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南方通信
NanfangCommunication

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)

INSIDE INFORMATION AND DISCLOSEABLE TRANSACTION – ESTABLISHMENT OF A JOINT VENTURE COMPANY AND RESUMPTION OF TRADING

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

ESTABLISHMENT OF A JOINT VENTURE COMPANY

The Board is pleased to announce that on 12 October 2017 (after trading hours), the Company, through Nanfang Communication, its indirect wholly-owned subsidiary, entered into the Cooperation Agreement with the JV Partner in respect of the establishment of the JV Company.

The total amount of the registered capital of the JV Company is RMB150,000,000, which will be contributed in cash as to: –

(1) RMB73,500,000, representing 49% of its total registered capital, by the JV Partner; and

(2) RMB76,500,000, representing 51% of its total registered capital, by Nanfang Communication, which will be funded by part of the net proceeds from the Global Offering and internally generated resources of the Group.

Upon its establishment, the JV Company will be owned as to 51% by Nanfang Communication and 49% by the JV Partner.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the proposed establishment of the JV Company under the Cooperation Agreement exceeds 5% and is below 25%, the proposed establishment of the JV Company constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

TRADING HALT AND RESUMPTION

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on Friday, 13 October 2017 pending the release of this announcement.

An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Monday, 16 October 2017.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The Board is pleased to announce that on 12 October 2017 (after trading hours), the Company, through Nanfang Communication, its indirect wholly-owned subsidiary, entered into the Cooperation Agreement with the JV Partner to establish the JV Company for the purposes of research and development, manufacture and sales of optical fibre preforms and other related products. The principal terms of the Cooperation Agreement and the JV Articles are summarised as follows:–

THE COOPERATION AGREEMENT AND JV ARTICLES

Date of the Cooperation Agreement: 12 October 2017 (after trading hours)

Parties to the Cooperation Agreement:

(1) Nanfang Communication, an indirect wholly-owned subsidiary of the Company; and

(2) JV Partner.

(collectively, the "**Parties**")

Jiangsu Hengtong, one of the shareholders of Nanfang Optic, is the holding company of the JV Partner. Both Jiangsu Hengtong and the JV Partner will become connected persons of the Company by virtue of the JV Partner being a substantial shareholder of the JV Company.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save for the above-mentioned, the JV Partner and Jiangsu Hengtong are Independent Third Parties as at the date of this announcement.

Subject matter: Pursuant to the Cooperation Agreement, the Parties agreed to establish the JV Company for the purposes of research and development, manufacture and sales of optical fibre preforms and other related products.

Registered capital of the JV Company: The total amount of the registered capital of the JV Company is RMB150,000,000, which will be contributed in cash as to:–

(1) RMB73,500,000, representing 49% of its total registered capital, by the JV Partner; and

(2) RMB76,500,000, representing 51% of its total registered capital, by Nanfang Communication, which will be funded by part of the net proceeds from the Global Offering and internally generated resources of the Group.

The capital contributions shall be made in cash before 31 December 2020.

The capital contributions are determined after an arm's length negotiation of the Parties and with reference to the initial funding needs of the JV Company and the agreed share of each Party in the total amount of registered capital of the JV Company.

Other than the registered capital of the JV Company, all further fundings shall be funded by external financing.

Duration of the JV Company: 15 years commencing from the date of business registration certificate of the JV Company

Principal scope of business of the JV Company:	Research and development, manufacture and sales of optical fibre preforms, optical fibres, fibre optic cables and optical devices
Transfer restriction:	(1) Unless otherwise permitted by the JV Partner, Nanfang Communication is not allowed to transfer or pledge the shares of the JV Company to a third party; and (2) the JV Partner has the exclusive pre-emptive right over the shares of the JV Company to be transferred by Nanfang Communication at a consideration to be determined based on the paid-up registered capital of the JV Company contributed by Nanfang Communication and undistributed investment profit.
Management arrangement:	(1) The JV Company will have one executive director (the "**JV Director**"), who will be recommended by the JV Partner and approved by the shareholders of the JV Company; (2) the JV Company will have one general manager, who will be recommended by the JV Partner and approved by the JV Director; (3) the JV Company will have one supervisor, who will be recommended by Nanfang Communication and approved by the shareholders of the JV Company; and (4) the general manager of the JV Company will also act as the legal representative (法定代表人) of the JV Company.
General meeting:	In order to pass any resolution in relation to the performance of the responsibilities of the general meeting under the relevant laws and regulations of the PRC, the approval of the shareholders of the JV Company, who can exercise not less than two-thirds of the voting rights, shall be obtained.
Profit distribution:	The profit distribution between the Parties will be determined in accordance with the relevant laws and regulations of the PRC.

Other salient terms:

(1) The JV Company will lease the premises of the JV Partner in order to carry out the manufacturing process and the JV Partner will sell the requisite machineries and equipment to the JV Company at a price made with reference to net book value of the relevant machineries and equipment recognised by the Parties.

(2) After the establishment of the JV Company, the JV Company will replace the JV Partner to supply the optical fibre preforms directly to Nanfang Optic.

Since the decisions about the relevant activities of the JV Company (that could significantly affect the performance of the JV Company and, in turn, the return of this joint venture arrangement) require unanimous consent of the Company and the JV Partner, the JV Company is accounted for as a joint venture of the Group. The results and assets and liabilities of the JV Company are accounted for in the consolidated financial statements of the Group using the equity method of accounting.

Upon the establishment of the JV Company, the JV Company will be owned as to 51% by Nanfang Communication and 49% by the JV Partner. As such, the JV Company is within the meaning of "subsidiary undertakings" under Schedule 1 to the Companies Ordinance (Cap.622 of the Laws of Hong Kong) and is therefore defined as a "subsidiary" under the Listing Rules. For the sole purpose of compliance with the Listing Rules, the JV Company should in general be regulated in a manner consistent with the regulation of subsidiaries of a listed group for the purposes of applying the Listing Rules.

INFORMATION ON THE JV PARTNER

The JV Partner is a company established in the PRC and is a wholly-owned subsidiary of Jiangsu Hengtong which currently holds 47% interest in Nanfang Optic. The principal scope of business of the JV Partner consists of the research and development, manufacture and sales of optical fibre preforms, optical fibres, fibre optic cables and optical devices.

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF THE JV COMPANY

The Group is principally engaged in manufacturing and sales of the optical fibre cables in the PRC.

As disclosed in the Prospectus, the Group intends to further vertically integrate the Group's optical fibre cable production value chain with upstream production of key raw materials as the Directors consider having a reliable source of raw materials is important for the production of optical fibre cables.

The Board is of the view that the Cooperation Agreement is in line with the Group's business strategy to vertically integrate the Group's optical fibre cable production value chain with the upstream production of key raw materials as well as strengthen the existing cooperative relationship that the Group has with Jiangsu Hengtong.

The Directors consider that the terms of the Cooperation Agreement are fair and reasonable and the entering into the Cooperation Agreement are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the proposed establishment of the JV Company under the Cooperation Agreement exceeds 5% and is below 25%, the proposed establishment of the JV Company constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Upon the establishment of the JV Company, the JV Company will be held as to 51% by Nanfang Communication and 49% by the JV Partner. Therefore, the JV Company will be 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 Jiangsu Hengtong and the JV Partner will be 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 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 upon the establishment of the JV Company.

Therefore, the existing and future transactions (including the transactions as mentioned in the paragraph headed "Other salient terms" above to be entered into after the establishment of the JV Company) between the Group and any of Jiangsu Hengtong , the JV Partner and their respective associates, such as, Nanfang Optic, will become connected transactions or continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Further announcement will be made by the Company in compliance with the relevant requirements under Chapter 14A of the Listing Rules upon the establishment of the JV Company.

TRADING HALT AND RESUMPTION

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on Friday, 13 October 2017 pending the release of this announcement.

An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Monday, 16 October 2017.

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 thereto under the Listing Rules;
"Cooperation Agreement"	the cooperation agreement (合作意向書) dated 12 October 2017 entered into between Nanfang Communication and the JV Partner in relation to the establishment of the JV Company;
"Directors"	the director(s) of the Company;
"Global Offering"	the initial public offering of the Company, pursuant to which a total of 280,000,000 Shares were offered for subscription at an offer price of HK$1.02 per Share prior to its listing on 12 December 2016;
"Group"	the Company and its subsidiaries;
"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. Jiangsu Hengtong holds 47% interest in Nanfang Optic as at the date of this announcement;
"JV Articles"	the articles of association to be adopted by the JV Company;
"JV Company"	the joint venture company to be established in the PRC pursuant to the Cooperation Agreement;
"JV Partner"	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;
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"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), both of which are Independent Third Parties as at the date of this announcement;
"PRC"	The People's Republic of China, for the purpose of this announcement, excluding Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan;
"Prospectus"	the prospectus of the Company dated 30 November 2016 in relation to the listing of the shares of the Company on the Stock Exchange;

"Shareholders"	Holder(s) of the shares of the Company; and
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

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

Hong Kong, 13 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*