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China Railway Signal & Communication Corporation Limited*

中國鐵路通信信號股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)
(Stock Code: 3969)

**CONTINUING CONNECTED TRANSACTIONS
CONSTRUCTION CONTRACTING FRAMEWORK AGREEMENT**

CONSTRUCTION CONTRACTING FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated June 10, 2019 in relation to the Equity Transfer. As at the date of this announcement, CRSC Corporation Group holds 75.14% of the issued share capital of the Company and is the controlling shareholder of the Company. Therefore, CRSC Corporation Group is a connected person of the Company. Immediately following the completion of the Equity Transfer, CRSC Corporation Group will hold 100% equity interests in CRSC Real Estate, 60% equity interests in Beijing CRSC Construction and 51% equity interests in CRSC Beifang Real Estate, respectively. The Subject Companies will become the associates of CRSC Corporation Group. CRSC Corporation Group and its associates constitute connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the continuing transactions carried out between the Group and CRSC Corporation Group and its associates (including the Subject Companies) will constitute the continuing connected transactions of the Company.

The Board announces that, on June 14, 2019, after trading hours, the Company and CRSC Corporation Group entered into the Construction Contracting Framework Agreement and set the annual caps for the transactions under the Agreement in 2019 and 2020. The Construction Contracting Framework Agreement shall be effective from the effective date of the Agreement to December 31, 2020. The Company will comply with the requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the annual caps under the Construction Contracting Framework Agreement is more than 0.1% but less than 5%, the continuing connected transactions under the Construction Contracting Framework Agreement would be subject to the reporting, annual review and announcement requirements, but exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors), after taking into account the pricing policy, basis of determining annual caps, reasons and benefits as well as internal control procedures, are of the view that the terms of the proposed transactions contemplated under the Construction Contracting Framework Agreement and the annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Company, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole. All the Directors who are materially interested in such transactions have abstained from voting on the resolutions to approve such transactions at the Board meeting.

I. CONSTRUCTION CONTRACTING FRAMEWORK AGREEMENT

1. Background

Reference is made to the announcement of the Company dated June 10, 2019 in relation to the Equity Transfer. As at the date of this announcement, CRSC Corporation Group holds 75.14% of the issued share capital of the Company and is the controlling shareholder of the Company. Therefore, CRSC Corporation Group is a connected person of the Company. Immediately following the completion of the Equity Transfer, CRSC Corporation Group will hold 100% equity interests in CRSC Real Estate, 60% equity interests in Beijing CRSC Construction and 51% equity interests in CRSC Beifang Real Estate, respectively. The Subject Companies will become the associates of CRSC Corporation Group. CRSC Corporation Group and its associates constitute connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the continuing transactions carried out between the Group and CRSC Corporation Group and its associates (including the Subject Companies) will constitute the continuing connected transactions of the Company.

The Board announces that, on June 14, 2019, after trading hours, the Company and CRSC Corporation Group entered into the Construction Contracting Framework Agreement and set the annual caps for the transactions under the Agreement in 2019 and 2020, pursuant to which the Group shall provide construction and ancillary services, including but not limited to engineering design and construction general contracting, to CRSC Corporation Group and its associates during our ordinary course of business, and CRSC Corporation Group and its associates shall pay service fees to the Group. The Company will comply with the requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

2. Construction Contracting Framework Agreement

The Company entered into the Construction Contracting Framework Agreement with CRSC Corporation Group on June 14, 2019, after trading hours, the main contents of the Agreement are set out as follows:

Transaction type: According to the Construction Contracting Framework Agreement, the Group shall provide construction and ancillary services, including but not limited to engineering design and construction general contracting, to CRSC Corporation Group and its associates during our ordinary course of business, and CRSC Corporation Group and its associates shall pay service fees to the Group.

Principal terms:

- (1) Pricing policy (please see below) ;
- (2) Except for public tender, the counterparties must confirm the service demand schedule for the next year or the service demand adjustment schedule of the current year on a stipulated date of each year;
- (3) The Group and CRSC Group must enter into specific agreements to stipulate specific terms and conditions, including the specific scope, service manner and payment methods, in respect of the construction and ancillary services under the Construction Contracting Framework Agreement; and

(4) The Construction Contracting Framework Agreement shall be effective from the effective date of the Agreement to December 31, 2020 and may be renewed upon agreement of the counterparties.

Pricing policy:

According to the Construction Contracting Framework Agreement, the service fees charged by the Group for providing construction and ancillary services to CRSC Corporation Group and its associates will be determined based on arm's length negotiation with CRSC Corporation Group and its associates. The main reference factors include: (1) the availability and cost of raw materials and equipment and machinery, labor and subcontractors; (2) the local guidance price of construction costs of various raw materials provided by the Company under the local housing and urban-rural construction bureaus; (3) the project schedule, the complexity and scale of the construction project, and the potential adjustment of the scope of work; (4) the geographical location and environmental conditions of the project site; and (5) the evaluation and analysis on competitive bidding by the relevant functional departments of the Group with reference to the relevant information of competitors, the specific needs of the project and the impact of the project on the Company's macro strategy.

In order to ensure that the service fees charged by the Group for the provision of construction contracting services are fair and reasonable and in line with market prevailing prices, the Group will closely follow the current level of market fees and market conditions and independent third party cost consultation institutions will review the pricing. In addition, the Group will also refer to the fees charged historically for providing similar construction contracting services to independent third party customers.

3. Historical amounts

The actual transaction amounts of the construction and ancillary services provided by the Group to the Subject Companies for the years ended December 31, 2016, 2017 and 2018 and the five months ended May 31, 2019 were approximately RMB191,628 thousand, RMB89,943 thousand, RMB568,450 thousand and RMB124,384 thousand, respectively.

4. Annual caps and basis of determination

Annual caps: For the years ending December 31, 2019 and 2020, the maximum annual amounts of the construction and ancillary services proposed to be provided by the Group to CRSC Group under the Construction Contracting Framework Agreement shall not exceed the following caps, respectively:

	Annual caps for the year ending December 31,	
	2019	2020
	<i>(RMB'000)</i>	
The construction and ancillary services provided by the Group to CRSC Group	760,000 ⁽¹⁾	1,700,000

Note:

- (1) The maximum annual amount of the construction and ancillary services proposed to be provided by the Group to CRSC Group from the date of the completion of the Equity Transfer to December 31, 2019.

Basis of determination: The annual caps under the Construction Contracting Framework Agreement for the years ending December 31, 2019 and 2020 are determined mainly with reference to: (1) the construction service fees previously paid to the Group by the Subject Companies; (2) expected project contract amount and construction progress; (3) the number of projects currently available to the Group that require construction services; and (4) new construction contracting projects expected by the Group in 2019 and 2020. In particular:

- (1) Given the project reserve of CRSC Corporation Group and its associates in 2019 and 2020, the Group expected that the maximum annual amounts of total service fees charged by the Group for providing construction contracting services to CRSC Corporation Group and its associates will increase in 2019 and 2020. In addition, appropriate floating space has also been set in the determination of the annual caps for potential new projects currently being negotiated between the Group and CRSC Corporation Group;
- (2) Major considerations referred by the Company in estimating annual transaction amounts of the construction contracting services provided to CRSC Corporation Group and its associates include: (a) the existing agreements entered into between the Group and CRSC Corporation Group and its associates, total contract amount of such agreements as well as the Group's estimation of payment schedule of service fees according to the expected construction progress during the term of the Construction Contracting Framework Agreement; and (b) the prospective total contract value and the prospective project progress to be entered into between the Group and CRSC Corporation Group and its associates for the years ending December 31, 2019 and 2020. Of which, the total contract amount of the existing agreements and the total contract amount of the projects to be entered into are estimated based on the Company's cost budget for related projects with reference to the gross profit margin of similar projects with independent third parties. The prospective construction progress is estimated according to the Company's experience and construction schedule in previous similar projects; and

(3) the Company expected that 5 projects will be conducted from 2019 to 2020. Of such 5 projects, 3 are under construction and 2 have not been acquired but are currently under the Company's active track, which is prospectively to be acquired in a high probability.

5. Reasons for and benefits of entering into the Construction Contracting Framework Agreement

Having considered: (1) the Group and CRSC Real Estate have entered into agreements in respect of the construction and ancillary services before the completion of the Equity Transfer and expect to proceed upon completion of the Equity Transfer which will bring revenue and profits to the Group; (2) based on the project reserve of the Subject Companies, it is expected that the Subject Companies will have new construction and ancillary services demand in the future and will continue to bring revenue and profits to the Group; (3) the pricing regarding the provision of construction and ancillary services provided by the Group to CRSC Group is fair and on normal commercial terms; and (4) CRSC Group and the Group have a long-term and stable business relationship, and CRSC Group has strong financing capability and will pay the service fees to the Group in priority in the future.

The Directors (including independent non-executive Directors) are of the view that, terms of the transactions contemplated under the Construction Contracting Framework Agreement and the annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Company, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

6. Implications under the Listing Rules

Reference is made to the announcement of the Company dated June 10, 2019 in relation to the Equity Transfer. As at the date of this announcement, CRSC Corporation Group holds 75.14% of the issued share capital of the Company and is the controlling shareholder of the Company. Therefore, CRSC Corporation Group is a connected person of the Company. Immediately following the completion of the Equity Transfer, CRSC Corporation Group will hold 100% equity interests in CRSC Real Estate, 60% equity interests in Beijing CRSC Construction and 51% equity interests in CRSC Beifang Real Estate, respectively. The Subject Companies will become the associates of CRSC Corporation Group. CRSC Corporation Group and its associates constitute

connected persons of the Group under Chapter 14A of the Listing Rules. Accordingly, the continuing transactions carried out between the Group and CRSC Corporation Group and its associates (including the Subject Companies) will constitute the continuing connected transactions of the Company.

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the annual caps under the Construction Contracting Framework Agreement is more than 0.1% but less than 5%, the continuing connected transactions under the Construction Contracting Framework Agreement would be subject to the reporting, annual review and announcement requirements, but exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

II. INTERNAL CONTROL PROCEDURES AND CORPORATE GOVERNANCE MEASURES

To regulate the performance of connected transactions of the Company, the Company has formulated the Rules for Connected Transactions of China Railway Signal & Communication Corporation Limited* (《中國鐵路通信信號股份有限公司關聯交易管理制度》), and adopted a series of internal control and corporate governance measures in its daily operation. Such measures in relation to the Construction Contracting Framework Agreement mainly include the following:

1. The Construction Contracting Framework Agreement will be conducted on a non-exclusive basis;
2. The Company's finance department is responsible for providing statistical reports on continuing connected transactions under the Construction Contracting Framework Agreement to the finance departments of its subsidiaries, explaining the applicable scope of various continuing connected transactions, proposing reporting requirements, as well as coordinating and monitoring the compliance with the annual caps by its subsidiaries;
3. The Company's finance department and its subsidiaries' finance departments are responsible for summarizing the actual amounts of continuing connected transactions incurred by the Company and its subsidiaries under the Construction Contracting Framework Agreement, respectively, while the subsidiaries' finance departments shall submit reports on continuing connected transactions under the Construction Contracting Framework Agreement to the Company's finance department on

a monthly basis, and the Company's finance department is responsible for verifying, summarizing, analyzing and forecasting such monthly amounts of the continuing connected transactions of the Company and its subsidiaries under the Construction Contracting Framework Agreement;

4. The finance department of the Company will strictly control the balance of the annual caps and ensure that the continuing connected transactions under the Construction Contracting Framework Agreement will not exceed the relevant annual caps. When the statistical data indicates that those actual amounts incurred may exceed the annual caps, the Company's Board office will organize relevant departments to propose a handling plan as soon as possible and forecast new annual cap amounts, make an application to revise the annual caps pursuant to the relevant procedures, strictly fulfill the disclosure obligations under the Listing Rules, and ensure the actual amounts of continuing connected transactions incurred under the Construction Contracting Framework Agreement will not exceed the approved and/or disclosed annual caps before the obtaining of the relevant approvals and/or completion of the relevant disclosure;
5. The Company's finance department will work with the Board office and report the status of continuing connected transactions under the Construction Contracting Framework Agreement to the audit and risk management committee of the Company and the Board at least twice a year;
6. Prior to entering into any specific construction contracting agreements with CRSC Group, the Company's legal compliance department will review such agreements to ensure that the principal terms are in line with the relevant terms of the Construction Contracting Framework Agreement; and
7. The independent non-executive Directors of the Company will review the Construction Contracting Framework Agreement and the proposed continuing connected transactions contemplated thereunder to ensure that the Agreement is entered into on normal commercial terms, is fair and reasonable and conducted in accordance with the terms of the Agreement. Meanwhile, the auditor of the Company will also conduct annual review of the pricing and annual caps for such continuing connected transactions.

The Directors (including the independent non-executive Directors), after taking into account the pricing policy, basis of determining annual caps, reasons and benefits as well as internal control procedures, are of the view that the terms of the proposed transactions contemplated under the Construction Contracting Framework Agreement and the annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Company,

which are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Meanwhile, the Company believes that it has implemented sufficient mechanisms, internal control procedures and external supervision measures, and thus to ensure compliance of the continuing connected transactions with and their strict abidance by relevant regulatory guidelines and the terms of the Construction Contracting Framework Agreement.

III. OPINIONS OF BOARD

As the Chairman, ZHOU Zhiliang, Director YIN Gang and Director YANG Yongsheng respectively serve as directors in CRSC Corporation Group, thus they are deemed to be materially interested in the Construction Contracting Framework Agreement and the proposed transactions contemplated thereunder. Accordingly, they have abstained from voting on the resolutions of the Board for approving such transactions. Save as disclosed above, none of the other Directors has material interests in such transactions and is required to abstain from voting on the resolutions of the Board for considering and approving such transactions.

The Directors (including the independent non-executive Directors), after taking into account the pricing policy, basis of determining annual caps, reasons and benefits as well as internal control procedures, are of the opinion that the terms of the proposed transactions contemplated under the Construction Contracting Framework Agreement and the annual caps thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Company, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The aforesaid Directors who are materially interested in such transactions have abstained from voting on the resolutions at the Board meeting for approving such transactions.

IV. GENERAL

1. Information on the Company

The Company is a joint stock limited liability company established in the PRC on December 29, 2010. The principle businesses of the Company include design and integration, equipment manufacturing and system delivery business for rail transportation control system, construction general contracting business and other businesses.

2. Information on CRSC Corporation Group

CRSC Corporation Group is a wholly state-owned enterprise approved to be established by the former Ministry of Railway of the PRC (中華人民共和國鐵道部) on May 8, 1981 and registered in the PRC on January 7, 1984, and is the sole controlling shareholder and one of the promoters of the Company. The principle businesses of CRSC Corporation Group include manufacturing of accessory parts and provision of services and provision of property leasing services for the Group.

V. DEFINITION

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing CRSC Construction”	Beijing CRSC Construction and Development Co., Ltd.* (北京通號建設開發有限公司), a limited liability company incorporated in the PRC on November 3, 2016. As at the date of this announcement, the Company indirectly holds 60% equity interests in Beijing CRSC Construction; and upon the completion of the Equity Transfer, CRSC Corporation Group will hold 60% equity interests in Beijing CRSC Construction
“Board”	the board of Directors of the Company
“Company”	China Railway Signal & Communication Corporation Limited* (中國鐵路通信信號股份有限公司), a joint stock limited liability company established in the PRC on December 29, 2010
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Construction Contracting Framework Agreement” or “the Agreement”	the construction contracting framework agreement entered into between the Company and CRSC Corporation Group on June 14, 2019

“continuing connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“CRSC Beifang Real Estate”	Beijing CRSC Beifang Real Estate Co., Ltd.* (北京通號北房置業有限公司), a limited liability company incorporated in the PRC on July 26, 2016. As at the date of this announcement, the Company indirectly holds 51% equity interests in CRSC Beifang Real Estate; and upon the completion of the Equity Transfer, CRSC Corporation Group will hold 51% equity interests in CRSC Beifang Real Estate
“CRSC Corporation Group”	China Railway Signal & Communication (group) Corporation Limited (中國鐵路通信信號集團有限公司) (previously known as China Railway Signal & Communication Corporation (中國鐵路通信信號集團公司)), a wholly state-owned enterprise approved to be established by the former Ministry of Railway of the PRC (中華人民共和國鐵道部) on May 8, 1981 and registered in the PRC on January 7, 1984, the sole controlling shareholder and one of the promoters of the Company
“CRSC Group”	collectively, CRSC Corporation Group and/or its associates (excluding the Group)
“CRSC Real Estate”	CRSC Real Estate Co., Ltd.* (通號置業有限公司), a limited liability company incorporated in the PRC on January 27, 2016. As at the date of this announcement, the Company indirectly holds 100% equity interests in CRSC Real Estate; and upon the completion of the Equity Transfer, CRSC Corporation Group will hold 100% equity interests in CRSC Real Estate
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require) (as the case may be, excluding the Subject Companies), or (where the context otherwise requires), in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Equity Transfer”	an equity transfer agreement was entered into between CRSC Construction Group Co., Ltd.* (which is a wholly-owned subsidiary of the Company) and CRSC Corporation Group on June 10, 2019, pursuant to which, CRSC Construction Group Co., Ltd.* agreed to dispose of and CRSC Corporation Group agreed to purchase 100% equity interests in CRSC Real Estate held by CRSC Construction Group Co., Ltd.*; an equity transfer agreement was entered into between CRSC Innovative Investment Co., Ltd.* (which is a wholly-owned subsidiary of the Company) and CRSC Corporation Group on the same date, pursuant to which, CRSC Innovative Investment Co., Ltd.* agreed to dispose of and CRSC Corporation Group agreed to purchase 60% equity interests in Beijing CRSC Construction and 51% equity interests in CRSC Beifang Real Estate held by CRSC Innovative Investment Co., Ltd.*

“subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“Subject Companies”	CRSC Real Estate, Beijing CRSC Construction and CRSC Beifang Real Estate
“%”	per cent

By order of the Board
**China Railway Signal & Communication
Corporation Limited***
ZHOU Zhiliang
Chairman

Beijing, the PRC
June 14, 2019

As of the date of this announcement, the executive directors of the Company are Mr. ZHOU Zhiliang, Mr. YIN Gang and Mr. YANG Yongsheng, and the independent non-executive directors of the Company are Mr. WANG Jiajie, Mr. CHEN Jin'en, Mr. CHAN Ka Keung Peter and Mr. YAO Guiqing.

* *For identification purpose only.*