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

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

If you have sold or transferred all your shares in ZHUZHOU CSR TIMES ELECTRIC CO., LTD., you should at once hand this circular together with the accompanying form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

(Stock Code: 3898)

**EXCEEDED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS  
WITH PARENT GROUP AND CSRG GROUP**

**REVISED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP  
AND KCR GROUP**

**AND CONTINUING CONNECTED TRANSACTIONS  
WITH CRGL GROUP**

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



**CSC Asia Limited**

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A letter from the Board of the Company is set out on pages 8 to 22 of this circular. A letter from the Independent Board Committee is set out on pages 23 and 24 of this circular. A letter from the independent financial adviser, CSC Asia, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 46 of this circular.

A notice convening the EGM to be convened on Tuesday, 23 June 2009 is set out on pages 51 to 53 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

If you intend to attend the EGM in person or by proxy, you should also complete and return the accompanying reply slip in accordance with instructions printed thereon on or before Wednesday, 3 June 2009.

5 May 2009

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	8
<b>Letter from the Independent Board Committee</b> .....	23
<b>Letter from CSC Asia</b> .....	25
<b>Appendix — General Information</b> .....	47
<b>Notice of EGM</b> .....	51

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## DEFINITIONS

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

“2008 Approved CSRG Cap”	the maximum aggregate annual sales amount in respect of the transactions under the CSRG Mutual Supply Agreement for the year ended 31 December 2008 as specified in the Waiver
“2008 Approved ZELRI Cap”	the maximum aggregate annual purchase amount in respect of the transactions under the ZELRI Mutual Supply Agreement for the year ended 31 December 2008 as specified in the Waiver
“2009 Approved CSRG Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement for the year ending 31 December 2009 approved by the then Independent Shareholders on 27 June 2008
“2009 Approved KCR Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental Mutual Supply Agreement) for the year ending 31 December 2009 approved by the then Independent Shareholders on 13 October 2008
“Baoji Times”	寶雞南車時代工程機械有限公司 (Baoji CSR Times Engineering Machinery Co., Ltd.), established as a limited liability company under the laws of the PRC which is held as to 60% by the Company and 40% by CRB
“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 incorporated in the PRC with limited liability. The Group is the leading train-borne electrical system provider and integrator for the PRC railway industry engaging in the development, manufacture and sales of train power converters, auxiliary power supply equipment and control systems for trains for urban rail systems. In addition, the Group designs, manufactures and sells electrical components including power semiconductor devices, sensors and related products
“CSC Asia”	CSC Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders

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## DEFINITIONS

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“CRB”	China Railway Bus Co., Ltd. (中鐵寶工有限責任公司), a controlling shareholder of Baoji Times and a wholly-owned subsidiary of CRGL
“CRGL”	China Railway Group Limited (中國中鐵股份有限公司), a joint stock company incorporated in the PRC with limited liability, the A shares and the H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange respectively; CRGL is principally engaged in construction-related services, including infrastructure construction, survey, design and consulting services, engineering equipment and component manufacturing, and other businesses such as property development and mining
“CRGL Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the CRGL Mutual Supply Agreement for a term commencing on the CRGL Effective Date to 31 December 2011
“CRGL Effective Date”	the date where all conditions precedents stated in the CRGL Mutual Supply Agreement being satisfied and the CRGL Mutual Supply Agreement becoming effective
“CRGL Group”	CRGL and its subsidiaries and “CRGL Group Company” means any of them
“CRGL Mutual Supply Agreement”	a mutual supply framework agreement entered into between CRGL and the Company on 14 April 2009
“CSR”	China South Locomotive & Rolling Stock Corporation Limited (中國南車股份有限公司), a joint stock company incorporated in the PRC with limited liability, the A shares and the H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange respectively; CSR is directly and indirectly held as to approximately 57.57% by CSRG and holds the entire equity interest in the Parent Company
“CSR Investment”	南車投資租賃有限公司 (CSR Investment & Leasing Co., Ltd.), formerly known as 新力搏交通裝備投資租賃有限公司 (New Leap Transportation Equipment Investment & Leasing Co., Ltd.), a promoter of the Company and a wholly-owned subsidiary of CSR

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## DEFINITIONS

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“CSR Zhuzhou”	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), held as to approximately 69.01% by CSR, as to approximately 16.31% by the Parent Company and as to approximately 13.05% by CSR Investment; a promoter of the Company
“CSRG”	中國南方機車車輛工業集團公司 (China Southern Locomotive & Rolling Stock Industry (Group) Corporation), a PRC State-owned enterprise which is principally engaged in the areas of research and development, manufacturing, sales, refurbishment and leasing of rolling stock, including locomotives, passenger carriages, freight wagons, MUs, rapid transit vehicles and key related components as well as other business that utilize proprietary rolling stock technologies; the controlling shareholder of CSR
“CSRG Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement for a term of five years commencing from 1 January 2009 to 31 December 2013 approved by the then Independent Shareholders on 27 June 2008
“CSRG Group”	CSRG and its subsidiaries (including the Parent Group) and “CSRG Group Company” means any of them
“CSRG Mutual Supply Agreement”	a mutual supply framework agreement entered into between CSRG and the Company dated 4 December 2006, under which the Company agreed to supply and procure its subsidiaries to supply to the CSRG Group (excluding the Parent Group) train-borne electrical systems and electrical components, whereas CSRG agreed to supply and procure its subsidiaries (excluding the Parent Group) to supply to the Group certain parts and components (including motors) for the Group’s production of train-borne electrical systems for a term commenced on the date of Listing and ended on 31 December 2008
“CSRG Renewed Mutual Supply Agreement”	a mutual supply framework agreement entered into between CSRG and the Company dated 28 April 2008
“CSRG 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
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	domestic share(s) of RMB1.00 each in the share capital of the Company

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## DEFINITIONS

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“EGM”	an extraordinary general meeting of the Company to be convened on Tuesday, 23 June 2009 for the purpose of approving, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps by the Independent Shareholders, details of which are set out in the notice of EGM on pages 51 to 53 of this circular
“Group”	the Company and its subsidiaries and “Group Company” means any of them
“H Share(s)”	overseas listed foreign share(s) of RMB1.00 each in the share capital of the Company which are listed on the Main Board of the Stock Exchange and traded in HKD
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao’ao and Ms. Liu Chunru, formed to advise the Independent Shareholders in relation to, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps
“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the respective resolution to approve, among others, the New Supplemental Agreements and the CRGL Mutual Supply Agreement (as the case may be)
“KCR”	昆明中鐵大型樣路機械集團有限公司 (Kunming China Railway Large Road Maintenance Machinery Co., Ltd.), a limited liability company under the laws of the PRC principally engaged in the production of special equipment and accessories for railway, metallic structures and components and railway transportation equipment; export of self-manufactured mechanical and electrical products, self-contained equipment and related techniques; import of raw and ancillary materials, mechanical equipment and instruments, parts and accessories and techniques; a promoter of the Company and a wholly-owned subsidiary of China Railway Construction Corporation Limited, the A shares and the H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange respectively

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## DEFINITIONS

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“KCR Caps”	the Original KCR Caps as supplemented by the Revised KCR Caps
“KCR Group”	KCR and its subsidiaries and “KCR Group Company” means any of them
“KCR Mutual Supply Agreement”	a mutual supply framework agreement entered into between KCR and the Company dated 4 December 2006, under which the Company agreed to supply and procure its subsidiaries to supply to the KCR Group certain electrical control systems for large railway maintenance vehicles, whereas KCR agreed to supply and procure its subsidiaries and associates to supply to the Group certain parts and components in relation to large railway maintenance vehicles for a term commenced on the date of Listing and ended on 31 December 2008
“KCR Renewed Mutual Supply Agreement”	a mutual supply framework agreement entered into between KCR and the Company dated 28 April 2008
“KCR Second Supplemental Mutual Supply Agreement”	a supplemental agreement to the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental Mutual Supply Agreement) entered into between KCR and the Company dated 14 April 2009
“KCR Supplemental Mutual Supply Agreement”	a supplemental agreement to the KCR Mutual Supply Agreement and the KCR Renewed Mutual Supply Agreement entered into between KCR and the Company dated 7 August 2008
“Latest Practicable Date”	30 April 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing”	the listing of the Company’s shares on the Main Board of the Stock Exchange on 20 December 2006
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MOR”	Ministry of Railways of the PRC
“New Caps”	the New CSRG Caps and the New KCR Caps
“New CSRG Caps”	the revised maximum aggregate annual purchase and sales amounts in respect of the transactions under the CSRG Supplemental Mutual Supply Agreement for a term of five years commencing from 1 January 2009 to 31 December 2013

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## DEFINITIONS

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“New KCR Caps”	the revised maximum aggregate annual purchase and sales amounts in respect of the transactions under the KCR Second Supplemental Mutual Supply Agreement for a term of five years commencing from 1 January 2009 to 31 December 2013
“New Supplemental Agreements”	the CSRG Supplemental Mutual Supply Agreement and the KCR Second Supplemental Mutual Supply Agreement
“Original KCR Caps”	the maximum aggregate annual purchase and sales amounts in respect of the transactions under the KCR Renewed Mutual Supply Agreement for a term of five years commencing from 1 January 2009 to 31 December 2013 previously approved by the then Independent Shareholders on 27 June 2008
“Parent Company” or “ZELRI”	南車株洲電力機車研究有限公司 (CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.), a limited liability company established under the laws of the PRC which is principally engaged in the research and development of electric locomotives and related products; a promoter and the controlling shareholder of the Company, and a wholly-owned subsidiary of CSR
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)
“PRC”	the People’s Republic of China
“PRC Government”	the government of the PRC, including any provincial, municipal and other regional or local governmental entities and any regulatory authorities in the PRC
“Qishuyan Works”	中國南車集團戚墅堰機車車輛廠 (CSR Qishuyan Locomotive & Rolling Stock Works), a promoter of the Company and a wholly-owned subsidiary of CSRG
“Revised KCR Caps”	the revised maximum aggregate annual purchase and sales amounts in respect of the transactions under the KCR Supplemental Mutual Supply Agreement for the three years commencing from 1 January 2008 to 31 December 2010 approved by the then Independent Shareholders on 13 October 2008
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Domestic Share(s) and/or H Share(s)

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## DEFINITIONS

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“Shareholder(s)”	the holder(s) of Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Waiver”	the waiver granted by the Stock Exchange to the Company on 5 December 2006 from strict compliance with the announcement and/or the independent shareholders’ approval requirements pursuant to Rule 14A.42(3) of the Listing Rules in respect of, among others, the ZELRI Mutual Supply Agreement, the CSRG Mutual Supply Agreement and the KCR Mutual Supply Agreement for the period commenced on the date of Listing and ended on 31 December 2008
“ZELRI Mutual Supply Agreement”	a mutual supply framework agreement entered into between the Parent Company and the Company dated 4 December 2006 under which the Company agreed to supply and procure its subsidiaries to supply to the Parent Group certain electrical parts and components (including power semiconductors, sensors, PCB assemblies, control system components and converters and related components) for the production of the Parent Group’s products, whereas the Parent Company agreed to supply and procure its subsidiaries to supply to the Group certain mechanical and electro-mechanical parts and components (including reactors and heat sinks) for the production of the Group’s train-borne electrical systems for a term commenced on the date of Listing and ended on 31 December 2008

*For illustrative purposes of this circular, RMB88.18 = HKD100 save as otherwise stated.*

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LETTER FROM THE BOARD

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

(Stock Code: 3898)

*Executive Directors:*

Mr. Ding Rongjun (*Chairman*)

Mr. Lu Penghu

*Non-executive Directors:*

Mr. Song Yali

Mr. Liao Bin

Mr. Ma Yunkun

*Independent non-executive Directors:*

Mr. Gao Yucai

Mr. Chan Kam Wing, Clement

Mr. Pao Ping Wing

Mr. Tan Xiao'ao

Ms. Liu Chunru

*Registered office:*

Times Road

Shifeng District

Zhuzhou

Hunan Province

PRC 412001

*Principal Place of Business  
in Hong Kong:*

Unit 1106, 11th Floor

Jubilee Centre

18 Fenwick Street

Wanchai

Hong Kong

5 May 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**EXCEEDED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS  
WITH PARENT GROUP AND CSRG GROUP**

**REVISED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP  
AND KCR GROUP**

**AND CONTINUING CONNECTED TRANSACTIONS  
WITH CRGL GROUP**

**1. BACKGROUND**

Reference is made to the announcement dated 14 April 2009 issued by the Company in relation to, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) details of the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008; (ii) details of the New Supplemental Agreements and the New Caps; (iii) details of the CRGL Mutual Supply Agreement and the CRGL Caps; (iv) a letter from CSC Asia containing its advice to the Independent Board Committee and the Independent Shareholders; (v) the recommendation of the Independent Board Committee as advised by CSC Asia to the Independent Shareholders; and (vi) a notice of the EGM to consider and, if thought fit, to (a) approve and ratify the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap; (b) approve the New Supplemental Agreements and the New Caps; and (c) approve the CRGL Mutual Supply Agreement and the CRGL Caps.

### **2. CONTINUING CONNECTED TRANSACTIONS WITH PARENT GROUP AND CSRG GROUP**

#### **2008 Approved ZELRI Cap and 2008 Approved CSRG Cap Being Exceeded**

From the unaudited management accounts of the Group for the year ended 31 December 2008, the Directors noted that the unaudited aggregate annual purchase amount of the transactions under the ZELRI Mutual Supply Agreement amounted to approximately RMB109.2 million and exceeded the 2008 Approved ZELRI Cap of RMB87.7 million and the unaudited aggregate annual sales amount of the transactions under the CSRG Mutual Supply Agreement amounted to approximately RMB837.4 million and exceeded the 2008 Approved CSRG Cap of RMB806.1 million. Pursuant to Rule 14A.36(1) of the Listing Rules, the Company should re-comply with the reporting, announcement and Independent Shareholders' approval requirements once the actual annual value of such transactions in any financial year exceeds the relevant annual caps specified in the Waiver during the same period. The continuance of the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement in 2008 after exceeding the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap, respectively without obtaining the Independent Shareholders' approval on a timely basis constituted a breach of the Listing Rules.

The 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap were exceeded mainly due to the favourable policies introduced by the State Council of the PRC in October 2008 to increase the State's investment in infrastructure and to classify the railway industry as one of the prioritised industries to stimulate domestic demand for economic growth. As a result of the introduction of such policies, the MOR increased the purchase of products like transportation equipment and hence led to an increase in the Group's sales of electrical systems in connection with electric multiple units ("EMUs") to the CSRG Group (excluding the Parent Group) in 2008, which also resulted in the Group's additional purchase of certain parts and components for the production of the Group's electrical systems from the Parent Group in 2008.

The aggregate annual purchase amount of the transactions under the ZELRI Mutual Supply Agreement and the aggregate annual sales amount of the transactions under the CSRG Mutual Supply Agreement for the financial year of 2008 exceeded the respective 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap in the fourth quarter of 2008 and it has come to the notice of the Company in March 2009. The Directors consider that the failure to re-comply with the requirements of Listing

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## LETTER FROM THE BOARD

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Rules on a timely basis, which was inadvertent and regretful, is an isolated event. The Company will take steps to tighten its compliance system in order to prevent recurrence of similar event. These measures will include monthly review of the volume of the continuing connected transactions by the management and accounting staff of the Company; regular update on the forecast volume of the continuing connected transactions in the future by taking into account the latest market condition; and implement internal guidelines to control and monitor the purchase and sales volume. The Company will engage its auditors to conduct quarterly check on the volume of the continuing connected transactions and submit the results of finding to the independent non-executive Directors for review. The independent non-executive Directors will hold regular meetings on a quarterly basis to review the actual volume of the continuing connected transactions. The Directors, including the independent non-executive Directors, will closely monitor the transaction amounts of the continuing connected transactions.

### 3. CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

#### Historical Transaction Records with CSRG Group

Set out below is a summary of the transaction records of the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the three years ended 31 December 2006, 2007 and 2008:

	Year ended 31 December		
	2006	2007	2008 <sup>(note)</sup>
	<i>(RMB millions)</i>		
<b>ZELRI Mutual Supply Agreement</b>			
1. Amount paid to the Parent Group by the Group for the products provided by the Parent Group	140.7	63.4	109.2
2. Amount paid to the Group by the Parent Group for the products provided by the Group	37.9	22.2	52.1
<b>CSRG Mutual Supply Agreement</b>			
1. Amount paid to the CSRG Group by the Group for the products provided by the CSRG Group	22.0	21.3	27
2. Amount paid to the Group by the CSRG Group for the products provided by the Group	260.9	610.5	837.4
<b>Subtotal of amount paid to the CSRG Group (including the Parent Group but excluding the Group)</b>	162.7	84.7	136.2
<b>Subtotal of amount paid by the CSRG Group (including the Parent Group but excluding the Group)</b>	298.8	632.7	889.5

*Note:* These amounts are derived from the audited financial statements of the Group for the year ended 31 December 2008.

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## LETTER FROM THE BOARD

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### Reasons for Revision of CSRG Caps and New CSRG Caps

Having taken into account of the projected growth in the relevant transactions under the CSRG Renewed Mutual Supply Agreement for the similar reasons mentioned in the paragraph headed “2008 Approved ZELRI Cap and 2008 Approved CSRG Cap Being Exceeded”, it is expected that the aggregate annual values of the transactions under the CSRG Renewed Mutual Supply Agreement for the five years from 1 January 2009 to 31 December 2013 will exceed the CSRG Caps.

Accordingly, on 14 April 2009, the Company entered into the CSRG Supplemental Mutual Supply Agreement with CSRG to revise the CSRG Caps for each of the five years ending 31 December 2009, 2010, 2011, 2012 and 2013 as follows:

	Year ending 31 December				
	2009	2010	2011	2012	2013
	<i>(RMB millions)</i>				
<b>CSRG Caps</b>					
1. Amount paid to the CSRG Group by the Group for products provided by the CSRG Group	200	260	340	440	570
2. Amount paid to the Group by the CSRG Group for products provided by the Group	1,400	1,820	2,366	3,075	4,000
<b>New CSRG Caps</b>					
1. Amount paid to the CSRG Group by the Group for products provided by the CSRG Group	400	700	900	1,100	1,300
2. Amount paid to the Group by the CSRG Group for products provided by the Group	2,800	4,000	5,000	6,000	7,000

The New CSRG Caps are determined with reference to the following: (1) the historical transaction amounts under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement as shown in the section headed “Historical Transaction Records with CSRG Group”; (2) a supply schedule detailing the Group’s anticipated supply of 7,200 kilowatt and 9,600 kilowatt electric locomotives; (3) the Group’s committed supply to a member of the CSRG Group of certain train-borne electrical systems in connection with the 300km/h EMUs project for a consideration of RMB1,030 million with a supply schedule commenced in the fourth term of 2007 and expected to end in the fourth term of 2010 under a sales contract entered into prior to Listing; (4) anticipated supply of certain electrical systems in connection with the 200-250km/h EMUs project from the Group to a member of the CSRG Group pursuant to a sales contract to be signed between the Company and a member of the CSRG Group by the first half of 2009; (5) the anticipated volume of our products to be supplied in respect of the construction of the 7000 km Beijing-Shanghai Railway Express during the period from 2010 to 2013 under the supply contract which the Group is expected to obtain through a tender process; (6) the anticipated demand for city railways; (7) the estimated amount of RMB 400

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## LETTER FROM THE BOARD

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million and RMB 700 million payable to the CSR Group by the Group in 2009 and 2010, respectively and an estimated annual increment of RMB 200 million from 2011 to 2013; and (8) the estimated amount of RMB 2,800 million and RMB 4,000 million payable to the Group by the CSR Group in 2009 and 2010, respectively and an estimated annual increment of RMB 1,000 million from 2011 to 2013.

The estimated annual increase for both the amount payable by and the amount payable to the Group were primarily based on: (1) the favourable policies introduced by the State Council of the PRC in October 2008 to increase the State's investment in infrastructure and to classify the railway industry as one of the prioritized industries to stimulate domestic demand for economic growth. As a result of the introduction of the said policies, the MOR has increased the purchase of products like multiple units and locomotives; (2) the anticipated growth of the PRC railway industry; and (3) the business development potential of the CSR Group.

As at the Latest Practicable Date, the 2009 Approved CSR Caps have not been exceeded.

### **Principal Terms of CSR Supplemental Mutual Supply Agreement**

Save and except for the New CSR Caps as stated in this circular, the terms of the CSR Renewed Mutual Supply Agreement (including the pricing and payment terms) which have been set out in the announcement of the Company dated 28 April 2008 and the circular of the Company dated 9 May 2008 remain unchanged under the CSR Supplemental Mutual Supply Agreement and are summarized as follows:

**Supply of products:**

The Company agreed to supply and procure its subsidiaries to supply to the CSR Group (including the Parent Group but excluding the Group) certain products (including train-borne electrical systems and electrical components), parts and components and after-sales services, and related facilities for production, testing and research and development purposes.

CSR agreed to supply and procure its subsidiaries (including the Parent Group but excluding the Group) to supply to the Group certain parts and components and after-sales services for the Group's integration and assembly of train-borne electrical systems and other products, and related facilities for production, testing and research and development purposes.

**Pricing basis:**

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

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

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## LETTER FROM THE BOARD

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- the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
- the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group's forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.

Payment terms:

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

#### 4. CONTINUING CONNECTED TRANSACTIONS WITH KCR GROUP

##### Historical Transaction Records with KCR Group

Set out below is a summary of the transaction records of the transactions under the KCR Mutual Supply Agreement for the three years ended 31 December 2006, 2007 and 2008:

	Year ended 31 December		
	2006	2007	2008 <sup>(note)</sup>
	<i>(RMB millions)</i>		
<b>KCR Mutual Supply Agreement</b>			
1. Amount paid to the KCR Group by the Group for the products provided by the KCR Group	23.8	38.4	119.1
2. Amount paid to the Group by the KCR Group for the products provided by the Group	108.6	106.1	267.3
<b>Subtotal of amount paid to the KCR Group</b>	<b>23.8</b>	<b>38.4</b>	<b>119.1</b>
<b>Subtotal of amount paid by the KCR Group</b>	<b>108.6</b>	<b>106.1</b>	<b>267.3</b>

*Note:* These amounts are derived from the audited financial statements of the Group for the year ended 31 December 2008

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## LETTER FROM THE BOARD

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### Reasons for Revision of KCR Caps and New KCR Caps

In view of the developments in the PRC railway industry as set out above, the Directors consider that the anticipated aggregate annual values of transactions under the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental Mutual Supply Agreement) for the five years from 1 January 2009 to 31 December 2013 are expected to exceed the KCR Caps.

Accordingly, on 14 April 2009, the Company entered into the KCR Second Supplemental Mutual Supply Agreement with KCR to revise the KCR Caps for each of the five years ending 31 December 2009, 2010, 2011, 2012 and 2013 as follows:

	Year ending 31 December				
	2009	2010	2011	2012	2013
	<i>(RMB millions)</i>				
<b>KCR Caps</b>					
1. Amount paid to the KCR Group by the Group for products provided by the KCR Group	150	150	170	221	387
2. Amount paid to the Group by the KCR Group for products provided by the Group	355	455	550	670	817
<b>New KCR Caps</b>					
1. Amount paid to the KCR Group by the Group for products provided by the KCR Group	250	300	400	500	600
2. Amount paid to the Group by the KCR Group for products provided by the Group	550	715	930	1,210	1,573

The New KCR Caps are determined with reference to: (1) the KCR Caps and the historical transaction amounts in respect of the KCR Mutual Supply Agreement as shown in the section headed "Historical Transaction Records with KCR Group"; (2) the anticipated growth of PRC railway industry, the need to improve the speed and weight capacities of the existing railways, together with governmental support on railway transportation and the extension of railway route; (3) the anticipated increase in the orders and production of KCR's products like products for large railway maintenance vehicles as a result of the government's support on the railway investment leading to an anticipated increase in ancillary products provided by the Group to the KCR Group; (4) a supply schedule in connection with the products to be provided by the Group to the KCR Group for 2009; (5) the estimated amount of RMB 250 million and RMB 300 million payable to the KCR Group by the Group in 2009 and 2010, respectively and an estimated annual increment of RMB 100 million from 2011 to 2013; and (6) the estimated amount of RMB 550 million payable to the Group by the KCR Group in 2009 and an estimated annual increment of approximately 30% from 2010 to 2013.



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## LETTER FROM THE BOARD

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- the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group's forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.

Payment terms:

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

### 5. CONTINUING CONNECTED TRANSACTIONS WITH CRGL GROUP

#### Principal Terms of CRGL Mutual Supply Agreement

On 14 April 2009, the Company entered into the CRGL Mutual Supply Agreement with CRGL for certain continuing connected transactions to be conducted between the Group and the CRGL Group for a term commencing on the CRGL Effective Date and ending on 31 December 2011. The principal terms of the CRGL Mutual Supply Agreement are as follows:

Date: 14 April 2009

Parties: CRGL and the Company

Supply of products: The Company agrees to supply and procure its subsidiaries to supply to the CRGL Group certain mechanical products and after-sale service for railway projects.

CRGL agrees to supply and procure its subsidiaries to supply to the Group certain parts and components and mechanical processing ancillary services for the Group's production of mechanical products for railway projects.

Term: A term commencing on the CRGL Effective Date and ending on 31 December 2011

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## LETTER FROM THE BOARD

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- Conditions precedents:                   The CRGL Mutual Supply Agreement shall become effective upon fulfillment of the following conditions:
- the Company having obtained the Board's approval and the Independent Shareholders' approval on the CRGL Mutual Supply Agreement and the CRGL Caps; and
  - compliance of other applicable requirements under the Listing Rules.
- Pricing basis:                               The pricing for the products and/or services supplied by and/or to the CRGL Group will be determined on the following basis in the order of priority:
- the prices prescribed by the PRC Government (if any);
  - the prices not exceeding any relevant pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
  - the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
  - the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group's forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.
- Payment terms:                               Payments for the products and/or services supplied by and/or to the CRGL Group will be settled by way of cash or such other means as agreed by the parties upon the occurrence of contractually agreed payment events as specified in the purchase documents to be entered into between the Group Companies and the CRGL Group Companies. The payments terms will be on market terms which are not less favorable than those offered to the Group by independent third parties.

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## LETTER FROM THE BOARD

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### CRGL Caps

It is anticipated that the CRGL Caps for each of the three years ending 31 December 2009, 2010 and 2011 shall be as follows

	Year ending 31 December		
	2009	2010	2011
	<i>(RMB millions)</i>		
<b>CRGL Caps</b>			
1. Amount paid to the CRGL Group by the Group for products provided by the CRGL Group	150	163	211
2. Amount paid to the Group by the CRGL Group for products provided by the Group	250	325	422

The CRGL Caps are determined with reference to the following: (1) the anticipated growth of the PRC railway industry; (2) the anticipated development and demand for large scale railway construction equipment; and (3) the anticipated scale of railway projects to be undertaken by the CRGL Group leading to the CRGL Group's demand for mechanical products and after-sale service for railway projects and hence the Group's demand for such parts and components and mechanical processing ancillary services for the production of such mechanical products.

### Reasons for Entering into CRGL Mutual Supply Agreement

On 25 March 2009, the Company entered into a joint venture agreement with CRGL and CRB for the establishment of Baoji Times in Baoji City of Shanxi Province of the PRC. Baoji Times was established on 26 March 2009 to principally engage in the manufacture, sales, maintenance, after-sales service, research and development of railway work machines and vehicles. The Company and CRB hold 60% and 40% equity interest in Baoji Times, respectively. Pursuant to the said joint venture agreement, CRB will contribute its 40% share of the registered capital of Baoji Times partly by way of cash and partly by way of injection of assets, including the business of production of certain mechanical products and after-sale service for railway projects. The Directors consider that this arrangement together with the proposed transactions under the CRGL Mutual Supply Agreement will strengthen our cooperation with the CRGL Group. It is part of the normal commercial activity of the Group in the PRC railway industry and in the ordinary and normal course of its business. The Directors are of the view that the proposed transactions under the CRGL Mutual Supply Agreement will make significant contribution to the Company's revenue and profitability, which are in the interests of the Company and its shareholders as a whole.

As at the Latest Practicable Date, the Group does not have any order from the CRGL Group and the CRGL Group also does not have any order from the Group.

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## LETTER FROM THE BOARD

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### 6. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Revision of CSRG Caps and KCR Caps

The Parent Company is a promoter and the controlling shareholder of the Company. CSRG directly and indirectly holds approximately 57.57% of the issued shares in CSR. CSR directly holds the entire equity interest in the Parent Company and CSR Investment respectively, and directly and indirectly holds approximately 98.37% of the equity interest in CSR Zhuzhou. CSRG also directly holds the entire equity interest in Qishuyan Works. Each of CSR Investment, CSR Zhuzhou and Qishuyan Works is a promoter of the Company. KCR is a promoter of the Company. Each of CSRG and KCR is therefore a connected person of the Company under the Listing Rules.

As the CSRG Caps and the KCR Caps are expected to be exceeded, pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with Rules 14A.35(3) and (4) of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) for the New CSRG Caps and the New KCR Caps is more than 2.5%, the New Supplemental Agreements and the New Caps are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

#### CRGL Mutual Supply Agreements and CRGL Caps

The Company and CRB hold 60% and 40% equity interest in Baoji Times, respectively. Both of the Company and CRB are controlling shareholders of Baoji Times. CRB is a wholly-owned subsidiary of CRGL and therefore CRGL is regarded as a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) for the CRGL Caps is more than 2.5%, the CRGL Mutual Supply Agreement and the CRGL Caps are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

### 7. LISTING RULES REQUIREMENTS

A meeting of the Board was held on 31 March 2009 at which (1) the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap were approved and ratified; (2) the CSRG Supplemental Mutual Supply Agreement and the New CSRG Caps were reviewed and approved; (3) the KCR Second Supplemental Mutual Supply Agreement and the New KCR Caps were reviewed and approved; and (4) the CRGL Mutual Supply Agreement and the CRGL Caps were reviewed and approved. At the said meeting of the Board, Messrs. Ding Rongjun (the chairman of the Board, an executive Director and a general manager of the Parent Company), Liao Bin (a non-executive Director and an executive director of the Parent Company) and Song Yali (the vice chairman of the Board, a non-executive Director and a vice general manager of the Parent Company) were abstained from the examination of and voting on (1) and (2) above due to conflict of interests whereas Mr. Ma Yunkun (a non-executive Director and the chairman of the board of directors of KCR) was abstained from the examination of and voting on (3) above due to conflict of interests.

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## LETTER FROM THE BOARD

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The Directors, excluding Messrs. Ding Rongjun, Liao Bin, Song Yali and Ma Yunkun (as the case may be), consider that (a) the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008, the New Supplemental Agreements and the CRGL Mutual Supply Agreement were entered into in the ordinary and usual course of business of the Group and (b) the terms of the New Supplemental Agreements and the New Caps together with the terms of the CRGL Mutual Supply Agreement and the CRGL Caps are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and the Shareholders as a whole are concerned. The New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps are conditional upon, among others, the Independent Shareholders' approval in respect thereof.

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

### **8. AN INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

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

CSC Asia has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps.

### **9. EGM**

The Directors propose to seek the Independent Shareholders' approval at the EGM to (a) approve and ratify the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap; (b) approve the New Supplemental Agreements and the New Caps; and (c) approve the CRGL Mutual Supply Agreement and the CRGL Caps. Notice of the EGM to be held at Times Hotel, Zhuzhou City, Hunan Province, the PRC, on Tuesday, 23 June 2009 at 2:00 p.m. is set out on pages 51 to 53 of this circular.

For the purposes of the EGM, the register of members of the Company will be closed from Monday, 25 May 2009 to Tuesday, 23 June 2009, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged, for holders of H Shares, with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or, for holders of Domestic Shares, the registered office address of the Company at Times Road, Shifeng District, Zhuzhou, Hunan Province, 412001, PRC no later than 4:30 p.m. on Friday, 22 May 2009.

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## LETTER FROM THE BOARD

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A form of proxy for appointing proxy is despatched with this circular and published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). Whether or not you intend to attend the EGM, you are requested to complete and return the 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, 3 June 2009.

### 10. POLL PROCEDURE

The votes at the EGM will be taken by poll.

### 11. VOTING ARRANGEMENTS

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

As set out in the paragraph headed “Non-exempt Continuing Connected Transactions” above, 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 (1) consider, approve and ratify the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap; and (2) consider and approve the CSRG Supplemental Mutual Supply Agreement and the New CSRG Caps.

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

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

- (a) each of the Parent Company, CSR Zhuzhou, KCR, CSR Investment and Qishuyan Works controlled or were entitled to exercise control over the voting rights in respect of its respective Shares;
- (b) (i) there were no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any of the Parent Company, CSR Zhuzhou, KCR, CSR Investment and Qishuyan Works;
- (ii) there were no obligation on or entitlement of any of the Parent Company, CSR Zhuzhou, KCR, CSR Investment and Qishuyan Works as at the Latest Practicable Date,

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## LETTER FROM THE BOARD

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whereby any of the Parent Company, CSR Zhuzhou, KCR, CSR Investment and Qishuyan Works had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of its respective Shares to other third parties, either generally or on a case-by-case basis; and

- (c) there were no discrepancies between the beneficial shareholding interest of any of the Parent Company, CSR Zhuzhou, KCR, 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.

### 12. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 and 24 of this circular, the letter from CSC Asia set out on pages 25 to 46 of this circular which contains the recommendation of CSC Asia to the Independent Board Committee and the Independent Shareholders in relation to, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps, and the principal factors and reasons considered by CSC Asia in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of CSC Asia and the principal factors and reasons considered by CSC Asia, considers that (1) the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 were, (2) the New Supplemental Agreements and the New Caps are, and (3) the CRGL Mutual Supply Agreement and the CRGL Caps are on normal commercial terms 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 (a) approve and ratify the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap; (b) approve the New Supplemental Agreements and the New Caps; and (c) approve the CRGL Mutual Supply Agreement and the CRGL Caps.

### 13. 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, 5 May 2009

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

(Stock Code: 3898)

5 May 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**EXCEEDED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS  
WITH PARENT GROUP AND CSRG GROUP**

**REVISED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP  
AND KCR GROUP**

**AND CONTINUING CONNECTED TRANSACTIONS  
WITH CRGL GROUP**

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

Under the Listing Rules, the continuance of the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement in 2008 after exceeding the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap are subject to the approval and ratification of the Independent Shareholders at the EGM.

Under the Listing Rules, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider (1) the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap, (2) the terms of the New Supplemental Agreements and (3) the terms of the CRGL 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. CSC Asia has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board and the letter from CSC Asia as set out in the Circular. Having taking into account the principal factors and reasons considered by and the advice of CSC Asia as set out in its letter of advice, we consider that (1) the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap, the New Supplemental Agreements and the CRGL Mutual Supply Agreement were entered into in the ordinary and usual course of business of the Group; and (2) the terms of the New Supplemental Agreements and the CRGL Mutual Supply Agreement and the relevant New Caps and the CRGL Caps are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote at the upcoming EGM in favour of the ordinary resolutions to (a) approve and ratify the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap; (b) approve the New Supplemental Agreements and the New Caps; and (c) approve the CRGL Mutual Supply Agreement and the CRGL Caps.

Yours faithfully,

For and on behalf of the  
Independent Board Committee

**Mr. Gao Yucai**

**Mr. Chan Kam Wing, Clement**

**Mr. Pao Ping Wing**

**Mr. Tan Xiao'ao**

**Ms. Liu Chunru**

*Independent non-executive Directors*

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## LETTER FROM CSC ASIA

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*The following is the text of a letter of advice from CSC Asia which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps.*



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

5 May 2009

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

Dear Sirs,

### **EXCEEDED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH PARENT GROUP AND CSRG GROUP**

### **REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP AND KCR GROUP**

### **AND CONTINUING CONNECTED TRANSACTIONS WITH CRGL GROUP**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of, among others, the New Supplemental Agreements and the New Caps and the CRGL Mutual Supply Agreement and the CRGL Caps, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company to the Shareholders date 5 May 2009 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

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## LETTER FROM CSC ASIA

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CSRG indirectly holds the entire interest in the Parent Company. The Parent Company is a promoter and the controlling shareholder of the Company. KCR is also a promoter of the Company. The Company and CRB are controlling shareholders of Baoji Times with respective equity interests of 60% and 40%. CRB is a wholly-owned subsidiary of CRGL. Each of CSRG, the Parent Company, KCR and CRGL is therefore a connected person of the Company under the Listing Rules.

As set out in the Letter from the Board, for the year ended 31 December 2008, the aggregate annual purchase amount under the ZELRI Mutual Supply Agreement and the aggregate annual sales amount under the CSRG Mutual Supply Agreement exceeded their respective specified annual caps in the Waiver. In this regards, the Board would like to seek the Independent Shareholders' approval to approve and ratify the exceeded caps for the year ended 31 December 2008.

In view of recent development in the PRC railway industry, the Directors anticipate that the aggregate annual values of transactions contemplated under the CSRG Renewed Mutual Supply Agreement and the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental Mutual Supply Agreement) will exceed the CSRG Caps and the KCR Caps respectively, as such, the Company entered into the CSRG Supplemental Mutual Supply Agreement and the KCR Second Supplemental Mutual Supply Agreement to revise the CSRG Caps and the KCR Caps respectively. Furthermore, in order to strengthen the cooperation with the CRGL Group, the Company entered into the CRGL Mutual Supply Agreement.

As each of the applicable percentage ratios (other than the profits ratio) in respect of the annual consideration for each of the New Caps and the CRGL Caps is more than 2.5% and more than HK\$10 million, each of the New Supplemental Agreements and the CRGL Mutual Supply Agreement constitutes a non-exempt continuing connected transaction for the Company and together with the New Caps and the CRGL Caps, are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps at the EGM to be conducted by poll. CSRG, KCR and their respective associates are required to abstain from voting at the EGM.

The Independent Board Committee comprising all of the five independent non-executive Directors namely Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao'ao and Ms. Liu Chunru has been formed to give recommendations to the Independent Shareholders as to whether (i) the terms of the New Supplemental Agreements and the New Caps; and (ii) the terms of the CRGL Mutual Supply Agreement and the CRGL Caps, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We, CSC Asia, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

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## LETTER FROM CSC ASIA

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### **BASIS OF OUR OPINION**

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

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion regarding the transactions under (i) the New Supplemental Agreements and the New Caps; and (ii) the CRGL Mutual Supply Agreement and the CRGL Caps, we have taken into consideration the following principal factors and reasons:

#### **(A) REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS WITH THE CSRG GROUP AND THE KCR GROUP**

##### **1. Background of and reasons for entering into the New Supplemental Agreements**

###### *Established business relationship with the CSRG Group and the KCR Group*

The Group is principally engaged in the production and sale of train-borne electrical systems and electrical components to train manufacturers in the PRC.

As advised by the Directors, the Group has an established business relationship in respect of the mutual provision of products and services between the CSRG Group and the KCR Group for years and such transactions fall within the ordinary and usual course of business of the Group. Stemming from the long-term co-operation, the Directors are of the opinion that both the CSRG Group and the KCR Group are familiar with the Group's standards and specifications. Throughout the years, they have been able to meet and respond promptly to any of the Group's new requirements.

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## LETTER FROM CSC ASIA

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### *2008 Approved ZELRI Cap and 2008 Approved CSRG Cap being exceeded*

As set out in the prospectus of the Company dated 8 December 2006, immediately prior to Listing, the Company entered into the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement (the “2006 Agreements”) with the Parent Company and CSRG respectively for a term commenced on the date of Listing and ended on 31 December 2008 in respect of mutual supply of products between the Group and the parties to the 2006 Agreements. The transactions contemplated under the 2006 Agreements constituted non-exempt continuing connected transactions which subjected to announcement and independent shareholders’ approval under the Listing Rules. The Waiver was obtained by the Company from the Stock Exchange on 5 December 2006.

As stated in the Letter from the Board, in March 2009, the Company noticed that the audited aggregate annual purchase under the ZELRI Mutual Supply Agreement for the year ended 31 December 2008 (the “2008 ZELRI Purchase”) amounted to approximately RMB109.2 million had exceeded the 2008 Approved ZELRI Cap of RMB87.7 million and the audited aggregate annual sales under the CSRG Mutual Supply Agreement for the corresponding period (the “2008 CSRG Sales”) amounted to approximately RMB837.4 million had also exceeded the 2008 Approved CSRG Cap of RMB806.1 million. In accordance with Rule 14A.36(1) of the Listing Rules, the Company should re-comply with the reporting, announcement and Independent Shareholders’ approval requirements once the actual annual value of the transactions contemplated under the 2006 Agreements in any financial year exceeds the relevant annual caps as specified in the Waiver during the same period. As such, the continuance of the 2008 ZELRI Purchase and the 2008 CSRG Sales after exceeding their respective 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap (collectively, the “2008 Approved Caps”), which took place in the fourth quarter of 2008, without obtaining the Independent Shareholders’ approval on a timely manner constituted a breach of the Listing Rules by the Company.

As disclosed in the Letter from the Board, the reason for the 2008 Approved Caps being exceeded was mainly attributable to the increase in the MOR’s purchase of transportation equipment resulting from the introduction of favourable policies by the State Council of the PRC in October 2008 in connection with the increase in State’s investment in infrastructure and the classification of the railway industry as one of the prioritised industries so as to stimulate domestic demand for economic growth (the “Policies”). With the increase in the MOR’s purchases, there led to the increase in the Group’s sales of electrical systems in connection with electric multiple units (“EMUs”) to the CSRG Group (excluding the Parent Group) and also resulted in the Group’s additional purchase of certain parts and components from the Parent Group for the Group’s production of electrical systems for sale, thereby, leading to the 2008 Approved Caps being exceeded.

The exceed of the 2008 Annual Caps took place in the fourth quarter of 2008 and it was during March 2009 that the Company became aware of such event. The Directors consider that the failure to re-comply with the requirements of the Listing Rules on a timely manner was an isolated event and such failure to re-comply was inadvertent and regretful.

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## LETTER FROM CSC ASIA

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In order to prevent the recurrence of similar event in the future and to safeguard the interests of the Independent Shareholders, the Company will adopt improvement measures to tighten its existing compliance system, details of which are set out in the Letter from the Board.

The Group had principally (i) procured from the Parent Group in respect of the products and services related to the 2008 ZELRI Purchase; and (ii) sold to the CSRG Group in respect of the products and services related to the 2008 CSRG Sales, and the terms of the 2008 ZELRI Purchase and the 2008 CSRG Sales were determined after arm's length commercial negotiations between the Group and the Parent Group and the CSRG Group with primary reference to the respective historical pricing policies and similar transactions between the Group and the Parent Group and the CSRG Group. We are given to understand that the Group only transacted with the Parent Group and the CSRG Group and had not transacted with independent third parties for majority of the products associated with the 2008 ZELRI Purchase and the 2008 CSRG Sales. In this regards, only limited amount of the Group's purchase and sales transactions with the Parent Group and the CSRG Group had comparable records from independent third parties for similar transactions. We have reviewed the available information as provided by the Company of the sales and purchase records of the Group between the Parent Group and the CSRG Group, and transactions with other independent supplier/purchaser for those transactions where comparable documents from independent third parties were available. Based on our review, we consider that the transactions conducted with the Parent Group and the CSRG Group, and independent third parties were made at compatible prices.

Taking into account that (i) the 2008 ZELRI Purchase and the 2008 CSRG Sales were compatible with market prices; (ii) the terms of the transactions between the Group and the Parent Group and the CSRG Group were agreed upon between the two parties after arm's length commercial negotiations; and (iii) the terms were determined primarily based on historical transactions, we are of the view that the 2008 ZELRI Purchase and the 2008 CSRG Sales were conducted on normal commercial terms and such transactions are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable insofar as the Independent Shareholders are concerned.

As advised by the Directors, the excess portion of the 2008 ZELRI Purchase over the 2008 Approved ZELRI Cap in the amount of approximately RMB21.5 million and the excess portion of the 2008 CSRG Sales over the 2008 Approved CSRG Cap in the amount of approximately RMB31.3 million had already been recognized in the consolidated accounts of the Group for the year ended 31 December 2008 in accordance with the Group's accounting policy when the relevant goods were received from/ delivered to the Parent Group/ the CSRG Group (as the case maybe) and the titles thereof had already been passed to the relevant purchasers. Accordingly, the aforesaid purchase and sales transactions could not be rescinded. For that reason, we consider that ratifying the exceeded caps for the year ended 31 December 2008 by seeking approval from the Independent Shareholders is the appropriate action for the Company in order to re-comply with the Listing Rules requirements and it is in the interests of both the Company and the Shareholders as a whole.

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## LETTER FROM CSC ASIA

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However, we would like to remind the Company, its priority to implement the proposed improvement measures (as set out in the Letter from the Board) which aiming to tighten its existing compliance system to suit its business needs as well as to strengthen corporate governance.

### *Anticipated growth in transactions with the CSRG Group and the KCR Group*

Currently, the mutual supply transactions between the Group and the CSRG Group are contemplated under the CSRG Renewed Mutual Supply Agreement and are subject to the CSRG Caps, details of which are set out in the announcement of the Company dated 28 April 2008 (the “April 2008 Announcement”) and the Company’s circular to the Shareholders dated 9 May 2008 (the “May 2008 Circular”). The CSRG Renewed Mutual Supply Agreement and the CSRG Caps were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 27 June 2008 (the “June 2008 EGM”).

At present, the mutual supply transactions between the Group and the KCR Group are contemplated under the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental Mutual Supply Agreement) (the “Existing KCR Agreements”). The KCR Renewed Mutual Supply Agreement and the Original KCR Caps (details of which are set out in the April 2008 Announcement and the May 2008 Circular) were approved by the then independent Shareholders at the June 2008 EGM. The KCR Supplemental Mutual Supply Agreement was entered into by the Company for the revision of the Original KCR Caps to the Revised KCR Caps for the three years from 1 January 2008 to 31 December 2010 (details of which are set out in the announcement of the Company dated 7 August 2008 and the circular to the shareholders of the Company dated 28 August 2008). The KCR Supplemental Mutual Supply Agreement and the Revised KCR Caps were approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 13 October 2008.

In consideration of the 2008 Approved Caps being exceeded mainly due to the introduction of the Policies resulting in an increase of sales of the Group’s electrical systems in connection with EMUs to the CSRG Group in 2008, the Directors anticipate that for the similar reasons, the Group’s transactions with the CSRG Group under the CSRG Renewed Mutual Supply Agreement and the aggregate annual transaction values with the CSRG Group for each of the five years ending 31 December 2013 will also experience growth and eventually exceed the respective CSRG Caps.

As for the transactions between the Group and the KCR Group, after taking into account the introduction of the Policies and incidentally the developments of the PRC railway industry, the Directors have reassessed its business prospects with the KCR Group and anticipate that there will be an increase in the size and/or number of transactions between the Group and the KCR Group as a result of expected growth in demand for large railway maintenance vehicles which will eventually exceed the KCR Caps.

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## LETTER FROM CSC ASIA

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With the view to maintain the mutual and well-established relationship with the CSRG Group and the KCR Group and to allow the Group to obtain the flexibility to participate further in the railway industry as encouraged by the Policies, the Directors consider that it is important for the Group to accommodate more sales to/purchases from the CSRG Group and the KCR Group. Accordingly, the New Supplemental Agreements were entered into so as to revise upwards the existing CSRG Caps and KCR Caps to the respective New CSRG Caps and New KCR Caps on exactly the same terms as the CSRG Renewed Mutual Supply Agreement and the Existing KCR Agreements save and except for the New Caps.

Taking into account (i) the introduction of the Policies which is advantageous to the PRC railway industry will boost potential growth in aggregate annual transaction values with the CSRG Group and the KCR Group resulting in a likelihood of exceeding their respective CSRG Caps and the KCR Caps; (ii) the CSRG Renewed Mutual Supply Agreement and the Existing KCR Agreements and their respective CSRG Caps and KCR Caps have already been approved by the then independent Shareholders; (iii) save and except for the revision of the CSRG Caps and the KCR Caps as proposed under the corresponding New Supplemental Agreements, all other terms of the CSRG Renewed Mutual Supply Agreement and the Existing KCR Agreements remain unchanged; and (iv) the transactions contemplated under the CSRG Renewed Mutual Supply Agreement and the Existing KCR Agreements have been and will continue to be carried out by the Group in its ordinary and usual course of business and in accordance with the terms and conditions of the respective New Supplemental Agreements, we are of the view that the entering into of the New Supplemental Agreements is in the interests of the Company and the Shareholders as a whole.

### **2. Justification for the term of the New Supplemental Agreements exceeding three years**

Each of the New Supplemental Agreements has a term of over three years with effect from the date of which the then independent Shareholders' approval has been obtained for each of the New Supplemental Agreements and ending on the year ending 31 December 2013.

According to the MOR's current policy on technology import, the Group has to procure production technologies for its manufacturing process by obtaining technology cooperation or licenses from foreign suppliers (the "Foreign Technologies"). We are given to understand that a period of around four to five years will be required before the commercialization of the Foreign Technologies, after taking into consideration, account staff training, internal trial-testing and mastering of the Foreign Technologies, as well as manufacturing process and delivery of products. Considering the Group's investment and planning on the Foreign Technologies, the Directors have advised that the durations of the mutual supply agreements are required to be of reasonable length of approximately five years in order to justify the Group's capital investment. The Directors have also confirmed that it is normal business practice in the PRC railway industry to enter into mutual supply agreements of over three years.

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

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## LETTER FROM CSC ASIA

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### 3. The New Caps

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

In assessing the reasonableness of the New Caps, we have discussed with the Directors and the management of the Company the basis and underlying assumptions for the purpose of setting the New Caps and have taken into account the factors discussed below.

As a result of the introduction of the Policies, the MOR increased the purchase of products like multiple units and locomotives. We note that in October 2008, the State Council announced that the total value of railway investment project approved by the State accumulated to RMB2,000 billion. In addition, the MOR also announced in October 2008 that the railway investment projects of over RMB1,200 billion were in progress. According to the National Bureau of Statistics, procurement of new locomotives by the MOR recorded a steady growth for the period from year 2003 to year 2007 with a compound annual growth rate (“CAGR”) of approximately 34.8% and according to the PRC Railway Statistics Bulletin, the total capital investment in the PRC railway also recorded a steady growth with a CAGR of approximately 30.8% for the same period. Moreover, as stated in the MOR’s Eleventh 5-year Plan, it is forecasted that 17,000 km of new railway lines will be constructed by year 2010 and the total operational lengths of the PRC railways will increase to approximately 90,000 km in year 2010 from the approximately 75,438 km in year 2005. Based on the above, we concur with the view of the Directors that the market outlook of the PRC railway industry seems promising.

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**LETTER FROM CSC ASIA**

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(a) *New CSRG Caps*

Set out below are the CSRG Caps and New CSRG Caps for the five years ending 31 December 2013:

	<b>2009</b>	<b>Year ending 31 December</b>			<b>2013</b>
		<b>2010</b>	<b>2011</b>	<b>2012</b>	
		<i>(RMB millions)</i>			
<b>CSRG Caps</b>					
1. Amount paid to the CSRG Group by the Group for products provided by the CSRG Group	200	260	340	440	570
2. Amount paid to the Group by the CSRG Group for products provided by the Group	1,400	1,820	2,366	3,075	4,000
<b>New CSRG Caps</b>					
1. Amount paid to the CSRG Group by the Group for products provided by the CSRG Group	400	700	900	1,100	1,300
<i>Increase in amount from the preceding year</i>	263.8	300	200	200	200
	<i>(Note 1)</i>				
2. Amount paid to the Group by the CSRG Group for products provided by the Group	2,800	4,000	5,000	6,000	7,000
<i>Increase in amount from the preceding year</i>	1,910.5	1,200	1,000	1,000	1,000
	<i>(Note 2)</i>				

*Notes:*

1. *Difference between the annual cap of RMB400 million for the year ending 31 December 2009 and the actual amount paid to the CSRG Group by the Group of approximately RMB136.2 million for the year ended 31 December 2008.*
2. *Difference between the annual cap of RMB2,800 million for the year ending 31 December 2009 and the actual amount paid to the Group by the CSRG Group of approximately RMB889.5 million for the year ended 31 December 2008.*

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## LETTER FROM CSC ASIA

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Details of the bases for determining the New CSRG Caps are set out in the Letter from the Board. We note in the Letter from the Board that in setting the New CSRG Caps, references were principally made to (i) the historical transactions between the Group and the CSRG Group; (ii) the Directors' view of the current PRC railway market outlook; and (iii) various additional bases which were not previously adopted in determining the CSRG Caps.

As the Parent Company has become an indirectly wholly-owned subsidiary of CSRG after a group reorganisation, after expiration of the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement on 31 December 2008, the transactions originally contemplated thereunder are consolidated and contemplated under the CSRG Renewed Mutual Supply Agreement. Given that the CSRG Supplemental Mutual Supply Agreement is on exactly the same terms as the CSRG Renewed Mutual Supply Agreement except for the revision of the CSRG Caps, we consider making reference to the historical transaction amounts under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement in determining the New CSRG Caps to be reasonable.

We have discussed with the management and understand that, in revising upwards the CSRG Caps to the New CSRG Caps, the Directors have taken into consideration that the PRC railway market is expected to experience further growth since the time the Directors set the CSRG Caps and also on the similar reasons that led to the 2008 Approved Caps being exceeded and have further evaluated the amount of the transactions to be conducted between the Group and the CSRG Group for the coming recent years on the perception of continued growth in the PRC railway market. Accordingly, the Directors have further examined its committed supplies and anticipated supplies to/from the CSRG Group, in particular, the Group's committed supply to the CSRG Group in relation to 300km/h EMUs project and the Group's anticipated supply to the CSRG Group in relation to 200-250km/h EMUs project in determining the New CSRG Caps. We are also given to understand that the Directors have made reference based on their discussions and negotiations with the CSRG Group by obtaining an understanding on the CSRG Group's business development potential and capturing further potential business opportunities with the CSRG Group.

Furthermore, based on our discussions with the management and our review of the bases and assumptions in setting the New CSRG Caps, we note that in determining the New CSRG Caps, references were made to various new bases which were not included in the CSRG Caps, namely (i) anticipated supply of 7,200 kilowatt and 9,600 kilowatt electric locomotives; (ii) the Group's prospective tender for the anticipated supply of products in relation to the construction of the Beijing-Shanghai Railway Express during the period from 2010 to 2013; and (iii) anticipated demand for city railways.

In determining the bases for setting the New CSRG Caps, we note that the Directors have taken into consideration the recent development of the market of electric locomotives and the Group's current negotiation with the CSRG Group to supply the electric locomotives based on the CSRG Group's requirement. Hence, the supply of electric locomotives has been applied as one of its bases in the New CSRG Caps. According to the PRC Railway Statistics Bulletin, in year 2007, the operational length of electrified railways

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## LETTER FROM CSC ASIA

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in the PRC was 25,500 km and the operational length had been increasing with a CAGR of around 8.0% for year 2003-2007. As stated in the MOR's Eleventh 5-year Plan, it is anticipated that the operational length of electrified railways will reach 40,500 km by year 2010. We are given to understand from the Directors that electric locomotives are one of the major types of trains use in electrified railways. Given the recent growth in electrified railways and the MOR's focus to develop electrified railways, we consider that the market of the electric locomotives will encounter a positive outlook and the possibility of extending the Group's business with the CSR Group into electric locomotives is likely to increase the number of transactions between the Group and the CSR Group.

In March 2009, MOR entered into a supply contract with China CNR Corporation Limited and its subsidiaries (the "CNR Group") for acquiring EMUs which amounted to approximately RMB40 billion in relation to the Beijing-Shanghai Railway Express from the CNR Group. The Directors had therefore conducted an estimation on the value of the contract which is likely to be obtained by the CSR Group from the MOR in connection with the Beijing-Shanghai Railway Express with reference to historical MOR's policies, practices with the CSR Group and the aforesaid supply contract of the CNR Group. We are given to understand that the Group will normally undergo a tender process for product supply to the CSR Group. The Directors have therefore based on those prospective tender(s) and come up with an estimated value of supply contract for the Beijing-Shanghai Railway Express project and include this basis in the determination of the New CSR Caps.

We note that according to The National Development and Reform Commission of the PRC, it was estimated that the total operating length of PRC city railway lines would increase from approximately 440 km in 2006 to approximately 1,300 km by 2010 and to approximately 1,500 km by 2015. We have been advised by the Directors that the Group is currently negotiating with relevant authorities to supply electrical systems for certain major city railways in light of the future prospect of city railways, thus, the Directors have included the assumption of supply of products for city railways.

In estimating the New CSR Caps, other than referring to the committed supply and anticipated supply to/from the CSR Group, a buffer of around 30% increment per annum is also being projected to cater for unforeseeable growth in the MOR's procurement of locomotives which will eventually result in the surge in demand of train-borne electrical systems and related parts and components so as to enable the Group to obtain a higher degree of flexibility in transacting business with the CSR Group to cope with potential growth in the PRC railway industry. Moreover, the Directors believe that the inclusion of buffers will minimize the Group's risk of losing potential business opportunities with the CSR Group in the event the New CSR Caps are insufficient for transacting business with the CSR Group due to additional administrative time required in seeking independent shareholders' approval by the Company and inevitably deter the Group from conducting business with the CSR Group. In addition, the annual increment from 2011 and 2013 has been included so as to facilitate the Group in coping with the anticipated growth in the size and/or number of transactions with the CSR Group based on the aforesaid.

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## LETTER FROM CSC ASIA

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We note that (i) the amount of the New CSRG Caps for year 2009 is greater than the actual transaction amounts for year 2008; and (ii) the New CSRG Caps are increasing from year 2010 to 2013. As we note from the Letter from the Board, the Group's sales and purchase transactions with the CSRG Group recorded a growth of approximately 40.6% and 60.8% respectively in 2008 when compare with 2007. Taking into consideration (i) the historical growth in the Group's sales and purchase transactions with the CSRG Group; (ii) the 2008 Approved Caps being exceeded; (iii) the promising outlook of the PRC railway industry; and (iv) the Group's possible extension into new business area with the CSRG Group in accordance with development of the PRC railway industry; we consider that it will be in the interests of the Company and the Shareholders as a whole to provide sufficient buffers for the reasons as stated above over the historical transaction values in year 2008 in determining the New CSRG Caps for year 2009 and for setting increasing New CSRG Caps from year 2010 to 2013.

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

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**LETTER FROM CSC ASIA**

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(b) *New KCR Caps*

Set out below are the KCR Caps and New KCR Caps for the five years ending 31 December 2013:

	<b>Year ending 31 December</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>(RMB millions)</i>				
<b>KCR Caps</b>					
1. Amount paid to the KCR Group by the Group for products provided by the KCR Group	150	150	170	221	287
2. Amount paid to the Group by the KCR Group for products provided by the Group	355	455	550	670	817
<b>New KCR Caps</b>					
1. Amount paid to the KCR Group by the Group for products provided by the KCR Group	250	300	400	500	600
<i>Increase in amount from the preceding year</i>	<i>130.9</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
	<i>(Note 1)</i>				
2. Amount paid to the Group by the KCR Group for products provided by the Group	550	715	930	1,210	1,573
<i>Growth rate from the preceding year</i>	<i>105.8%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>
	<i>(Note 2)</i>				

*Notes:*

1. *Difference between the annual cap of RMB250 million for the year ending 31 December 2009 and the actual amount paid to the KCR Group by the Group of approximately RMB119.1 million for the year ended 31 December 2008.*
2. *Calculated based on the annual cap of RMB550 million for the year ending 31 December 2009 and the actual amount paid to the Group by the KCR Group of approximately RMB267.3 million for the year ended 31 December 2008.*

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## LETTER FROM CSC ASIA

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Details of the bases for determining the New KCR Caps are set out in the Letter from the Board. It is noted that prior to revising upwards from the Revised KCR Caps to the New KCR Caps, in 2008, the Company had already revised upwards the KCR Caps to the Revised KCR Caps for the three years ending 31 December 2010, details of which are set out in the circular of the Company to the shareholders dated 28 August 2008 and were approved at the Company's extraordinary general meeting held on 13 October 2008. As mentioned in the above, with the introduction of the Policies in October 2008, the Directors consider that it would be essential to revise the assumptions of setting the Revised KCR Caps to reflect the potential impact of the Policies.

In determining the New KCR Caps under the KCR Second Supplemental Mutual Supply Agreement, we note that the Company has primarily adopted the assumptions based on historical value of the transactions between the Group and the KCR Group, committed sales to the KCR Group as well as overall PRC railway industry outlook.

We note that the Group's actual sales and purchase transaction value with the KCR Group for the year ended 31 December 2008 amounted to approximately RMB267.3 million and RMB119.1 million, which accounted for approximately 94% and 99% of and nearly exceeded the corresponding Revised KCR Caps for year 2008. As mentioned above, both the MOR's procurement and the PRC railway capital investment recorded double-digit CAGR for year 2003 to 2007. In addition, considering the recent government support in the PRC railway industry, which featuring railway transportation, extension of railway route and railway investment, the Directors are of the view that the growth of the PRC railway industry will sustain.

Under the MOR's Eleventh 5-year Plan, there are proposals of various plans and policies regarding future development of the PRC railway industry, and of which, expansion of PRC railway network, development of high-speed railway lines and heavy-hauling freight transportation and the promotion of rail safety are some of the key areas to be covered. Moreover, we are also given to understand that the Group had enjoyed growth in business with the KCR Group riding on the blooming PRC railway market in 2008 based on the Group's recorded transaction values with the KCR Group. It is noted that the Group's sales and purchase values with the KCR Group increased by approximately 152% and 210% respectively from 2007 to 2008. Based on the foregoing, we concur with the view of the Directors that the maintenance works of the PRC railway network regarding ensuring operational safety and efficiency will increase, thereby increasing the demand for large railway maintenance vehicles for conducting such maintenance works.

Apart from considering the historical transactions and projected growth in the PRC railway market, the Directors have also taken into account committed supply arrangement with the KCR Group as one of the bases in setting the New KCR Caps. We have reviewed the original and the existing supply schedules provided by the Company and we noted that they were mainly related to orders agreed between the Group and the KCR Group for 2009. A noteworthy fact is that the existing supply schedule has been drawn upwards from the original schedule to reflect the increase of orders scheduled to be delivered in 2009.

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## LETTER FROM CSC ASIA

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We note that the amount of the New KCR Caps for year 2009 is greater than the historical transaction amounts for year 2008. Taking into account (i) the historical growth in the Group's sales and purchase transactions with the KCR Group; (ii) over 90% of the Revised KCR Caps for year 2008 are utilized; and (iii) the promising market outlook of the large railway maintenance vehicles, we are of the view that it will be beneficial to the Group to base on historical transaction values in year 2008 with buffers included for the purpose of setting the New KCR Caps for year 2009.

Furthermore, the Directors consider that with the anticipated growth in demand for large railway maintenance vehicles due to government's plan to stimulate domestic demand, it would be preferable to set the New KCR Caps at a higher amount to cater for the unpredicted growth in transactions with the KCR Group by including a buffer of around 10% increment per annum for similar reasons regarding the inclusion buffers in setting the New CSRG Caps. In this connection, an annual increment has been included in estimating the New KCR Caps for the three years covering years 2010 to 2013, hence, leading to an upward trend in the proposed annual caps.

In respect of the annual increment of approximately 30% from year 2010 to 2013, the Directors have projected that sales to the KCR Group would increase annually by roughly 30% with the Group on the bases that (i) there will be continued support from the PRC government on extension of railway routes; and (ii) there is a need for improvement on the speed and weight capacities of the existing railways based on the Group's understanding. As for the reason why annual increment for the purchases from the KCR Group has not been accounted for, the Directors have considered the recent increase of nationalisation of ancillary products for large railway maintenance vehicles which is expected to slowdown the growth of size and/or number of transactions with the KCR Group.

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

### **(B) CONTINUING CONNECTED TRANSACTIONS WITH THE CRGL GROUP**

#### **1. Background of and reasons for entering into the CRGL Mutual Supply Agreement**

As set out in the Letter from the Board, the Company entered into a joint venture agreement with the CRGL and CRB on 25 March 2009 for the establishment of Baoji Times in Baoji City of Shanxi Province of the PRC to principally engage in the manufacture, sales, maintenance, after-sales services, research and development of railway work machines and vehicles. The Company and CRB hold 60% and 40% equity interests in Baoji Times respectively. In accordance with the joint venture agreement, CRB will contribute its 40% share of the registered capital of Baoji Times partly by cash and partly by way of assets injection, including the business of production of certain mechanical products and after-sales service for railway projects.

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## LETTER FROM CSC ASIA

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CRB is a wholly-owned subsidiary of CRGL. According to the prospectus of CRGL dated 23 November 2007, the CRGL Group is the largest integrated construction group in the PRC with its infrastructure construction business segment accounted for over 85% of the CRGL Group's total revenue. The principal focus of the CRGL Group's infrastructure construction business is on PRC railway construction and it has participated in the construction of all main railway lines built in the PRC since the 1950s. Moreover, as shown in the annual report of the CRGL Group for the year ended 31 December 2007, revenue of its infrastructure construction business for 2004 to 2007 recorded a CAGR of approximately 28.8%. Taking into account that the CRGL Group's infrastructure construction business had recorded stable growth and CRGL Group being one of the market leaders in the railway construction group in the PRC, the Directors consider that it is beneficial for the Group to secure steady business relationship with the CRGL Group by entering into the CRGL Mutual Supply Agreement.

We have been advised by the Directors that it is common practice in the PRC railway industry for a newly formed joint venture to enter into mutual supply agreements with the joint venture partner which contributes by way of assets injection. On one hand, strengthening the cooperation relationship between the partners and on the other, being able to capitalize on the expertise and resources for the newly formed joint venture. Moreover, with the injection of CRB's production business of mechanical products and after-sales service for railway projects into Baoji Times, we are given to understand that certain transactions originally conducted between CRB and the CRGL Group will then be taken up by Baoji Times. In this regards, we consider that the Group's cooperation with CRB under joint venture arrangement together with the proposed transactions under the CRGL Mutual Supply Agreement will not only strengthen the Group's cooperation with the CRGL Group but will also enhance the competitive edge of Baoji Times.

In addition, taking into account (i) the leading position of the CRGL Group in the PRC railway construction industry; (ii) the business growth of the CRGL Group's infrastructure construction business; and (iii) the promising market outlook of the PRC railway industry, we consider that the entering into of the CRGL Mutual Supply Agreement will broaden the income stream of the Group and will enable the Group to capture the growth potential of the CRGL Group in the future development of the PRC railway industry. As such, it is reasonable to believe that the proposed transactions under the CRGL Mutual Supply Agreement will make significant contribution to the Group's revenue and profitability.

On the basis that (i) Baoji Times will become a subsidiary of the Company once its establishment is approved by the relevant PRC government authorities; and (ii) the mutual supply transactions in respect of mechanical products and after-sales services for railway projects under the CRGL Mutual Supply Agreement will be principally carried out by Baoji Times, and such transactions fall within the scope of principal business activities of Baoji Times, we consider the transactions contemplated under the CRGL Mutual Supply Agreement falls within the ordinary and usual course of business of the Group and the entering into of the CRGL Mutual Supply Agreement is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM CSC ASIA

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### 2. Principal terms of the CRGL Mutual Supply Agreement

The CRGL Mutual Supply Agreement sets out the major terms, such as pricing basis, term and payment method in respect of the transactions contemplated under the CRGL Mutual Supply Agreement for a term commencing on the CRGL Effective Date and ending on 31 December 2011.

(a) *Pricing basis*

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

- (i) the prices prescribed by the PRC Government (if any);
- (ii) the prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any), where no government-prescribed prices are available;
- (iii) the market prices which are offered to or by independent third parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-recommended prices are available; and
- (iv) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (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 note that pricing basis is set in the order of priority 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. Taking into consideration that the above pricing basis refers to the prices or pricing guidelines stipulated by the PRC Government or absence of which, the market prices and finally actual or reasonable costs plus reasonable profit margin, we are of the opinion that the pricing basis is reasonable and justifiable.

As advised by the Directors, provision of mechanical products and after-sales services for railway projects under the CRGL Mutual Supply Agreement by the Group will be a new business activity to be undertaken by the Group principally through Baoji Times. The Directors have also confirmed that the Group has not purchased from or sold to independent third party or the CRGL Group in respect of the products and services contemplated under the CRGL Mutual Supply Agreement. Accordingly, there are no transactions or quotations available for our review in this aspect.

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## LETTER FROM CSC ASIA

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According to the Directors, in the past, CRB had supplied to the CRGL Group for similar products and services as those contemplated under the CRGL Mutual Supply Agreement. As such, we have reviewed the available information as provided by the Company which consists of historical contracts for CRB's provision of a major type of products and services to the CRGL Group, and independent third party customers. Based on our review, we note that the prices charged by CRB to the CRGL Group are similar to those offered to CRB by independent third parties and are not less favourable than those offered to CRB by independent third parties for the same transaction.

The Directors have further advised that CRB only conducted small amount of purchases with the CRGL Group, and such historical purchases were of different nature from those products and services as contemplated under the CRGL Mutual Supply Agreement. Accordingly, we consider that aforesaid historical purchases are not directly comparable transactions for our review purpose.

We have further enquired into the pricing basis of CRB's transactions with the CRGL Group and the Directors have advised that the prices are determined based on arm's length commercial negotiations between CRB and the CRGL Group with primary reference to the cost structure of products with the inclusion of a reasonable profit margin taking into account the nature of the products, the cost and time required in products production and the forecasted demand of such products. The Directors have confirmed that the same pricing basis is adopted for both CRB's sales and purchase transactions with the CRGL Group. The Directors have further advised that the aforementioned price determination basis is common market practice in the PRC railway industry.

In addition, the Directors have confirmed that regarding the transactions to be contemplated under the CRGL Mutual Supply Agreement, the pricings of such transactions between the Group and the CRGL Group will be agreed upon between the two parties after arm's length commercial negotiations and will be consistent with the Group's existing pricing mechanism.

Based on the foregoing, we consider that the pricing basis of the CRGL Mutual Supply Agreement are on normal commercial terms and are fair and reasonable insofar as the Independent Shareholders are concerned.

(b) *Payment term*

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

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## LETTER FROM CSC ASIA

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Although there are no historical transactions between the Group and the CRGL Group in respect of transactions contemplated under the CRGL Mutual Supply Agreement available for review and no reference to independent third party transactions can be made, we have enquired into and the Directors have advised that the payment terms have been determined after arm's length negotiations between CRB and CRGL Group with primary reference to historical payment terms between the two parties after taking into consideration the average credit period of the two parties in conducting business.

Furthermore, the Directors have confirmed that in relation to the transactions contemplated under the CRGL Mutual Supply Agreement, the payment terms of such transactions will be agreed upon between the Group and the CRGL Group after arm's length commercial negotiations in accordance with the Group's existing payment terms determination practice with reference made to the average credit period granted by/to the Group in conducting its business.

Based on the above, we consider that the payment terms of the CRGL Mutual Supply Agreement are on normal commercial terms and are fair and reasonable insofar as the Independent Shareholders are concerned.

### 3. CRGL Caps

Set out below are the CRGL Caps for the three years ending 31 December 2011:

	Year ending 31 December		
	2009	2010	2011
	<i>(RMB millions)</i>		
<b>CRGL Caps</b>			
1. Amount paid to the CRGL Group by the Group for products provided by the CRGL Group	150	163	211
<i>Growth rate</i>		<i>8.7%</i>	<i>29.4%</i>
2. Amount paid to the Group by the CRGL Group for products provided by the Group	250	325	422
<i>Growth rate</i>		<i>30.0%</i>	<i>29.9%</i>

Details of the determination bases of the CRGL Caps are set out in the Letter from the Board.

Considering various plans and policies as stated in the MOR's Eleventh 5-year Plan, in particular, expanding the PRC railway network and uplifting the speed and weight capacities of existing railway, the Directors anticipate that the number of PRC railway projects will increase accordingly. As depicted in the website of the MOR (<http://www.china-mor.gov.cn/index.jsp>) under the section headed "New Construction Project" (新開工建設項目), the construction works

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## LETTER FROM CSC ASIA

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of new railway lines had commenced in year 2008 in various cities in the PRC. Taking into account the expansion of total capital investment in the PRC railways in recent years and the announcement made by the State Council in October 2008 which indicated government support on PRC railway investment, it is reasonable to believe that the promising outlook of the PRC railway industry will give rise to a surge in demand for railway projects in the PRC. In view of the anticipated growth in the PRC railway projects, the Directors anticipate that this will drive the demand for large-scale railway construction equipment, a type of mechanical products for railway projects, which are essential equipment for carrying out the construction works of the PRC railway projects. Based on the above, we are of the view that the market outlook of large-scale railway construction equipment and the mechanical products for PRC railway project seems promising.

Taking into account that the CRGL Group is a leading PRC railway construction service provider and its business growth in recent years is in line with the growth in PRC railway industry, it is reasonable to believe that with the expected growth in the PRC railway projects, the scale of railway projects to be undertaken by CRGL Group are expected to increase thereby driving up the CRGL Group's order and production. As advised by the Directors, in order to enable the Group to be in a better position to accommodate the potential business opportunities with the CRGL Group, the Directors have made reference to (i) the participation of the CRGL Group in the PRC railway projects; and (ii) the historical transactions between CRB and the CRGL Group, for forecasting the scale of railway projects to be undertaken by the CRGL Group for the purpose of estimating the transaction amounts for the mutual supply of products and services between the Group and the CRGL Group in respect of the transactions contemplated under the CRGL Mutual Supply Agreement which is associated with the scale of the railway projects of the CRGL Group.

As set out in the annual report of the CRGL Group for the year ended 31 December 2007, the revenue of the infrastructure construction business of the CRGL Group for the year 2004 to 2007 recorded a CAGR of approximately 28.8%. In addition, the value of the new contracts for the infrastructure construction business of the CRGL Group amounted to approximately RMB 223.64 billion, represented a growth of around 20.5% over year 2006. For the period from year 2004 to 2007, the value of new contracts for the infrastructure construction business of the CRGL Group recorded a CAGR of around 21.9%. Taking into account the growth of infrastructure business of the CRGL Group is in line with the growth of PRC railway industry, we consider that it reasonable to make reference to (i) the anticipated growth in PRC railway industry; (ii) the increase in demand for large-scale railway construction equipment; and (iii) the anticipated scale of railway projects to be undertaken by the CRGL Group for the purpose of setting the CRGL Caps.

In light of the historical growth in the revenue and value of new contracts in relation to the CRGL Group's infrastructure construction business with a CAGR of over 20% as stated above and together with the positive developments in the PRC railway industry, it is reasonable to believe that the CRGL Group's infrastructure construction business will sustain which will in turn result in the growth in the Group's transactions scale and number of transactions with the CRGL Group. In addition, the Directors have advised that a buffer of around 10% increment per

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## LETTER FROM CSC ASIA

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annum has been included in estimating the CRGL Caps to cater for unexpected growth in the PRC railway projects to accommodate the Group in conducting business with the CRGL Group in tackling any contingent surge in transactions with the CRGL Group, therefore, leading to the growth in the CRGL Caps from year 2009 to 2012.

In view of the above, we consider that the basis of determining the CRGL Caps for the three years ending 31 December 2011 to be fair and reasonable insofar as the Independent Shareholders are concerned.

### **(C) ANNUAL REVIEW OF THE NEW SUPPLEMENTAL AGREEMENTS AND THE CRGL MUTUAL SUPPLY AGREEMENT**

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the transactions contemplated under the New Supplemental Agreements and the CRGL Mutual Supply Agreement are subject to certain annual review requirements. As advised by the Directors, the Company will comply with the relevant annual review requirements for the transactions contemplated under the New Supplemental Agreements and the CRGL Mutual Supply Agreement as required by the Listing Rules and will re-comply with the relevant Listing Rules if the New Caps or the CRGL Caps are exceeded or, when the relevant agreements are renewed or, when there is a material change to the terms of the New Supplemental Agreements or the CRGL Mutual Supply Agreement.

As discussed above, the 2008 Approved Caps being exceeded in the fourth quarter of 2008 and not re-complied with Rule 14A.36(1) of the Listing Rules in time, hence, resulting in a breach of the Listing Rules. In order to prevent the recurrence of similar event in the future, the Company will implement the following improvement measures to tighten its existing compliance system, including (i) monthly review of the volume of continuing connected transactions by the management and accounting staff of the Company; (ii) perform regular update on the forecast volume of future continuing connected transactions by taking into account latest market condition; (iii) implement internal guidelines to control and monitor the purchase and sales volume; (iv) engage auditors to conduct quarterly check on the volume of the continuing connected transactions and submit the results of finding to the independent non-executive Directors for review; and (v) quarterly review meeting regarding the actual volume of the continuing connected transactions to be held by independent non-executive Directors. Having considered the aforesaid improvement measures, the Directors are of the view that it will (i) strengthen the reporting system of the Group; (ii) enhance communication among responsible departments and management; and (iii) increase involvement of monitoring the continuing connected transactions by the Directors (including the independent non-executive Directors) and the auditors.

In light of the above requirements for the New Supplemental Agreements and the CRGL Mutual Supply Agreement under the Listing Rules and the Company will tighten its existing compliance system by adopting the improvement measures as set out above in the future to monitor the future transactions contemplated under the New Supplemental Agreements and the CRGL Mutual Supply Agreement, we are of the view that there are appropriate measures in place to govern the transactions contemplated under the New Supplemental Agreements and the CRGL Mutual Supply Agreement and safeguard the interests of the Independent Shareholders.

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## LETTER FROM CSC ASIA

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### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the 2008 ZELRI Purchase and 2008 CSRG Sales; and (ii) the transactions contemplated under the New Supplemental Agreements and the CRGL Mutual Supply Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms. We also consider that (i) the 2008 ZELRI Purchase and 2008 CSRG Sales; and (ii) the terms of the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to (i) approve and ratify the 2008 Exceeded Caps; and (ii) to approve the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**CSC Asia Limited**  
**Winnie Yau**  
*Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### 2.1 Directors, supervisors and chief executive

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

### 2.2 Substantial Shareholders

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

Name of substantial shareholder	Number of Shares held	Capacity	% of		
			Domestic Share share capital	% of H Share share capital	% of issued share capital
Parent Company	589,585,699 (L)	Beneficial owner	93.86%	—	54.38%
CSR (note 1)	608,966,468 (L)	Interest in controlled entity	96.95%	—	56.16%
CSRG (note 2)	618,347,237 (L)	Interest in controlled entity	98.44%	—	57.03%
The Hamon Investment Group Pte Limited	26,981,000 (L)	Investment manager	—	5.92%	2.49%
Mirae Asset Global Investments (Hong Kong) Limited	32,621,000 (L)	Investment manager	—	7.15%	3.01%

Name of substantial shareholder	Number of Shares held	Capacity	% of		
			Domestic Share share capital	% of H Share share capital	% of issued share capital
JP Morgan Chase & Co	2,537,338 (L)	Beneficial owner	—	0.56%	0.23%
	25,133,089 (L) (Lending pool shares)	Custodian/ approved lending agent	—	5.51%	2.32%

Note:

- (1) CSR is interested in 100% in the registered capital of the Parent Company and CSR Investment, and is directly and indirectly interested in approximately 98.37% in the registered capital of CSR Zhuzhou. Accordingly, CSR is deemed under the SFO to be interested in the shares held by each of the Parent Company, CSR Investment and CSR Zhuzhou.
- (2) CSRG is directly and indirectly interested in approximately 57.57% of the issued shares of CSR, and is directly interested in 100% in the registered capital of Qishuyan Works. Accordingly, CSRG is deemed under the SFO to be interested in the shares held by each of CSR and Qishuyan Works.

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

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

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

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

### **3. SERVICE CONTRACTS**

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

### **4. INTEREST IN CONTRACTS**

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

### **5. INTEREST IN COMPETING BUSINESS**

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

### **6. INTEREST IN ASSETS**

As at the Latest Practicable Date, none of the Directors or CSC Asia had any interest, direct or indirect, in any asset which since 31 December 2008, 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 2008, the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

### **8. CONSENT AND QUALIFICATION OF EXPERT**

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

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

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

As at the Latest Practicable Date, CSC Asia did not have any interest, direct or indirect, in any assets which since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Jones Day in Hong Kong at 29/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 19 May 2009;

- (a) the ZELRI Mutual Supply Agreement;
- (b) the CSRG Mutual Supply Agreement;
- (c) the KCR Mutual Supply Agreement;
- (d) the CSRG Renewed Mutual Supply Agreement;
- (e) the KCR Renewed Mutual Supply Agreement;
- (f) the KCR Supplemental Mutual Supply Agreement;
- (g) the CSRG Supplemental Mutual Supply Agreement;
- (h) the KCR Second Supplemental Mutual Supply Agreement;
- (i) the CRGL Mutual Supply Agreement;
- (j) the letter from the Independent Board Committee, the text of which is set out on pages 23 and 24 of this circular;
- (k) the letter from CSC Asia, the text of which is set out on pages 25 to 46 of this circular; and
- (l) the consent letter from CSC Asia.

## **10. MISCELLANEOUS**

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

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## NOTICE OF EGM

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*(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 2009**

**NOTICE IS HEREBY** given that the First Extraordinary General Meeting of 2009 (the “EGM”) of Zhuzhou CSR Times Electric Co., Ltd. (the “Company”) will be held at Times Hotel, Zhuzhou City, Hunan Province, the People’s Republic of China (the “PRC”) on Tuesday, 23 June 2009 at 2:00 p.m. to consider and, if thought fit, pass with or without amendments, the following resolutions: -

#### **AS ORDINARY RESOLUTIONS**

“**THAT:**

1. the transactions under the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement for the year ended 31 December 2008 and the exceeding of the 2008 Approved ZELRI Cap and the 2008 Approved CSRG Cap (the details of which are set out in the circular dated 5 May 2009 despatched by the Company to its shareholders (the “Circular”)) be and are hereby approved and ratified;
2. the CSRG Supplemental Mutual Supply Agreement dated 14 April 2009 entered into between CSRG and the Company (the details of which are set out in the Circular), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purpose, the New CSRG Caps and the transactions contemplated thereunder be and are hereby approved;
3. the KCR Second Supplemental Mutual Supply Agreement dated 14 April 2009 entered into between KCR and the Company (the details of which are set out in the Circular), a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for identification purpose, the New KCR Caps and the transactions contemplated thereunder be and are hereby approved; and
4. the CRGL Mutual Supply Agreement dated 14 April 2009 entered into between CRGL and the Company (the details of which are set out in the Circular), a copy of which has been produced to the meeting marked “C” and signed by the chairman of the meeting for identification purpose, the CRGL 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.”

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## NOTICE OF EGM

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

Zhuzhou, China, 5 May 2009

**Notes:**

1. The register of members of the Company will be closed from Monday, 25 May 2009 to Tuesday, 23 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company (for holders of H shares) or the registered office address of the Company (for holders of domestic shares) no later than 4:30 p.m. on Friday, 22 May 2009.
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, 22 May 2009 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, 3 June 2009.
5. Voting at the EGM will be conducted by way of poll.
6. The address of the H share registrar of the Company is as follows:

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

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## NOTICE OF EGM

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

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

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

Unit 1106 on 11th floor  
Jubilee Centre  
18 Fenwick Street  
Wanchai  
Hong Kong  
Tel: 852 2189 7268

9. The EGM is expected to take half a day. Shareholders or their proxies attending the EGM shall be responsible for their own travel and accommodation expenses. Shareholders or their proxies shall produce their identification documents for verification when attending the EGM.

*As at the date of this document, our chairman of the Board and executive director is Ding Rongjun, our other executive director is Lu Penghu, our non-executive directors are Song Yali, Liao Bin and Ma Yunkun, and our independent non-executive directors are Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing, Tan Xiao'ao and Liu Chunru.*