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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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**

**中国南车**

**ZHUZHOU CSR TIMES ELECTRIC CO., LTD.**

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

**(Stock Code: 3898)**

**PROPOSED ADOPTION OF SHARE APPRECIATION RIGHTS SCHEME  
AND  
NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF  
2012**

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A notice convening the EGM to be convened at the Science and Technology Building, Zhuzhou CSR Times Electric Co., Ltd., Times Road, Shifeng District, Zhuzhou, Hunan Province, the PRC, on Thursday, 27 December 2012 at 9:30 a.m. is set out on pages 23 to 25 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, 7 December 2012.

12 November 2012

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## DEFINITIONS

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

“Articles”	the articles of association of the Company, as amended from time to time
“Board”	the board of Directors of the Company
“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
“Date of Grant”	the date the SARs are granted pursuant to the Scheme which shall be Trading Day and shall be determined by the Board according to the relevant laws and regulations
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) of RMB1.00 each in the share capital of the Company
“Effective”	the Eligible Recipients may exercise their rights in the SARs according to the provisions, and upon fulfilling the conditions on timing and results, as provided in the Scheme
“Effective Date”	the date the SARs becoming Effective
“EGM”	an extraordinary general meeting of the Company to be convened on Thursday, 27 December 2012 for the purpose of approving, among others, the Share Appreciation Rights Scheme, details of which are set out in the notice of EGM on pages 23 to 25 of this circular
“Eligible Recipient(s)”	the recipient(s) eligible for the grant of SARs and who will be proposed to receive the SARs under the Scheme
“Exercise Date”	the date at which an Eligible Recipient exercise the SARs to realize gains from the SARs
“Exercise Period”	the period of three years after the Effective Date
“Exercise Price”	the pre-set exercise price of the SARs
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“H Shares”	the overseas listed foreign invested ordinary shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, traded in Hong Kong dollars under the share capital of the Company, such shares of which are listed on the Main Board of the Stock Exchange
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Latest Practicable Date”	8 November 2012, 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
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“Remuneration Committee”	the remuneration committee of the Company
“PRC”	the People’s Republic of China
“Proposed Grant”	the proposed grant of an aggregate of approximately 9,544,000 units of SARs to a total of up to 315 Eligible Recipients under the Scheme upon satisfaction of the granting conditions and subject to the approval by the Shareholders at the EGM
“Share Appreciation Rights” or “SARs”	the share appreciation rights granted under the Scheme, representing the rights to receive stipulated earnings from the increase in share price of H Shares granted by the Company to the Eligible Recipients subject to specific timeframe and conditions
“Share Appreciation Rights Scheme” or the “Scheme”	the H Share appreciation rights scheme of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Share(s)”	Domestic Share(s) and/or H Share(s)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Day”	the date the Stock Exchange is open for trading marketable securities

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Ding Rongjun (*Chairman*)

Mr. Li Donglin

*Non-executive Directors:*

Mr. Deng Huijin

Mr. Yan Wu

Mr. Ma Yunkun

*Registered office:*

Times Road

Shifeng District

Zhuzhou

Hunan Province

PRC 412001

*Independent non-executive Directors:*

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Ms. Liu Chunru

*Principal Place of Business in Hong Kong:*

Unit 1106, 11th Floor

Jubilee Centre

18 Fenwick Street

Wanchai

Hong Kong

12 November 2012

*To the Shareholders*

Dear Sir or Madam

**PROPOSED ADOPTION OF SHARE APPRECIATION RIGHTS SCHEME  
AND  
NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING OF  
2012**

**1. BACKGROUND**

Reference is made to the announcement of the Company dated 1 November 2012 in relation to the proposed adoption of the Scheme.

The purpose of this circular is to provide you with information about the Scheme and to give you notice of the EGM.

**2. PROPOSED ADOPTION OF THE SCHEME**

In order to establish a long-term incentive mechanism that links the remuneration of the Directors, senior management, core technical staff, key management staff and other employees with

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## LETTER FROM THE BOARD

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the Company's business results so as to contribute to the realisation of the Company's long-term strategic goals and the maximisation of Shareholders' value, the Scheme was considered and approved by the Board and the Remuneration Committee on 1 November 2012. In addition, the Scheme has been submitted by the Company to SASAC for review and will be subject to the approval by SASAC and the Shareholders' approval at the EGM.

A summary of the principal terms of the Scheme are set out in Appendix to this circular.

### **Reasons for adopting the Scheme**

The Directors are of the view that the Scheme will be able to provide long-term incentive to the Directors, senior management, core technical staff, key management staff and other employees of the Group and promote the continuous development of the business of the Group and consider that the proposed terms and conditions of the Scheme are fair and reasonable.

The independent non-executive Directors are also of the view that the proposed terms and conditions of the Scheme are fair and reasonable and the adoption of the Scheme and the Proposed Grant are in the interests of the Company and its Shareholders as a whole.

### **Proposed Grant under the Scheme**

The Board proposed the Proposed Grant of an aggregate of approximately 9,544,000 units of SARs to a total of up to 315 Eligible Recipients, comprising 7 Directors and senior management, 94 key management staff, 172 core technical staff and 42 other key staff as at the Latest Practicable Date, upon satisfaction of the granting conditions, and subject to the approval of the Scheme and the Proposed Grant by the Shareholders at the EGM. The Eligible Recipients and their entitlements have been proposed by the Remuneration Committee in accordance with each conditions of grant stipulated under the Scheme.

## LETTER FROM THE BOARD

A summary of the details of the Proposed Grant is set out below:

No.	Name/ Personnel hierarchy Position		Personnel hierarchy level	Number of personnel	Number of units of SARs to be granted*	Approximate percentage of total number of units of SARs to be granted per hierarchy level to			Total number of units of SARs to be granted under the Proposed Grant*
						Total number of units of SARs to be granted per hierarchy level*	Total number of H Shares in issue*	Total Shares in issue*	
<b>A. Directors and Senior Management</b>									
1	Du Jin Song (杜勁松)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
2	Chen Jian (陳劍)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
3	Xiao Shao Ping (肖紹平)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
4	Liu Da Xi (劉大喜)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
5	Tan Yong Neng (譚永能)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
6	Niu Jie (牛杰)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
7	Yan Wu (言武)	Manager	A-level	1	41,000	41,000	0.009%	0.004%	0.43%
	Sub-total			7		287,000	0.063%	0.026%	3.01%
<b>B. Key Management Staff</b>									
8	Mid-level	Manager	A-level	9	36,000	324,000	0.071%	0.030%	3.39%
9	Management	Manager	B1-level	28	33,000	924,000	0.203%	0.085%	9.68%
10	Staff	Manager	B2-level	57	30,000	1,710,000	0.375%	0.158%	17.92%
	Sub-total			94		2,958,000	0.649%	0.273%	30.99%
<b>C. Core Staff</b>									
11		Technical	A-level	2	38,000	76,000	0.017%	0.007%	0.80%
12		Technical	B1-level	23	32,000	736,000	0.161%	0.068%	7.71%
13		Technical	B2-level	147	29,000	4,263,000	0.935%	0.393%	44.67%
14	Core staff	Professional Management	B2-level	14	29,000	406,000	0.089%	0.037%	4.25%
15		Sales	B1-level	2	32,000	64,000	0.014%	0.006%	0.67%
16		Sales	B2-level	26	29,000	754,000	0.165%	0.070%	7.90%
	Sub-total			214		6,299,000	1.381%	0.581%	66.00%
	<b>Total</b>			<b>315</b>		<b>9,544,000</b>	<b>2.092%</b>	<b>0.880%</b>	<b>100%</b>

\*Note: The Scheme has set 30 March 2012 as the simulated Date of Grant. After the actual Date of Grant is determined, the number of units of SARs to be granted shall be recalculated based on the actual Date of Grant and a corresponding adjustment shall be made to the abovementioned figures calculated.

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## LETTER FROM THE BOARD

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### General Information

Pursuant to the Scheme, the Eligible Recipients who are granted with such incentive do not actually hold the Shares, and do not have any rights as the Shareholders such as voting rights or rights to dividends. Only the Eligible Recipients are entitled to the SARs, which cannot be transferred, sold, exchanged, gifted, guaranteed, charged, pledged or applied to settle indebtedness. In the event any Eligible Recipients who is granted with the SARs breaches any of the aforesaid provisions, upon determination by the Board, a portion or all of the SARs will automatically lapse and the benefits derived therefrom will return to the Company.

Under the Scheme, each SAR is linked with one H Share and the SAR is to be settled by way of cash. Therefore, this does not affect the total number of H Shares outstanding and will not result in any dilution effect on the Shares of the Company. The Scheme does not involve the grant of options over any new Shares of the Company. Therefore, it is not required to be subject to the provisions in Chapter 17 of the Listing Rules.

The above list of Eligible Recipients and their entitlements for the Proposed Grant are proposals only, subject to the Shareholders' approval of the Scheme and the Proposed Grant at the EGM, and further announcement will be made by the Company accordingly. As at the Latest Practicable Date, the proposed grant of the SARs to the Director(s) had been approved by the independent non-executive Directors.

The Scheme and the Proposed Grant are subject to the Shareholders' approval at the EGM. In addition, to ensure the smooth implementation of the Scheme and the Proposed Grant, Shareholders' approval will also be sought at the EGM for the grant of authority to the Board to deal with matters relevant to the Scheme.

Any Eligible Recipients who hold or whose associates (as defined under the Listing Rules) hold any Shares of the Company (if any) will abstain from voting on the resolution approving the adoption of the Scheme and the Proposed Grant at the EGM.

### 3. EGM

A notice convening the EGM of the Company to be held at the Science and Technology Building, Zhuzhou CSR Times Electric Co., Ltd., Times Road, Shifeng District, Zhuzhou, Hunan Province, the PRC on Thursday, 27 December 2012 at 9:30 a.m. is set out on pages 23 to 25 of this circular.

For the purposes of the EGM, the register of members of the Company will be closed from Wednesday, 28 November 2012 to Thursday, 27 December 2012, 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 November 2012.



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## LETTER FROM THE BOARD

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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](http://www.hkex.com.hk)). 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, 7 December 2012.

#### 4. VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The chairman of the meetings will therefore demand a poll for every resolution put to vote at the EGM in accordance with the Articles. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5).

#### 5. RECOMMENDATIONS

The Directors believe that adoption of the Scheme and the Proposed Grant are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions set out in the notice of EGM enclosed to this circular.

Yours faithfully,  
By order of the Board  
**Ding Rongjun**  
*Chairman*

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## **APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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*The following is a summary of the principal terms of the Scheme proposed to be approved and adopted by the Shareholders at the EGM. The following is not and will not constitute part of the terms of the Scheme, and hence does not affect any interpretation of the terms of the Scheme.*

### **1. General Principles**

The Share Appreciation Rights Scheme has been formulated in accordance with the Trial Procedures for State-owned Listed Companies (Overseas) to Implement Equity Incentive Plans (SASAC Remuneration Board No. [2006] 8), Notice on Regularizing Relevant Issues of Implementing Equity Incentive Plans of State-owned Listed Companies (SASAC Remuneration Board No. [2008] 171) issued by SASAC and the relevant regulations for Hong Kong listed companies and combined with the actual situation of the Company.

### **2. Objectives of the Scheme**

- (a) To establish a long-term incentive mechanism with constraints based on the market economic principles and the Company's strategic development needs in order to support the Company's long-term development and to maximize Shareholders' value; and
- (b) To optimize the remuneration packages of key employees and make it more competitive in order to better attract and retain the key management staff and core technical staff to serve the Company so as to provide protection to the long-term development of the Company.

### **3. Principles of the Scheme**

- (a) Link key employees' individual interests to Company's long-term performance;
- (b) Balance incentives and constraints;
- (c) Balance benefits and risks; and
- (d) Balance market competitiveness and internal equity.

### **4. Validity**

Subject to the approval by the SASAC and the approval by the Shareholders in general meeting, the Scheme is valid for seven years, commencing from the date on which the Scheme is approved by the Shareholders in general meeting.

### **5. Scheme Overview**

SARs is a long-term incentive vehicle of the Company. SARs refer to a certain amount of rights being granted to the Eligible Recipients, through which the Eligible Recipients can obtain a particular amount of gain from such SARs during a particular period and under certain conditions.

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## **APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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The Eligible Recipients who are granted with such incentive do not actually hold the Shares, and do not have any rights as the Shareholders such as voting rights or rights to dividends. Only the Eligible Recipients are entitled to the SARs, which cannot be transferred, sold, exchanged, gifted, guaranteed, charged, pledged or applied to settle indebtedness. In the event any Eligible Recipients who is granted with the SARs breaches any of the aforesaid provisions, upon determination by the Board, a portion or all of the SARs will automatically lapse and the benefits derived therefrom will return to the Company.

Each SAR is linked with one H Share.

Under the Scheme, the SAR is to be settled by way of cash. Therefore, this does not affect the total number of H Shares outstanding and will not result in any dilution effect on the Shares of the Company.

The Scheme is intended to be a one-time grant only. If the Company wishes to implement any other share appreciation rights scheme in the future, it will need to obtain the approvals from both the SASAC and the Shareholders.

### **6. Eligible Recipients**

The recipients eligible for the grant of the SARs under the Scheme are those senior management and key persons who contribute substantially to the realization of the Company's strategic missions, such as:

- (a) Directors (excluding independent non-executive Directors and external directors), General Manager, Deputy General Manager, Assistant to General Manager, Chief Administrative Officer, Secretary to the Board and other executives who are affirmed by the Articles; and
- (b) Core technical staff, key management staff and other staff of the Group nominated by the Board.

Independent non-executive Directors and external directors, supervisors or Shareholders holding 5% or more interest in the Company or such ultimate beneficial owners or their associates (as defined in the Listing Rules) shall not be the Eligible Recipients under the Scheme except with the approvals of Shareholders in general meeting and the relevant authorities.

The Board has the right to interpret the scope of the Scheme. The Remuneration Committee shall propose the list of Eligible Recipients to be approved by the Board. An Eligible Recipient cannot at the same time participate in two or more share incentive schemes of any listed companies.

### **7. Allocation under the Scheme**

- (a) The total amount of the SARs granted under the Scheme shall not exceed 1% of the total share capital of the Company.

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**APPENDIX SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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- (b) The total amount of the SARs granted under the Scheme and any other share incentive schemes (if any) shall not in aggregate exceed 10% of the relevant class of securities of the Company.
- (c) Except with the approval of Shareholders in general meeting, the total amount of SARs granted under the Scheme and any other share incentive schemes (if any) to any Eligible Recipient shall not at any time in aggregate exceed 1% of the relevant class of securities of the Company.

**8. Date of Grant**

The Date of Grant shall be determined by the Board in accordance with the Scheme after the Scheme has been approved by the Shareholders and informed to the Eligible Recipients. The Date of Grant should be a Trading Day and if such date is not a Trading Day, it shall be the next Trading Day following such date.

The SARs must not be granted within five days after disclosure of material information is made. In addition, the Company needs to comply with the following requirements:

- (a) The Company shall not grant any SARs if anything which will affect Share price has occurred or if a decision which will affect Share price is to be made, until appropriate disclosure has been made; and
- (b) The Company shall not grant any SARs within 60 days before the announcement of its annual financial results, or within 30 days before the announcement of its interim or quarterly financial results, until and including the date of announcement; and if such announcement is delayed, the Company shall not grant any SARs during such extended period.

**9. Conditions of Grant**

The Company and each Eligible Recipient shall fulfil certain conditions in order to make the SARs to be granted, including but not limited to:

- (a) Compound annual growth rate in revenue of the Company for the three financial years prior to the grant of the SARs shall not be lower than 20% and shall not be lower than 50 percentile of such growth rate in revenue of peer benchmark companies in the same period;
- (b) Weighted average return on net assets (weighted average return on net assets after deducting non-recurring gains and losses) for the three financial years prior to the grant of the SARs shall not be lower than 12% and shall not be lower than 50 percentile of such return on net assets of peer benchmark companies in the same period;

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## APPENDIX SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME

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- (c) None of the following has occurred to the Company:
  - (i) The auditors of the Company having provided an adverse opinion or a disclaimer of opinion in the Company's financial and accounting report for the latest financial year; or
  - (ii) Other circumstances which, in the opinion of the SASAC, the Stock Exchange or other regulatory authorities, would render the implementation of the Scheme impossible.
- (d) Such Eligible Recipient has worked for the Group for more than a year and is still under employment of the Group on the Date of Grant; and
- (e) Such Eligible Recipient shall obtain a grade of pass or above in the performance appraisal for the financial year prior to the Date of Grant.
- (f) None of the following has occurred to the Eligible Recipient:
  - (i) Public censure or declaration as an improper candidate by the Stock Exchange during the last three years; or
  - (ii) Circumstances under which the Eligible Recipient is prohibited from acting as a director or a senior management as stipulated in the relevant laws and regulations.

As at 2011, the Company's weighted average return on net assets for the previous three years after deducting the non-recurring gains and losses was 15.36%, and the three-year compound annual growth rate in revenue was 48.98%. In addition, none of the events stated in (c) above has occurred. Accordingly, the Company has fulfilled the conditions of grant under the Scheme.

### 10. Exercise Arrangements

The SARs granted pursuant to the Scheme is valid for seven years from the Date of Grant and upon the expiry of which all unexercised SARs shall automatically lapse.

The Eligible Recipient must exercise SARs during the Exercise Period and failure to do so will cause the SARs to automatically lapse which shall not be exercised retrospectively.

After two years from the Date of Grant, if the Company and each Eligible Recipient fulfil the Effective conditions, the SARs shall become Effective in principle according to the following proportions:

- (a) From the date of the second anniversary of the Date of Grant, one-third of the SARs (the "**First Batch of SARs**") granted to each Eligible Recipient shall become Effective which can be exercisable during the period from the first Trading Day after the date of the second anniversary of the Date of Grant to the last Trading Day before the date of the fifth anniversary of the Date of Grant;

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## APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME

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- (b) From the date of the third anniversary of the Date of Grant, one-third of SARs (the “**Second Batch of SARs**”) granted to each Eligible Recipient shall become Effective which can be exercisable during the period from the first Trading Day after the date of the third anniversary of the Date of Grant to the last Trading Day before the date of the sixth anniversary of the Date of Grant; and
- (c) From the date of the fourth anniversary of the Date of Grant, one-third of SARs (the “**Third Batch of SARs**”) granted to each Eligible Recipient shall become Effective which can be exercisable during the period from the first Trading Day after the date of the fourth anniversary of the Date of Grant to the last Trading Day before the date of the seventh anniversary of the Date of Grant.

Only SARs that are already Effective may be exercised. The portion of SARs which have not become Effective may not be exercised.

The SARs granted pursuant to the Scheme shall not be exercisable in the following periods:

- (a) During the restricted period of exercising the SARs;
- (b) Outside the validity period of the SARs;
- (c) From the period of 30 days prior to the announcement of the Company’s regular report and until the date of such announcement;
- (d) During the determination process of any major transactions or major events and until the date of such announcement;
- (e) If the Eligible Recipient is a Director, within 60 days before the announcement of the Company’s annual results, and within 30 days before the announcement of the Company’s interim or quarterly results, until and including the date of such announcement;
- (f) From the date of acknowledging any price sensitive information and until and including the date of the disclosure of such information; or
- (g) Any other period specified by the Stock Exchange prohibiting the sale and purchase of the Shares by the Directors or employees of the Company (and its subsidiaries).

### 11. Effective Conditions

The Company and each Eligible Recipient shall fulfil certain conditions for that particular year in order to make the related batch (one-third of the SARs granted) of SARs become Effective, including but not limited to:

- (a) Annual growth rate in revenue of the Company for each of the financial year preceding the Effective Date of the First Batch of SARs, the Second Batch of SARs and the Third Batch of SARs shall not be lower than 25% and shall not be lower than 75 percentile of such growth rate in revenue of peer benchmark companies in the same period;

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**APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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- (b) Weighted average return on net assets (weighted average return on net assets after deducting non-recurring gains and losses) for the financial year preceding the Effective Date of the First Batch of SARs, the Second Batch of SARs and the Third Batch of SARs shall not be lower than 13%, 14% and 15% respectively and shall not be lower than 75 percentile of such return on net assets of peer benchmark companies in the same period;
- (c) None of the following has occurred to the Company:
  - (i) the auditors of the Company having provided an adverse opinion or a disclaimer of opinion in the Company's financial and accounting report for the latest financial year; or
  - (ii) other circumstances which, in the opinion of the SASAC, the Stock Exchange or other regulatory authorities would render the implementation of the Scheme impossible; and
- (d) Such Eligible Recipient shall obtain a grade of pass or above in the performance appraisal for the financial year preceding any SAR becoming Effective.

If the actual benefits derived from the SARs exceed 40% of the total remuneration of the Eligible Recipient, the remaining unexercised portion of the SARs shall not become Effective, regardless of whether the Effective conditions of the said remaining unexercised portion of the SARs of the said recipient have been fulfilled or not.

If the Company or the Eligible Recipient fails to fulfil such conditions for that particular year, such batch (one-third of the SARs granted) of SARs which have been granted to such Eligible Recipient shall forthwith lapse.

## **12. Exercise Price**

The Exercise Price of the SARs shall be determined by the Board with reference to the higher of the following two prices:

- (a) The closing price for the H Shares of the Company on the Stock Exchange on the Date of Grant; or
- (b) The average closing price for the H Shares of the Company on the Stock Exchange for five consecutive Trading Days prior to the Date of Grant.

## **13. Performance Appraisal of the Eligible Recipients**

The performance appraisal for the Eligible Recipients are implemented in accordance with the Measures of Performance Appraisal for Eligible Recipients of the Share Appreciation Rights Scheme of the Company.

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**APPENDIX SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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The Effective proportion of SARs which an Eligible Recipient is entitled to exercise under the Scheme is linked to the performance appraisal benchmarks as follows:

<b>Evaluation Grade</b>	<b>Performance Grade</b>	<b>Effective Proportion of SARs</b>
A	Excellent	100%
B	Good	100%
C	Satisfactory	90%
D	Pass	80%
E	Fail	0%

Any cash gains to be received by the senior management of the Company as a result of exercising the SARs shall be deposited into the designed bank account set up for the Eligible Recipients, and not less than 20% of such cash gains so deposited shall remain in that account and can be withdrawn until that senior management has passed the performance appraisal upon the expiry of the term of service. If such senior management fails at the performance appraisal, the SARs for the relevant assessment period shall automatically lapse.

#### 14. Method and Procedure for Adjustment of the Scheme

In the event there is any change in the number of issued Shares of the Company and the Share price as a result of bonus issue, transfer of capital reserve fund for increase of share capital, placing, new share issue, merger or share swap, the Company shall make corresponding adjustment to the Exercise Price and/or the amounts of SARs which have been granted but not yet exercised in the following manner:

- (a) In the event of a bonus issue or transfer of capital reserve fund for increase of share capital:

$$Q=Q_0 \times (1+n)$$

where  $Q_0$  represents the amount of SARs before adjustment;  $n$  represents the ratio of increase per share as a result of bonus issue or transfer of capital reserve fund for increase of share capital; and  $Q$  represents the adjusted amount of SARs; and

$$P=P_0 \div (1+n)$$

where  $P_0$  represents the Exercise Price before adjustment;  $n$  represents the ratio of increase per share as a result of bonus issue or transfer of capital reserve fund for increase of share capital; and  $P$  represents the adjusted Exercise Price.



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**APPENDIX SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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- (b) In the event of a placing:

$$Q=Q_0 \times (1+n)$$

where  $Q_0$  represents the amount of SARs before adjustment;  $n$  represents the ratio of increase per share as a result of a placing; and  $Q$  represents the adjusted amount of SARs; and

$$P=(P_0+P_1 \times n)/(1+n)$$

where  $P_0$  represents the Exercise Price before adjustment;  $n$  represents the ratio of increase per share as a result of a placing; and  $P$  represents the adjusted Exercise Price.

- (c) In the event of new share issue, the same adjustments as in a placing would apply if the issue is made to the existing Shareholders with ex-entitlement treatment. If the issue is made to the existing Shareholders without ex-entitlement treatment, no adjustment is required.
- (d) In the event of a share swap as a result of a merger (regardless of a merger by incorporation or a merger by absorption):

$$Q=Q_0 \times n$$

where  $Q_0$  represents the amount of SARs before adjustment;  $n$  represents the ratio of increase per share resulting from a share swap; and  $Q$  represents the adjusted amount of SARs; and

$$P=P_0 \div n$$

where  $P_0$  represents the Exercise Price before adjustment;  $n$  represents the ratio of increase per share resulting from a share swap; and  $P$  represents the adjusted Exercise Price.

If the Company swap its shares through the merger by absorption of other companies, no adjustment is required.

Shareholders in general meetings shall authorise the Board to make corresponding adjustment to the amounts of SARs and the Exercise Price upon occurrence of bonus issue, transfer of capital reserve fund for increase of share capital, placing, new share issue, merger or share swap, etc. The Company should seek professional legal opinion from lawyers to advise the Board as to whether the relevant adjustments comply with the relevant laws and regulations, the Articles and the Scheme. An independent financial advisor or auditors of the Company shall present its opinion on the adjustment in writing to the Board and confirms that the related adjustment complies with the provisions of the Scheme.

If there is a need to adjust the amount, Exercise Price and other terms of the SARs for any other reason, it shall be resolved by the Board and approved by the Shareholders.

**15. Grant Process of the SARs**

- (a) The Remuneration Committee shall be responsible for formulating the Scheme and the specific allocation plan, including the scope of Eligible Recipients, the main parameters of the Black-Scholes pricing model and the Exercise Price for SARs, etc.
- (b) The Remuneration Committee shall determine the list of Eligible Recipients in accordance with the Scheme, review whether their performance appraisals fulfil the conditions of grant, and submit the list of the Eligible Recipients to the Board for consideration.
- (c) The Remuneration Committee shall follow the standards and principles stated in the Scheme in determining the SARs allocation policy, evaluating the performance results of Eligible Recipients and determining the amount of SARs to be granted based on the performance appraisal results.
- (d) The Supervisory Committee shall verify whether the list of Eligible Recipients is in line with the intended scope of Eligible Recipients and the conditions of grant.
- (e) The Board shall consider the specific allocation plan submitted by the Remuneration Committee.
- (f) After fulfilment of the conditions of grant, the Board shall approve the specific allocation plan and determine the Date of Grant.
- (g) The Remuneration Committee shall be responsible for handling specific allocation matters.

**16. The Exercise Procedure**

As long as the Eligible Recipients meet the Effective conditions, they can exercise the rights at any time within the Exercise Period according to individual needs.

Only when the Company receives all of the following documents before the expiry of the Exercise Period can the Company consider an exercise application valid:

- (a) An exercise notice (“**Exercise Notice**”) signed by the Eligible Recipient or his/her legitimate beneficiary. The Exercise Notice shall state the amount of SARs to exercise, expected Exercise Date and the share price at which to exercise, etc; and
- (b) A copy of the SARs grant agreement (“**Grant Agreement**”) signed by the Eligible Recipient or his/her legitimate beneficiary.

During the specified Exercise Period, when the share price meets the pre-set share price as indicated in the Exercise Notice, the Company shall then send a written notice to the Eligible Recipient to confirm the completion of exercise within one week after the Exercise Date, including the calculation of cash gains.

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If share price fails to meet the pre-set share price as indicated in the Exercise Notice within the specified period, the Company shall within one week after the expiry of the period send out a written notice of failure to exercise, the Eligible Recipient can re-submit his/her Exercise Notice for application again before the expiration of the Exercise Period.

According to the terms of the Scheme, the Company shall calculate the cash gains from exercising the SARs as follows:

(a) *For those receiving the cash gains in the PRC:*

Cash gains from exercising the SARs = the amount of SARs exercised  $\times$  (pre-set Share price as indicated in the Exercise Notice — Exercise Price as indicated in the Grant Agreement)  $\times$  exchange rate at the Exercise Date (being the average exchange rate of HKD to RMB quoted by the People's Bank of China) — relevant tax payable (in accordance with applicable tax laws of the PRC);

(b) *For those receiving the cash gains in Hong Kong:*

Cash gains from exercising the SARs = the amount of SARs exercised  $\times$  (pre-set Share price as indicated in the Exercise Notice — Exercise Price as indicated in the Grant Agreement) — relevant tax payable (in accordance with the applicable tax laws of Hong Kong);

(c) *For those receiving the cash gains in other countries:*

Cash gains from exercising the SARs = the amount of SARs exercised  $\times$  (pre-set Share price as indicated in the Exercise Notice — Exercise Price as indicated in the Grant Agreement)  $\times$  exchange rate at the Exercise Date (being the average foreign exchange rate quoted by the People's Bank of China) — relevant tax payable (in accordance with the relevant tax laws applicable to the Eligible Recipient);

Cash gains from SARs and interests accrued thereon should be paid in July to the Eligible Recipients who exercise their SARs during the period from 1 January to 30 June of that year. Cash gains from SARs and interests accrued thereon should be paid in January to the Eligible Recipients who exercise their SARs during the period from 1 July to 31 December for the previous year. Interest rates shall be in line with the prevailing deposit interest rates of the corresponding period.

### 17. Terms and Conditions

To fully reflect the characteristics of the Scheme combined with constraints of the Scheme, the Eligible Recipients must comply with the following terms and conditions:

- (a) Eligible Recipients shall not dispose SARs held under the Scheme on their own and the SARs cannot be transferred, sold, exchanged, gifted, guaranteed, charged, pledged or applied to settle indebtedness, etc.

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## APPENDIX SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME

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- (b) Eligible Recipients must avoid behaviours that are prejudicial to the interests of the Company, including major derelictions of duties, major decision-making mistakes resulting in substantial damages to the Company's interests and disposals of SARs in violation of (a) above. In the event any Eligible Recipient breaches any of the aforesaid provisions, upon determination by the Board, a portion or all of the SARs will automatically lapse and the benefits derived therefrom will return to the Company.
- (c) Determination and treatment of the above behaviours of the Eligible Recipients shall be based on the relevant laws, rules and regulations and that of the Company, and the Company shall handle in line with the corresponding procedures accordingly.

### 18. Exercise under Special Circumstances

If an Eligible Recipient under the Scheme has changed his/her job position, the amount of SARs granted, the conditions of grant and the Effective conditions shall remain unchanged provided that he/she remains in employment with the Company.

For departure of an Eligible Recipient (refers to one who is no longer employed by the Company for various reasons other than the reasons indicated above):

- (a) Upon expiry of the employment contract for the Eligible Recipient, if neither the Company nor such Eligible Recipient is willing to renew such employment contract: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month upon his/her departure, or shall lapse after this deadline; any Effective but unexercised SARs shall be exercised within six months upon the departure, or shall lapse after this deadline; any SARs which has not become Effective shall be forfeited.
- (b) If an Eligible Recipient is transferred to another company during his/her term of service as per the Company's request: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month upon his/her departure, or shall lapse after this deadline; any Effective but unexercised SARs shall be exercised within six months upon the departure, or shall lapse after this deadline; any SARs which has not become Effective shall be forfeited.
- (c) If an Eligible Recipient is dismissed by the Company due to individual performance reasons (including violating employees' handbook of the Company or was found guilty by the courts in the PRC) during the term of his/her employment contract: the undrawn portion of his/her cash gains from exercising the SARs shall be forfeited; the unexercised SARs (including the Effective and not yet Effective SARs) shall be forfeited automatically.
- (d) If an Eligible Recipient resigns before the expiry of the term of his/her employment contract that has been agreed by the Company; the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month upon his/her departure, or shall lapse after this deadline; the unexercised SARs (including the Effective and not yet Effective SARs) shall be forfeited automatically.

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**APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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- (e) If an Eligible Recipient leaves the Company without the Company's agreement during the term of his/her employment contract: the undrawn portion of his/her cash gains from exercising the SARs shall be forfeited; the unexercised SARs (including the Effective and not yet Effective SARs) shall be forfeited automatically.

If an Eligible Recipient cannot perform his/her duties due to disability: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month since the date of disability; or shall lapse after this deadline; the Effective but unexercised SARs shall be exercised within six months since the date of disability, or shall lapse after this deadline; the SARs which has not become Effective shall be forfeited.

In the event of retirement of an Eligible Recipient: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month upon his/her retirement; or shall lapse after this deadline; the Effective but unexercised SARs shall be exercised within six months upon the retirement, or shall lapse after this deadline; the portion which has not yet become Effective shall be forfeited.

In the event of death of an Eligible Recipient: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month upon the date of death by his/her personal representative; or shall lapse after this deadline; the Effective but unexercised SARs shall be exercised within six months upon the date of death by his/her personal representative, or shall lapse after this deadline; the SARs which has not become Effective shall be forfeited.

When there is a change in control, merger or demerger of the Company: the undrawn portion of his/her cash gains from exercising SARs can be withdrawn within one month; or shall lapse after this deadline; the Effective but unexercised SARs shall be exercised within six months, or shall lapse after this deadline; the SARs which has not become Effective shall be forfeited.

#### **19. Termination of the Scheme**

The Scheme shall be terminated if any of the following applies to the Company:

- (a) The auditors of the Company has provided an adverse opinion or a disclaimer of opinion in the audit report of the most recent financial year;
- (b) The Company has been dissolved or liquidated; or
- (c) Other circumstances which, in the opinion of the relevant regulatory authorities, would render the implementation of the Scheme impossible.

Prior to the occurrence of the above events to the Company or the Eligible Recipients, the Board shall deal with the SARs in accordance with the Scheme.

#### **20. Tax**

Cash gains received by exercising the SARs are regarded as individual income, and therefore subject to tax according to the law. Where law permits, the Company shall withhold and pay the tax amount on behalf of the Eligible Recipients.

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## **APPENDIX      SUMMARY OF SHARE APPRECIATION RIGHTS SCHEME**

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Eligible Recipients exercising the SARs must pay individual income tax according to the law; if an Eligible Recipient dies, his/her lawful successor may dispose the SARs in accordance with the relevant applicable laws and regulations, and the proceeds will be subject to the applicable inheritance tax, etc.

### **21. Modification of the Scheme**

The Board can modify the Scheme in accordance with the laws and regulations when necessary and then file the modified Scheme to the SASAC and Stock Exchange for record (where applicable). If there is any discrepancy between the Scheme and the relevant laws, regulations, agreements and requirements of the Stock Exchange (if applicable), the latter shall prevail. The Board must also obtain the necessary approvals in general meetings and from the SASAC if the relevant laws, regulations, agreements and requirements of the Stock Exchange (if applicable) require any modifications of the Scheme be approved in such manner.

Where SARs have been granted under the Scheme, any modifications or suspension of the Scheme shall not modify or undermine the existing rights and obligations of the holders of these SARs unless otherwise with their consent.

### **22. Termination of the Scheme**

The Scheme shall be automatically terminated after seven years from the date on which the Scheme is approved by the Shareholders in general meeting.

If at anytime before the Scheme is automatically terminated, the Board considers it necessary to terminate the Scheme, it may submit a proposal for early termination at a general meeting. Where such early termination is approved in the general meeting, any SARs already granted before such date shall continue to be valid unless otherwise specified.

### **23. Disclosure of Information**

The Company shall provide updates about the implementation of the Scheme in its regular reports, including:

- (a) the scope of the Eligible Recipients within that reporting period;
- (b) the information about the grant of any SARs within that reporting period, including the amount of SARs, Date of Grant, Effective date, Exercise Period, Exercise Price, etc; and
- (c) the names and positions of the directors and senior management and the details of any SARs granted to and exercised by them during that reporting period.

The Company shall make the appropriate disclosure as soon as practicable upon the occurrence of the following events:

- (a) when the draft Scheme is approved by the Board;

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- (b) when the Scheme is modified; or
- (c) when there is any change in the Scheme resulting from any acquisition, merger or demerger of the Company, etc.

**24. Administrative Authorities**

- (a) The Company's general meeting is the highest decision-making body in respect of the Scheme and shall perform the following duties:
  - (i) to determine matters relating to the commencement, suspension and termination of the Scheme; and
  - (ii) to determine matters relating to the amendment and adjustment of the Scheme.
- (b) The Board shall, after obtaining the mandate granted by the Shareholders at the general meeting, manage and implement the Scheme. The Board shall perform the following duties:
  - (i) to review the Scheme;
  - (ii) to approve the implementation details of the Scheme;
  - (iii) to approve specific allocation plan under the Scheme; and
  - (iv) to provide the final interpretations on the Scheme.
- (c) The Remuneration Committee is authorised by the Board to be in charge of the daily management of the Scheme and shall perform the following duties:
  - (i) to formulate the Scheme and to make recommendations for modifications;
  - (ii) to determine, among other things, the amounts and allocations of the SARs in accordance with the eligibility of the recipients under the Scheme, and to make specific allocation plan to the Board;
  - (iii) to track and conduct research on the market dynamics of long term incentives and to suggest to the Board of the improvement proposals relating to the long term incentive mechanism of key employees and to engage external professionals for assistance, if necessary;
  - (iv) to provide updates on the implementation of the Scheme regularly in Board meetings and in general meetings;
  - (v) to answer any enquiries relating to the implementation of the Scheme; and

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- (vi) to be responsible for any other rights and obligations assigned by the Board or the general meetings.
  
- (d) The Supervisory Committee of the Company shall be the supervisory body in the implementation of the Scheme and shall be responsible for:
  - (i) verifying the list of Eligible Recipients;
  
  - (ii) ensuring that the implementation of the Scheme complies with the relevant laws, rules and regulations and the rules and regulations of any stock exchange; and
  
  - (iii) proposing modifications or giving opinion relating to the Scheme in Board meetings or in general meetings.

*The Scheme was originally drafted in Chinese and the English translation of the Scheme is for your reference only. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.*



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## NOTICE OF EGM

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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)

### Notice of the First Extraordinary General Meeting of 2012

**NOTICE IS HEREBY** given that the First Extraordinary General Meeting of 2012 (the “EGM”) of Zhuzhou CSR Times Electric Co., Ltd. (the “**Company**”) will be held at the Science and Technology Building, Zhuzhou CSR Times Electric Co., Ltd., Times Road, Shifeng District, Zhuzhou, Hunan Province, the People's Republic of China (the “**PRC**”) on Thursday, 27 December 2012 at 9:30 a.m. to consider and, if thought fit, pass with or without amendments, the following resolutions: -

#### AS SPECIAL RESOLUTIONS

“**THAT:**

- (a) the Share Appreciation Rights Scheme of the Company, a summary of the principal terms which is set out in the circular of the Company dated 12 November 2012 (the “**Circular**”) dispatched to the shareholders of the Company (the “**Scheme**”) be and is hereby adopted and approved;
- (b) the proposed grant of an aggregate of approximately 9,544,000 units of Share Appreciation Rights (as defined in the Circular) to a total of up to 315 Eligible Recipients (as defined in the Circular) pursuant to the Scheme, the details of allocation of which is set out in the Circular, be and is hereby approved;
- (c) the authorisation of the board of directors of the Company (the “**Board**”) to grant the Share Appreciation Rights to the Eligible Recipients and to determine, among other things, the final list of the Eligible Recipients, the Date of Grant (as defined in the Circular), the Exercise Price (as defined in the Circular) and the amount of the Share Appreciation Rights to be granted to each Eligible Recipient pursuant to the terms and conditions of the Scheme be and is hereby approved; and
- (d) the authorisation of the Board to proceed with the examination, registration, filing, approval and consent procedures with relevant governmental authorities; to sign, execute, amend and complete documents to be submitted to relevant governmental authorities, organisations and individuals; to handle all matters relating to the Scheme, including but not limited to adjust the Exercise Price or number of Share Appreciation Rights, amend the Scheme, determine and formulate any matters relating to the Scheme, and to do all such

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## NOTICE OF EGM

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acts, matters and things that are necessary, expedient or desirable in respect of the Scheme in accordance with the terms of the Scheme and the relevant laws, rules and regulations and that all such actions of the Board be and are hereby approved, ratified and confirmed.”

By order of the Board  
**Ding Rongjun**  
*Chairman*

Zhuzhou, China, 12 November 2012

*Notes:*

1. The register of members of the Company will be closed from Wednesday, 28 November 2012 to Thursday, 27 December 2012, 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 4:30p.m. on Tuesday, 27 November 2012.
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 November 2012 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.
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, 7 December 2012.
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

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

Times Road  
Shifeng District  
Zhuzhou Hunan Province, 412001  
PRC  
Tel: 86 731 28498028

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. 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 and Liu Chunru.*