 km/h EMU by the Group to the CSR Group, we understand from the management of the Group that (i) a sales contract and supply schedule regarding the provision of the Group’s 7,200 kilowatt electric locomotives was entered into between the Group and a member of the CSR Group in September 2010, for the maximum contract sum of up to approximately RMB2,331 million (up to the end of February 2011, transactions for a total of approximately RMB2,069 million have been carried out under such sales contract and supply schedule for the Group’s 7,200 kilowatt electric locomotives); (ii) a sales contract and supply schedule regarding the 350 km/h EMU of the Group was entered into between the Group and a member of the CSR Group in April 2010, for the maximum contract sum of up to approximately RMB5,145 million (up to the end of February 2011, transactions for a total of approximately RMB1,030 million have been carried out under such sales contract and supply schedule for the 350 km/h EMU of the Group. We have been further advised by the management of the Company that save for the two sales contracts and supply schedules for the Group’s 7,200 kilowatt electric locomotives and the 350 km/h EMU, respectively, certain other sales contracts have been, and are expected to be, entered into between the Group and the CSR Group for the three years ending 31 December 2013 in the ordinary and usual course of business of the Group.

We have further discussed with the Group’s management in respect of the increases in the New CSR Caps during the three years ending 31 December 2013 on an annual basis. The Directors consider that such increases have been determined by making reference to, amongst other things, the increase in the amounts paid by the Group to the CSR Group for its products and services by approximately 186.99% in 2010 and the increase in the amounts paid by the CSR Group to the Group for its products and services by approximately 120.15% in 2010. In addition, as advised by the management of the Group, the Directors are of the view that such increases in the New CSR Caps on an annual basis will not only provide the Group with flexibility in coping with the growth in the PRC railway industry and catering for unforeseeable growth in the MOR’s procurement of locomotives which will eventually result in the increased demand of train-borne electrical systems and related parts and components of the Group by the CSR Group, but also will minimise the Group’s risk of losing potential business opportunities with the CSR Group in the event that the New CSR Caps are insufficient for transacting business with the CSR Group to cope with the growth in the PRC railway industry.

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With reference to the abovementioned, we consider that the basis of determining the New CSRG Caps for the three years ending 31 December 2013 is fair and reasonable insofar as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the CSRG Second Supplemental Mutual Supply Agreement

Pursuant to the CSRG Second Supplemental Mutual Supply Agreement, the parties agreed to revise the scope of products and services provided under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Agreement). The Company has agreed to supply and procure its subsidiaries to supply to the CSRG Group (including the Parent Group but excluding the Group) certain products (including electrical systems and electrical components), parts and components, technical services and after-sales services, and related facilities for research and development, production and testing purposes. CSRG has agreed to supply and procure its subsidiaries (including the Parent Group but excluding the Group) to supply to the Group certain parts and components, technical services and after-sales services for the Group's integration and assembly of electrical systems and other products, and related facilities for research and development, production and testing purposes. The Directors have confirmed that the products and services set out in the CSRG Second Supplemental Mutual Supply Agreement will be provided and acquired by the Group in its ordinary and usual course of business.

We note that, pursuant to the CSRG Second Supplemental Mutual Supply Agreement, the scope of products and services covered is revised to include technical services as well as to provide electrical systems, instead of train-borne electrical systems. As advised by the Group's management, such revision is to extend the coverage of the scope of products and services under the CSRG Renewed Mutual Supply Agreement in order to facilitate the business development of the Group and the CSRG Group. The Group's management has further advised us that the newly included items are related to the products and services originally provided under the CSRG Renewed Mutual Supply Agreement. Having considered that the revision is in consistency with the original scope of products and service covered under the CSRG Renewed Mutual Supply Agreement; and the provision of such newly included products and services will be subject to the same terms and conditions thereunder (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) (as discussed below), we consider that the revision of the scope of products and services is in the Company's ordinary and usual course of business and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Save and except for the New CSRG Caps and the revised scope of products and services as stated in the Letter from the Board, the principal terms of the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) (including the pricing and payment terms) which have been set out in the announcements of the Company dated 28 April 2008 and 14 April 2009, and in the circular of the Company dated 5 May 2009, remain unchanged under the CSRG Second Supplemental Mutual Supply Agreement and are summarised as follows:

Pricing basis:

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

- (a) the prices prescribed by the PRC Government (if any);
- (b) the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- (c) 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
- (d) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group's forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.

Payment terms:

Payments for the products and/or services supplied by and/or to the CSRG Group will be settled by way of cash or such other means as agreed by the parties upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies and the CSRG 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.

Having considered the terms of the CSRG Second Supplemental Mutual Supply Agreement, in particular the fact that the payment basis and the payment terms set out above have not been changed by the CSRG Second Supplemental Mutual Supply Agreement, and the confirmation from the Directors that the products and services set out in the CSRG Second Supplemental Mutual Supply

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Agreement will be provided and acquired by the Group in its ordinary and usual course of business, we consider that the terms of the CSRG Second Supplemental Mutual Supply Agreement are fair and reasonable insofar as the Independent Shareholders are concerned, and the entering into the CSRG Second Supplemental Mutual Supply Agreement are in the interests of the Company and the Shareholders as a whole.

CONCLUSION

Having considered the above principal factors and reasons, we are of the view that the terms of the CSRG Second Supplemental Mutual Supply Agreement, including the New CSRG Caps, are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the CSRG Second Supplemental Mutual Supply Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the CSRG Second Supplemental Mutual Supply Agreement and the New CSRG Caps to be proposed at the EGM.

Yours faithfully,
for and on behalf of
Celestial Capital Limited

Daphne Ng
Managing Director

Michael Lam
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular 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	Approximate	Approximate	Approximate
			% 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%
CSR (note 1)	608,966,468 (Long position)	Interest in controlled entity	96.95%	—	56.16%
CSRG (note 2)	618,347,237 (Long position)	Interest in controlled entity	98.44%	—	57.03%
JP Morgan Chase & Co.	692,000 (Long position)	Beneficial owner	—	0.15%	0.06%

APPENDIX

GENERAL INFORMATION

Name of substantial shareholder	Number of Shares held	Capacity	Approximate	Approximate	Approximate
			% of Domestic Share share capital	% of H Share share capital	% of issued share capital
	2,804,000 (Long position)	Investment manager	—	0.61%	0.26%
	32,765,977 (Long pool shares)	Custodian/ Approved lending agent	—	7.18%	3.02%
FIL Limited	32,972,296 (Long position)	Investment manager	—	7.23%	3.04%
Allianz SE	27,207,700 (Long position)	Interest in controlled entity	—	5.97%	2.51%
Fortis Investment Management SA	23,544,000 (Long position)	Investment manager	—	5.16%	2.17%

Note:

- (1) CSR is interested in 100% in the registered capital of the Parent Company, CSR Zhuzhou and CSR Investment. Accordingly, CSR is deemed under the SFO to be interested in the shares held by each of the Parent Company, CSR Zhuzhou and CSR Investment.
- (2) CSRG is directly and indirectly interested in approximately 55.07% of the issued shares of CSR, and is directly interested in 100% in the registered capital of Qishuyan Works. Accordingly, CSRG is deemed under the SFO to be interested in the shares held by each of CSR and Qishuyan Works.

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 person/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 was, 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) and Mr. Deng Huijin (a non-executive Director and a deputy manager of the Parent Company), 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 Celestial Capital had any interest, direct or indirect, in any asset which since 31 December 2010, 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 2010, 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

Celestial Capital 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.

Celestial Capital 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, Celestial Capital 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, Celestial Capital did not have any interest, direct or indirect, in any assets which since 31 December 2010, 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 Minter Ellison in Hong Kong at 15/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours from the date of this circular up to and including 3 May 2011 (both dates inclusive);

- (a) the CSRG Renewed Mutual Supply Agreement;
- (b) the CSRG First Supplemental Mutual Supply Agreement;
- (c) the CSRG Second Supplemental Mutual Supply Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 13 and 14 of this circular; and
- (e) the letter from Celestial Capital, the text of which is set out on pages 15 and 25 of this circular and the consent letter from Celestial Capital.

10. MISCELLANEOUS

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

NOTICE OF EGM



株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

(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 2011

NOTICE IS HEREBY given that the First Extraordinary General Meeting of 2011 (the “EGM”) of Zhuzhou CSR Times Electric Co., Ltd. (the “Company”) will be held at Qingdao Kilin Crown Hotel, Qingdao, the People's Republic of China (the “PRC”) on Friday, 10 June 2011 at 11:00 a.m. to consider and, if thought fit, pass with or without amendments, the following resolutions: -

AS ORDINARY RESOLUTION

“THAT:

the CSRG Second Supplemental Mutual Supply Agreement dated 25 March 2011 entered into between CSRG and the Company (the details of which are set out in the circular dated 18 April 2011 despatched by the Company to its shareholders), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purpose, the New CSRG Caps and the transactions contemplated thereunder be and are hereby approved and that the directors of the Company be and are hereby authorized to take any step as they consider necessary, desirable or expedient in connection therewith.”

By order of the Board
Ding Rongjun
Chairman

Zhuzhou, China, 18 April 2011

Notes:

1. The register of members of the Company will be closed from Wednesday, 11 May 2011 to Friday, 10 June 2011, 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 Monday, 9 May 2011.
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 Monday, 9 May 2011 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 shareholder of the Company.

NOTICE OF EGM

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, 20 May 2011.
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
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: 852 2189 7268
9. The EGM is expected to take half a day. Shareholders or their proxies attending the EGM shall be responsible for their own travel and accommodation expenses. Shareholders or their proxies shall produce their identification documents for verification when attending the EGM.

As at the date of this announcement, our chairman of the Board and executive director is Ding Rongjun, our vice chairman of the Board and non-executive director is Deng Huijin, our other executive director is Li Donglin, our non-executive directors are Yan Wu and Ma Yunkun, and our independent non-executive directors are Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing, Tan Xiao'ao and Liu Chunru.