

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.



Smart Link Better Life.

Yangtze Optical Fibre and Cable Joint Stock Limited Company*

長飛光纖光纜股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6869)

**PROPOSED NEW ANNUAL CAPS FOR THE OPTICAL FIBRE
TECHNOLOGY COOPERATION AGREEMENT WITH DRAKA AND
RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS
WITH YOFC SHANGHAI**

THE OPTICAL FIBRE TECHNOLOGY COOPERATION AGREEMENT

Reference is made to the announcement of the Company dated November 11, 2016 in relation to, inter alia, the proposed annual caps for the continuing connected transactions between the Company and Draka under the Optical Fibre Technology Cooperation Agreement for the years ended December 31, 2017 and 2018 and the year ending December 31, 2019.

The existing annual caps for the transactions contemplated under the Optical Fibre Technology Cooperation Agreement will expire on December 31, 2019. As the Optical Fibre Technology Cooperation Agreement will not expire until July 22, 2024 and the Company will continue carrying out the transactions contemplated thereunder in the ordinary and usual course of business of the Group, the Board proposes to renew the annual caps for the three years ending December 31, 2020, 2021 and 2022.

As at the date of this announcement, Draka holds approximately 23.73% of the total issued share capital of the Company and is therefore a substantial shareholder of the Company. Accordingly, the transactions with Draka under the Optical Fibre Technology Cooperation Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest relevant percentage ratio under the Listing Rules in respect of the transactions with Draka under the Optical Fibre Technology Cooperation Agreement is expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions will be exempt from the circular (including independent financial advice) and independent shareholders' approval requirements but will be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

SALE AND PURCHASE TRANSACTIONS WITH YOFC SHANGHAI

Reference is made to the announcement of the Company dated November 11, 2016 and the circular of the Company dated December 9, 2016 in relation to, inter alia, the continuing connected transactions between the Group on the one hand and YOFC Shanghai on the other.

On November 11, 2016, the Company entered into the 2017-2019 YOFC Shanghai Sales Framework Agreement with YOFC Shanghai to regulate the sales transactions with YOFC Shanghai. On the same day, the Company also entered into the 2017-2019 YOFC Shanghai Purchase Framework Agreement with YOFC Shanghai to regulate the purchase transactions with YOFC Shanghai.

The 2017-2019 YOFC Shanghai Sales Framework Agreement and the 2017-2019 YOFC Shanghai Purchase Framework Agreement with YOFC Shanghai will expire on December 31, 2019. As the Group intends to continue carrying out the transactions contemplated under the 2017-2019 Framework Agreements in the ordinary and usual course of business of the Group, the Board announces that on December 20, 2019:

- (1) the Company and YOFC Shanghai entered into the 2020-2022 YOFC Shanghai Sales Framework Agreement on the same terms as the 2017-2019 YOFC Shanghai Sales Framework Agreement for a term of three years commencing from January 1, 2020; and
- (2) the Company and YOFC Shanghai entered into the 2020-2022 YOFC Shanghai Purchase Framework Agreement on the same terms as the 2017-2019 YOFC Shanghai Purchase Framework Agreement for a term of three years commencing from January 1, 2020,

to renew the 2017-2019 Framework Agreements upon the effective date of the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement. The 2020-2022 Framework Agreements shall take retrospective effect from January 1, 2020 upon the passing of the relevant resolutions for approval of the 2020-2022 Framework Agreements at the Extraordinary General Meeting. The sale and purchase transactions with YOFC Shanghai will be subject to the respective proposed annual caps for the three years ending December 31, 2020, 2021 and 2022.

As at the date of this announcement, Draka holds approximately 23.73% of the total issued share capital of the Company and is therefore a substantial shareholder of the Company. YOFC Shanghai is a non-wholly owned subsidiary of the Company, which is owned as to 75% by the Company and 25% by Draka, and is therefore a connected person of the Company pursuant to Rule 14A.16(1) of the Listing Rules. Accordingly, the transactions between the Group on the one hand and YOFC Shanghai on the other constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest relevant percentage ratio under the Listing Rules in respect of (1) the sales transactions with YOFC Shanghai as contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement, and (2) the purchase transactions with YOFC Shanghai as contemplated under the 2020-2022 YOFC Shanghai Purchase Framework Agreement, in each case is expected to be more than 0.1% but less than 5.0% on an annual basis, the sales transactions as contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the purchase transactions as contemplated under the 2020-2022 YOFC Shanghai Purchase Framework Agreement are respectively exempt from the circular (including independent financial advice) and independent shareholders' approval requirements but will be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company will continue to be subject to and regulated by the Shanghai Listing Rules and other applicable laws and regulations in the PRC insofar as its A Shares remain listed. The requirements of the Listing Rules in relation to connected transactions are different from those of the Shanghai Listing Rules.

Although the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement and the proposed annual caps are exempt from the independent shareholders' approval requirement under the Listing Rules, such transactions shall be subject to the approval by the Shareholders at the general meeting pursuant to the Shanghai Listing Rules. The Company will seek approval for the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement and the proposed annual caps applicable thereto from the Shareholders at the Extraordinary General Meeting.

A supplemental circular containing, among others, further information on the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement, together with a supplemental notice to the Extraordinary General Meeting to approve the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement is expected to be dispatched to the Shareholders on or before January 2, 2020.

1. BACKGROUND

THE OPTICAL FIBRE TECHNOLOGY COOPERATION AGREEMENT

Reference is made to the announcement of the Company dated November 11, 2016 in relation to, inter alia, the proposed annual caps for the continuing connected transactions between the Company and Draka under the Optical Fibre Technology Cooperation Agreement for the years ended December 31, 2017 and 2018 and the year ending December 31, 2019.

The existing annual caps for the transactions contemplated under the Optical Fibre Technology Cooperation Agreement will expire on December 31, 2019. As the Optical Fibre Technology Cooperation Agreement will not expire until July 22, 2024 and the Company will continue carrying out the transactions contemplated thereunder in the ordinary and usual course of business of the Group, the Board proposes to renew the annual caps for the three years ending December 31, 2020, 2021 and 2022.

SALE AND PURCHASE TRANSACTIONS WITH YOFC SHANGHAI

Reference is made to the announcement of the Company dated November 11, 2016 and the circular of the Company dated December 9, 2016 in relation to, inter alia, the continuing connected transactions between the Group on the one hand and YOFC Shanghai on the other.

On November 11, 2016, the Company entered into the 2017-2019 YOFC Shanghai Sales Framework Agreement with YOFC Shanghai to regulate the sales transactions with YOFC Shanghai. On the same day, the Company also entered into the 2017-2019 YOFC Shanghai Purchase Framework Agreement with YOFC Shanghai to regulate the purchase transactions with YOFC Shanghai.

The 2017-2019 YOFC Shanghai Sales Framework Agreement and the 2017-2019 YOFC Shanghai Purchase Framework Agreement with YOFC Shanghai will expire on December 31, 2019. As the Group intends to continue carrying out the transactions contemplated under the 2017-2019 Framework Agreements in the ordinary and usual course of business of the Group, the Board announces that on December 20, 2019:

- (1) the Company and YOFC Shanghai entered into the 2020-2022 YOFC Shanghai Sales Framework Agreement on the same terms as the 2017-2019 YOFC Shanghai Sales Framework Agreement for a term of three years commencing from January 1, 2020; and
- (2) the Company and YOFC Shanghai entered into the 2020-2022 YOFC Shanghai Purchase Framework Agreement on the same terms as the 2017-2019 YOFC Shanghai Purchase Framework Agreement for a term of three years commencing from January 1, 2020,

to renew the 2017-2019 Framework Agreements upon the effective date of the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement. The 2020-2022 Framework Agreements shall take retrospective effect from January 1, 2020 upon the passing of the relevant resolutions for approval of the 2020-2022 Framework Agreements at the Extraordinary General Meeting. The sale and purchase transactions with YOFC Shanghai will be subject to the respective proposed annual caps for the three years ending December 31, 2020, 2021 and 2022.

2. THE OPTICAL FIBRE TECHNOLOGY COOPERATION AGREEMENT

2.1 Summary of the terms of the Optical Fibre Technology Cooperation Agreement

The Company entered into the Optical Fibre Technology Cooperation Agreement with Draka in relation to the joint development of optical fibre technology, the grant of a license over Draka’s patents and the provision of technical services. The principal terms of the Optical Fibre Technology Cooperation Agreement are summarized below:

Date	October 13, 2008, and further revised on August 27, 2013 and May 30, 2014
Parties	The Company and Draka
Duration	The Optical Fibre Technology Cooperation Agreement came into effect on June 1, 2008 and shall expire on July 22, 2024 unless terminated earlier by one party by written notice in the case of breach of contract by the other party, provided that in the case of any breach capable of being made good, the agreement shall not be terminated unless and until such breaching party has failed to ratify the breach within sixty days after it has been served with a written notice specifying the breach and requiring it to ratify the breach.

Nature of Transactions Joint development of optical fibre technology, the grant of a license over Draka's patents and the provision of technical services.

Joint development of optical fibre technology

The Company and Draka agree to seek and conduct joint development project in the area of optical fibre technology. A joint development project shall become effective after a separate written agreement on a project plan shall be entered into between the parties to set out, among other things, the scope, goal, schedule and budget of the project and the nomination of project leaders for the purpose of such joint development project. Either party shall have the right of first refusal to acquire jointly developed inventions in the event of liquidation or termination of the other party.

License Grant

Draka has granted a non-exclusive and non-transferable license to the Company to use certain patent or patent applications owned by Draka to manufacture at the Company's production facility in Wuhan, the PRC and sell optical fibres and semi-finished products that are used for the manufacture of optical fibres in and outside China.

Provision of Technical Services

The Company and Draka have agreed to provide to each other the training, support, assistance to operate the optical fibre production equipment and assessment of possibilities for procurement of raw materials and components.

Pricing Basis

Joint development of optical fibre technology

Each party shall bear its own internal costs to conduct the joint development project and shall exclusively own the intellectual property rights of the inventions made solely by its own inventors. Both the Company and Draka have the right to use the inventions solely developed by the other party free of charge on a non-exclusive basis for the production and sales of optical fibres and semi-finished products that are used for the manufacture of optical fibres. In case the inventions are not independently developed by either party, the rights shall be jointly owned by the Company and Draka on a 50:50 basis.

License Grant

The Company has agreed to pay royalty fee to Draka equivalent to 1.3% of the net selling price of each optical fibre product manufactured under the licensed patents that the Company sells or disposes of. The Company is not required to pay any royalty fees if products are sold to Draka or its affiliates. If either party wishes to use any improvements, upgrades, modifications made in the working methods, manufacturing processes and manufacturing equipment that the other party applies or uses in its mass production of optical fibre products, then it may file a request with the other party and, if the other party accepts such request, additional royalties shall be payable as agreed upon the parties.

Provision of Technical Services

The remuneration to be paid by each party for technical services shall be determined under a separate agreement.

2.2 The existing annual caps and historical amounts

The table below sets out the existing annual caps for the transactions contemplated under the Optical Fibre Technology Cooperation Agreement during the periods indicated below:

	For the year ended December 31, 2017		2018	For the year ending December 31, 2019
			(RMB'000)	
Existing annual caps	41,000	45,000		49,000

The table below sets out the total amount of royalty fees paid by the Company to Draka under the Optical Fibre Technology Cooperation Agreement during the periods indicated below:

	For the year ended December 31,		Ten months ended
	2017	2018	October 31,
	<i>(RMB'000)</i>		2019
	(audited)		(unaudited)
Royalty fees	40,618	37,194	13,546

Notes:

- (1) During the years ended December 31, 2017 and 2018 and the ten months ended October 31, 2019, no joint development project has been carried out and no fees have been incurred by the Company.
- (2) During the years ended December 31, 2017 and 2018 and the ten months ended October 31, 2019, no technical services has been procured from Draka and no technical service fees have been paid by the Company.

2.3 Proposed new annual caps

The Company currently does not have any plan to conduct any joint development project with Draka or to source any technical services from Draka. The Board proposes that the below annual caps be set for the total amount of royalty fees payable to Draka under the Optical Fibre Technology Cooperation Agreement in respect of the years ending December 31, 2020, 2021 and 2022:

	Proposed Annual Cap		
	<i>(RMB'000)</i>		
	For the year ending December 31,		
	2020	2021	2022
Royalty fees	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>

In arriving at the above proposed new annual caps, the Company has taken into account the following:

- (i) the historical amounts paid to Draka;
- (ii) the expected sales volume of optical fibre preforms and optical fibres manufactured with the licensed patents and patent applications from Draka based on the Group's existing production capacity; and
- (iii) the price of the optical fibre preforms and optical fibres in the next three years which is expected to be of a similar level as 2019.

3. SALES TRANSACTIONS WITH YOFC SHANGHAI

3.1 Background

The Company sells raw materials, equipment and components to YOFC Shanghai, a subsidiary of the Company, on an ad hoc basis for meeting its temporary operational needs.

3.2 Summary of the terms of the 2020-2022 YOFC Shanghai Sales Framework Agreement

On November 11, 2016, the Company entered into the 2017-2019 YOFC Shanghai Sales Framework Agreement with YOFC Shanghai to regulate the sales transactions with YOFC Shanghai. The principal terms of the 2020-2022 YOFC Shanghai Sales Framework Agreement, which shall replace the 2017-2019 YOFC Shanghai Sales Framework Agreement with retrospective effect from January 1, 2020 upon the passing of the relevant resolution for approval of the 2020-2022 YOFC Shanghai Sales Framework Agreement at the Extraordinary General Meeting, are summarized below:

Date	December 20, 2019
Parties	The Company and YOFC Shanghai
Duration	<p>The 2020-2022 YOFC Shanghai Sales Framework Agreement shall take retrospective effect from January 1, 2020 upon the passing of the relevant resolution for approval of the 2020-2022 YOFC Shanghai Sales Framework Agreement at the Extraordinary General Meeting and is valid until either (i) the expiry of a period of three years or (ii) the date on which Draka ceases to be a connected person of the Company, whichever comes earlier.</p> <p>The parties to the agreement may negotiate to extend the agreement for a further term of three years within two months before the expiry of the three-year term of the agreement unless the agreement is terminated earlier due to Draka ceasing to be a connected person of the Company.</p>
Nature of Transactions	<p>Sale of optical fibres and optical fibre cables, raw materials, equipment and components in respect of the 2020-2022 YOFC Shanghai Sales Framework Agreement.</p> <p>To implement the sales transactions contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement, YOFC Shanghai will place specific purchase orders with the Group each time it sources from the Group optical fibres, optical fibre cables, raw materials, equipment and components. A purchase order typically contains terms on product specifications, quantity, payment date and method, delivery arrangements, liabilities and warranties. The marketing team of the Company will keep abreast of the pricing information made available to the public by the General Administration of Customs of the PRC from time to time. Such pricing information is usually updated on a monthly basis.</p>

Pricing Basis

The pricing terms of each sales transaction shall be consistent with the following guidelines:

- (i) the prevailing tender price announced by the local telecommunications operators at the place where the relevant purchaser is located (the “**Local Tender Price**”); or
- (ii) the latest average export (from China) price made available to the public by the General Administration of Customs of the PRC, at the time of the relevant transaction (the “**Export Price**”),

where neither Local Tender Price nor the Export Price is available, the pricing terms shall be consistent with the prevailing tender price announced by the state-owned telecommunications operators in the PRC (the “**PRC Tender Price**”) and where none of the Local Tender Price, the Export Price or the PRC Tender Price is available or applicable, the price shall be determined on a fair and reasonable basis which is equivalent or comparable to those offered to or quoted by third parties independent of the Company for similar products.

3.3 Internal control measures

The Local Tender Price and the PRC Tender Price will be fixed when the overseas telecommunications operators or the state-owned telecommunications operators in the PRC, as the case may be, have completed their bidding process and announced the bidding results. The bidding results including the tender price will be made available to all the bidders participating in the bidding process including the Company. The bidding process will only be carried out by the overseas telecommunications operators when they have the business needs and therefore the Local Tender Price will not be announced on a frequent basis. Each of the state-owned telecommunications operators in the PRC will usually carry out their respective central bidding processes once in a year to determine the volume of optical fibres and optical fibre cables to be purchased from each domestic manufacturer in the PRC. The PRC Tender Price will be announced to industry participants after completion of the central bidding process conducted by the state-owned telecommunications operators in the PRC.

A predetermined price range will be set by the chief sales officer of the Company in the first quarter every year by reference to the Local Tender Price and the PRC Tender Price. The price range will also be updated from time to time to incorporate the latest Export Price.

For export sales, the actual contract price will be determined with reference to the higher of the Local Tender Price or the Export Price if both the Local Tender Price and the Export Price are available for the specific type of optical fibres or optical fibre cables being sold. Before accepting an export purchase order, the salesman responsible for such order shall make sure that the actual contract price falls within the predetermined price range set by the chief sales officer. Where the price of any order is below the minimum value of the predetermined price range, it shall be approved by the chief sales officer and the president of the Company before such order is accepted.

For domestic sales, since the Local Tender Price and the Export Price are not relevant, the price will be determined with reference to the PRC Tender Price. The PRC Tender Price announced by the state-owned telecommunications operators is usually considered as a benchmark for the prices of optical fibres and optical fibre cables to be sold by domestic manufacturers. Before accepting a domestic purchase order, the salesman responsible for such order shall make sure that the actual contract price is at least equal to or higher than the PRC Tender Price.

3.4 The existing annual caps and historical amounts

The table below sets out the existing annual caps for the sales transactions contemplated under the 2017-2019 YOFC Shanghai Sales Framework Agreement during the periods indicated below:

	For the year ended December 31, 2017		2018	For the year ending December 31, 2019
	<i>(RMB'000)</i>			
Existing annual caps for the sales transactions with YOFC Shanghai	408,000	448,000	494,000	

The table below sets out the historical transaction amounts received by the Group from the sales transactions with YOFC Shanghai under the 2017-2019 YOFC Shanghai Sales Framework Agreement during the periods indicated below:

Seller	Purchaser	Goods	For the year ended December 31, 2017		2018	Ten months ended October 31, 2019
			<i>(RMB'000)</i>			
			(audited)			(unaudited)
The Group	YOFC Shanghai	Optical fibres, optical fibre cables, raw materials, equipment and components	380,600	378,875	192,590	

Note:

- (1) The historical transaction amounts for the sales transactions between the Company and YOFC Shanghai did not exceed the existing annual caps for the years ended December 31, 2017 and 2018. Further details of the historical transactions amounts for the sales transactions with YOFC Shanghai are set out in the previous annual reports of the Company. As at October 31, 2019, the historical transaction amounts for the sales transactions between the Company and YOFC Shanghai have not exceeded the existing annual cap for the year ending December 31, 2019.

3.5 Proposed new annual caps

The Board proposes that the below proposed annual caps be set for the sales transactions with YOFC Shanghai in respect of the years ending December 31, 2020, 2021 and 2022:

Seller	Purchaser	Goods	Proposed Annual Cap		
			For the year ending December 31,		
			2020	2021	2022
			<i>(RMB'000)</i>		
The Group	YOFC Shanghai	Optical fibres, optical fibre cables, raw materials, equipment and components	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>

In arriving at the above proposed new annual caps, the Company has taken into account the following:

- (i) the historical transaction amounts with YOFC Shanghai; and
- (ii) despite the slowing down of sales of optical fibre and optical fibre cables to YOFC Shanghai during 2019, optical fibre and cable are key infrastructures in telecom network, and the mass construction of 5G network is expected to bring another cycle for the optical fibre and cable industry. On June 6, 2019, the Ministry of Industry and Information Technology issued 5G licenses to four telecom operators. According to the information from GSA (Global Mobile Suppliers Association), in May 2019, 235 telecom operators in 93 countries invested in 5G, and the construction is expected to expand from trial network to scaled network. It is anticipated that the mass scale construction of 5G network may facilitate growth in demand in optical fibre and optical fibre cables.

Shareholders should note that the above monetary annual caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group under the terms of the 2020-2022 YOFC Shanghai Sales Framework Agreement.

4. PURCHASE TRANSACTIONS WITH YOFC SHANGHAI

4.1 Background

The Company purchases optical fibre, optical fibre cables and spare parts from YOFC Shanghai, a subsidiary of the Company, to meet any temporary operational needs.

4.2 Summary of the terms of the 2020-2022 YOFC Shanghai Purchase Framework Agreement

On November 11, 2016, the Company entered into the 2017-2019 YOFC Shanghai Purchase Framework Agreement with YOFC Shanghai to regulate the purchase transactions with YOFC Shanghai. The principal terms of the 2020-2022 YOFC Shanghai Purchase Framework Agreement, which shall replace the 2017-2019 YOFC Shanghai Purchase Framework Agreement with retrospective effect from January 1, 2020 upon the passing of the relevant resolution for approval of the 2020-2022 YOFC Shanghai Purchase Framework Agreement at the Extraordinary General Meeting, are summarized below:

Date	December 20, 2019
Parties	The Company and YOFC Shanghai
Duration	The 2020-2022 YOFC Shanghai Purchase Framework Agreement shall take retrospective effect from January 1, 2020 upon the passing of the relevant resolution for approval of the 2020-2022 YOFC Shanghai Purchase Framework Agreement at the Extraordinary General Meeting and is valid until either (i) the expiry of a period of three years or (ii) the date on which Draka ceases to be a connected person of the Company, whichever comes earlier.

The parties to the agreement may negotiate to extend the agreement for a further term of three years within two months before the expiry of the three-year term of the agreement unless the agreement is terminated earlier due to Draka ceasing to be a connected person of the Company.

Nature of Transactions	Purchases of optical fibres, optical fibre cables and spare parts in respect of the 2020-2022 YOFC Shanghai Purchase Framework Agreement.
-------------------------------	---

To implement the purchase transactions contemplated under the 2020-2022 YOFC Shanghai Purchase Framework Agreement, the Group will place specific purchase orders with YOFC Shanghai each time the Group purchases optical fibres, optical fibre cables and spare parts from YOFC Shanghai. A purchase order typically contains terms on product specifications, quantity, payment date and method, delivery arrangements, liabilities and warranties. The marketing team of the Company will keep abreast of the pricing information made available to the public by the General Administration of Customs of the PRC from time to time. Such pricing information is usually updated on a monthly basis.

Pricing Basis

The pricing terms of each purchase transaction shall be consistent with the following guidelines:

- (i) the latest average import (into China) price made available to the public by the General Administration of Customs of the PRC (中華人民共和國海關總署) at the time of the relevant transaction (the “**Import Price**”); or
- (ii) the prevailing tender price announced by the state-owned telecommunications operators in the PRC (the “**Purchase PRC Tender Price**”),

where none of the above is available or applicable, the price shall be determined on a fair and reasonable basis which is equivalent or comparable to those offered to or quoted by third parties independent of the Company for similar products. The Group shall solicit at least two other contemporaneous transactions with unrelated third parties for products in similar quantities and quality to determine if the price and terms offered by YOFC Shanghai are fair and reasonable and comparable to those offered by unrelated third parties.

4.3 Internal control measures

The Purchase PRC Tender Price will be fixed when the state-owned telecommunications operators in the PRC have completed their central bidding process and announced the bidding results. As the central bidding process will usually be carried out once a year, the Purchase PRC Tender Price will be announced to industry participants after completion of the central bidding process.

For import purchases, the price will be determined with reference to the Import Price. A predetermined price range will be set by the head of supply chain department of the Company 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 placing a purchase order, the procurement staff responsible for such order shall make sure that the actual contract price shall fall within such predetermined price range. Where the price of any order is above the maximum value of the predetermined price range, it shall be approved by the head of supply chain department and the president of the Company before such order is placed.

For domestic purchases, the price will be determined with reference to the Purchase PRC Tender Price. The Purchase PRC Tender Price announced by the state-owned telecommunications operators is usually considered as a benchmark for the prices of optical fibres and optical fibre cables to be purchased from other domestic manufacturers. Before placing a domestic purchase order, the procurement staff responsible for such order shall make sure that actual contract price would not be higher than the Purchase PRC Tender Price.

4.4 The existing annual caps and historical amounts

The table below sets out the existing annual caps for the purchase transactions contemplated under the 2017-2019 YOFC Shanghai Purchase Framework Agreement during the periods indicated below:

	For the year ended December 31, 2017		2018	For the year ending December 31, 2019
	<i>(RMB'000)</i>			
Existing annual caps for the purchase transactions with YOFC Shanghai	830,000	910,000	1,000,000	

The table below sets out the historical transaction amounts paid by the Company to YOFC Shanghai during the periods indicated below:

Purchaser	Seller	Goods	For the year ended December 31, 2017		2018	Ten months ended October 31, 2019
			<i>(RMB'000)</i>			
			(audited)	(audited)		(unaudited)

The 2017-2019 YOFC Shanghai Purchase Framework Agreement

The Company	YOFC Shanghai	Optical fibres, optical fibre cables and spare parts	356,820	497,306	306,738
-------------	---------------	---	---------	---------	---------

Note:

- (1) The historical transaction amounts for the purchase transactions between the Company and YOFC Shanghai did not exceed the existing annual caps for the years ended December 31, 2017 and 2018. Further details of the historical transactions amounts for the purchase transactions with YOFC Shanghai are set out in the previous annual reports of the Company. As at October 31, 2019, the historical transaction amounts for the purchase transactions between the Company and YOFC Shanghai have not exceeded the existing annual cap for the year ending December 31, 2019.

4.5 Proposed new annual caps

The Board proposes that the below proposed annual caps be set for the purchase transactions with YOFC Shanghai in respect of the years ending December 31, 2020, 2021 and 2022.

Purchaser	Seller	Goods	Proposed Annual Cap (RMB'000)		
			For the year ending December 31,		
			2020	2021	2022
The Company	YOFC Shanghai	Optical fibres, optical fibre cables and spare parts	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>

In arriving at the above proposed new annual caps, the Company has taken into account the following:

- (i) the historical transaction amounts with YOFC Shanghai; and
- (ii) the projected increase in the purchase of optical fibre cables from YOFC Shanghai in line with the growth in demand for optical fibre cables resulting from the anticipated mass construction of 5G network.

5. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

5.1 The Optical Fibre Technology Cooperation Agreement

Optical fibres are made by first constructing a cylindrical high purity glass rod with a carefully controlled refractive index profile, known as an optical fibre preform. The optical fibre preform production process requires careful control over complex chemical processes with expensive equipment and many producers employing proprietary technologies in their production processes. Within the industry, OVD, VAD and PCVD are the three commonly used processes for the production of optical fibre preforms. The PCVD process is able to produce a wide variety of optical fibre preforms for a wide variety of optical fibres, including technologically advanced optical fibres for wider and specialty applications. Draka owns core patents of the PCVD production process and since Draka Holding N.V. became the then holder of the equity interest of the Company in 1994, the Company has been furnished with the key technologies in connection with the PCVD production process. While the Company has been continuously developing its proprietary technologies, Draka continues to be one of the Company's sources of technology. The cooperation between the parties is imperative for the Company to continue to use Draka's patents and technology to manufacture its products, and is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5.2 Sale and purchase transactions with YOFC Shanghai

The Group is principally engaged in the manufacture and sales of optical fibre preforms, optical fibres and optical fibre cables. YOFC Shanghai is principally engaged in the production and sales of optical fibre cables. The Company has benefited from working with YOFC Shanghai, providing optical fibres, optical fibre cables, raw materials, equipment and components to YOFC Shanghai, and purchasing optical fibres, optical fibre cables and spare parts from YOFC Shanghai. The Group has established long-term relationship with YOFC Shanghai. Such relationship is fair and reasonable, beneficial for the stable operation and business expansion of the Company and in the interest of the Company and the Shareholders as a whole.

5.3 Directors' views

With regard to the continuing connected transactions contemplated under the Optical Fibre Technology Cooperation Agreement, the Directors (including the independent non-executive Directors but excluding Mr. Philippe Claude Vanhille and Mr. Pier Francesco Facchini who have abstained from voting) are of the view that the proposed annual caps for the continuing connected transactions contemplated under the Optical Fibre Technology Cooperation Agreement for the three years ending December 31, 2020, 2021 and 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

With regard to the continuing connected transactions contemplated under the 2020-2022 Framework Agreements, the Directors (including the independent non-executive Directors but excluding Mr. Zhuang Dan, Mr. Philippe Claude Vanhille and Mr. Pier Francesco Facchini who have abstained from voting) are of the view that the 2020-2022 Framework Agreements, which have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, and the terms of the 2020-2022 Framework Agreements as well as the proposed annual caps for the continuing connected transactions contemplated thereunder for the three years ending December 31, 2020, 2021 and 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the aforementioned continuing connected transactions or the respective proposed annual caps or is required to abstain from voting on the Board resolution in relation to the aforementioned continuing connected transactions and the respective proposed annual caps, except for Mr. Zhuang Dan (in case of the continuing connected transactions contemplated under the 2020-2022 Framework Agreements and the respective proposed annual caps only), Mr. Philippe Claude Vanhille and Mr. Pier Francesco Facchini. Mr. Zhuang Dan is the chairman and a director of YOFC Shanghai. Mr. Philippe Claude Vanhille has been serving as the executive vice-president of telecom business of the Prysmian Group and is primarily responsible for its global telecom business; he is also an executive director of Draka and holds several positions in certain subsidiaries of Prysmian S.p.A. and a joint venture owned as to 50% by the Prysmian Group. Mr. Pier Francesco Facchini is currently an executive director and the chief financial officer of Prysmian S.p.A. and is also responsible for its IT activities; he also holds a number of positions in the subsidiaries of Prysmian S.p.A..

6. INFORMATION ON THE COMPANY, DRAKA AND YOFC SHANGHAI

The Company is principally engaged in the manufacture and sales of optical fibre preforms, optical fibres and optical fibre cables with various standard specifications that are widely used in the telecommunications industry and the provision of other related products and services.

Draka is an indirect wholly-owned subsidiary of Prysmian S.p.A., which, together with its group companies, is a world leader in the energy and telecom cables and systems industry. As at the date of this announcement, Draka holds approximately 23.73% of the total issued share capital of the Company.

YOFC Shanghai is principally engaged in the production and sales of optical fibre cables. As at the date of this announcement, YOFC Shanghai is owned as to 75% by the Company and 25% by Draka.

7. LISTING RULES IMPLICATIONS

7.1 The Optical Fibre Technology Cooperation Agreement

As at the date of this announcement, Draka holds approximately 23.73% of the total issued share capital of the Company and is therefore a substantial shareholder of the Company. Accordingly, the transactions with Draka under the Optical Fibre Technology Cooperation Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest relevant percentage ratio under the Listing Rules in respect of the transactions with Draka under the Optical Fibre Technology Cooperation Agreement is expected to be more than 0.1% but less than 5.0% on an annual basis, the transactions will be exempt from the circular (including independent financial advice) and independent shareholders' approval requirements but will be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

7.2 Sale and purchase transactions with YOFC Shanghai

As at the date of this announcement, Draka holds approximately 23.73% of the total issued share capital of the Company and is therefore a substantial shareholder of the Company. YOFC Shanghai is a non-wholly owned subsidiary of the Company, which is owned as to 75% by the Company and 25% by Draka, and is therefore a connected person of the Company pursuant to Rule 14A.16(1) of the Listing Rules. Accordingly, the transactions between the Group on the one hand and YOFC Shanghai on the other constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest relevant percentage ratio under the Listing Rules in respect of (1) the sales transactions with YOFC Shanghai as contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and (2) the purchase transactions with YOFC Shanghai as contemplated under the 2020-2022 YOFC Shanghai Purchase Framework Agreement in each case is expected to be more than 0.1% but less than 5.0% on an annual basis, the sales transactions as contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the purchase transactions as contemplated under the 2020-2022 YOFC Shanghai Purchase Framework Agreement are respectively exempt from the circular (including independent financial advice) and independent shareholders' approval requirements but will be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company will continue to be subject to and regulated by the Shanghai Listing Rules and other applicable laws and regulations in the PRC insofar as its A Shares remain listed. The requirements of the Listing Rules in relation to connected transactions are different from those of the Shanghai Listing Rules.

Although the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement and the proposed annual caps are exempt from the independent shareholders' approval requirement under the Listing Rules, such transactions shall be subject to the approval by the Shareholders at the general meeting pursuant to the Shanghai Listing Rules. The Company will seek approval for the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement and the proposed annual caps applicable thereto from the Shareholders at the Extraordinary General Meeting.

A supplemental circular containing, among others, further information on the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement, together with a supplemental notice to convene the Extraordinary General Meeting to approve the sale and purchase transactions with YOFC Shanghai as respectively contemplated under the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement is expected to be dispatched to the Shareholders on or before January 2, 2020.

DEFINITIONS

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

“2017-2019 Framework Agreements”	together, the 2017-2019 YOFC Shanghai Sales Framework Agreement and the 2017-2019 YOFC Shanghai Purchase Framework Agreement
“2017-2019 YOFC Shanghai Purchase Framework Agreement”	the purchase framework agreement entered into between YOFC Shanghai and the Company on November 11, 2016 to regulate the purchase transactions of the Group with YOFC Shanghai
“2017-2019 YOFC Shanghai Sales Framework Agreement”	the sales framework agreement entered into between YOFC Shanghai and the Company on November 11, 2016 to regulate the sales transactions of the Group with the YOFC Shanghai
“2020-2022 Framework Agreements”	together, the 2020-2022 YOFC Shanghai Sales Framework Agreement and the 2020-2022 YOFC Shanghai Purchase Framework Agreement
“2020-2022 YOFC Shanghai Purchase Framework Agreement”	the purchase framework agreement entered into between YOFC Shanghai and the Company on December 20, 2019 to regulate the purchase transactions of the Group with YOFC Shanghai
“2020-2022 YOFC Shanghai Sales Framework Agreement”	the sales framework agreement entered into between YOFC Shanghai and the Company on December 20, 2019 to regulate the sales transactions of the Group with YOFC Shanghai
“A Share(s)”	ordinary share(s) of the Company, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi and listed on the Shanghai Stock Exchange (Stock Code: 601869)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Company”	Yangtze Optical Fibre and Cable Joint Stock Limited Company* (長飛光纖光纜股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the A Shares and H Shares of which are listed on Shanghai Stock Exchange and the Main Board of the Stock Exchange, respectively
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Draka”	Draka Comteq B.V., a company incorporated in the Netherlands on May 14, 2004 and wholly-owned by Draka Holding B.V.. It is a substantial shareholder and a connected person of the Company

“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at Multi-Media Meeting Room, 201# Building, No. 9 Guanggu Avenue, East Lake High-tech Development Zone, Wuhan, Hubei Province, PRC on Friday, January 17, 2020 at 1:30 p.m., or any adjournment thereof
“Group”	the Company and its subsidiaries (excluding YOFC Shanghai if and where the context requires)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Optical Fibre Technology Cooperation Agreement”	the optical fibre technology cooperation agreement entered into on October 13, 2008 between Draka and the Company, which was subsequently revised on August 27, 2013 and May 30, 2014
“OVD”	outside vapor deposition
“PCVD”	plasma activated chemical vapor deposition
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prysmian Group”	Prysmian S.p.A. and its associates (for the avoidance of doubt, excluding YOFC Shanghai)
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則)
“Shanghai Stock Exchange”	Shanghai Stock Exchange
“Share(s)”	A Shares and/or H Shares
“Shareholder(s)”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules

“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“VAD”	vapor axial deposition
“YOFC Shanghai”	Yangtze Optical Fibre and Cable (Shanghai) Co., Ltd. (長飛光纖光纜(上海)有限公司), a company incorporated in the PRC on October 30, 2002. It is owned as to 75% by the Company and 25% by Draka, and a connected person of the Company

By Order of the Board
Yangtze Optical Fibre and Cable Joint Stock Limited Company*
長飛光纖光纜股份有限公司
Ma Jie
Chairman

Wuhan, PRC, December 23, 2019

As at the date of this announcement, the Board comprises Zhuang Dan and Frank Franciscus Dorjee, as executive directors; Ma Jie, Yao Jingming, Philippe Claude Vanhille, Pier Francesco Facchini, Xiong Xiangfeng and Zheng Huili, as non-executive directors; Ngai Wai Fung, Ip Sik On Simon, Li Ping and Li Zhuo, as independent non-executive directors.

* *For identification purposes only*