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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)**

**DISCLOSEABLE TRANSACTION**

**SUBSCRIPTION OF SHARES, GRANT OF CALL OPTION AND  
ACQUISITION OF SHAREHOLDER'S LOAN OF GOLD IMAGE LIMITED**

**SUBSCRIPTION AGREEMENT**

On 18 September 2020 (after trading hours), the Subscriber, Gold Image and Mr. Lin entered into the Subscription Agreement, pursuant to which (i) the Subscriber conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue, the Subscription Shares at the consideration of US\$9,999; (ii) Mr. Lin agreed to grant the Call Option to the Subscriber at the consideration of US\$1; and (iii) the Subscriber will acquire the Shareholder's Loan in the sum of US\$23,038,052 from Mr. Lin at the consideration of US\$23,038,052.

**LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Subscription, the grant of Call Option and the Acquisition of Shareholder's Loan in aggregate exceed(s) 5% but is less than 25%, the Transactions constitute a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

**Completion is subject to the fulfillment of the conditions precedent set out in the Subscription Agreement and therefore the Transactions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

## **INTRODUCTION**

The Board is pleased to announce that on 18 September 2020 (after trading hours), the Subscriber, Gold Image and Mr. Lin entered into the Subscription Agreement, pursuant to which (i) the Subscriber conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue, the Subscription Shares at the consideration of US\$9,999; (ii) Mr. Lin agreed to grant the Call Option to the Subscriber at the consideration of US\$1; and (iii) the Subscriber will acquire the Shareholder's Loan in the sum of US\$23,038,052 from Mr. Lin at the consideration of US\$23,038,052.

## **THE SUBSCRIPTION AGREEMENT**

### **Date**

18 September 2020

### **Parties**

- (1) the Subscriber;
- (2) Gold Image; and
- (3) Mr. Lin

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Lin, Gold Image and its ultimate beneficial owner are Independent Third Parties.

### **Subject Matter**

Pursuant to the Subscription Agreement:

- (1) the Subscriber conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue, the Subscription Shares, representing 99.99% of the total issued share capital of Gold Image as enlarged by the issue of the Subscription Shares. Upon Completion, Gold Image will be owned as to 99.99% and 0.01% by the Subscriber and Mr. Lin respectively;
- (2) at the nominal consideration of US\$1.00, Mr. Lin has agreed to grant to the Subscriber the Call Option which the Subscriber may exercise at any time during the period of two years after the Completion Date to purchase the remaining one issued share of Gold Image held by Mr. Lin at the consideration of US\$1.00, being the par value of such share. Upon exercise of the Call Option, Gold Image will be wholly owned by the Subscriber;
- (3) the Subscriber will acquire the Shareholder's Loan in the sum of US\$23,038,052 from Mr. Lin at the consideration of US\$23,038,052 at Completion.

## Consideration

The total consideration payable by the Subscriber under the Subscription Agreement is US\$23,048,052 (equivalent to approximately HK\$179,774,806) and which shall be payable in cash upon Completion. The consideration payable by the Subscriber will be funded by the internal resources of the Group and by loan to be obtained from bank or financial institution.

The consideration was determined after arm's length negotiations between the parties to the Subscription Agreement, after taking into account:

- (i) the consideration of US\$20 million paid by Pacific Smart for the subscription of the Preferred Shares, which was on the same valuation basis as the other investors of SPV2 (including some well-known investment funds) during the same round of investment in December 2018;
- (ii) the costs, expenses and interest payment incurred by Pacific Smart from 2018 to 2020 in exploring business and investment opportunities, conducting due diligence works and financing the aforesaid subscription payment of US\$20 million for the Preferred Shares;
- (iii) the nature and certain rights associated with the Preferred Shares which may or may not be available to ordinary shares of SPV2;
- (iv) the right of redemption offered to all investors of SPV2, including Pacific Smart, in the event that some conditions as stipulated in the subscription of the Preferred Shares could not be met;
- (v) an intention to establish a joint venture between SPV2 and Pacific Smart (or its nominated company), as expressly stated in the subscription agreement dated 26 December 2018 made between Pacific Smart and SPV2 for subscription of the Preferred Shares, for the production of transceivers which is an essential component in the optical communication industry;
- (vi) the potential benefits of the business opportunities to be presented to the Group as a result of the Transactions as described under the section headed "Reasons for and benefits of the Transactions" below;
- (vii) the outstanding amount of the Shareholder's Loan in the sum of US\$23,038,052 as at the date of the Subscription Agreement; and
- (viii) the market value of the Preferred Shares held by Pacific Smart of approximately US\$23,700,000 as at 31 July 2020, based on the valuation report prepared by the Valuer by using the market approach and the equity allocation approach in accordance with the International Valuation Standard.

## **Conditions Precedent**

Completion is conditional upon the fulfillment of the following conditions precedent on or before the Long Stop Date:–

- (i) the Subscriber and the Company having complied with all necessary requirements under the Listing Rules in relation to the transactions contemplated by the Subscription Agreement (if required);
- (ii) the Subscriber is satisfied with the results of due diligence conducted by it (or its advisors) on the Gold Image Group; and
- (iii) the Subscriber having obtained a valuation report issued by an independent professional valuer of its choice opining that the market value of the Preferred Shares held by Pacific Smart is not less than US\$23,000,000.

The Subscriber may in its absolute discretion waive the conditions precedent (ii) and (iii) above. If the conditions precedent have not been fulfilled or waived by the Subscriber on or before the Long Stop Date, the Subscription Agreement shall lapse and no party shall have any claim against the other parties except in respect of any antecedent breach and the costs and expenses which shall be borne by the parties under the terms of the Subscription Agreement.

## **Completion**

Completion shall take place within 5 Business Days after the fulfillment or waiver of all the conditions precedent, or such other date as may be agreed between the parties to the Subscription Agreement.

Upon Completion, the Gold Image Group will become indirect subsidiaries of the Company.

## **INFORMATION ON GOLD IMAGE GROUP**

Gold Image is a company incorporated in the British Virgin Islands with limited liability and its principal business is investment holding. Save for its holding of the issued share of Pacific Smart, Gold Image has no other business operation.

Pacific Smart is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Gold Image. Its principal business is investment holding. Save for its holding of the Preferred Shares, representing approximately 4.59% of the total issued share capital of SPV2 as at the date of the Subscription Agreement, Pacific Smart has no other business operation.

## Financial information of Gold Image Group

Set out below is a summary of the unaudited consolidated financial information of Gold Image Group for the years ended 31 December 2018 and 2019:

	For the year ended	
	31 December	
	2019	2018*
	US\$	US\$
Revenue	0	0
Net (loss) before tax	(2,880,852)	(150,000)
Net (loss) after tax	(2,880,852)	(150,000)
Total Assets	20,000,001	8,000,001
Net Assets (Liabilities)	(3,035,851)	(154,999)

\*Note: Gold Image was incorporated on 7 March 2019. Therefore, the figures in 2018 represent only the financial positions of Pacific Smart.

With the loan obtained from Mr. Lin (which constitutes part of the Shareholder's Loan), Pacific Smart has fully repaid the loan in the amount of US\$8,000,000 previously granted by the Company in 2018. According to the unaudited consolidated financial statements of Gold Image Group for the 7 months ended 31 July 2020, save for the Shareholder's Loan, the Gold Image Group had no other outstanding loan or liabilities as at 31 July 2020.

## INFORMATION ON SPV2 AND SPV1

Both SPV2 and SPV1 are companies incorporated in the Cayman Islands with limited liabilities and their principal businesses are investment holding.

Save for its holding of all the issued share of SPV1, SPV2 has no other business operation.

Save for its holding of all the issued shares of VPA, SPV1 has no other business operation.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, all the shareholders of SPV2 and their ultimate beneficial owners are Independent Third Parties.

## INFORMATION ON VPA AND SOURCE PHOTONICS GROUP

Both VPA and Source Photonics are companies incorporated in the Cayman Islands with limited liabilities. The entire issued share capital of Source Photonics is held by VPA. The entire issued share capital of VPA is held by SPV1.

Source Photonics Group is a leading global provider of advanced technology solutions for optical communications and data connectivity. Its products are widely used in data communication networks, wireless and fixed line broadband access networks. Source Photonics Group has established research and development and manufacturing facilities in California, Taiwan, Chengdu and Changzhou and has employed over 2,000 engineers and employees worldwide.

Source Photonics Group develops solutions and products to provide its customers with advanced technologies to support the rapidly increasing demands of broadband access, data centre, cloud infrastructure, wireless communications, routing, and fibre-to-the-premises worldwide. It is a global leader in the design and manufacture of optical communication products and manages the entire value chain from laser chip design and production through transceiver assembly. Source Photonics Group demonstrates its solid research and development capabilities by designing and manufacturing chip of high-level technicality and assembly for launching innovative product portfolio enabling the provision of high-speed connectivity in 5G infrastructure expansion.

The following is the key financial information of VPA extracted from its audited consolidated financial statements:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	162,581	169,736
Net (loss) before tax	(151,278)	(99,377)
Net (loss) after tax	(152,624)	(111,958)
Total assets	307,300	382,845
Total liabilities	238,303	262,052

## **INFORMATION ON THE PREFERRED SHARES**

The nature and certain rights associated with the Preferred Shares (which may or may not be available to ordinary shares of SPV2) include but are not limited to the following:

- (i) voting rights;
- (ii) right of participation of issue of new equity securities of SPV2;
- (iii) first right of refusal to purchase securities offered by other shareholders of SPV2;
- (iv) tag right to sale;
- (v) anti-dilution protection if the issue price of any new equity securities of SPV2 is lower than the issue price of the Preferred Shares;

- (vi) adjustment of pre-money equity valuation for issue of class A preferred shares of SPV2 – adjust on the number of class A preferred shares of SPV2 in respect of the amount of consolidated net profits of SPV2, being the indirect holding company of Source Photonics Group; and
- (vii) liquidation preference.

The Preferred Shares are held by Pacific Smart and are accounted for as its long-term investments.

### **INFORMATION ON MR. LIN**

Mr. Lin is an experienced investor, independent financial adviser and certified public accountant in the PRC and is a partner of an accounting firm in the PRC.

### **INFORMATION ON THE COMPANY AND THE GROUP**

The Company is a well-established optical fibre cable supplier and the Group is principally engaged in the manufacturing and sales of a wide range of optical fibre cable products and related devices. As one of the leading companies in the optical fibre cable market in the PRC, the Group offers various models of optical fibre cables to cater for customers' demand. Such optical fibre cables can be used in different applications, such as mobile communication networks, internet networks, and fixed telephone networks in the telecommunications industry, and can be installed under different conditions. The Group's customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC.

### **REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

It has always been the intention of the Company to broaden its business products and services in the telecommunication industry.

The Board considers that the entering into the Subscription Agreement is an investment in the businesses of Source Photonics Group that will (i) provide the Company with potential business opportunities and co-operation which can leverage on its optical fibre cable supplies; (ii) enable the Group to become a strategic partner of Source Photonics Group; (iii) expand the Group's product and service lines for telecommunication operators and supporting services providers and enhance its competitiveness; (iv) allow the Company to tap into the advanced technology products in the telecommunication industry; (v) expand its exposure in the overseas markets; and (vi) provide the Group with an opportunity to establish a joint venture for production of transceivers.

In light of the above, the Transactions are expected to generate positive synergies as the businesses of the Company and Source Photonics Group are complementary.

The Board considers that the terms of the Subscription Agreement and the transactions contemplated thereby have been entered into under normal commercial terms and the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Subscription, the grant of Call Option and the Acquisition of Shareholder's Loan in aggregate exceed(s) 5% but is less than 25%, the Transactions constitute a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

**Completion is subject to the fulfillment of the conditions precedent set out in the Subscription Agreement and therefore the Transactions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

## **DEFINITIONS**

Unless the context requires otherwise, capitalized terms used in this announcement shall have the meanings as follow:

“Acquisition of Shareholder’s Loan”	the Subscriber’s acquisition of the Shareholder’s Loan from Mr. Lin pursuant to the Subscription Agreement
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business in Hong Kong (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays)
“Call Option”	the call option agreed to be granted by Mr. Lin to the Subscriber for the Subscriber to acquire the one issued share of Gold Image held by Mr. Lin at the price of US\$1.00 at any time during the period of two years after the Completion Date



“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, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Transactions
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Gold Image”	Gold Image Limited, a company incorporated with limited liability in the British Virgin Islands and an Independent Third Party
“Gold Image Group”	Gold Image and Pacific Smart
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling 6 months after the date of the Subscription Agreement or such other date as the parties to the Subscription Agreement may agree
“Mr. Lin”	Mr. Lin Yu, existing holder of one issued share of Gold Image and an Independent Third Party
“Pacific Smart”	Pacific Smart Development Limited, a company incorporated with limited liability in the British Virgin Islands and an Independent Third Party

“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes (except where the context requires) Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Preferred Shares”	the 8,095,527 class A preferred shares of SPV2 held by Pacific Smart, representing approximately 4.59% of the total issued share capital of SPV2 as at the date of the Subscription Agreement
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	the shareholder’s loan in the sum of US\$23,038,052 which Gold Image is indebted to Mr. Lin
“Source Photonics”	Source Photonics Holdings (Cayman) Limited, a company incorporated in the Cayman Islands with limited liability
“Source Photonics Group”	Source Photonics and its subsidiaries
“SPV1”	Venus Pearl SPV1 Co Limited, a company incorporated in the Cayman Islands with limited liability
“SPV2”	Venus Pearl SPV2 Co Limited, a company incorporated in the Cayman Islands with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Century Planet Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 18 September 2020 entered into between the Subscriber, Gold Image and Mr. Lin in respect of the Transactions

“Subscription Shares”	the 9,999 new ordinary shares of US\$1.00 each in the share capital of Gold Image to be subscribed by the Subscriber pursuant to the Subscription Agreement, representing 99.99% of the enlarged issued share capital of Gold Image immediately upon Completion
“Transactions”	the Subscription, the grant of Call Option and the Acquisition of Shareholder’s Loan
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Valuer”	APAC Asset Valuation and Consulting Limited, an independent professional valuer engaged by the Company to assess the market value of the Preferred Shares which forms the basis for the determination of the Consideration
“VPA”	Venus Pearl Acquisition Co Limited, a company incorporated in the Cayman Islands with limited liability
“%”	per cent

For the purpose of illustration only, any amounts denominated in US\$ in this announcement have been converted into HK\$ at the rate of US\$1 = HK\$7.80. Such conversion should not be construed as a representation that the currency could actually be converted into HK\$ at that rate or at all.

For and on behalf of the Board  
**Nanfang Communication Holdings Limited**  
**Yu Jinlai**  
*Chairman*

Hong Kong, 18 September 2020

*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.*