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株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

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

(Stock Code: 3898)

CONTINUING CONNECTED TRANSACTIONS WITH CSR GROUP

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

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

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps. In this connection, the Company has appointed Celestial Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps.

A circular containing, among other things, (i) details of the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps; (ii) advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the 2014-16 CSR Group Mutual Supply Agreement and the New CSR Group Caps; and (iii) a notice of the EGM, is expected to be despatched to the shareholders of the Company no later than 2 September 2013.

BACKGROUND

References are made to the announcements of the Company dated 28 April 2008, 14 April 2009 and 25 March 2011 and the circulars to the shareholders of the Company dated 9 May 2008, 5 May 2009 and 18 April 2011 which contained, among others, particulars of the CSRG Renewed Mutual Supply Agreement, the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement. The CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) and the CSRG Caps for the five years from 1 January 2009 to 31 December 2013 were approved by the then independent shareholders of the Company on 23 June 2009 and 10 June 2011.

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

CONTINUING CONNECTED TRANSACTIONS WITH CSRG GROUP

Principal Terms of the 2014-16 CSRG Mutual Supply Agreement

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

Date: 12 August 2013

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

Scope of products and services to be provided: The Company agreed to supply and procure its subsidiaries to supply to the CSRG Group (including the Parent Group but excluding the Group) certain products (including electrical systems and electrical components), parts and components, technical services, after-sale services, management services and other related services, and related facilities for research and development, production and testing purposes.

CSRG agreed to supply and procure its subsidiaries (including the Parent Group but excluding the Group) to supply to the Group certain products, parts and components, technical services, after-sale services, management services and other related services, and related facilities for research and development, production and testing purposes.

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

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

- (a) the prices prescribed by the government of the PRC or any regulatory authority(ies) (if any) (“**government-prescribed prices**”);
- (b) the prices not exceeding any pricing guidelines or pricing recommendations set by the government of the PRC or any regulatory authority(ies) (if any), where no government-prescribed prices are available or applicable (“**government-guided prices**”);
- (c) the market prices which are offered to or by Independent Third Parties in the ordinary and usual course of business, where neither government-prescribed prices nor government-guided prices are available or applicable; and
- (d) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin (which is determined by reference to the nature of products and/or services, current market price of the similar products and/or services and the Group’s forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above prices are available or applicable.

Payment terms: Payments for the products and/or services supplied by and/or to the CSRG Group will be settled by way of cash or such other manners as agreed by the parties and in accordance with the agreed timing and manners as specified in the actual product and service contracts to be entered into between the Group Companies and the CSRG Group Companies. The payment terms will be on market terms which are no less favourable than those obtainable by the Group from Independent Third Parties.

Historical Transaction Records with CSRG Group

Set out below is a summary of the transaction records of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for (i) the four years ended 31 December 2009, 2010, 2011 and 2012 and (ii) the six months ended 30 June 2013:

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

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

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

As at the date of this announcement, the 2013 Approved CSRG Caps have not been exceeded.

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

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

New CSRG Caps

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

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

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

INFORMATION ON THE GROUP

The Group is mainly engaged in the research, development, manufacture and sale of locomotive train power converters, control systems and other train-borne electrical systems, as well as the development, manufacture and sale of urban railway train electrical systems. In addition, the Group is also engaged in the design, manufacture and sale of electric components for the railway industry, urban railway industry and non-railway purposes.

INFORMATION ON THE CSRG GROUP

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

REASONS FOR ENTERING INTO THE 2014-16 CSRG MUTUAL SUPPLY AGREEMENT

In relation to the purchase of products and/or services, the Group has been procuring certain parts and components and services for the manufacture of its products from the CSRG Group for many years. As a result of such long-term business relationship, the CSRG Group has been familiar with the Group’s standards and specifications, and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request. In relation to the supply of products and/or services, the Group has been supplying certain parts and components and services to

the CSRG Group for many years. As a result, the Company and CSRG Group have a solid business relationship. The 3 years' procurement and supply relationship with the CSRG Group to be established pursuant to the 2014-16 CSRG Mutual Supply Agreement will contribute to the expansion of the Group's sales and revenue which will in turn contribute to stabilising the business of the Group. Further, the Group's purchases from and/or sales to the CSRG Group are on terms which are no less favourable than those obtainable by the Group from Independent Third Parties.

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

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

As each of the applicable percentage ratios (other than the profits ratio) for the New CSRG Caps is more than 25% and the annual consideration is more than HK\$10,000,000, the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps constitute non-exempt continuing connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

LISTING RULES REQUIREMENTS

A meeting of the Board was held on 12 August 2013 at which the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps were reviewed and approved. At the said meeting of the Board, Mr. Ding Rongjun (the chairman of the Board, an executive Director and a general manager of the Parent Company) and Mr. Deng Huijin (vice chairman of the Board, a non-executive Director and a deputy general manager of the Parent Company) abstained from the consideration of and voting on the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps due to conflict of interests.

The Directors, excluding Mr. Ding Rongjun and Mr. Deng Huijin and the independent non-executive Directors (who will form their views after having received the advice of the Independent Financial Adviser), consider that the 2014-16 CSRG Mutual Supply Agreement was entered into in the ordinary and usual course of business of the Group and in the interest of the Company and its shareholders as a whole, the transactions contemplated thereunder are in ordinary and usual course of business of the Group, the terms thereof and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to determine whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties which are fair and

reasonable insofar as the interests of the Company and its shareholders as a whole are concerned. The 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps are conditional upon, among others, the Independent Shareholders' approval in respect thereof.

The Independent Board Committee (which consists only of independent non-executive Directors) has been established to advise the Independent Shareholders as to whether the 2014-16 CSRG Mutual Supply Agreement was entered into in the ordinary and usual course of business of the Group and the terms thereof and the New CSRG Caps are on normal commercial terms or if there are not sufficient comparable transactions to determine whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties which are fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned, and to advise the Independent Shareholders on how to vote, taking into account the recommendations on the same to be given by the Independent Financial Adviser.

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

The advice from the independent non-executive Directors (i.e. members of the Independent Board Committee) will be set out in the circular referred to in the section headed "Circular and EGM" below, after receiving advice from the Independent Financial Adviser.

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

CIRCULAR AND EGM

A circular containing, among other things, (i) details of the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps; (iii) the recommendation of the Independent Board Committee regarding the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps to the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the shareholders of the Company no later than 2 September 2013.

DEFINITIONS

“2013 Approved CSRG Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for the year ending 31 December 2013 approved by the then independent shareholders of the Company on 10 June 2011
“2014-16 CSRG Mutual Supply Agreement”	a framework agreement on mutual supply of products and ancillary services entered into between CSRG and the Company dated 12 August 2013
“Board”	the board of Directors
“Company”	Zhuzhou CSR Times Electric Co., Ltd. (株洲南車時代電氣股份有限公司), a joint stock company established in the PRC with limited liability whose H shares are listed on the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules
“CSR”	CSR Corporation Limited (中國南車股份有限公司), a joint stock company established in the PRC with limited liability whose A shares and the H shares are listed on the Shanghai Stock Exchange and the Stock Exchange respectively; CSR is directly and indirectly held as to approximately 57.15% in aggregate by CSRG and holds the entire equity interest in the Parent Company
“CSRG”	中國南車集團公司 (CSR Group), a PRC state-owned enterprise and the controlling shareholder of CSR
“CSRG Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement and the CSRG Second Supplemental Mutual Supply Agreement) for a term of five years commencing from 1 January 2009 to 31 December 2013 approved by the then independent shareholders of the Company on 23 June 2009 and 10 June 2011

“CSRG First Supplemental Mutual Supply Agreement”	a supplemental agreement to the CSRG Renewed Mutual Supply Agreement entered into between CSRG and the Company on 14 April 2009
“CSRG Group”	CSRG and its subsidiaries (including the Parent Group but excluding the Group) and “CSRG Group Company” means any of them
“CSRG Renewed Mutual Supply Agreement”	a mutual supply framework agreement entered into between CSRG and the Company dated 28 April 2008
“CSRG Second Supplemental Mutual Supply Agreement”	a supplemental agreement to the CSRG Renewed Mutual Supply Agreement (as supplemented by the CSRG First Supplemental Mutual Supply Agreement) entered into between CSRG and the Company on 25 March 2011
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting (including any adjournment thereof) to be held for the Independent Shareholders to consider and, if thought fit, approve the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps
“Group”	the Company and its subsidiaries and “Group Company” means any of them
“Independent Board Committee”	the independent committee of the Board (which consists only of independent non-executive Directors) formed to advise the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps
“Independent Financial Adviser”	Celestial Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps

“Independent Shareholders”	shareholders of the Company other than those who are required by the Listing Rules to abstain from voting on the resolution to approve the 2014-16 CSRG Mutual Supply Agreement and the New CSRG Caps
“Independent Third Parties”	parties who are independent of, and not connected with, the Company or any of its connected persons
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“New CSRG Caps	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the 2014-16 CSRG Mutual Supply Agreement for a term of three years commencing from 1 January 2014 to 31 December 2016
“Parent Company”	南車株洲電力機車研究所有限公司 (CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.), a limited liability company established under the laws of the PRC; the controlling shareholder of the Company, and a wholly-owned subsidiary of CSR
“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Ding Rongjun
Chairman

Zhuzhou, China, 12 August 2013

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