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Nanfang Communication Holdings Limited

南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

- (1) CONNECTED TRANSACTION RELATING TO
THE ACQUISITION OF MACHINERIES;
(2) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE
LEASE AGREEMENT;
(3) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE
FRAMEWORK PROCUREMENT AGREEMENT; AND
(4) CONTINUING CONNECTED TRANSACTIONS RELATING TO THE
FRAMEWORK SUPPLY AGREEMENT**

The Board is pleased to announce that on 4 April 2018 (after trading hours):

- (1) Hengtong Light Guide and Yingke Optical Material entered into the Machinery Procurement Agreement in relation to the acquisition of machineries for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide;
- (2) Hengtong Light Guide and Yingke Optical Material entered into the Lease Agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for a period from 4 April 2018 to 31 December 2020;
- (3) Hengtong Light Guide and Yingke Optical Material entered into the Framework Procurement Agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for a period from 4 April 2018 to 31 December 2020; and
- (4) Yingke Optical Material and Nanfang Optic entered into the Framework Supply Agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for a period from 4 April 2018 to 31 December 2020.

LISTING RULES IMPLICATIONS

As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, which is a subsidiary of the Company for the purpose of the Listing Rules, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, both Jiangsu Hengtong and Hengtong Light Guide are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic will be regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore will also be considered as a connected person of the Company at the subsidiary level.

Therefore, the transaction contemplated under the Machinery Procurement Agreement will constitute a connected transaction and the transactions contemplated under each of the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) each of Hengtong Light Guide and Nanfang Optic is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transaction contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement and confirmed that the terms of these agreements are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the connected transaction under the Machinery Procurement Agreement and the continuing connected transactions under the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the announcements of the Company dated 13 October 2017 and 25 October 2017 (the “**Announcements**”) in relation to, amongst others, the establishment of Yingke Optical Material.

As mentioned in the Announcements, after the establishment of Yingke Optical Material (i.e. 24 October 2017), Yingke Optical Material would enter into several transactions with Hengtong Light Guide and Nanfang Optic, including, among others, the lease of factory premises, the acquisition of the requisite machineries and equipment and the supply of optical fibre preforms.

In furtherance of such cooperation envisaged pursuant to the Cooperation Agreement, the Board is pleased to announce that on 4 April 2018 (after trading hours):

- (1) Hengtong Light Guide and Yingke Optical Material entered into the Machinery Procurement Agreement in relation to the acquisition of machineries for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide;
- (2) Hengtong Light Guide and Yingke Optical Material entered into the Lease Agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for a period from 4 April 2018 to 31 December 2020;
- (3) Hengtong Light Guide and Yingke Optical Material entered into the Framework Procurement Agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for a period from 4 April 2018 to 31 December 2020; and
- (4) Yingke Optical Material and Nanfang Optic entered into the Framework Supply Agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for a period from 4 April 2018 to 31 December 2020.

CONNECTED TRANSACTION

Machinery Procurement Agreement

The principal terms of the Machinery Procurement Agreement are summarised as follows:

Date: 4 April 2018

Parties: (1) Hengtong Light Guide (as vendor); and
(2) Yingke Optical Material (as purchaser)

Assets to be acquired:	Machineries used for the production of optical fibre preforms owned by Hengtong Light Guide.
Consideration:	<p>The consideration for the acquisition of the machineries will be RMB61,550,000 (including value-added tax) (equivalent to approximately HK\$76,770,524), which will be funded by internal resources of the Group (including the accumulative profits and the proceeds received from the global offering of the Company).</p> <p>The consideration was determined after arm's length negotiations between Hengtong Light Guide and Yingke Optical Material with reference to the appraisal value as at 30 November 2017 based on the valuation report of the machineries issued by an independent valuer using cost approach.</p> <p>The consideration for the machineries shall be paid within 30 days after the delivery of the machineries and receipt of the invoice from Hengtong Light Guide by Yingke Optical Material.</p>
Original acquisition costs and net book value of the machineries	<p>The original acquisition cost of the machineries by Hengtong Light Guide was approximately RMB68,979,000 (equivalent to approximately HK\$86,036,620).</p> <p>The net book value of the machineries was approximately RMB61,345,000 (equivalent to approximately HK\$76,514,830) as at 30 November 2017.</p>

CONTINUING CONNECTED TRANSACTIONS

A. Lease Agreement

The principal terms of the Lease Agreement are summarised as follows:

Date:	4 April 2018
Parties:	(1) Hengtong Light Guide (as landlord) (2) Yingke Optical Material (as tenant)
Term:	4 April 2018 to 31 December 2020
Subject matter:	Hengtong Light Guide will lease the following factory premises to Yingke Optical Material: (1) the factory of 5,100 square meters located in No.2288, Zhongshan North Road, Wujiang Economic Development District, Jiangsu Province, the PRC.
Basis of rent:	The rent is RMB1,713,600 (equivalent to approximately HK\$2,137,351) per annum, which is determined with reference to the fair market rent of the factory premises subject to the Lease Agreement as at 30 November 2017, being approximately RMB1,713,600 per annum, based on the property rental appraisal report issued by an independent valuer using market approach and such rent was negotiated by the parties (on arm's length basis and in good faith). The rent will be reviewed on 31 December of every year during the term with reference to the actual situation of the tenancy market.
Payment term:	The rent is payable on quarterly basis and shall be paid within 5 days after the end of each quarter.
Other terms:	Yingke Optical Material shall not sublease the factory premises to other third parties.

Historical Amount

The Group has not rented any property from Jiangsu Hengtong and its subsidiaries.

Annual caps and basis of determination

The Board estimates that the rent in respect of the lease of the factory premises under the Lease Agreement for the three years ending 31 December 2020 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2018	2019	2020
	(RMB)	(RMB)	(RMB)
Rent	1,713,600	1,713,600	1,713,600

Note: The annual cap for the year ending 31 December 2018 only took into account the expected rent payable by Yingke Optical Material to Hengtong Light Guide under the Lease Agreement from the date of the Lease Agreement up to 31 December 2018.

In determining the above annual caps, the Directors have considered generally:

- (a) the anticipated market rent of the similar factory premises in Jiangsu Province for the three years ending 31 December 2020, which is estimated by the Board with reference to the fair market rent of the factory premises subject to the Lease Agreement as at 30 November 2017, being approximately RMB1,713,600 per annum, based on the property rental appraisal report issued by an independent valuer using market approach,

and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Hengtong Light Guide.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Lease Agreement is renewed or there is a material change to the terms of the Lease Agreement.

B. Framework Procurement Agreement

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

Date:	4 April 2018
Parties:	(1) Hengtong Light Guide (as supplier) (2) Yingke Optical Material (as purchaser)
Term:	4 April 2018 to 31 December 2020
Subject matter:	Yingke Optical Material agrees to purchase, on a non-exclusive basis, from Hengtong Light Guide (i) optical fibre preforms and (ii) raw materials for production of optical fibre preforms pursuant to the terms of the Framework Procurement Agreement.
Operational Agreement(s):	Pursuant to the Framework Procurement Agreement, Yingke Optical Material may, from time to time during the term of the Framework Procurement Agreement, enter into separate Operational Agreement(s) in respect of the purchases covered by the Framework Procurement Agreement, which will specify, among others, the price and quantity of the optical fibre preforms and/or raw materials for production of optical fibre preforms to be purchased, provided that such separate Operational Agreement(s) shall always be subject to the terms of the Framework Procurement Agreement.
Basis of pricing:	The price under the Operational Agreement will be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and on the following principles:

In respect of optical fibre preforms:

The purchase price of the optical fibre preforms is to be determined based on the latest average import price as announced by General Administration of Customs of the PRC at the time of entering into the Operational Agreement, taking into account other factors including the procurement quantity, types and delivery method.

A predetermined price range will be set by the head of procurement department of Yingke Optical Material at the beginning of each financial year with reference to the latest available import price and such range will be updated from time to time based on the latest information available from the General Administration of Customs of the PRC. Before entering into the Operational Agreement, the responsible procurement staff shall make sure that the actual contract price shall fall within such predetermined price range. Where the price of any Operational Agreement is above the maximum value of the predetermined price range, it shall be approved by the head of procurement department and the general manager of Yingke Optical Material before such Operational Agreement is made.

In the event that the price of such import price is not available and not applicable, before entering into the Operational Agreement, the procurement staff shall obtain at least two independent suppliers' fee quotes for the optical fibre preforms. The price should be determined fairly and reasonably and with reference to the fee quotes obtained from the independent suppliers and the purchase price should not be less favorable than the price payable to or offered by the Independent Third Parties for the purchase of similar products.

In respect of raw materials for production of optical fibre preforms:

Before entering into the Operational Agreement, the procurement staff shall obtain at least two independent suppliers' fee quotes for the raw materials for production of optical fibre preforms. The purchase price of the raw materials for production of optical fibre preforms is to be determined based on the fee quotes obtained from the Independent Third Parties in respect of purchase of the relevant raw materials, taking into account other factors including procurement quantity, types of raw materials and delivery method. Such purchase price should not be less favorable than the price payable to or offered by the Independent Third Parties for the purchase of similar raw materials.

Other terms: Hengtong Light Guide undertakes to fulfill Yingke Optical Material's demand for the quantity requirement.

Historical Amount

The Group has not had any previous purchase of optical fibre preforms and/or raw materials for production of optical fibre preforms from Jiangsu Hengtong and its subsidiaries.

Annual caps and basis of determination

The Board estimates that the procurement fee in respect of the purchase of the optical fibre preforms and raw materials for production of optical fibre preforms under the Framework Procurement Agreement for the three years ending 31 December 2020 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2018	2019	2020
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Procurement fee	420,000	420,000	420,000

Note: The annual cap for the year ending 31 December 2018 only took into account the expected procurement fee payable by Yingke Optical Material to Hengtong Light Guide under the Framework Procurement Agreement from the date of the Framework Procurement Agreement up to 31 December 2018.

In determining the above annual caps, the Directors have considered generally:

- (a) the potential demand of Yingke Optical Material for the optical fibre preforms and raw materials based on the designed production capacity of the machineries to be acquired under the Machinery Procurement Agreement;
- (b) the anticipated market price of optical fibre preforms in the PRC market for the three years ending 31 December 2020, which is estimated by the Board based on the average market price of optical fibre preforms for the year ended 31 December 2017 (being approximately RMB1,400 per kilogram); and
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the optical fibre preforms and raw materials),

and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Hengtong Light Guide.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Framework Procurement Agreement is renewed or there is a material change to the terms of the Framework Procurement Agreement.

C. Framework Supply Agreement

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

Date:	4 April 2018
Parties:	(1) Yingke Optical Material (as supplier) (2) Nanfang Optic (as purchaser)
Term:	4 April 2018 to 31 December 2020
Subject matter:	Yingke Optical Material agrees to supply, on a non-exclusive basis, to Nanfang Optic (on behalf of Nanfang Optic and its connected companies) optical fibre preforms pursuant to the terms of the Framework Supply Agreement.

Operational Agreement(s): Pursuant to the Framework Supply Agreement, Nanfang Optic will, at the end of each month during the term of the Framework Supply Agreement, enter into separate Operational Agreement(s) in respect of the procurement plan of the optical fibre preforms for the next month covered by the Framework Supply Agreement, which will specify, among others, the price and quantity of the optical fibre preforms to be supplied, provided that such separate Operational Agreement(s) shall always be subject to the terms of the Framework Supply Agreement.

Basis of pricing: The price under the Operational Agreement will be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and based on the latest average import price as announced by the General Administration of Customs of the PRC at the time of entering into the Operational Agreement, taking into account other factors including the procurement quantity, types and delivery method.

A predetermined price range will be set by the head of sales department of Yingke Optical Material at the beginning of each financial year with reference to the latest available import price and such range will be updated from time to time based on the latest information available from the General Administration of Customs of the PRC. Before entering into the Operational Agreement, the responsible sales staff shall make sure that the actual contract price shall fall within such predetermined price range. Where the price set by any Operational Agreement is below the minimum value of the predetermined price range, it shall be approved by the head of sales department and the general manager of Yingke Optical Material before such Operational Agreement is made.

In the event that the price of such import price is not available and not applicable, before entering into the Operational Agreement, the sales staff shall ascertain at least two independent customers' acceptable market price for the optical fibre preforms through its preliminary marketing phone calls. The price should be determined fairly and reasonably and with reference to the acceptable market prices obtained from the independent customers and the supply price should not be less favorable than the price payable by or offered to the Independent Third Parties for the supply of similar products.

Payment term: Nanfang Optic shall pay for the optical fibre preforms supplied by Yingke Optical Material within 30 days after the issuance of the invoice by Yingke Optical Material.

Other terms: Under the same terms, Nanfang Optic undertakes to give priority to Yingke Optical Material when purchasing the optical fibre preforms.

Historical Amount

The Group has not had any previous supply of optical fibre preforms to Nanfang Optic. However, as disclosed in the Announcements, one of the purposes of Yingke Optical Material is to replace Hengtong Light Guide to supply the optical fibre preforms directly to Nanfang Optic. Therefore, when considering the annual caps for the supply income for the three years ending 31 December 2020, the Board has taken into account the historical transaction amounts between Hengtong Light Guide and Nanfang Optic for the three years ended 31 December 2017, details of which are set out below:

	Year ended 31 December		
	2015	2016	2017
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Income from supply of optical fibre preforms from Hengtong Light Guide to Nanfang Optic	198,141	278,544	356,478

Annual caps and basis of determination

The Board estimates that the supply income in respect of the supply of the optical fibre preforms under the Framework Supply Agreement for the three years ending 31 December 2020 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2018	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)
Supply income	420,000	420,000	420,000

Note: The annual cap for the year ending 31 December 2018 only took into account the expected supply income to be received by Yingke Optical Material from Nanfang Optic under the Framework Supply Agreement from the date of the Framework Supply Agreement up to 31 December 2018.

In determining the above annual caps, the Directors have considered generally:

- (a) the historical supply incomes received by Hengtong Light Guide from Nanfang Optic;
- (b) the potential demand of Nanfang Optic for the optical fibre preforms for the three years ending 31 December 2020 (approximately 300 tons per year), which is estimated by the Board based on the historical demand of Nanfang Optic for the year ended 31 December 2017 (approximately 251 tons)
- (c) the anticipated market price of optical fibre preforms in the PRC market for the three years ending 31 December 2020, which is estimated by the Board based on the average market price of optical fibre preforms for the year ended 31 December 2017 (being approximately RMB1,400 per kilogram); and
- (d) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the optical fibre preforms),

and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Nanfang Optic.

The Company will comply with the requirement of the annual review as set out in Listing Rules and will re-comply with the relevant Listing Rules if any of the annual caps is exceeded, or when the Framework Supply Agreement is renewed or there is a material change to the terms of the Framework Supply Agreement.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE MACHINERY PROCUREMENT AGREEMENT, THE LEASE AGREEMENT, THE FRAMEWORK PROCUREMENT AGREEMENT AND THE FRAMEWORK SUPPLY AGREEMENT

In respect of the Machinery Procurement Agreement

Considering that (i) Yingke Optical Material is a newly established company, the most efficient way for Yingke Optical Material to commence production and generate revenue to the Group is to acquire a complete manufacturing line from a reliable optical fibre preforms manufacturer who has a proven track record in the industry, e.g. Hengtong Light Guide; and (ii) pursuant to the Machinery Procurement Agreement, the consideration for the acquisition of the machineries is determined with reference to the appraisal value as at 30 November 2017 based on the valuation report issued by an independent valuer using cost approach, which represents the net book value of the machineries as at 30 November 2017, the Directors consider that it would be beneficial to the Group for Yingke Optical Material to acquire the machineries for production of optical fibre preforms from Hengtong Light Guide.

In respect of the Lease Agreement

The machineries to be acquired under the Machinery Procurement Agreement are located in the factory premises subject to the Lease Agreement. Therefore, the Directors consider that it would be beneficial and of administrative convenience to the Group for Yingke Optical Material to rent the said factory premises by saving any unnecessary relocation and administrative costs, and avoiding potential damages caused to the machineries in the course of relocation.

In respect of the Framework Procurement Agreement

In view of (i) the business track record of Hengtong Light Guide; (ii) the Group's potential demand for stable and reliable supply of optical fibre preforms and raw materials for production of optical fibre preforms; (iii) the difficulty to secure another reliable and stable supplier which could meet the Group's quality requirement without incurring additional and potentially significant resources; and (iv) the terms of the Operational Agreement to be entered into according to the Framework Procurement Agreement are on terms no less favourable than those terms which can be obtained by Yingke Optical Material from the Independent Third Parties, the Directors consider that it would be beneficial to the Group for Yingke Optical Material to purchase optical fibre preforms and raw materials for production of optical fibre preforms from Hengtong Light Guide.

As disclosed in the Announcements, it is the mutual intention of the Group and Hengtong Light Guide that Yingke Optical Material will replace Hengtong Light Guide to supply the optical fibre preforms directly to Nanfang Optic.

As it will take time for Yingke Optical Material to conduct the tests on the machineries to be acquired under the Machinery Procurement Agreement before they could achieve their ideal production capacity, Yingke Optical Material may resell the optical fibre preforms purchased from Hengtong Light Guide to Nanfang Optic to make up the temporary shortage of the production capacity from time to time and satisfy the supply of optical fibre preforms to Nanfang Optic under the Framework Supply Agreement. Moreover, such arrangement could also increase the procurement amount by Yingke Optical Material from Hengtong Light Guide, which would entitle Yingke Optical Material to the bulk procurement price and in turn increase the profit margins of both self-production and the resale of the optical fibre preforms.

In respect of the Framework Supply Agreement

Considering (i) the Group and Nanfang Optic have business cooperation for years, which allows them to have a better understanding of each other in respect of the transaction terms and operational practices and could in turn reduce the risk of potential business disputes; (ii) Yingke Optical Material is expected to generate stable revenue streams from the supply of optical fibre preforms to Nanfang Optic; and (iii) the terms of the Operational Agreement to be entered into according to the Framework Supply Agreement are on terms no less favourable than those terms which can be obtained by Yingke Optical Material from the Independent Third Parties, the Directors consider that it would be beneficial to the Group for Yingke Optical Material to supply optical fibre preforms to Nanfang Optic.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that:

- (1) the terms of the Machinery Procurement Agreement and the transactions contemplated thereunder, although not in the ordinary and usual course of business of the Group, are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (2) the terms of each of the Framework Procurement Agreement, the Framework Supply Agreement and the Lease Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacturing and sale of a wide range of optical fibre cable products.

INFORMATION ON YINGKE OPTICAL MATERIAL

Yingke Optical Material is principally engaged in the manufacture of optical fibre preforms. As at the date of this announcement, Yingke Optical Material is owned as to 51% by the Group and as to 49% by Hengtong Light Guide and is regarded as a subsidiary of the Company for the purpose of the Listing Rules.

INFORMATION ON HENGTONG LIGHT GUIDE

Hengtong Light Guide is a company established in the PRC and is a wholly-owned subsidiary of Jiangsu Hengtong. The principal scope of business of Hengtong Light Guide consists of the research and development, manufacture and sales of optical fibre preforms, optical fibres, fibre optic cables and optical devices.

INFORMATION ON NANFANG OPTIC

Nanfang Optic is principally engaged in the production of optical fibres. As at the date of this announcement, Nanfang Optic is held as to 49% by Nanfang Communication, 47% by Jiangsu Hengtong and 4% by Suzhou Saitong Advanced Materials Company Limited (蘇州賽通新材料有限公司), which is an Independent Third Party as at the date of this announcement.

LISTING RULES IMPLICATIONS

As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, which is a subsidiary of the Company for the purpose of the Listing Rules, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, both Jiangsu Hengtong and Hengtong Light Guide are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic will be regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore will also be considered as a connected person of the Company at the subsidiary level.

Therefore, the transaction contemplated under the Machinery Procurement Agreement will constitute a connected transaction and the transactions contemplated under each of the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) each of Hengtong Light Guide and Nanfang Optic is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transaction contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement and confirmed that the terms of these agreements are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the connected transaction under the Machinery Procurement Agreement and the continuing connected transactions under the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPROVAL OF THE BOARD

The Board has approved the transactions contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement.

None of the Directors had material interests in the transactions contemplated under each of the Machinery Procurement Agreement, the Lease Agreement, the Framework Procurement Agreement and the Framework Supply Agreement. Therefore, no Director is required to abstain from voting on the resolutions of the Board approving the said agreements.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Nanfang Communication Holdings Limited (南方通信控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1617)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

“Cooperation Agreement”	the cooperation agreement (合作意向書) dated 12 October 2017 entered into between Nanfang Communication and Hengtong Light Guide in relation to the establishment of Yingke Optical Material, details of which are set out in the Announcements
“Director(s)”	the director(s) of the Company
“Framework Procurement Agreement”	the framework procurement agreement dated 4 April 2018 entered into between Yingke Optical Material as purchaser and Hengtong Light Guide as supplier in relation to the purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide
“Framework Supply Agreement”	the framework supply agreement dated 4 April 2018 entered into between Yingke Optical Material as supplier and Nanfang Optic as purchaser in relation to the supply of Optical Fibre Preforms by Yingke Optical Material to Nanfang Optic
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hengtong Light Guide”	Jiangsu Hengtong Light Guide New Materials Company Limited* (江蘇亨通光導新材料有限公司), a company established in the PRC and a wholly-owned subsidiary of Jiangsu Hengtong
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and its connected persons
“Jiangsu Hengtong”	Jiangsu Hengtong Optic-Electric Company Limited (江蘇亨通光電股份有限公司), a company established in the PRC and the A shares of which are listed on Shanghai Stock Exchange.

“Lease Agreement”	the lease agreement dated 4 April 2018 entered into between Yingke Optical Material as tenant and Hengtong Light Guide as landlord in relation to the lease of the factory premises by Yingke Optical Material from Hengtong Light Guide
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machinery Procurement Agreement”	the machinery procurement agreement dated 4 April 2018 entered into between Yingke Optical Material as purchaser and Hengtong Light Guide as vendor in relation to the acquisition of the machineries for production of optical fiber preforms by Yingke Optical Material from Hengtong Light Guide
“Nanfang Communication”	Jiangsu Nanfang Communication Technology Company Limited (江蘇南方通信科技有限公 司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Nanfang Optic”	Jiangsu Nanfang Optic Electric Technology Company Limited (江蘇南方光纖科技有限公 司), a company established in the PRC and held as to 49% by Nanfang Communication, 47% by Jiangsu Hengtong and 4% by Suzhou Saitong Advanced Materials Company Limited (蘇州賽通新材料有限公 司), which is an Independent Third Party as at the date of this announcement
“Operational Agreement(s)”	the individual agreement(s) which may from time to time be entered into between Yingke Optical Material and Hengtong Light Guide or Nanfang Optic (as the case may be) subject and pursuant to the Framework Procurement Agreement or the Framework Supply Agreement (as the case may be), and “Operational Agreement” means any of them
“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of share(s) of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“Yingke Optical Material”

Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司), a company established in the PRC and held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide

“%”

per cent

The English names of the PRC entities referred to in this announcement are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

Unless stated otherwise, in this announcement, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB0.80174 to HK\$1.00, being the exchange rate of RMB against HK\$ as announced by The People’s Bank of China on the date of this announcement. No representation is made that the HK\$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this announcement have been subject to rounding adjustments.

On behalf of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 4 April 2018

As at the date of this announcement, the executive Directors are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive Director is Mr. Yu Jinlai (chairman); and the independent non-executive Directors are Mr. Wu Wing Kuen, Mr. Lam Chi Keung and Mr. Chan Kai Wing.