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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)

**CONTINUING CONNECTED TRANSACTIONS RELATING TO THE
2023 FRAMEWORK PROCUREMENT AND SUPPLY AGREEMENT**

Reference is made to the announcement of the Company dated 31 December 2020 in relation to (1) the 2020 Framework Procurement Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (2) the 2020 Framework Supply Agreement entered into between Yingke Optical Material and Nanfang Optic; and (3) the 2020 Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong.

As the 2020 Agreements will expire on 31 December 2023, on 27 December 2023, Nanfang Communication and Jiangsu Hengtong entered into the 2023 Framework Procurement and Supply Agreement in relation to the ongoing purchase of optical fibre preforms, optical fibres, optical fibre cables, their respective raw materials and the related materials and products for the period from 1 January 2024 to 31 December 2026.

**IMPLICATIONS UNDER THE LISTING RULES IN RESPECT OF THE 2023
FRAMEWORK PROCUREMENT AND SUPPLY AGREEMENT**

Nanfang Communication is an indirect non-wholly owned subsidiary of the Company. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Hengtong Light Guide and Jiangsu Hengtong are considered as connected persons of the Company at the subsidiary level.

Therefore, the transactions contemplated under the 2023 Framework Procurement and Supply Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) Hengtong Light Guide and Jiangsu Hengtong are connected persons of the Company at the subsidiary level; (ii) the transactions contemplated under the 2023 Framework Procurement and Supply Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions contemplated under the 2023 Framework Procurement and Supply Agreement and confirmed that the terms of the 2023 Framework Procurement and Supply Agreement 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 continuing connected transactions contemplated under the 2023 Framework Procurement and 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 announcement of the Company dated 31 December 2020 in relation to (1) the 2020 Framework Procurement Agreement entered into between Hengtong Light Guide and Yingke Optical Material; (2) the 2020 Framework Supply Agreement entered into between Yingke Optical Material and Nanfang Optic; and (3) the 2020 Jiangsu Hengtong Framework Procurement and Supply Agreement entered into between Nanfang Communication and Jiangsu Hengtong.

As the 2020 Agreements will expire on 31 December 2023, on 27 December 2023, Nanfang Communication and Jiangsu Hengtong entered into the 2023 Framework Procurement and Supply Agreement in relation to the ongoing purchase of optical fibre preforms, optical fibres, optical fibre cables, their respective raw materials and the related materials and products for the period from 1 January 2024 to 31 December 2026.

CONTINUING CONNECTED TRANSACTIONS

The 2023 Framework Procurement and Supply Agreement

The principal terms of the 2023 Framework Procurement and Supply Agreement are summarised as follows:

Date:	27 December 2023
Parties	(1) Jiangsu Hengtong; and (2) Nanfang Communication.
Term	3 years from 1 January 2024 to 31 December 2026
Subject matter	Nanfang Communication and Jiangsu Hengtong agree to mutually sell and purchase, on a non-exclusive basis, to each other and their respective affiliated companies (i.e. the Nanfang Communication Group and the Jiangsu Hengtong Group) communication products including (i) optical fibre preforms; (ii) optical fibres; (iii) optical fibre cables; and (iv) the respective raw material and the related materials and products (the “ Products ”) pursuant to the terms of the 2023 Framework Procurement and Supply Agreement;
Sale and purchase contract(s)	Pursuant to the 2023 Framework Procurement and Supply Agreement, Nanfang Communication Group may, from time to time during the term of the 2023 Framework Procurement and Supply Agreement, enter into specific sale and purchase contract(s) in respect of the sale and purchase covered by the 2023 Framework Procurement and Supply Agreement, which will specify, among others, the price and quantity of the Products to be purchased and sold, provided that such sale and purchase contract(s) shall always be subject to the terms of the 2023 Framework Procurement and Supply Agreement.
Basis of pricing	The prices of the products under the sale and purchase contracts will be determined on normal commercial terms in the ordinary course of business, and such prices shall be the same or substantially similar to the purchase or selling price of the Products offered to and/or by Independent Third Parties.

Pricing policies

Before entering into a sale and purchase contract, the sales personnel or procurement staff (as the case may be) of Nanfang Communication Group shall obtain quotations from at least two independent suppliers (for procurement) or two independent customers (for sale) in respect of the Products.

The purchase price and selling price of the Products are determined based on the fee quotes obtained from Independent Third Parties for the purchase and sale of the Products and taking into account other factors (including the quantity, type of product and delivery method). The purchase price or selling price shall be no less favourable than the price payable to (for procurement) or offered by (for sale) Independent Third Parties for the purchase or sale of similar products by the Nanfang Communication Group (as the case may be).

Historical amount

For the two financial years ended 31 December 2022 and for the ten months ended 31 October 2023, (a) the total fees paid or payable by the Nanfang Communication Group for the purchase of the Products under the 2020 Framework Procurement Agreement and 2020 Framework Procurement and Supply Agreement were approximately RMB58,561,000, RMB115,173,000 and RMB108,835,000 respectively; and (b) the sales revenue received or receivable by the Nanfang Communication Group under the 2020 Framework Supply Agreement and 2020 Framework Procurement and Supply Agreement were approximately RMB93,097,000, RMB153,203,000 and RMB146,601,000 respectively.

Annual caps and basis of determination

In respect of the purchase of the Products from the Jiangsu Hengtong Group:

The Board estimates that the procurement fee in respect of the purchase of the Products from the Jiangsu Hengtong Group under the 2023 Framework Procurement and Supply Agreement for the three years ending 31 December 2026 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Procurement fee	360,000	360,000	360,000

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

- (a) the historical transaction amounts in respect of the relevant transactions for the two financial years ended 31 December 2022 and for the ten months ended 31 October 2023;
- (b) the estimated procurement budget of the Products by Nanfang Communication Group as at 31 December 2023. The principal basis of consideration for such projection is that the Group has been awarded various contracts for the supply of optical fibre cables, optical distribution network devices and other products (“**Certain Products**”) in the coming year by its major customers through tender. To meet the order quantities for Certain Products as stipulated under the aforesaid contracts;
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the Products); and
- (d) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of Nanfang Communication Group and Jiangsu Hengtong Group.

In respect of the sale of the Products to the Jiangsu Hengtong Group:

The Board estimates that the sales revenue in respect of the sale of the Products to the Jiangsu Hengtong Group under the 2023 Framework Procurement and Supply Agreement for the three years ending 31 December 2026 will not exceed the annual caps set forth in the table below:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales revenue	428,000	428,000	428,000

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

- (a) the historical transaction amounts in respect of the relevant transactions for the two financial years ended 31 December 2022 and for the ten months ended 31 October 2023;
- (b) the estimated sales budget of the Products to the Jiangsu Hengtong Group by the Nanfang Communication Group as at 31 December 2023;
- (c) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the Products); and

- (d) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operations, business environment or government policies which may materially affect the businesses of the Nanfang Communication Group and Jiangsu Hengtong Group.

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 2023 Framework Procurement and Supply Agreement is renewed or when there is a material change to the terms of the 2023 Framework Procurement and Supply Agreement.

REASONS AND BENEFITS FOR ENTERING INTO THE 2023 FRAMEWORK PROCUREMENT AND SUPPLY AGREEMENT

In view of (i) the business track record of the Jiangsu Hengtong Group in the past; (ii) the Group's potential demand for a stable and reliable supply of the Products, some of which can be supplied by Jiangsu Hengtong Group after considering the price and other relevant factors; (iii) the difficulty to secure another reliable and stable supplier which could meet the Group's quality requirement without incurring additional and potentially significant costs; (iv) the flexibility in maintaining excess supply of the Products at relevant time by supplying the same to Jiangsu Hengtong Group to meet its ad hoc demand from, in particular, overseas customers; (v) the maintenance of cordial business relationship with Jiangsu Hengtong Group; and (vi) the terms of the sale and purchase contracts to be entered into according to the 2023 Framework Procurement and Supply Agreement are on terms no less favourable than those terms which can be obtained by Nanfang Communication Group from Independent Third Parties, the Directors consider that it would be beneficial to the Group for the Nanfang Communication Group to purchase/sell the Products from/to the Jiangsu Hengtong Group.

Based on the aforesaid, the Directors (including the independent non-executive Directors) consider that the terms of the 2023 Framework Procurement and Supply Agreement and the transactions contemplated by the 2023 Framework Procurement and Supply Agreement 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 COMPANY AND THE GROUP

The Company is a well-established supplier for optical telecommunication products with the Group's headquarters based in Changzhou City, Jiangsu Province, the PRC. The Group is principally engaged in manufacturing and sales of a wide range of optical fibre cable products and related devices as well as processing and sales of prepainted steel sheets. The Group's customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC.

INFORMATION ON NANFANG COMMUNICATION AND THE NANFANG COMMUNICATION GROUP

Nanfang Communication is an indirect wholly-owned subsidiary of the Group established in the PRC, together with its affiliated companies, the Nanfang Communication Group is principally engaged in the manufacturing and sale of optical fibre cables and optical distribution network devices.

The Nanfang Communication Group consists of, amongst other, Nanfang Optic, which is a limited liability company established in the PRC and 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.

To the best of the knowledge, information and belief of the Directors, Suzhou Saitong Advanced Materials Company Limited is a limited liability company established in the PRC principally engaged in the production and processing of materials and mechanical and electrical equipments as well as the research, development and sale of other products, and it is ultimately owned by Mr. Cui Jianqiang (崔建強先生), an Independent Third Party.

INFORMATION ON JIANGSU HENGTONG AND THE JIANGSU HENGTONG GROUP

Jiangsu Hengtong is a company established in the PRC whose A shares are listed on the Shanghai Stock Exchange, together with its affiliated companies, the Jiangsu Hengtong Group is principally engaged in the manufacturing and sale of communication products including optical fibre preforms, optical fibres, optical fibre cables and their raw materials.

The Jiangsu Hengtong Group consists of, amongst others, Hengtong Light Guide, which is a limited liability company established in the PRC, which is a wholly-owned subsidiary of Jiangsu Hengtong. The principal scope of business of Hengtong Light Guide consists of the research, development, manufacturing and sale of optical fibre preforms, optical fibres, optical fibre cables and optical devices.

INFORMATION ON YINGKE OPTICAL MATERIAL

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Group established in the PRC principally engaged in the manufacturing and sale 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.

“2020 Framework Procurement Agreement”	the framework procurement agreement dated 31 December 2020 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;
“2020 Framework Supply Agreement”	the framework supply agreement dated 31 December 2020 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;
“2020 Jiangsu Hengtong Framework Procurement and Supply Agreement”	the Jiangsu Hengtong framework procurement and supply agreement entered into between Nanfang Communication and Jiangsu Hengtong on 31 December 2020 in relation to the mutual sale and purchase of communication products including optical fibre preforms, optical fibres, optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group from time to time;
“2023 Framework Procurement and Supply Agreement”	the frame framework procurement and supply agreement dated 27 December 2023 entered into between Jiangsu Hengtong and Nanfang Communication;
“associate(s)”	has 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;
“Director(s)”	director(s) of the Company;
“Group”	the Company and its subsidiaries;
“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;

“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;
“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 the Shanghai Stock Exchange;
“Jiangsu Hengtong Group”	Jiangsu Hengtong and its affiliated companies;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“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 Communication Group”	Nanfang Communication and its affiliated companies;
“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;
“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 limited liability company established in the PRC and held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide; and
“%”	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.

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

Hong Kong, 27 December 2023

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. Chan Kai Wing and Mr. Liu Cheng Yi.