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ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

Implementation Rules and Regulations of the Audit Committee

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ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

Implementation Rules and Regulations of the Audit Committee

CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to strengthen the decision making function of the board of Zhuzhou CSR Times Electric Co., Ltd (“the Company”), to achieve pre-audit and professional audit and to ensure the effective supervision by the board on the management as well as improving the Company’s corporate governance structure, the Company specifically established the Audit Committee of the board and formulated these Implementation Rules and Regulations in accordance with, among others, the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Opinions on Further Standardizing Operations and Reform of Companies Listed Outside the PRC (hereinafter referred to as the “Opinions”), the Mandatory Provisions for Articles of Association of Companies Seeking a Listing Outside the PRC (hereinafter referred to as the “Mandatory Provisions”) and other related laws and administrative regulations, the Articles of Association of Zhuzhou CSR Times Electric Co., Ltd. (hereinafter referred to as the “Articles of Association”) and the applicable rules of the stock exchange(s) on which the shares of the Company are listed (“Listing Rules”).

Article 2 Audit Committee of the board is a body specifically established by the board in accordance with the resolution of the shareholders meeting, which is mainly responsible for communication with the internal and external audit of the Company, supervision and verification.

CHAPTER 2 MEMBERSHIP

Article 3 The Audit Committee shall be composed of three or more non-executive directors, more than half of whom shall be independent non-executive directors. At least one of the independent non-executive director shall be an accounting professional.

Article 4 The members of the Audit Committee shall be nominated by the chairman of the board or more than half of the independent directors or one-third of all directors and be elected by the board.

Article 5 The Committee shall have a chairman who must be an independent non-executive director and shall take charge of the Committee’s works. The chairman shall be elected by the Committee from its members and the election of which shall become effective after the result has been reported to, and approved by, the board.

Article 6 The term of office of a Committee member shall be consistent with his term as a director. Upon the expiration of his term, a member may serve a consecutive term if re-elected. Where a member ceases to be a director of the Company during the term, his membership shall be terminated automatically and the replacement shall be appointed by the Committee in accordance with Articles 3 to 5 above.

Article 7 The working team under the Committee shall be responsible for, among others, the day-to-day works, liaison and meeting organization.

CHAPTER 3 POWERS AND DUTIES

Article 8 The principal powers and duties of the Audit Committee are:

- (1) to be primarily responsible for making recommendations to the board on the appointment, reappointment, replacement and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (3) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the board, identifying and making recommendations on any matters where action or improvement is needed;
- (4) to review and monitor integrity of the Company's financial statements and annual report and accounts, half-year report (including their disclosures) and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the board, the Audit Committee should focus particularly on:-
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (5) Regarding (4) above:
 - (i) members of the Audit Committee should liaise with the board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (6) the power to guide and supervise the works of the audit department;
- (7) to review the Company's financial information and its disclosure;

- (8) to review the internal control system of the Company and the power to veto material internal control documents;
- (9) to conduct audit on major connected transactions;
- (10) to review the group's financial and accounting policies and practices;
- (11) to review and monitor the Company's financial controls, internal control and risk management systems;
- (12) to review and monitor the implementations of the internal audit system, anti-fraud procedures and risk management system of the Company;
- (13) to discuss the internal control system with the senior management to ensure that the senior management has performed its duty to have an effective internal control system. This discussion should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (14) to consider major investigation findings on internal control matters as delegated by the board or on its own initiative and the senior management's response to these findings;
- (15) to be responsible for the communication between internal and external auditors; to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (16) to review the statement from the external auditor regarding the audit and the response from the Company's senior management, to review the external auditor's management letter (or document(s) of the same or similar nature), any material queries raised by the auditor to the senior management about accounting records, financial accounts or systems of control and the senior management's response;
- (17) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter (or document(s) of the same or similar nature);
- (18) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (19) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (20) to report to the board on the matters set out in paragraph C.3.3 of the Code of Provision and Corporate Governance Report which forms Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
- (21) other matters as prescribed by applicable laws, regulations, the Articles of Association, the Listing Rules and as authorized by the board.

Article 9 The Audit Committee shall be accountable to the board. The proposals of the Committee shall be submitted to the board for consideration and decision. The Audit Committee shall cooperate with the supervisory committee with respect to its audit activities.

The Audit Committee shall report the implementation of the works for the previous year and the working plan for the current year to the board in the first meeting of every year.

CHAPTER 4 DECISION-MAKING PROCEDURES

Article 10 The working team shall be responsible for the preliminary preparations for the decision-making of the Committee and providing the information relevant to the audit matters in writing:

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

Article 11 The meetings of the Audit Committee shall discuss and consider the reports submitted by the working team, and shall submit its relevant written resolutions to the board for its discussion:

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

CHAPTER 5 RULES OF PROCEEDINGS

Article 12 The meetings of Audit Committee can be classified into regular meetings and extraordinary meetings. The regular meeting shall be held at least four times every year, extraordinary meeting shall be held if proposed by members of the Audit Committee. All members of the Committee shall be notified five (5) days prior to any meeting. The meetings of the Committee shall be chaired by the chairman of the Committee. If the chairman is unable to attend the meeting, he or she may appoint another member who is an independent non-executive director to chair the meeting.

Article 13 The meetings of the Audit Committee shall be held only with the presence of over two-thirds of the members. Each member shall be entitled to one vote. The resolutions made at the meeting must be approved by more than half of the members of the Committee.

Article 14 At the meetings of the Audit Committee (including extraordinary meetings), voting shall be made by a show of hands or by casting of votes. Meetings may take the form of telephone conference or be conducted through other similar communication devices and as long as the members participated can hear each other clearly, all members participated shall be deemed to have attended such meetings in person. In addition, meetings can also be convened and resolutions thereat be made by way of communication.

Article 15 Members of the working team may attend the meetings of the Audit Committee as observers. Directors, supervisors and other senior management members of the Company may be invited to attend such meetings as observers if necessary.

Article 16 The Company shall provide the Audit Committee with sufficient resources to perform its duties. If necessary, the Audit Committee may appoint intermediaries to provide independent professional advice for its decision-making and the costs and expenses shall be borne by the Company.

Article 17 The convening procedure and voting method of the meetings of the Audit Committee and the resolutions passed at such meetings shall comply with the relevant laws, regulations, the Articles of Association, these Implementation Rules and Regulations and the Listing Rules.

Article 18 The Audit Committee should keep minutes for their meetings. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Committee for their comment and records respectively within a reasonable time after the meeting. The members of the Committee who attended the meeting should sign on the minutes. The minutes of the meetings shall be kept by the secretary to the board.

Article 19 Resolutions passed by and voting results of the meetings of the Committee shall be reported to the board in writing.

Article 20 Members present at the meetings shall have an obligation to keep all matters discussed in such meetings confidential, and shall not disclose the relevant information without authorization.

CHAPTER 6 SUPPLEMENTARY PROVISIONS

Article 21 These Implementation Rules and Regulations shall come into effect on the date on which these Implementation Rules and Regulations were approved by board resolution (“Rules Effective Date”).

Article 22 Any matters not covered by these Implementation Rules and Regulations shall be implemented in accordance with the provisions of the relevant laws and regulations of the PRC, the Listing Rules and the Articles of Association. Should these Rules and Regulations conflict with the relevant laws and regulations of the State or the Listing Rules coming into effect after the Rules Effective Date or the Articles of Association amended after the Rules Effective Date through lawful procedures and implemented subsequently, the relevant State laws and regulations, the Listing Rules and the Articles of Association of the Company as amended after the Rules Effective Date shall prevail, and these Rules and Regulations shall be revised immediately and the revision shall be reported to the board for consideration and approval.

Article 23 The power to interpret these Rules and Regulations rests with the board.