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株洲中车时代电气股份有限公司

ZHUZHOU CRRC 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 2017-19 QINGDAO MUTUAL SUPPLY AGREEMENT**

In view of the prospective expiry of the 2014-16 Qingdao Mutual Supply Agreement, on 22 December 2016, the Company entered into the 2017-19 Qingdao Mutual Supply Agreement with the Qingdao Company for a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

As at the date of this announcement, the Parent Company is a controlling shareholder of the Company. CRRC directly holds the entire equity interest in each of the Parent Company and CRRC Sifang. CRRC 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 2017-19 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 2017-19 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.

BACKGROUND

In view of the prospective expiry of the 2014-16 Qingdao Mutual Supply Agreement, on 22 December 2016, the Company entered into the 2017-19 Qingdao Mutual Supply Agreement with the Qingdao Company for a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS WITH THE QINGDAO GROUP

Principal Terms of the 2017-19 Qingdao Mutual Supply Agreement

The principal terms of the 2017-19 Qingdao Mutual Supply Agreement are summarised as follows:

Date: 22 December 2016

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

Scope of products and services to be provided: The Company agreed to supply and procure its subsidiaries (excluding the Qingdao Group) to supply to the Qingdao 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.

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.

Term: A term commencing on 1 January 2017 and ending on 31 December 2019.

Pricing principles: 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:

(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) (“government-guided prices”), where no government-prescribed prices are available or applicable;
- (c) the final confirmed prices through the bidding and tendering process conducted in accordance with the applicable laws, rules and regulations (if any) (“bidding prices”), where neither government-prescribed prices or government-guided prices are available or applicable;
- (d) the market prices which are offered to or by Independent Third Parties in the ordinary and usual course of business, where none of the government-prescribed prices, government-guided prices or bidding prices are available or applicable; and
- (e) 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, historical price, 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.

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 the market 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 2017-19 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

Set out below is a summary of the transaction records of the transactions under the 2014-16 Qingdao Mutual Supply Agreement for the two years ended 31 December 2015 and the nine months ended 30 September 2016:

	For the nine months		
	Year ending 31 December	2015	ended 30 September 2016
	2014	2015	2016
	<i>(RMB millions)</i>		
Amounts paid to the Qingdao Group by the Group for the products and/or services provided by the Qingdao Group	8.6	0.3	1.2
Amounts paid to the Group by the Qingdao Group for the products and/or services provided by the Group	0.5	1.5	3.6

The Company expects that the considerations for the financial year ending 31 December 2016 will not exceed the proposed caps for the year 2016 as disclosed in the announcement of the Company dated 2 July 2014.

Annual Caps

The Annual Caps under the 2017-19 Qingdao Mutual Supply Agreement for the three years ending 31 December 2017, 2018 and 2019 are as follows:

	Year ending 31 December		
	2017	2018	2019
	<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	100	200	300
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	300	450	600

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; and (6) the historical transaction amounts under the 2014-16 Qingdao Mutual Supply Agreement as shown in the section headed “Historical Transaction Records with the Qingdao 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 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 2017-19 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, CRRC 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 2017-19 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 2017-19 Qingdao Mutual Supply Agreement will facilitate the operation and growth of the Group's business.

The Directors (excluding Mr. Ding Rongjun and Mr. Deng Huijin but including the independent non-executive Directors) consider that the 2017-19 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. CRRC directly holds the entire equity interest in each of the Parent Company and CRRC Sifang. CRRC 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 2017-19 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 2017-19 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. Ding Rongjun and Mr. Deng Huijin have abstained from voting on the Board resolution approving the 2017-19 Qingdao Mutual Supply Agreement due to conflict of interests. Save as mentioned above, none of the Directors has material interest in the 2017-19 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 2017-19 Qingdao Mutual Supply Agreement in its subsequent published annual report and accounts in accordance with the relevant requirements as set out in the Rule 14A.71 of 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 for a term commencing on 30 May 2014 and ending on 31 December 2016
“2017-19 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 22 December 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019
“Annual Caps”	the maximum aggregate annual purchase and sale amounts in respect of the transactions under the 2017-19 Qingdao Mutual Supply Agreement for a term commencing from 1 January 2017 to 31 December 2019
“associate(s)”	has the meaning given 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) (formerly known as 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

“connected subsidiary”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given 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 whose A shares and H shares are listed on the Shanghai Stock Exchange and the Stock Exchange respectively; CRRC is directly and indirectly held as to approximately 55.91% in aggregate by CRRCG and holds the entire equity interest in the Parent Company
“CRRC Sifang”	中車青島四方機車車輛股份有限公司(CRRC Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.), a joint stock company established in the PRC, the entire equity interest of which was held by CRRC
“CRRCG”	中國中車集團公司(CRRC Group), a PRC state-owned enterprise and the controlling shareholder of CRRC
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries (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 Party(ies)”	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”	中車株洲電力機車研究所有限公司 (CRRC Zhuzhou Institute Co., Ltd.) (formerly known as 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 CRRC

“Parent Group”	the Parent Company and its subsidiaries (excluding the Group)
“PRC”	the People’s Republic of China, which, for the purposes of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“Qingdao Company”	青島中車電氣設備有限公司 (Qingdao CRRC Electric Equipment Co., Ltd.) (formerly known as 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 CRRC Sifang, and 17% by Hongda Schnell
“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
“%”	per cent

By order of the Board
Ding Rongjun
Chairman

Zhuzhou, China, 22 December 2016

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 Liu Ke'an and Yan Wu, our non-executive Director is Ma Yunkun, and our independent non-executive Directors are Chan Kam Wing, Clement, Pao Ping Wing and Liu Chunru.