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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)

**ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS
UNDER 2014-16 QINGDAO MUTUAL SUPPLY AGREEMENT**

On 2 July 2014, the Company entered into the 2014-16 Qingdao Mutual Supply Agreement with the Qingdao Company for a term commencing on 30 May 2014 (being the date of establishment of the Qingdao Company) and ending on 31 December 2016.

As at the date of this announcement, the Parent Company is a controlling shareholder of the Company. CSR directly holds the entire equity interest in the Parent Company and approximately 97.81% equity interest in CSR Sifang. CSR Sifang is an associate of the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Qingdao Company is a connected subsidiary of the Company and the transactions contemplated under the 2014-16 Qingdao Mutual Supply Agreement constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) for the Annual Caps is more than 0.1% but less than 5%, the 2014-16 Qingdao Mutual Supply Agreement and the Annual Caps constitute non-exempt continuing connected transactions of the Company which are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the 2014-16 Qingdao 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 Annual 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.

BACKGROUND

Reference is made to the announcement of the Company dated 2 April 2014 in relation to the establishment of the Qingdao Company. The Qingdao Company was established in Qingdao City, Shandong Province, the PRC on 30 May 2014. As at the date of this announcement, the Qingdao Company was held as to 45% by the Company, 38% by CSR Sifang, and 17% by Hongda Schnell. The Qingdao Company is accounted for as a subsidiary of the Company through the control of the majority members of the board of directors of the Qingdao Company.

The Board is pleased to announce that on 2 July 2014, the Company entered into the 2014-16 Qingdao Mutual Supply Agreement with the Qingdao Company for a term commencing on 30 May 2014 (being the date of establishment of the Qingdao Company) and ending on 31 December 2016.

CONTINUING CONNECTED TRANSACTIONS WITH THE QINGDAO GROUP

Principal Terms of the 2014-16 Qingdao Mutual Supply Agreement

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

- Date: 2 July 2014
- Parties: (a) the Qingdao Company; and
(b) the Company

Scope of products and services to be provided:	<p>The Company agreed to supply and procure its subsidiaries and their respective associates (excluding the Qingdao Group) to supply to the Qingdao 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 which will be used in the business within the permitted scope as set out in the business licences of the Qingdao Group.</p> <p>The Qingdao Company agreed to supply and procure its subsidiaries and their respective associates 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 which will be used in the business within the permitted scope as set out in the business licences of the Group.</p>
Term:	A term commencing on 30 May 2014 (being the date of establishment of the Qingdao Company) and ending on 31 December 2016.
Pricing principles:	<p>The pricing for the products and/or services supplied by and/or to the Qingdao Group will be determined on the following principles in order of priority:</p> <ul style="list-style-type: none"> (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 generally determined by reference to gross profit margin of not less than 20%), 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 Qingdao 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 Qingdao 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.

With respect to the purchase of products and/or services by the Group, in determining whether the price and/or payment terms offered by the Qingdao Group are reasonable or no less favourable than those offered by the Independent Third Parties, the Group will obtain and compare price references from at least two suppliers who are Independent Third Parties to the extent that those products and/or services are of comparable nature, quality, quantity and condition. In the event that the price and/or payment terms offered by the Qingdao Group are less favourable than those offered by the Independent Third Parties, the Group will have the right to terminate and cancel such purchases. The Directors (including the Independent Non-executive Directors) consider that such methods and procedures can ensure that the transactions contemplated under the 2014-16 Qingdao Mutual Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Historical Transaction Records with the Qingdao Group

Since the Qingdao Company was newly established on 30 May 2014, there was no historical transaction record between the Group and the Qingdao Group as at the date of this announcement.

Annual Caps

The Annual Caps under the 2014-16 Qingdao 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 Qingdao Group by the Group for the products and/or services to be provided by the Qingdao Group	10	30	50
2. Annual cap of the amounts to be paid to the Group by the Qingdao Group for the products and/or services to be provided by the Group	60	180	250

The Annual Caps are determined with reference to the following assumptions which the Directors (including the independent non-executive Directors) consider reasonable: (1) the expected growth of railway industry in the PRC; (2) the expected growth of rapid transit systems sector in the PRC; (3) the business development potential of the Qingdao Group; (4) the business development plan of the Group; (5) the anticipated supply contracts to be entered into, and supply plans, between the Group and the Qingdao Group, together with the anticipated market demand and tender plans.

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 QINGDAO GROUP

The Qingdao Group is principally engaged in the design, manufacturing, sales, provision of technical service, repair and maintenance, upkeep, as well as retrofit and transform of electrical systems, equipment and facilities and parts and components of railway transportation.

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

The Qingdao Company was established to support the Group's ancillary production facilities in Qingdao City, Shandong Province, the PRC which will benefit the Group from the combined technical, production and management expertise of the Company, CSR Sifang and Hongda Schnell and will bring synergy effect on the business development of the Group as a whole in the long run. The transactions contemplated under the 2014-16 Qingdao Mutual Supply Agreement are necessary for and are beneficial to the Company and therefore is of commercial benefit to the Company and the Group as a whole. Entering into the 2014-16 Qingdao Mutual Supply Agreement will facilitate the operation and growth of the Group's business.

The Directors (including the independent non-executive Directors) consider that the 2014-16 Qingdao 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 Annual 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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Parent Company is a controlling shareholder of the Company. CSR directly holds the entire equity interest in the Parent Company and approximately 97.81% equity interest in CSR Sifang. CSR Sifang is an associate of the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Qingdao Company is a connected subsidiary of the Company and the transactions contemplated under the 2014-16 Qingdao Mutual Supply Agreement constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (other than the profits ratio) for the Annual Caps is more than 0.1% but less than 5%, the 2014-16 Qingdao Mutual Supply Agreement and the Annual Caps constitute non-exempt continuing connected transactions of the Company which are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li Donglin (the Chairman of the board of directors and the legal representative of the Qingdao Company) has abstained from voting on the Board resolution approving the 2014-16 Qingdao Mutual Supply Agreement due to conflict of interests. Save as mentioned above, none of the Directors has material interest in the 2014-16 Qingdao Mutual Supply Agreement and hence no other Director has abstained from voting on such Board resolution.

The Company will disclose information in relation to the 2014-16 Qingdao Mutual Supply Agreement in its subsequent published annual report and accounts in accordance with the Listing Rules

DEFINITIONS

“2014-16 Qingdao Mutual Supply Agreement”	a framework agreement on mutual supply of products and ancillary services entered into between the Qingdao Company and the Company dated 2 July 2014
“Annual Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the 2014-16 Qingdao Mutual Supply Agreement for a term commencing from 30 May 2014 (being the date of establishment of the Qingdao Company) to 31 December 2016
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“Company”	Zhuzhou CSR Times Electric Co., Ltd. (株洲南車時代電氣股份有限公司), a joint stock company established in the PRC with limited liability whose H shares are listed on the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules

“CSR”	CSR Corporation Limited ((中國南車股份有限公司), a joint stock company established in the PRC with limited liability 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 57.16% in aggregate by CSRG and holds the entire equity interest in the Parent Company as at the date of this announcement
“CSR Sifang”	南車青島四方機車車輛股份有限公司 (CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.), formerly known as 南車四方機車車輛股份有限公司 (CSR Sifang Locomotive & Rolling Stock Co., Ltd), a joint stock company established in the PRC, which was held as to approximately 97.81% by CSR as at the date of this announcement
“CSRG”	中國南車集團公司 (CSR Group), a PRC state-owned enterprise and the controlling shareholder of CSR
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries (for the purpose of this announcement, including their respective associates) (excluding the Qingdao Group) and “Group Company” means any of them
“Hongda Schnell”	Qingdao Hongda Schnell Science & Technology Co., Ltd. (青島宏達賽耐爾科技股份有限公司), a joint stock company established in the PRC and an Independent Third Party
“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
“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
“PRC”	the People’s Republic of China

“Qingdao Company”	青島南車電氣設備有限公司 (Qingdao CSR Electric Equipment Co., Ltd.), a limited liability company established under the laws of the PRC, which was held as to 45% by the Company, 38% by CSR Sifang, and 17% by Hongda Schnell as at the date of this announcement
“Qingdao Group”	The Qingdao Company and its subsidiaries (for the purpose of this announcement, including their respective associates) and “Qingdao Group Company” means any of them
“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, 2 July 2014

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 executive Director is Deng Huijin, our other executive Directors are Li Donglin and Yan Wu, our non-executive Director is Ma Yunkun, and our independent non-executive Directors are Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Liu Chunru.