

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

ESTABLISHMENT OF THE JV COMPANY AND CONTINUING CONNECTED TRANSACTIONS PURSUANT TO RULE 14A.60 OF THE LISTING RULES

ESTABLISHMENT OF THE JV COMPANY

Reference is made to the Announcement in relation to the proposed establishment of the JV Company.

The Company was informed today that the JV Company, whose name is Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司), was established on 24 October 2017.

CONTINUING CONNECTED TRANSACTIONS PURSUANT TO RULE 14A.60 OF THE LISTING RULES

Upon its establishment and as at the date of this announcement, the JV Company is held as to 51% by Nanfang Communication and 49% by the JV Partner. Therefore, the JV Company is treated as a subsidiary of the Company for the purpose of the Listing Rules.

As the JV Partner is a substantial shareholder of the JV Company, which is a subsidiary of the Company for the purpose of the Listing Rules, and Jiangsu Hengtong is the holding company of the JV Partner, both the JV Partner and Jiangsu Hengtong are considered as connected persons of the Company upon the establishment of the JV Company. As Nanfang Optic is held as to 47% by of Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company upon the establishment of the JV Company.

Before Nanfang Optic becomes a connected person of the Company, Nanfang Communication had entered into the Optical Fibre Supply Agreement with Nanfang Optic to purchase optical fibres from Nanfang Optic as raw materials for the production of the optical fibre cables during the ordinary course of the production of the Group. As such, the transactions contemplated under the Optical Fibre Supply Agreement become continuing connected transactions for the Company upon the establishment of the JV Company.

Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the Optical Fibre Supply Agreement. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Optical Fibre Supply Agreement.

ESTABLISHMENT OF THE JV COMPANY

Reference is made to the announcement of the Company dated 13 October 2017 (the “**Announcement**”) in relation to the proposed establishment of the JV Company. Unless defined otherwise, the capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company was informed today that the JV Company, whose name is Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司), was established in the PRC on 24 October 2017.

The JV Company will commence the manufacture of optical fibre preforms, subject to the obtaining of the relevant environmental approval from the relevant government authorities of the PRC, which is expected to be done in first quarter of 2018.

CONTINUING CONNECTED TRANSACTIONS PURSUANT TO RULE 14A.60 OF THE LISTING RULES

Upon its establishment and as at the date of this announcement, the JV Company is held as to 51% by Nanfang Communication and 49% by the JV Partner. Therefore, the JV Company is treated as a subsidiary of the Company for the purpose of the Listing Rules.

As the JV Partner is a substantial shareholder of the JV Company, which is a subsidiary of the Company for the purpose of the Listing Rules, and Jiangsu Hengtong is the holding company of the JV Partner, both the JV Partner and Jiangsu Hengtong are considered as connected persons of the Company upon the establishment of the JV Company. As Nanfang Optic is held as to 47% by of Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company upon the establishment of the JV Company.

Before Nanfang Optic becomes a connected person of the Company, Nanfang Optic had entered into the optical fibre supply agreement dated 27 August 2013 with Nanfang Communication pursuant to which the Group purchases optical fibres from Nanfang Optic for the production of the optical fibre cables (the “**Optical Fibre Supply Agreement**”).

The Optical Fibre Supply Agreement

The major terms of the Optical Fibre Supply Agreement are summarised as below:

- Parties: (i) Nanfang Optic; and
- (ii) Nanfang Communication
- Date: 27 August 2013
- Contract term: 15 years
- Responsibilities: Nanfang Optic shall ensure the supply of optical fibres to the Group and should satisfy additional demand from the Group if possible. At the end of each month, the Group shall prepare an optical fibre procurement plan based on its actual needs in the forthcoming month, and provide such plan to Nanfang Optic. As such, the Group is not obliged to purchase all the optical fibres produced by Nanfang Optic if the Group does not have actual demand for optical fibres. Subject to the availability of its production capacity, Nanfang Optic is obliged to accept such optical fibre procurement plan in full and provide the Group the optical fibres set out in such plan. Nanfang Optic shall provide the Group with all the qualified optical fibres it produces except the portion of optical fibres in respect of the sales orders which were confirmed by its board and committed to other customers.
- Pricing: the price is determined by the board of Nanfang Optic, in particular:
- (i) the price of optical fibre to be submitted to the tendering processes of the major PRC telecommunications network operators through tendering is generally determined by the board of Nanfang Optic; *(for the avoidance of doubt, the details of the prices of optical fibres sold by Nanfang Optic to the Group for inclusion in tender documents to the major PRC telecommunications network operators, please refer to the Note below);*

- (ii) except for the price of optical fibre to the major PRC telecommunications network operators through tendering processes as referred to (i) above, the price of optical fibre offered by Nanfang Optic cannot be higher than the average market price of optical fibre in the PRC; and
- (iii) if the Group finds the prices of optical fibre offered by Nanfang Optic deviate from the average market prices, the Group has the right to disagree with such prices and provide with evidence showing the market prices of similar optical fibre products. After Nanfang Optic receives notice of the said disagreement and it is confirmed that there is proven evidence, Nanfang Optic is required to adjust their optical fibre prices offered to the Group in accordance with the market prices.

Credit term: less than 90 days after delivery of the products

Payment method: bank transfer

Delivery: transportation costs shall be borne by the Nanfang Optic

Quality control: Nanfang Optic shall adopt industry and national standards for their optical fibres and the Group will carry out product inspection upon arrival of products

Warranty: Nanfang Optic shall replace any defective products or refund to the Group, and be responsible for any quality defects caused by them

Termination: upon the expiry of the term or early termination of the shareholders' agreement of Nanfang Optic which was entered into between Jiangsu Hengtong and Nanfang Communication in May 2013 in relation to the establishment of Nanfang Optic and the term of which is for 15 years (the "**Nanfang Optic Shareholders' Agreement**")

the Nanfang Optic Shareholders' Agreement may be terminated under the circumstances, including (i) mutual consent from the parties; (ii) improper transfer of shares of Nanfang Optic; (iii) not obtaining certain permits/approval from relevant authorities within the prescribed time; and (iv) force majeure.

Note: When determining the prices of optical fibres sold by Nanfang Optic to the Group for inclusion in the tender documents to the major PRC telecommunications network operators, Nanfang Optic confirmed that it would take into account the following factors: (i) estimated production costs and estimated gross profit margin; (ii) its production schedule, the available production capacity of its production facilities and the amount of customers' orders on hand; (iii) the market demand and supply of the optical fibres and the then prevailing market prices of optical fibres; and (iv) evaluation of the competitiveness of its competitors.

Reasons for and Benefits of the Continuing Connected Transactions

As previously disclosed in the Prospectus, the Group believes that the supply of optical fibres by Nanfang Optic lowers the overall risk for the potential shortage of the key production raw material of the Group, i.e. optical fibres and enables the Group to obtain competitive prices. The Group also benefits from the close geographic proximity of the location of Nanfang Optic to the production sites of the Group in Changzhou City, which shortens product delivery time, lowers the transportation and packaging expense and provides more cost advantages.

The Directors (including independent non-executive Directors) are of the view that the Optical Fibre Supply Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As Nanfang Optic becomes a connected person of the Company upon the establishment of the JV Company, the transactions contemplated under the Optical Fibre Supply Agreement become continuing connected transactions of the Company and pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the Optical Fibre Supply Agreement. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Optical Fibre Supply Agreement.

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

Hong Kong, 25 October 2017

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.

* *For identification purpose only*