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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)

**CONTINUING CONNECTED TRANSACTIONS
WITH CSRG GROUP
AND
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee is set out on page 16 of this circular. A letter from the Independent Financial Adviser, Celestial Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 32 of this circular.

A notice convening the EGM to be held on Tuesday, 29 October 2013 is set out on pages 37 to 39 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

If you intend to attend the EGM in person or by proxy, you should also complete and return the accompanying reply slip in accordance with the instructions printed thereon on or before Wednesday, 9 October 2013.

30 August 2013

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DEFINITIONS

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

“2013 Approved CSRG Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for the year ending 31 December 2013 approved by the then independent Shareholders on 10 June 2011
“2014-16 CSRG Mutual Supply Agreement”	a framework agreement on mutual supply of products and ancillary services entered into between CSRG and the Company dated 12 August 2013
“Articles”	the Articles of Association of the Company
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“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 established in the PRC with limited liability whose H Shares are listed on the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules
“CSR”	CSR Corporation Limited (中國南車股份有限公司), a joint stock company established 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 57.15% in aggregate 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.), 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
“CSRG”	中國南車集團公司 (CSR Group), a PRC state-owned enterprise and the controlling shareholder of CSR

DEFINITIONS

“CSRG Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second 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 and 10 June 2011
“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 held on Tuesday, 29 October 2013 for the purpose of considering and, if though fit, approving (i) the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps by the Independent Shareholders and (ii) the Proposed Amendments (including any adjournment thereof)
“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 HK\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board (which consists only of independent non-executive Directors) formed to advise the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps
“Independent Financial Adviser”	Celestial Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2014-16 CSRG 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 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps
“Independent Third Parties”	parties who are independent of, and not connected with, the Company or any of its connected persons
“Latest Practicable Date”	26 August 2013, 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
“New CSRG Caps	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the 2014-16 CSRG Mutual Supply Agreement for a term of three years commencing from 1 January 2014 to 31 December 2016
“Parent Company”	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, 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
“Proposed Amendments”	the proposed amendments to the Articles as described in the section headed “Letter from the Board — 3 — Proposed Amendments — (b) The Proposed Amendments” in this circular

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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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 (*Vice Chairman*)

Mr. Yan Wu

Mr. Ma Yunkun

Independent non-executive Directors:

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

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

30 August 2013

To Shareholders

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS
WITH CSRG GROUP
AND
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. BACKGROUND

Reference is made to the announcement dated 12 August 2013 issued by the Company in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps and the announcement dated 21 August 2013 issued by the Company in relation to the Proposed Amendments.

The purpose of this circular is to provide you with, among other things, (i) details of the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps; (iii) the

LETTER FROM THE BOARD

recommendation of the Independent Board Committee regarding the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps to the Independent Shareholders; (iv) details of the Proposed Amendments; and (v) a notice of the EGM convened for the Shareholders to consider and, if thought fit, approve (a) the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps and (b) the Proposed Amendments.

2. CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

(a) Introduction

In view of the prospective expiry of the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) on 31 December 2013, the Company entered into the 2014-16 CSRG Mutual Supply Agreement with CSRG for a term of three years commencing on 1 January 2014 and ending on 31 December 2016.

(b) Principal Terms of the 2014-16 CSRG Mutual Supply Agreement

The principal terms of the 2014-16 CSRG Mutual Supply Agreement are summarised as follows:

Date: 12 August 2013

Parties: (a) CSRG; and
(b) the Company

Scope of products and services to be provided: 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 electrical components), parts and components, technical services, after-sale services, management services and other related services, and related facilities for 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 products, parts and components, technical services, after-sale services, management services and other related services, and related facilities for research and development, production and testing purposes.

Term: A term of three (3) years commencing on 1 January 2014 and ending on 31 December 2016.

LETTER FROM THE BOARD

(c) **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 and the CSRG Second Supplemental Mutual Supply Agreement) for (i) the four years ended 31 December 2009, 2010, 2011 and 2012 and (ii) the six months ended 30 June 2013:

	2009	2010	2011	2012	2013 (6 months ended 30 June)
	<i>(RMB millions)</i>				
1. Amounts paid to the CSRG Group by the Group for the products and/or services provided by the CSRG Group	181.19	520	579.1	795	297.16
2. Amounts paid to the Group by the CSRG Group for the products and/or services provided by the Group	1,687.96	3,716	4,590.4	3,635	1,175.41

Note: the figures for years 2009, 2010, 2011 and 2012 set out above are audited while the figures for the 6 months ended 30 June 2013 are unaudited.

The aggregate annual amounts of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for the four years ended 31 December 2009, 2010, 2011 and 2012 did not exceed the respective maximum aggregate annual values as approved by the then independent Shareholders on 23 June 2009 and 10 June 2011.

As at the Latest Practicable Date, the 2013 Approved CSRG Caps have not been exceeded.

The Board anticipates that the aggregate annual amounts of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for the year ending 31 December 2013 will not exceed the 2013 Approved CSRG Caps.

Should the aggregate annual amounts of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for the year ending 31 December 2013 exceed the 2013 Approved CSRG Caps, the Company will re-comply with Rules 14A.35(3) and (4) of the Listing Rules.

LETTER FROM THE BOARD

(d) New CSRG Caps

The New CSRG Caps under the 2014-16 CSRG Mutual Supply Agreement for the three years ending 31 December 2014, 2015 and 2016 are as follows:

	Year ending 31 December		
	2014	2015	2016
	<i>(RMB millions)</i>		
1. Annual cap of the amounts to be paid to the CSRG Group by the Group for the products and/or services to be provided by the CSRG Group	3,000	3,600	4,320
2. Annual cap of the amounts to be paid to the Group by the CSRG Group for the products and/or services to be provided by the Group	9,500	11,400	13,680

The New CSRG Caps are determined with reference to the following: (1) the expected growth of railway industry in the PRC; (2) the business development potential of the CSRG Group; (3) the business development plan of the Group; (4) the existing supply contracts entered into, and the anticipated supply contracts to be entered into, and supply plans, between the Group and the CSRG Group, together with the anticipated market demand and tender plans, relating to (a) various models of electric locomotives; (b) electric locomotives, EMUs and subways for overseas export; (c) city subways and intercity rails; and (d) EMUs; and (5) the historical transaction amounts under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) as shown in the section headed “Historical Transaction Records with CSRG Group” above.

(e) Information on the Group

The Group is mainly engaged in the research, development, manufacture and sales 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 also engaged in the design, manufacture and sales of electric components for the railway industry, urban railway industry and non-railway purposes.

(f) Information on the CSRG Group

The scope of business of the CSRG Group is design, manufacture and repair, of locomotive trains, urban railway transport trains, mechanical and electrical equipment and parts and components, electronic electrical appliances and environmental protection related products; leasing of equipment; sale of the aforementioned related products; technological services, advising on information; investment in industry; management of assets as agent; import and export; installation of construction equipment; chemical industry materials (excluding dangerous chemicals), sale of construction materials.

LETTER FROM THE BOARD

(g) Reasons for Entering into the 2014-16 CSRG Mutual Supply Agreement

In relation to the purchase of products and/or services, the Group has been procuring certain parts and components and services for the manufacture of its products from the CSRG Group for many years. As a result of such long-term business relationship, the CSRG Group has been familiar with the Group's standards and specifications, and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request. In relation to the supply of products and/or services, the Group has been supplying certain parts and components and services to the CSRG Group for many years. As a result, the Company and CSRG Group have a solid business relationship. The 3 years' procurement and supply relationship with the CSRG Group to be established pursuant to the 2014-16 CSRG Mutual Supply Agreement will contribute to the expansion of the Group's sales and revenue which will in turn contribute to stabilising the business of the Group. Further, the Group's purchases from and/or sales to the CSRG Group are on terms which are no less favourable than obtainable by the Group from Independent Third Parties.

The Board noted that the historical amounts paid to the Group by the CSRG Group in respect of the transactions entered into pursuant to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) in the year ended 31 December 2012 (i) were lower than the corresponding amounts for the year ended 31 December 2011; and (ii) represented less than 40% of the CSRG Caps for year 2012. In addition, the historical amounts paid for the transactions carried out under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) in the first six months of year 2013 represented (a) less than 10% of the 2013 Approved CSRG Caps in respect of the amounts paid by the Group to the CSRG Group; and (b) less than 9% of the 2013 Approved CSRG Caps in respect of the amounts paid by the CSRG Group to the Group. Such decreases in historical amounts in year 2012 and the under-utilisation of the CSRG Caps during the year ended 31 December 2012 and the six months ended 30 June 2013 were mainly attributable to the substantial slowing down in the railway-related business of the Group. This was caused by the substantial slowing down in the development of the railway industry of the PRC as a whole since 2011 resulting from the adjustment to investments made in railway construction by the former Ministry of Railway of the PRC (中國鐵道部) and, among others, the EMUs accident occurred in Wenzhou, the PRC on 23 July 2011. In year 2013, the former Ministry of Railway of the PRC has been restructured as 中國鐵路總公司 (translated into English as "China Railway Corporation" for identification purpose). It was expected that China Railway Corporation would, in August of this year, start working on the first purchase of locomotive trains, EMUs, passengers train and cargo trains since its establishment which worth over RMB50 billion. For example, an invitation of tender for 91 EMUs was released by 中國鐵路建設投資公司 (translated into English as "China Railway Investment Company" for identification purpose), a state-owned enterprise established and owned by the former Ministry of Railway of the PRC, on 15 August 2013. The Board is of the view that the re-emergence of the tendering for locomotive trains and EMUs and the recovery of the construction and development of railway in the PRC will contribute to the expansion of the respective business development of the Group and the CSRG Group.

It is the understanding of the Group that the CSRG Group has rendered more efforts in developing overseas markets (such as South Africa, South East Asia and South America) and has received large number of orders from overseas. Accordingly, the Group anticipates that the prospects in relation to the mutual supply of products and services between the Group and the CSRG Group will also improve.

LETTER FROM THE BOARD

(h) **Non-exempt Continuing Connected Transactions**

The Parent Company is the controlling shareholder of the Company. CSRG directly and indirectly holds approximately 57.15% equity interest in CSR in aggregate. 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 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 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps constitute non-exempt continuing connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

(i) **Listing Rules Requirements**

A meeting of the Board was held on 12 August 2013 at which the 2014-16 CSRG 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 (vice chairman of the Board, a non-executive Director and a deputy general manager of the Parent Company) abstained from the consideration of and voting on the 2014-16 CSRG 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 having received the advice from the Independent Financial Adviser) consider that the 2014-16 CSRG Mutual Supply Agreement was entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, the terms thereof and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to determine 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. The 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps are conditional upon, among others, the Independent Shareholders' approval in respect thereof.

The Company will disclose information in relation to the 2014-16 CSRG Mutual Supply Agreement in its subsequent published annual report and accounts in accordance with Rule 14A.45 of the Listing Rules.

(j) **Independent Board Committee and Independent Financial Adviser**

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps, taking into account the recommendations on the same given by the Independent Financial Adviser.

LETTER FROM THE BOARD

Celestial Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps.

(k) Voting Arrangement

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 entire 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 2014-16 CSRG 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:

- (i) 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;
- (ii) (A) 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;
- (B) 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
- (iii) 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.

3. PROPOSED AMENDMENTS

(a) Introduction

As announced in the announcement of the Company dated 21 August 2013, the Board proposed to amend the provisions relating to scope of business contained in the Articles, details of which are set out below.

LETTER FROM THE BOARD

(b) **The Proposed Amendments**

It is proposed that the second paragraph of article 11 of the Articles as set out below be deleted:

“The main business scope of the Company include: research, development, production, sale of track transportation traction converter equipment, train network communication products, industrial automation facilities, safety monitoring equipment, monitoring technology and products, high-power electrical and electronic appliances, printed circuit boards, lamination busbar and related electric and electronic products, control computer products and software; sale of computer network wireless equipment; construction and design of safety precaution works; self-operation and acting as agent for the import and export business of commodities and technology (apart from those prohibited and limited by national laws and regulations); provision of related technological development, services, training and computer network system integration, computer software development services.”

It is proposed that the current second paragraph of article 11 of the Articles be replaced by the following:

“The main business scope of the Company include: research, development, production, sale of track transportation traction converter equipment, train network communication products, industrial automation facilities, safety monitoring equipment, technical equipment relating to communication and signal system, power supply system, braking system, screen doors and urban intelligent traffic and their system integration as well as engineering vehicle and electric system for large track maintenance machine, specialized/general testing system, monitoring technology and products, high-power electrical and electronic appliances, printed circuit boards, lamination busbar, sanitary units, oil pressure dampers and related electric and electronic products, control computer products and software; sale of computer network wireless equipment; design, construction and maintenance of safety precaution works (pursuant to the valid permits of the company); self-operation and acting as agent for the import and export business of commodities and technology (apart from those prohibited and limited by national laws and regulations); provision of related technological development, services, training and computer network system integration, computer software development services.”

(c) **Conditions to the coming into effect of the Proposed Amendments**

The coming into effect of the Proposed Amendments is subject to the fulfilment of the following conditions:

- (i) the passing of the necessary resolution by the shareholders of the Company at the EGM; and
- (ii) all relevant approvals having been obtained from the relevant governmental authorities in the PRC, and all the relevant registration and/or filings having been completed.

LETTER FROM THE BOARD

(d) **Reasons for the Proposed Amendments**

The Board proposed the Proposed Amendments for the propose of adopting to the needs of the Company to extending its core business sectors and exploring markets, enhancing the capability of the Company in the area of rail transportation and the relevant extension area, widening the scope of business and enhancing the comprehensive strength of the Company.

4. EGM

The Directors propose to seek (i) the Independent Shareholders' approval of the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps and (ii) the Shareholders' approval of the Proposed Amendments at the EGM. The EGM will be held at the Science and Technology Building, Zhuzhou CSR Times Electric Co., Ltd., Times Road, Shifeng District, Zhuzhou, Hunan Province, the PRC, on Tuesday, 29 October 2013 at 10:00 a.m.. Notice of the EGM is set out on pages 37 to 39 of this circular.

For the purposes of the EGM, the register of members of the Company will be closed from Sunday, 29 September 2013 to Tuesday, 29 October 2013, 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 of shares 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 Friday, 27 September 2013.

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 Wednesday, 9 October 2013.

The votes at the EGM will be taken by poll.

5. RECOMMENDATIONS

(a) **In relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps**

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular, the letter from the Independent Financial Adviser set out on pages 17 to 32

LETTER FROM THE BOARD

of this circular which contains the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps, and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser and the principal factors and reasons considered by the Independent Financial Adviser, considers that the 2014-16 CSRG Mutual Supply Agreement was entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, 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 approve the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps.

(b) In relation to the Proposed Amendments

The Directors consider that the Proposed Amendments is in the interest of the Shareholders and the Company as a whole and recommend that the Shareholders vote in favour of the special resolution to be proposed at the EGM to approve the Proposed Amendments.

6. 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, 30 August 2013

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)

30 August 2013

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS WITH CSR 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 have the same meaning in this letter unless the context otherwise requires.

Under the Listing Rules, the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps are subject to the approval of the Independent Shareholders.

We have been appointed by the Board to consider the terms of the 2014-16 CSR Group 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 Limited 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 the Independent Financial Adviser as set out in the Circular. Having taken into account the principal factors and reasons considered by and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the 2014-16 CSR Group Mutual Supply Agreement was entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, the terms thereof and the New CSR Group 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, we recommend the Independent Shareholders to vote at the upcoming EGM in favour of the ordinary resolution to approve the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Ms. Liu Chunru

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps for the purpose of incorporation in this circular.



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

30 August 2013

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam

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 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps set out therein, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 30 August 2013 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter have the same meanings as those defined in the Circular.

The Parent Company is the controlling Shareholder. CSRG directly and indirectly holds approximately 57.15% equity interest in CSR in aggregate. CSR directly holds the entire equity interest in the Parent Company. CSRG is therefore a connected person of the Company under the Listing Rules.

With reference to the Letter from the Board, in view of the prospective expiry of the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Agreement and the CSRG Second Supplemental Mutual Agreement) (collectively, the “**Mutual Supply Agreements**”) and the CSRG Caps on 31 December 2013, the Company entered into the 2014-16 CSRG Mutual Supply Agreement with CSRG for a term of three years commencing on 1 January 2014 and ending on 31 December 2016.

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 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps constitute non-exempt continuing connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

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THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors (namely Mr. Gao Yucai, Mr. Chan Kam Wing, Clement, Mr. Pao Ping Wing and Ms. Liu Chunru) who have no direct or indirect interest in the continuing connected transactions contemplated under the 2014-16 CSRG Mutual Supply Agreement, has been established to advise the Independent Shareholders on whether (i) the transactions contemplated under the 2014-16 CSRG Mutual Supply Agreement are in the ordinary and usual course of business of the Group; (ii) the terms of the 2014-16 CSRG Mutual Supply Agreement 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; (iii) the terms of the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps are fair and reasonable insofar as the Company and the Shareholders as a whole are concerned; and (iv) the entering into of the 2014-16 CSRG Mutual Supply Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. In this regard, we, Celestial Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on this matter.

We are not associated with the Company, CSRG or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the CSRG or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things, the Mutual Supply Agreements, the 2014-16 CSRG Mutual Supply Agreement, annual report of the Company for the financial year ended 31 December 2012 (the “**2012 Annual Report**”) and the Circular.

In addition, we have relied on the information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Company. We have also relied on the information, facts and representations contained or referred to in the Circular and have assumed that the information, facts and representations provided, and the opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete up to the Latest Practicable Date. Independent Shareholders will be notified of material changes of such information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and throughout the EGM date. 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 Company and/or the Directors and/or the management of the Company will be met or carried out as the case may be. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and the opinions expressed. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or

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accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group in its existing state, nor have we carried out any independent verification of the information provided by the Company and/or the Directors and/or the management of the Company.

The Directors jointly and severally accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and/or CSRG. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the mission of which would make any statement herein or the Circular misleading.

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 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps. Except for its inclusion in the Circular and for inspection purpose as set out in the section headed “Appendix — General Information — Documents Available for Inspection”, 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 formulating our opinion and recommendation with regard to the terms of the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps, we have taken into account the following principal factors and reasons:

1. Background of and reasons for entering into the 2014-16 CSRG Mutual Supply Agreement

The Group is principally engaged in the 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 also engaged in the design, manufacture and sale of electric components for the railway industry, urban railway industry and non-railway purposes.

The scope of business of the CSRG Group is design, manufacture and repair, of locomotive trains, urban railway transport trains, mechanical and electrical equipment and parts and components, electronic electrical appliances and environmental protection related products; leasing of equipment; sale of the aforementioned related products; technological services, advising on information; investment in industry; management of assets as agent; import and export; installation of construction equipment; chemical industry materials (excluding dangerous chemicals), sale of construction materials.

As set out in the Letter from the Board, in relation to the purchase of products and/or services, the Group has been procuring certain parts and components and services for the manufacture of its products from the CSRG Group for many years. As a result of such long-term business relationship, the CSRG Group has been familiar with the Group’s standards and specifications, and has been able

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to respond quickly and in a cost efficient manner to any new requirements that the Group may request. In relation to the supply of products and/or services, the Group has been supplying certain parts and components and services to the CSRG Group for many years. As a result, the Company and CSRG Group have a solid business relationship. The 3 years' procurement and supply relationship with the CSRG Group to be established pursuant to the 2014-16 CSRG Mutual Supply Agreement will contribute to the expansion of the Group's sales and revenue which will in turn contribute to stabilising the business of the Group. It was further set out in the Letter from the Board that the Group's purchases from and/or sales to the CSRG Group are on terms which are no less favourable than those obtainable by the Group from Independent Third Parties.

Having considered the above long history of cooperation between the Group and the CSRG Group, we concur with the view of the Directors that the transactions contemplated under the 2014-16 Mutual Supply Agreement, which was entered into in view of the prospective expiry of the Mutual Supply Agreements on 31 December 2013, are consistent with the Group's established relationship with the CSRG Group and will facilitate the smooth operations of the Group's business in the coming years and minimise any disruptions to the Group's existing business.

Furthermore, we noted that the terms of the mutual supply transactions between the Group and the CSRG Group under the Mutual Supply Agreements have been subject to the quarterly review by the independent non-executive Directors, and the disclosure of their views in respect of such transactions have been made to the Shareholders by way of announcements (the "**Quarterly Announcements**"). As set out in the Quarterly Announcements, up to the second quarter ended 30 June 2013, the relevant transactions carried out pursuant to the Mutual Supply Agreements were entered into in the ordinary and usual course of business of the Group, were on normal commercial terms which were fair and reasonable insofar as the interests of the Company and the Shareholders are concerned as a whole, were conducted in accordance with the Group's pricing policies and the terms of the relevant agreements governing such transactions, and were within the annual cap amounts of the relevant financial years respectively. As advised by the Company, it will continue to publish the Quarterly Announcements on the Stock Exchange's website.

Having considered the above Quarterly Announcements, we concur with the view of the Directors that the transactions contemplated under the 2014-16 Mutual Supply Agreement, which have the same nature as the transactions contemplated under the Mutual Supply Agreements, fall within the ordinary and usual course of business of the Group, and the entering into of the 2014-16 Mutual Supply Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. **Principal terms of the 2014-16 CSRG Mutual Supply Agreement**

The 2014-16 CSRG Mutual Supply Agreement set out the major terms such as scope of products and services to be provided, pricing basis, term and payment method for the transactions contemplated thereunder. Furthermore, the Directors have confirmed to us that the transactions contemplated under the 2014-16 CSRG Mutual Supply Agreement will be conducted in accordance with similar terms and

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conditions as those of the transactions contemplated under the Mutual Supply Agreements of the same nature and on normal commercial terms. Set out below are the principal terms of the 2014-16 CSRG Mutual Supply Agreement:

(a) *Scope of products and services to be provided*

Pursuant to the 2014-16 CSRG 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 electrical systems and electrical components), parts and components, technical services, after-sale service, management services and other related services, and related facilities for 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 products, parts and components, technical services, after-sale services, management services and other related services, and related facilities for research and development, production and testing purposes.

We note that, pursuant to the 2014-16 Mutual Supply Agreement, the scope of products and services covered is extended to include management services. As advised by the management of the Group, such extension is for the purpose to leverage on a party's management strengths and expertise on products and services to be provided by such party in order to facilitate the respective business development of the Group and the CSRG Group. Given that these newly included services are related to the products and services originally provided under the Mutual Supply Agreements and the provision of such newly included services will be subject to the same terms and conditions under the 2014-16 Mutual Supply Agreement, we consider that the extension of the scope of products and services is in the Group's ordinary and usual course of business and are fair and reasonable insofar as the Company and the Shareholders are concerned.

(b) *Pricing basis*

Pursuant to the 2014-16 CSRG Mutual Supply Agreement, the pricing basis for all the products and services supplied by and/or to the CSRG Group will be determined on the following principles in order of priority:

- (i) the prices prescribed by the government of the PRC or any regulatory authority(ies) (if any) (the “**government-prescribed prices**”);
- (ii) the prices not exceeding any pricing guidelines or pricing recommendations set by the government of the PRC or any regulatory authority(ies) (if any), where no government-prescribed prices are available or applicable (the “**government-guided prices**”);

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- (iii) the market prices which are offered to or by Independent Third Parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-guided prices are available or applicable; and
- (iv) 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.

We noted that priority is set from (i) to (iv) such that the pricing mechanism (ii), (iii) and (iv) will be applied only if the preceding pricing mechanism(s) are not applicable. We further discussed with the management of the Company and knew from them that after the Restructuring Plan (as defined in the sub-paragraph headed "3. New CSRG Gaps — (b) Expected growth of the PRC railway market" below) in 2013, it is still not clear whether there will be government-prescribed prices and government-guided prices available and which government departments will be responsible to determine such prices. If there is no government-prescribed prices and government-guided prices at the time of executing a transaction pursuant to the 2014-16 CSRG Mutual Supply Agreement, the prices for the relevant products and services supplied by and/or to the CSRG Group will be determined either based on (iii) or (iv) above. For procurements of products and services from the CSRG Group, we understood from the management of the Group that the Group normally posts its purchase orders or invitation of tenders on a website (<http://srm.teg.cn>) operated by the Group and opened for its registered suppliers (including the CSRG Group) to provide their quotations or bid the tenders. The Group can therefore compare the prices offered by the CSRG Group with such market prices offered by other registered suppliers (if any). For sales of products and services to the CSRG Group, due to the nature of the products and services provided, there are no comparable sales to Independent Third Parties for the Group's reference. The Group normally charges the CSRG Group the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin. We have reviewed the announcements and/or circulars published in 2012 and 2013 of a number of listed companies the shares of which are listed on the Stock Exchange and noted that such companies have also adopted comparable pricing basis in respect of their continuing connected transactions, indicating that the above pricing basis is not uncommon, in particular for listed companies have principal operations in the PRC.

Furthermore, we noted from the respective annual reports of the Company for the financial years ended 31 December 2009, 2010 and 2011 and the 2012 Annual Report that annual review of the Group's continuing connected transactions (which, as confirmed by the Company, included the transactions contemplated under the Mutual Supply Agreements) have been conducted according to Rule 14A.38 of the Listing Rules, and that the Directors (including the independent non-executive Directors) have reviewed and confirmed that the continuing connected transactions of the Group were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available to or from (as appropriate) Independent Third Parties (which terms, as confirmed by the Company, included the

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pricing mechanism). In addition, we also noted that from various annual reports of the Company for the financial years ended 31 December 2009, 2010 and 2011 and the 2012 Annual Report that the Board has engaged the Company's auditors to perform certain agreed procedures in respect of the Group's continuing connected transactions and report the result to the Board in each financial year. The Board has confirmed that it received a letter from the Company's auditors (copy of which was submitted to the Stock Exchange) in respect of its continuing connected transactions carried out during each of the financial years ended 31 December 2009 to 2012 pursuant to Rule 14A.38 of the Listing Rules. We also obtained and reviewed copies of the above mentioned letters from the Company, no inconsistency between the various annual reports and the letters from Company's auditors was noted. The Company has also confirmed that the annual review in respect of the transactions contemplated under the 2014-16 CSRG Mutual Supply Agreement will be conducted pursuant to the requirements under the Listing Rules, among other things, to review and confirm if the transactions have been entered into in accordance with the terms of the 2014-16 CSRG Mutual Agreement Supply Agreement, including but not limited to the pricing basis mentioned above, and if the transactions have been entered into either 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.

In addition to the annual review of its continuing connected transactions, the Company also appointed its auditors to provide quarterly reports to the independent non-executive Directors on all transactions conducted between the Group and the CSRG Group. The independent non-executive Directors also reviewed such transactions on a quarterly basis. We reviewed all relevant Quarterly Announcements which disclosed the views of independent non-executive Directors in respect of such transactions and noted that the relevant transactions carried out pursuant to the Mutual Supply Agreements were conducted in accordance with the Group's pricing policies. As advised by the Company, it will continue to publish the Quarterly Announcements on the Stock Exchange's website.

Based on the above, we consider that the pricing basis of the 2014-16 Mutual Supply Agreement, which are the same as those set out in the Mutual Supply Agreements, are on normal commercial terms and are fair and reasonable insofar as the Company and the Shareholders are concerned if the terms thereof are, including the priority of different pricing basis mentioned above, are strictly followed by the Group and the CSRG Group.

(c) ***Payment terms***

Pursuant to the 2014-16 CSRG Mutual Supply Agreement, 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 manners as agreed by the parties and in accordance with the agreed timing and manners as specified in the actual products and services contracts or purchase documents to be entered into between the Group Companies and the CSRG Group Companies. The payment terms will be on market terms which are no less favourable than those obtainable by the Group from Independent Third Parties.

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As mentioned above, the Board has engaged the Company's auditors to perform certain agreed procedures on the Group's continuing connected transactions, who would report the result to the Board annually, and the Directors (including the independent non-executive Directors) have reviewed and confirmed annually that the continuing connected transactions of the Group (which, as confirmed by the Company, included the transactions contemplated under the Mutual Supply Agreements) were entered into, among other things, on normal commercial terms or if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than those available to or from (as appropriate) Independent Third Parties (which terms, as confirmed by the Company, included the payment terms).

In addition, we also reviewed samples of contracts and invoices in relation to the payment terms of transactions contemplated under the Mutual Supply Agreements, which includes (i) the Group's provision of products and services to the CSR Group; and (ii) the Group's procurement of products and services from the CSR Group, we noted that the payments terms are in line with the Group's credit periods of trade receivables (6-month) and trade payables (3-month) respectively disclosed in the various annual reports.

In this regard, we consider that the payment terms of the 2014-16 Mutual Supply Agreement, which are the same as those set out in the Mutual Supply Agreements, are on normal commercial terms and are fair and reasonable insofar as the Company and the Shareholders are concerned.

Having considered the terms of the 2014-16 CSR Mutual Supply Agreement, in particular the fact that the pricing basis and the payment terms, are substantially the same as those set out in the Mutual Supply Agreements, and the confirmation from the Directors that the products and services set out in the 2014-16 CSR Mutual Supply Agreement will be acquired and provided by the Group in its ordinary and usual course of business, we consider that the terms of the 2014-16 CSR Mutual Supply Agreement are fair and reasonable insofar as the Company and the Shareholders are concerned.

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3. New CSRG Caps

(a) *New CSRG Caps*

The following table sets out the New CSRG Caps for the provision of the products and services between the CSRG Group and the Group for each of the three years ending 31 December 2016:

	Year ending 31 December		
	2014	2015	2016
	<i>(RMB millions)</i>		
1. Annual cap of the amounts to be paid to the CSRG Group by the Group for the products and/or services to be provided by the CSRG Group	3,000	3,600	4,320
<i>Growth rate from the preceding year</i>	-14.29% <i>(Note 1)</i>	20.00%	20.0%
2. Annual cap of the amounts to be paid to the Group by the CSRG Group for the products and/or services to be provided by the Group	9,500	11,400	13,680
<i>Growth rate from the preceding year</i>	-24.00% <i>(Note 2)</i>	20.00%	20.00%

Notes:

1. The growth rate is calculated on the basis of the 2013 Approved CSRG Caps in relation to the products and services provided/to be provided by the CSRG Group for the year ending 31 December 2013 of RMB3,500 million and the corresponding New CSRG Cap for the year ending 31 December 2014.
2. The growth rate is calculated on the basis of the 2013 Approved CSRG Caps in relation to the products and services provided/to be provided by the Group for the year ending 31 December 2013 of RMB 12,500 million and the corresponding New CSRG Cap for the year ending 31 December 2014.

As explained in the Letter from the Board, the New CSRG Caps are determined with reference to the followings: (1) the expected growth of railway industry in the PRC; (2) the business development potential of the CSRG Group; (3) the business development plan of the Group; (4) the existing supply contracts entered into, the anticipated supply contracts to be entered into, and the supply plans, between the Group and the CSRG Group, together with the anticipated market demand and tender plans relating to (a) various models of electric locomotives; (b) electric locomotives, electric multiple units (the “EMUs”) and subways for overseas export; (c) city subways and intercity rails; and (d) EMUs; and (5) the historical transaction amounts under the Mutual Supply Agreements.

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

The transactions contemplated under the 2014-16 Mutual Supply Agreement relate to the business prospects of the Group and the CSR Group, which are influenced by the development of the railway industry in the PRC. After the high-speed train crash in Wenzhou, the PRC on 23 July 2011 (the “**2011 Crash Event**”), the government of the PRC called a temporary halt to new high-speed railway projects and imposed speed restrictions on trains. Since then, the Ministry of Railways of the PRC (“**MOR**”) was largely questioned by the Chinese community and development of the PRC railway industry has been slow down. On 10 March 2013, the government of the PRC announced a new government-restructuring plan (the “**Restructuring Plan**”) at the plenary meeting of the First Session of the 12th National People’s Congress. Under the Restructuring Plan, the MOR was dissolved and its duties in relation to safety, planning and regulation were migrated to the Ministry of Transportation of the PRC, while its duties in relation to construction and operation of the railway and the relevant infrastructure in the PRC were taken up by 中國鐵路總公司 (“**China Railway Corporation**”), a newly established state-owned railway company (according to 《國務院關於組建中國鐵路總公司有關問題的批復》(國函[2013]47號) (Reply from the State Council relating to issues about establishment of China Railway Corporation (Guo Han [2013] No. 47)), the relevant assets and liabilities of MOR (including, among others, equity interests in other enterprises owned by the MOR) should be transferred to China Railway Corporation). It is believed that schedules of releasing the invitation of tenders in relation to the PRC railway development have been postponed in the past two years in light of the uncertainties in policies and market sentiment as mentioned above. In light of the above, the Company reduced the annual cap of the amounts to be paid to the CSR Group by the Group from RMB3,500 million for the year ending 31 December 2013 to RMB3,000 million for the year ending 31 December 2014, representing a decrease of 14.29%; and the annual cap of the amounts to be paid to the Group by the CSR Group are reduced from RMB12,500 million for the year ending 31 December 2013 to RMB9,500 million for the year ending 31 December 2014.

As detailed in the sub-paragraph headed “(d) Historical transaction amounts with the CSR Group” below, the respective historical amounts paid to the CSR Group by the Group and paid to the Group by the CSR Group in respect of the transactions entered into by the parties pursuant to the Mutual Supply Agreements in the year ended 31 December 2012 and the first six months of the financial year 2013 were substantially lowered than the relevant CSR Caps for the financial years 2012 and 2013. We have been advised by the Board that such decreases in historical amounts in the financial year 2012 and the under-utilisation of the CSR Caps during the year ended 31 December 2012 and the six months ended 30 June 2013 were mainly attributable to the substantial slowing down in the development of railway industry of the PRC as a whole since 2011 resulting from the adjustment to investments made in railway construction by the former MOR and, among others, the 2011 Crash Event.

In addition, we have been advised by the Company that its management is of the view that on the one hand, there will only be limited impact on the PRC railway investment on the locomotives and EMUs relating to the implementation of the Restructuring Plan; on the other hand, following the implementation of the Restructuring Plan and the establishment of China Railway Corporation which have taken up the duties in relation to construction and operation of

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the railway and the relevant infrastructure in the PRC, the relevant market uncertainties have been clarified which is considered will benefit the development of the railway industry in the PRC. In August 2013, China Railway Corporation announced that it will start working on the first purchase of locomotive trains, EMUs, passenger trains and cargo trains which worth over RMB50 billion since its establishment. The Board is of the view that the re-emergence of the tendering for locomotive trains and EMUs and the recovery of the construction and development of railway in the PRC will contribute to the expansion of the respective business development of the Group and the CSR Group. In particular, the management of the Company expects that after the transitional period of the implementation of the Restructuring Plan and in the medium to the long term, with government's plan on the construction of mainline railways and urban railways in the PRC and the continuous development of the PRC economy, demand for railway transport, being a mode of transport with large passenger capacity, lower energy consumption and lower emissions, the railway industry will recover and, accordingly, determines the respective New CSR Caps in 2015 and 2016 with a 20% year-over-year increase.

The Directors are of the view that though the growth of the PRC railway market was slow down in 2011, it has been gradually recovered in 2012 and the first six months of 2013 and it is expected that the market will be recovered and start to grow moderately. According to the statistics released by the National Bureau of Statistics of China, the total capital investments of the government of the PRC, state-owned enterprises and private-owned enterprises in the PRC railways amounted to approximately RMB576,700 million, RMB 605,600 million and RMB 179,100 million in 2011, 2012 and the first six months of 2013, representing a decrease of 22.5%, an increase of 2.4% and 22.2%, respectively as compared to the previous corresponding years/period.

According to “十二五”綜合交通運輸體系規劃 (the “Twelfth 5-year Plan” Transportation System Planning) issued by National Development and Reform Commission on 23 July 2012,

- (i) it is expected that the total operational length of the PRC railways will increase by approximately 31.87% from approximately 91,000 km by the end of 2010 to approximately 120,000 km by the end of 2015; and
- (ii) the rate of electrification of railway lines will increase from 46% of the total length of PRC railways by the end of 2010 to 60% of that by the end of 2015.

Accordingly, we concur with the Directors' view that the development in the PRC railway market after the fade-out of the negative impact relating to the 2011 Crash Event and the clarification of the market uncertainties subsequent to the announcement and implementation of the Restructuring Plan, including the opportunities related to the expected continuous growth in the PRC railway market (in particular the development of electrification of railway lines in the PRC) which in turn is expected to benefit the business development of the Group and the CSR Group (for instance the Group's business in supplying locomotive train power converters and train-borne electrical systems; and the CSR Groups' business in supplying railway locomotives and EMUs), is positive in the coming future.

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(c) *Business development of the Group*

As set out in the 2012 Annual Report, despite a decrease in the business of locomotives and EMUs used for mainline railway by nearly 20% year-over-year in 2012, other businesses, including urban railway and metro, railway engineering machinery, communication and signalling, and high-end parts and components delivered satisfactory results; and the Group's revenue and the net profit attributable to shareholders of the Parent also realised an increase of approximately 1.3% and 3.1% year-over-year, respectively.

Meanwhile, the Group also made new breakthroughs in technology, products and markets during the year ended 31 December 2012, which mainly include:

- in respect of the traction systems for EMUs, the Group won the bids for the Guangzhou-Shenzhen-Hong Kong High-speed Railway project and the CRH6-200 inter-city EMUs project, completed the first article inspection of its own inter-city EMUs project;
- in respect of the traction systems for locomotives, the Group received locomotives purchase orders from South Africa (which, as confirmed by the Company, is a new market of the Group), completed trial production and commenced mass production of eight-axle locomotives for the former MOR (the obligations and rights of which, as confirmed by the Company, have been transferred to China Railway Corporation) and eight-axle locomotives for China Shenhua Energy Co., Ltd. The Group also completed pre-application examination and commenced mass production of HXD1C plateau locomotives, and commenced trial operation of its first 4400hp diesel locomotive;
- in respect of urban railway and metro, the Group obtained a more satisfactory market share in the domestic tenders of traction systems during the year, expanding the influence of its own brand in the market. Particularly, in respect of Changsha Metro Line 2, the Group realised integrated supply of three critical systems — traction, signalling and braking, for the first time, creating new room for future development of the urban railway and metro business; and
- in respect of railway engineering machinery, orders increased rapidly, while market position was further improved in respect of safety monitoring products.

We have discussed with the management of the Company in respect of its business development plan and made reference to the 2012 Annual Report. It is confirmed by the Company's management that going forward, the Group will continue to offer quality products and services to national railway and urban railway industry as well as other related industries as the Group always does.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the 2012 Annual Report, the fields of locomotives and EMUs, the Group will focus on the promotion of the products with its own systems for eight-axle 9600kW, HXD1C plateau locomotive, 160km/h passenger locomotive, HXN5 diesel locomotive, 4400hp diesel locomotive and Guangzhou-Shenzhen-Hong Kong High-speed Railway EMUs. The Group will also refine and expand its business to South Africa, Argentina and other countries for the fields of locomotives and EMUs. In the field of urban railway and metro, the Group will seize business opportunities in the market brought by government policies, continue to strengthen the continuous research and development and brand promotion of self-developed system, and complete on-time delivery of orders on hand while maintaining quality standards. The Group will also increase its efforts of integration in the railway engineering machinery business to realise the scale expansion of this business, capture new opportunities in the railway signaling market, develop and upgrade new products of the signaling system, and increase the market expansion efforts for extended businesses.

Besides, as set out in the Letter from the Board, it is the understanding of the Group that the CSR Group has rendered more efforts in developing overseas markets (such as South Africa, South East Asia and South America) and has received large number of orders from overseas. Accordingly, the Group anticipates that the prospects in relation to the mutual supply of products and services between the Group and the CSR Group will also improve. As a result, the management of the Company expects that there will be an increase in the level of transactions between the Group and the CSR Group contemplated under the 2014-16 CSR Mutual Supply Agreement in the coming future when determining the New CSR Caps of RMB9,500 million in respect of provision of products and services by the Group to the CSR Group for year ending 31 December 2014.

It is also expected by the Company that the amount of to be paid by the Group for the products and provision of services provided by the CSR Group will be approximately RMB3,000 million, mainly for the Group's purchase of motors, capacitors, reactors, radiators and transmission equipments used on locomotives and EMUs and related services in order to cope with the expected growth and extension of the operations of the Group, which expansion will result in the expected procurement by the Group from its suppliers, including the CSR Group, throughout the course of manufacturing and provision of the products and services of the Group increasing accordingly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) *Historical transaction amounts with the CSRG Group*

Set out below are the historical transactions carried out under various relevant agreements entered into between the Company and the CSRG Group in relation to provision of the products and services pursuant to the Mutual Supply Agreements for the four years ended 31 December 2012 and the six months ended 30 June 2013, respectively:

	2009	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013	
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>(RMB millions)</i>				
1. Amounts paid to the CSRG Group by the Group for the products and/or services provided by the CSRG Group <i>(Note 1)</i>	181.19	520.00	579.10	795.00	297.16
<i>Utilisation rate as compared to CSRG Caps</i>	45.30%	74.29%	38.61%	31.80%	8.49%
2. Amounts paid to the Group by the CSRG Group for the products and/or services provided by the Group <i>(Note 2)</i>	1,687.96	3,716.00	4,590.40	3,635.00	1,175.41
<i>Utilisation rate as compared to CSRG Caps</i>	60.28%	92.90%	70.62%	38.26%	9.40%

Notes:

1. The CSRG Caps for the amounts paid to the CSRG Group by the Group for the CSRG Group's products and services for the years ended 31 December 2009, 2010, 2011, 2012 and 2013 were RMB400 million, RMB700 million, RMB1,500 million, RMB2,500 million and RMB3,500 million, respectively.
2. The CSRG Caps for the amounts paid to the Group by the CSRG Group for the Group's products and services for the years ended 31 December 2009, 2010, 2011, 2012 and 2013 were RMB2,800 million, RMB4,000 million, RMB 6,500 million, RMB9,500 million and RMB12,500 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The aggregate annual amounts of the historical transactions under the Mutual Supply Agreements for the years ended 31 December 2009, 2010, 2011 and 2012 were within the CSRG Caps as approved by the then independent shareholders of the Company on 23 June 2009 and 10 June 2011.

As at the Latest Practicable Date, the 2013 Approved CSRG Caps have not been exceeded.

As set out in the Letter from the Board, the Board anticipates that the aggregate annual amounts of the transactions under the Mutual Supply Agreements for the year ending 31 December 2013 will not exceed the 2013 Approved CSRG Caps. Should the aggregate annual amounts of the transactions under the Mutual Supply Agreements for the year ending 31 December 2013 exceed the 2013 Approved CSRG Caps, the Company will re-comply with Rules 14A.35(3) and (4) of the Listing Rules.

We noted that the historical amounts paid to the CSRG Group by the Group and paid to the Group by the CSRG Group in respect of the transactions entered into by the parties pursuant to the Mutual Supply Agreements during the year ended 31 December 2012 (i) were lower than the corresponding amounts for the year ended 31 December 2011; and (ii) represented lower than 40% of the CSRG Caps for year 2012. In addition, the historical amounts paid for the transactions carried out under the Mutual Supply Agreements in the first six months of year 2013 represented (a) less than 10% of the 2013 Approved CSRG Caps in respect of the amounts paid by the Group to the CSRG Group; (b) less than 9% of the 2013 Approved CSRG Caps in respect of the amounts paid by the CSRG Group to the Group. We have been advised by the Board that such decreases in historical amounts in the year 2012 and the under-utilisation of the CSRG Caps during the year ended 31 December 2012 and the six months ended 30 June 2013 were mainly attributable to the substantial slowing down in the railway-related business of the Group. This was caused by the substantial slowing down in the development of the railway industry of the PRC as a whole since 2011 resulting from the adjustment to investments made in railway construction by the former MOR and, among others, the 2011 Crash Event. In year 2013, the former MOR has been restructured as China Railway Corporation and, it is widely expected by the market that it would start working on the first batch of purchase of locomotive trains, EMUs, passenger trains and cargo trains since its establishment which worth over RMB50 billion. We noted that, for example, an invitation of tender for 91 EMUs which can travel at 250km/h was released by 中國鐵路建設投資公司 (“**China Railway Investment Company**”), a state-owned enterprise established and owned by former MOR, on 15 August 2013. The Board is of the view that the re-emergence of the tendering for locomotive trains and EMUs and the recovery of the construction and development of railway in the PRC will contribute to the expansion of the respective business development of the Group and the CSRG Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After taking into consideration of the above, in particular (i) the business of the railway industry participants in the PRC rely heavily on the purchase orders made/to be made by former MOR in the past and China Railway Corporation in future by inviting tenders, (ii) schedules of releasing the invitation of tenders relating to the locomotive trains, EMUs, passenger trains and cargo trains should be resumed upon establishment of China Railway Corporation earlier this year, (iii) the market expectation that China Railway Corporation would start working on the first batch of purchase of locomotive trains, EMUs, passenger trains and cargo trains after its establishment which worth over RMB50 billion (We noted that, for example, the invitation of tender for 91 EMUs which can travel at 250km/h was released by China Railway Investment Company on 15 August 2013), (iv) during the year ending 2014, the relevant New CSR Cap of the amounts to be paid to the CSR Group by the Group of RMB3,000 million represent 6% of, and the relevant New CSR Cap of the amounts to be paid to the Group by the CSR Group of RMB9,500 million represent 19% of, the abovementioned first batch of purchase to be made by China Railway Corporation which worth over RMB50 billion, we concur with the view of the Directors that the New CSR Caps are fair and reasonable so far as the Company and the Shareholders are concerned. However, the Independent Shareholders should note that the New CSR Caps relate to future events and are based on the assumptions and expectation which may or may not remain valid for the entire period up to 31 December 2016. Consequently, we express no opinion as to how closely the actual amounts to be generated under the transactions correspond with the 2014-16 Mutual Supply Agreement.

RECOMMENDATION

Having considered the principal factors and reasons above, we are of the view that (i) the transactions contemplated under the 2014-16 CSR Mutual Supply Agreement are in the ordinary and usual course of business of the Group; (ii) the terms of the 2014-16 CSR Mutual Supply Agreement are on normal commercial terms or if there are not sufficient comparable transactions, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties; (iii) the terms of the 2014-16 CSR Mutual Supply Agreement, including the New CSR Caps, are fair and reasonable so far as the Company and the Shareholders as a whole are concerned; and (iv) the entering into the 2014-16 CSR Mutual Supply Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise that the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the 2014-16 CSR Mutual Supply Agreement and the New CSR Caps at the EGM.

Yours faithfully
For and on behalf of
Celestial Capital Limited

Daphne Ng
Managing Director

Angela Ho
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 Companies 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 % of Domestic Share share capital	Approximate % of H Share share capital	Approximate % 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	96.65%	—	56.16%
CSRG (Note 2)	618,347,237 (Long position)	Interest in controlled entity	98.44%	—	57.03%
Schroders Plc (Note 3)	50,173,073 (Long position)	Investment manager		11.00%	4.63%

APPENDIX
GENERAL INFORMATION

Name of substantial shareholder	Number of Shares held	Capacity	Approximate % of Domestic Share share capital	Approximate % of H Share share capital	Approximate % of issued share capital
JPMorgan Chase & Co. <i>(Note 4)</i>	558,007 (Long position)	Beneficial owner	—	0.12%	0.05%
	845,000 (Long position)	Investment manager	—	0.19%	0.08%
	30,507,861 (Lending pool shares)	Custodian/ Approved lending agent	—	6.69%	2.81%
Lazard Asset Management LLC	31,927,000 (Long position)	Investment manager	—	7.00%	2.94%
BlackRock, Inc. <i>(Note 5)</i>	31,142,896 (Long position)	Interest in controlled entity	—	6.83%	2.87%
	1,251,000 (Short position)	Interest in controlled entity	—	0.27%	0.12%
The Capital Group Companies, Inc. <i>(Note 6)</i>	27,572,000 (Long position)	Interest in controlled entity	—	6.05%	2.54%
Fortis Investment Management SA <i>(Note 7)</i>	23,544,000 (Long position)	Investment manager	—	5.16%	2.17%

Notes:

- (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 57.15% 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.
- (3) As stated in the corporate substantial shareholders notification filed in by Schroders Plc., it held its interests in the shares of the Company through its wholly-owned corporations.
- (4) As stated in the corporate substantial shareholders notification filed in by JPMorgan Chase & Co., it held 7 shares (long position) through J.P. Morgan Securities plc, a non wholly-owned corporation which it indirectly owned as to 98.95%. Other than the said 7 shares, JPMorgan Chase & Co. held its interests in the shares of the Company through its wholly-owned corporations.
- (5) As stated in the corporate substantial shareholders notification filed in by BlackRock, Inc., 53,000 H Shares are long positions in, and 63,000 H Shares are short positions in, underlying shares under equity derivative interests. BlackRock, Inc. held its interests in the shares of the Company (including underlying shares under equity derivative interests) through its wholly-owned corporations.

- (6) As stated in the corporate substantial shareholders notification filed in by The Capital Group Companies, Inc., it held its interests in the shares of the Company through its wholly-owned corporations.
- (7) As stated in the corporate substantial shareholders notification filed in by Fortis Investment Management SA, it held its interests in the shares of the Company through its wholly-owned corporations.

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 Mr. Ding Rongjun (the chairman of the Board, an executive Director and a general manager of the Parent Company) and Mr. Deng Huijin (vice chairman of the Board, 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

Save as disclosed herein, no contract or arrangement 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 the Independent Financial Adviser had any interest, direct or indirect, in any asset which since 31 December 2012, 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 2012, 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

The Independent Financial Adviser is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities 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 in this circular.

The Independent Financial Adviser 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 in this circular.

As at the Latest Practicable Date, the Independent Financial Adviser 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.

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 Level 25, One Pacific Place, 88 Queensway, Hong Kong during normal business hours from the date of this circular up to and including 12 September 2013:

- (a) the 2014-16 CSRG Mutual Supply Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular; and
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 32 of this circular and the consent letter from the Independent Financial Adviser.

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 2013

NOTICE IS HEREBY given that the First Extraordinary General Meeting of 2013 (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 Tuesday, 29 October 2013 at 10:00 a.m. to consider and, if thought fit, pass with or without amendments, the following resolutions:

AS ORDINARY RESOLUTION

“**THAT** the 2014-16 CSRG Mutual Supply Agreement dated 12 August 2013 entered into between CSRG and the Company (the details of which are set out in the circular dated 30 August 2013 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.”

AS SPECIAL RESOLUTION

“**THAT** the proposed amendments to the Articles of Association of the Company set out in the circular of the Company dated 30 August 2013 be and are hereby approved, and the directors of the Company be and are hereby authorised to deal with on behalf of the Company the relevant application, approval, registration, filing and other related procedures or issues and to make further amendment (where necessary) pursuant to the requirements of the relevant governmental or regulatory authorities arising from the amendments to the Articles of Association of the Company.”

By order of the Board

Ding Rongjun

Chairman

Zhuzhou, China, 30 August 2013

NOTICE OF EGM

Notes:

1. The register of members of the Company will be closed from Sunday, 29 September 2013 to Tuesday, 29 October 2013, 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 of shares 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 Friday, 27 September 2013.
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 Friday, 27 September 2013 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 Wednesday, 9 October 2013.
5. Voting at the EGM will be conducted by way of poll.
6. The addresses of the H share registrar of the Company areas follows:

- (a) For the purpose of transfer of shares referred to in note 1 above:

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

- (b) For the purpose of deposit of the form of proxy etc. referred to in note 3 above:

Computershare Hong Kong Investor Services Limited
17M 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: 86 731 2849 8028

NOTICE OF EGM

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

Unit 1106 on 11th floor
Jubilee Centre
18 Fenwick Street
Wanchai Hong Kong
Tel: 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 document, 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.