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

(Stock Code: 3898)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS PROPERTY LEASING FRAMEWORK AGREEMENT

PROPERTY LEASING FRAMEWORK AGREEMENT

On 17 August 2018, the Company and CRRC entered into the Property Leasing Framework Agreement for a term of ten years commencing from 1 January 2018 and ending on 31 December 2027.

Pursuant to the Property Leasing Framework Agreement, the Company agreed to lease and procure members of the Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the CRRC Group, and CRRC agreed to lease and procure members of the CRRC Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CRRC is an indirect controlling shareholder of the Company holding indirectly approximately 52.38% of the shares of the Company in aggregate, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (other than the profit ratio) as defined under the Listing Rules in respect of the Property Leasing Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Property Leasing Framework Agreement are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the term of the Property Leasing Framework Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Pelican Financial as the independent financial adviser to advise the reasons for the Property Leasing Framework Agreement to have a term exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

BACKGROUND

In the course of its daily production and operation, the Group conducts continuing connected transactions with the CRRC Group in relation to the leasing of properties and ancillary equipment and facilities. In order to better regulate such continuing connected transactions under the Listing Rules, the Company and CRRC entered into the Property Leasing Framework Agreement on 17 August 2018.

CONTINUING CONNECTED TRANSACTIONS

Principal Terms of the Property Leasing Framework Agreement

The principal terms of the Property Leasing Framework Agreement are summarised as follows:

Date:	17 August 2018
Parties:	(a) CRRC; and (b) the Company
Term:	Ten years commencing from 1 January 2018 and ending on 31 December 2027 (the “ Term ”)
Transactions:	Pursuant to the Property Leasing Framework Agreement, the Company agreed to lease and procure members of the Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the CRRC Group, and CRRC agreed to lease and procure members of the CRRC Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the Group.
Individual Lease Contracts:	<p>In compliance with the terms and conditions of the Property Leasing Framework Agreement, the Group shall enter into separate lease contracts to set out the specific provisions of the leasing of properties and ancillary equipment and facilities (the “Individual Lease Contracts”) with the CRRC Group. The terms and conditions of the Individual Lease Contracts shall be determined by the signing parties through arm’s length negotiations in accordance with the terms of the Property Leasing Framework Agreement and based on the principles of fairness and reasonableness.</p> <p>The term of each of the Individual Lease Contracts shall not exceed the Term.</p>

Pricing policy and payment terms: The rent shall be determined by the signing parties through arm's length negotiations with reference to the prevailing market rates in the places where the leased properties and/or ancillary equipment and facilities (if applicable) are located.

Payments for the transactions under the Property Leasing Framework Agreement shall be settled by cash or any other means otherwise agreed by the signing parties.

The amount of rent and related fees and the payment method shall be set out in each of the Individual Lease Contracts.

The payment and settlement terms shall be on terms no less favourable to the Group than those offered by the Independent Third Parties.

With respect to the leasing of properties and ancillary equipment and facilities by the Group, in determining whether the rent and/or payment terms offered by the CRRC Group are fair and reasonable or no less favourable than those offered by the Independent Third Parties, the Group has established effective methods and procedures by obtaining and comparing price references from the market to the extent that those properties and ancillary equipment and facilities are of comparable location, area and usage, etc.

The Directors (including the independent non-executive Directors) consider that such methods and procedures can ensure that the transactions contemplated under the Property Leasing Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Historical Transaction Records

The historical transaction amounts for the rent and related fees in respect of the leasing of properties and/or ancillary equipment and facilities between the Group and the CRRC Group for the three years ended 31 December 2017 are as follows:

	Year ended 31 December		
	2015	2016	2017
	<i>(RMB millions)</i>		
Rent and related fees paid to the Group			
by the CRRC Group	10.26	5.55	6.37
Rent and related fees paid to the CRRC Group			
by the Group ^(Note)	188.42	97.40	2.33

Note: The substantial amount of rent and related fees paid to the CRRC Group by the Group was attributable to the rent for leasing the high-power IGBT production line (the “**IGBT Production Line**”) by the Group pursuant to the lease agreement dated 25 September 2014 entered into between 中車株洲電力機車研究所有限公司 (CRRC Zhuzhou Institute Co., Ltd.) and the Group (the “**IGBT Lease Agreement**”). The Group subsequently completed the acquisition of the IGBT Production Line on 1 December 2016. For details, please refer to the announcement of the Company dated 25 September 2014 in relation to the IGBT Lease Agreement and the announcements of the Company dated 18 May 2016 and 16 December 2016 and the circular of the Company dated 7 June 2016 in relation to the acquisition of IGBT Production Line.

Annual Caps and Basis of Annual Caps

The Annual Caps of the rent and related fees in respect of the leasing of properties and/or ancillary equipment and facilities between the Group and the CRRC Group under the Property Leasing Framework Agreement for the ten years ending 31 December 2027 are as follows:

	2018	2019	2020	Year ending 31 December						
				2021	2022	2023	2024	2025	2026	2027
	<i>(RMB millions)</i>									
Rent and related fees paid or to be paid to the Group by the CRRC Group	25	30	35	40	45	50	55	60	65	70
Rent and related fees paid or to be paid to the CRRC Group by the Group	30	35	40	45	50	55	60	65	70	75

The Annual Caps for the transactions contemplated under the Property Leasing Framework Agreement were determined by the parties based on the estimated transaction amounts with reference to (1) the historical transaction amounts; (2) the expected growth of the Group's business and the business of the CRRC Group; (3) the expected increase in the demand of the properties by the parties; and (4) the estimated growth of the market rental of the properties under the Property Leasing Framework Agreement during the Term, at an expected annual increase of RMB 5 million.

INFORMATION OF THE GROUP

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

INFORMATION OF THE CRRC GROUP

CRRC is a joint stock limited company incorporated in the PRC with limited liability. The main scope of business of CRRC include: research and development, design, manufacturing, refurbishment, sales, leasing and technical support of rail vehicles (including MUs), rapid transit vehicles, engineering machinery, various electromechanical equipment, electronic equipment and components, as well as electric devices and environmental protection equipment; information consultation; business investment and management; asset management and import and export business.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROPERTY LEASING FRAMEWORK AGREEMENT

The Company considers that it is in the interest of the Group to enter into the transactions contemplated under the Property Leasing Framework Agreement with the CRRC Group to ensure the stable provision and utilisation of the leased properties and/or ancillary equipment and facilities between the Group and the CRRC Group. The CRRC Group is familiar with the business needs of the Group and the transactions between the parties, and will therefore reduce the administrative costs of the Group.

Mr. Li Donglin, Mr. Yang Shouyi and Mr. Zhang Xinning have abstained from voting on the Board resolution approving the Property Leasing Framework Agreement due to conflict of interests. Save as mentioned above, none of the Directors has material interest in the Property Leasing Framework Agreement and hence no other Director has abstained from voting on such Board resolution.

The Directors, excluding Mr. Li Donglin, Mr. Yang Shouyi and Mr. Zhang Xinning but including the independent non-executive Directors, are of the view that the Property Leasing Framework Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Company, and 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 and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CRRC is an indirect controlling shareholder of the Company holding indirectly approximately 52.38% of the shares of the Company in aggregate, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (other than the profit ratio) as defined under the Listing Rules in respect of the Property Leasing Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Property Leasing Framework Agreement are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the Property Leasing Framework Agreement will be disclosed in the next published annual report of the Company in accordance with Rules 14A.71 and 14A.72 of the Listing Rules.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

As the term of the Property Leasing Framework Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Pelican Financial as the independent financial adviser to advise the reasons for the Property Leasing Framework Agreement to have a term exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

In rendering the opinion pursuant to Rule 14A.52 of the Listing Rules, Pelican Financial has taken into consideration the following factors:

- (a) the Group is mainly engaged in the research, development, manufacture and sale of locomotive train power converters, control systems, urban railway train electrical systems and other train-borne electrical systems, as well as engaged in the research, development, manufacture and sale of electric components for the railway industry, urban railway industry and non-railway purposes;
- (b) the Company agreed to lease and procure members of the Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the CRRC Group, and CRRC agreed to lease and procure members of the CRRC Group to lease their lawfully owned properties and/or ancillary equipment and facilities to the Group;
- (c) it is the understanding of Pelican Financial that the entering of the Property Leasing Framework Agreement is a more cost-effective and flexible means for the Group to occupy and utilise properties and/or ancillary equipment and facilities by way of lease in lieu of construction on its own. Further, the transactions contemplated under the Property Leasing Framework Agreement with the CRRC Group will provide the Group with a stable provision and utilisation of the leased properties and/or ancillary equipment and facilities between the Group and the CRRC Group. In addition, it is in the interests of the Company to have a longer duration term under the Property Leasing Framework Agreement given that under a shorter duration term, the Company may face the risk of having to identify and locate another similar properties and/or ancillary equipment and facilities to those under the Property Leasing Framework Agreement which may hamper the business operation and development of the Group in the future; and
- (d) in Pelican Financial's review of the continuing connected transaction announcements published by companies listed on the Stock Exchange since 2017, Pelican Financial noted there were similar framework agreements to the Property Leasing Framework Agreement, of which the duration term exceeded three years and under which the listed companies were to lease core premises for their operations. These premises include production facilities, cinemas, offices and hospitals which are vital to their respective operations and the framework agreements to lease these premises have a duration term of up to twenty years.

Having considered the principal factors discussed above, Pelican Financial is of the view that it is normal business practice for the Company and CRRC to enter into the Property Leasing Framework Agreement with a term of more than three years and to be of such duration for agreements of this type.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Annual Caps”	the maximum aggregate annual rents and related fees payable by the CRRC Group to the Group or payable by the Group to the CRRC Group (as the case may be) in respect of the transactions under the Property Leasing Framework Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Zhuzhou CRRC Times Electric Co., Ltd. (株洲中車時代電氣股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CRRC”	CRRC Corporation Limited (中國中車股份有限公司), a joint stock company established in the PRC with limited liability, the A shares and the H shares of which are listed on the Shanghai Stock Exchange and the Stock Exchange respectively
“CRRC Group”	CRRC and its subsidiaries (excluding the Group) and their respective associates
“Director(s)”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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

“Pelican Financial”	Pelican Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), being the independent financial adviser appointed for the purposes of Rule 14A.52 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purposes of this announcement, does not include Hong Kong, Macau Special Administrative Region and Taiwan
“Property Leasing Framework Agreement”	a framework agreement in relation to the leasing of properties and ancillary equipment and facilities entered into between the Company and CRRC dated 17 August 2018 for a term of ten years commencing from 1 January 2018 and ending on 31 December 2027
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
Zhuzhou CRRC Times Electric Co., Ltd.
Li Donglin
Chairman

Zhuzhou, China, 17 August 2018

As at the date of this announcement, our chairman of the Board and executive director of the Company is Li Donglin, our vice chairman of the Board and executive director of the Company is Yang Shouyi, our other executive directors of the Company are Liu Ke’an and Yan Wu, our non-executive director of the Company is Zhang Xinning, and our independent non-executive directors of the Company are Chan Kam Wing, Clement, Pao Ping Wing, Liu Chunru, Chen Xiaoming and Gao Feng.