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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**

**Continuing Connected Transactions with Parent Group and CSRG Group**

Reference is made to the Prospectus which contains, among others, particulars of the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement and the respective annual caps for the three years from the date of Listing to 31 December 2008 and the Waiver granted to the Company by the Stock Exchange from strict compliance with the relevant requirements of the Listing Rules. 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 year ended 31 December 2008 exceeded the specified annual caps in the Waiver. As such, the Board wishes to make an announcement and seek Independent Shareholders' approval to approve and ratify the exceeded caps for the year ended 31 December 2008.

**Continuing Connected Transactions with CSRG Group and KCR Group**

Reference is also made to the announcement of the Company dated 28 April 2008 and the circular to the shareholders of the Company dated 9 May 2008 which contain, among others, particulars of the CSRG Renewed Mutual Supply Agreement and the KCR Renewed Mutual Supply Agreement. The CSRG Renewed Mutual Supply Agreement, the KCR Renewed Mutual Supply Agreement and the CSRG Caps and the Original KCR Caps for the five years from 1 January 2009 to 31 December 2013 were approved by Independent Shareholders on 27 June 2008.

Reference is also made to the announcement of the Company dated 7 August 2008 and the circular to the shareholders of the Company dated 28 August 2008 which contain, among others, particulars of the KCR Supplemental Mutual Supply Agreement. The KCR Supplemental Mutual Supply Agreement and the Revised KCR Caps for the three years from 1 January 2008 to 31 December 2010 were approved by the Independent Shareholders on 13 October 2008.

In view of the developments in the PRC railway industry, the Directors consider that the anticipated aggregate annual values of transactions under the CSRG Renewed Mutual Supply Agreement and 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 CSRG Caps and the KCR Caps, respectively. On 14 April 2009, the Company entered into the CSRG Supplemental Mutual Supply Agreement with CSRG to revise the CSRG Caps for a term of five years from 1 January 2009 to 31 December 2013. On 14 April 2009, the Company also entered into the KCR Second Supplemental Mutual Supply Agreement with KCR to revise the KCR Caps for a term of five years from 1 January 2009 to 31 December 2013.

#### **Continuing Connected Transactions with CRGL Group**

On 14 April 2009, the Company entered into the CRGL Mutual Supply Agreement with CRGL which is a framework agreement 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.

#### **Listing Rules Requirements**

The Parent Company is a promoter and the controlling shareholder of the Company. CSRG directly and indirectly holds the entire equity interest 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 also 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 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.

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

A meeting of the Board was held on 31 March 2009 at which the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps were reviewed and approved. 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.

An Independent Board Committee has been established to advise 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. In this connection, the Company has appointed CSC Asia Limited 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.

A circular containing, 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) further details of the New Supplemental Agreements and the New Caps; (iii) further details of the CRGL Mutual Supply Agreement and the CRGL Caps; (iv) a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps; (v) the recommendation of the Independent Board Committee regarding the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps to the Independent Shareholders; and (vi) a notice of the EGM will be despatched to the shareholders of the Company.

## **BACKGROUND**

Reference is made to the Prospectus which contains, among others, particulars of the ZELRI Mutual Supply Agreement and the CSRG Mutual Supply Agreement and the respective annual caps for the three years from the date of Listing to 31 December 2008 and the Waiver granted to the Company by the Stock Exchange from strict compliance with the relevant requirements of the Listing Rules. 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 year ended 31 December 2008 exceeded the specified annual caps in the Waiver. As such, the Board wishes to make an announcement and seek Independent Shareholders' approval to approve and ratify the exceeded caps for the year ended 31 December 2008.

Reference is also made to the announcement of the Company dated 28 April 2008 and the circular to the shareholders of the Company dated 9 May 2008 which contain, among others, particulars of the CSRG Renewed Mutual Supply Agreement and the KCR Renewed Mutual Supply Agreement. The CSRG Renewed Mutual Supply Agreement, the KCR Renewed Mutual Supply Agreement and the CSRG Caps and the Original KCR Caps for the five years from 1 January 2009 to 31 December 2013 were approved by Independent Shareholders on 27 June 2008. Reference is also made to the announcement of the Company dated 7 August 2008 and the circular to the shareholders of the Company dated 28 August 2008 which contain, among others, particulars of the KCR Supplemental Mutual Supply Agreement. The KCR Supplemental Mutual Supply Agreement and the Revised KCR Caps for the three years from 1 January 2008 to 31 December 2010 were approved by the Independent Shareholders on 13 October 2008.

Reference is also made to the announcement of the Company dated 25 March 2009 which contains, among others, particulars of the joint venture agreement entered into among the Company, CRGL and CRB for the establishment of Baoji Times.

## **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 CSR 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 CSR Mutual Supply Agreement in 2008 after exceeding the 2008 Approved ZELRI Cap and the 2008 Approved CSR 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 CSR 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 CSR 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 CSR Mutual Supply Agreement for the financial year of 2008 exceeded the respective 2008 Approved ZELRI Cap and the 2008 Approved CSR 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 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.

## 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 GSRG Mutual Supply Agreement for the three years ended 31 December 2006, 2007 and 2008:

	Year ended 31 December		
	2006	2007	2008 <i>(Note)</i>
	<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>	<b>162.7</b>	<b>84.7</b>	<b>136.2</b>
<b>Subtotal of amount paid by the CSRG Group (including the Parent Group but excluding the Group)</b>	<b>298.8</b>	<b>632.7</b>	<b>889.5</b>

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

## 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:

CSRG Caps	2009	Year ending 31 December			
		2010	2011	2012	2013
		<i>(RMB millions)</i>			
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 million and RMB 700 million payable to the CSRG 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 CSRG 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 prioritised 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 CSRG Group.

As at the date of this announcement, the 2009 Approved CSRG Caps have not been exceeded.

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

Save and except for the New CSRG Caps as stated in this announcement, the terms of the CSRG 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 remain unchanged under the CSRG Supplemental Mutual Supply Agreement and are summarised as follows:

**Supply of products:** 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 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.

CSRG 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 CSRG 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 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.

## 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:

	<b>Year ending 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008 <sup>(Note)</sup></b>
	<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 unaudited financial statements of the Group for the year ended 31 December 2008.*

## 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:

	2009	Year ending 31 December			
		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	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
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 and the KCR Renewed Mutual Supply Agreement (as supplemented by the KCR Supplemental 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



Pricing basis: The pricing for the products and/or services supplied by and/or to the KCR 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 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 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 favourable than those offered to the Group by independent third parties.

## **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
- 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 favourable than those offered to the Group by independent third parties.

### 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:

	<b>Year ending 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>CRGL Caps</b>	<i>(RMB millions)</i>		
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 date of this announcement, the Group does not have any order from the CRGL Group and the CRGL Group also does not have any order from the Group.

## **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% equity interest 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.

## **LISTING RULES REQUIREMENTS**

A meeting of the Board was held on 31 March 2009 at which the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL 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), Mr. Liao Bin (a non-executive Director and an executive director of the Parent Company) and Mr. 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 the CSRG Supplemental Mutual Supply Agreement 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 the KCR Second Supplemental Mutual Supply Agreement due to conflict of interests.

The Directors, excluding Messrs. Ding Rongjun, Liao Bin, Song Yali and Ma Yunkun (as the case may be), consider that 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 the terms thereof are on normal commercial terms which are fair and reasonable insofar as the interests of the Company and its 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 Board (excluding the independent non-executive Directors) is of the view that the terms of the New Supplemental Agreements and the New Caps together with 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 its shareholders as a whole are concerned.

An Independent Board Committee (which shall consist only of independent non-executive Directors) has been established to advise the Independent Shareholders as to whether 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 the terms thereof are on normal commercial terms 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 by the independent financial adviser.

The Company has appointed CSC Asia Limited 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.

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.

## **GENERAL**

A circular containing, 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) further details of the New Supplemental Agreements and the New Caps; (iii) further details of the CRGL Mutual Supply Agreement and the CRGL Caps; (iv) a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreements and the CRGL Caps; (v) the recommendation of the Independent Board Committee regarding the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps to the Independent Shareholders; and (vi) a notice of the EGM will be despatched to the shareholders of the Company.

## **DEFINITIONS**

“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
“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 “ <b>CRGL Group Company</b> ” 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
“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 “ <b>CSRG Group Company</b> ” 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
“EGM”	an extraordinary general meeting to be convened by the Company on the date to be announced, or any adjournment thereof to consider and approve, among others, the New Supplemental Agreements and the New Caps together with the CRGL Mutual Supply Agreement and the CRGL Caps
“Group”	the Company and its subsidiaries and “ <b>Group Company</b> ” means any of them

“Independent Board Committee”	the independent committee of the Board (which shall consist only of independent non-executive Directors) to be formed to advise 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
“Independent Shareholders”	shareholders of the Company other than those who are required by the Listing Rules to abstain from voting on the respective resolution to approve 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
“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

“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
“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所有限公司 (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
“Prospectus”	the prospectus of the Company dated 8 December 2006
“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
“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

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

Zhuzhou, China, 14 April 2009

*As at the date of this announcement, 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.*