

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.



中國光纖網絡系統集團有限公司

CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3777)

SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER GENERAL MANDATE

On January 28, 2016 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in an aggregate principal amount of HK\$166,905,800.

Under the terms and conditions of the Convertible Bonds, the Convertible Bonds bear an interest of 6% per annum payable on the Maturity Date or on the date of redemption of the Convertible Bonds. If part or the whole of the Convertible Bonds has been converted into the Conversion Shares, there shall be no interest payable for that part or the whole of the Convertible Bonds. The Convertible Bonds will be convertible into Conversion Shares at a Conversion Price of HK\$0.467 per Share. The maturity of the Convertible Bonds will be the date falling on the second anniversary of the date of the issue of the Convertible Bonds.

The Conversion Shares upon conversion of the Convertible Bonds will be allotted and issued under the General Mandate.

The Company will make an application to the Listing Committee for the listing of, and the permission to deal in, the Conversion Shares on the Stock Exchange. No application will be made by the Company to the Listing Committee for the listing of the Convertible Bonds.

Completion of the Subscription Agreement is subject to the satisfaction of the Conditions set out in the paragraph headed “Conditions of the Subscription” below. Please refer to the paragraph headed “Principal Terms of the Convertible Bonds” below for detailed terms of the Convertible Bonds. As the issuance of the Convertible Bonds is subject to the satisfaction of certain conditions precedent and may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION

On January 28, 2016 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber. Details of the Subscription Agreement and the principal terms of the Convertible Bonds are set out below.

THE SUBSCRIPTION AGREEMENT

Date : January 28, 2016

Parties : (i) the Subscriber; and
(ii) the Company

Information on the Subscriber

Zeta Buyout Fund SPC is a segregated portfolio company incorporated in the Cayman Islands with limited liability. Zeta Opportunities Fund SP is a segregated portfolio of Zeta Buyout Fund SPC. The principal investment objective of the Zeta Opportunities Fund SP is to achieve medium to long term capital appreciation by investing primarily in securities listed on the Stock Exchange, which are believed to have great potential of appreciation in stock value.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Subscriber and its associates are third parties independent of the Company and the connected persons of the Company.

Subscription

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in an aggregate principal amount of HK\$166,905,800, which may be converted prior to the Maturity Date into 357,400,000 Conversion Shares (subject to adjustments) based on the initial Conversion Price upon full conversion. Upon completion, the Company should issue the Convertible Bonds to the Subscriber (or its nominees).

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Interest

The Convertible Bonds bear an interest of 6% per annum payable on the Maturity Date or on the date of redemption of the Convertible Bonds. If part or the whole of the Convertible Bonds has been converted into the Conversion Shares, there shall be no interest payable for that part or the whole of the Convertible Bonds.

Maturity

The maturity of the Convertible Bonds will be the date falling on the second anniversary of the date of issue of the Convertible Bonds.

Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem the Convertible Bonds which remain outstanding on the Maturity Date at 100% of the principal amount of such outstanding Convertible Bonds and pay an interest of 6% per annum (from the date of issue of the Convertible Bonds to the date of maturity of the Convertible Bonds (both dates inclusive)) by cash. The Company shall pay the interest on the Maturity Date or on the date of redemption of the Convertible Bonds.

Early redemption

Unless with the written consent of the Bondholder(s), no early redemption by the Company is allowed. If the Company receives a written consent for early redemption from the Bondholder(s), the Company shall redeem the Convertible Bonds which have not yet been converted into the Conversion Shares or redeemed on any Business Day before the Maturity Date at 100% of the principal amount of such outstanding Convertible Bonds and pay an interest of 6% per annum (from the date of issue of the Convertible Bonds to the date of redemption of the Convertible Bonds (both dates inclusive)) by cash.

The Bondholder(s) shall be entitled (but not obliged) to request the Company through the registrar to issue an early redemption notice in writing (the “Early Redemption Notice”) to redeem all the outstanding Convertible Bonds at 100% of the principal amount of such outstanding Convertible Bonds and pay an interest of 6% per annum (from the date of issue of the Convertible Bonds to the date of early redemption of the Convertible Bonds (both dates inclusive)) within 10 days from the date of the Early Redemption Notice by cash in case of the occurrence of the following events:

- (i) unless required by the Listing Rules or at the request of the Stock Exchange, the Listing Committee, the Securities & Futures Commission of Hong Kong or under other law requiring the controlling shareholder of the Company to abstain from voting on the relevant transactions, the exercise of the voting power at any general meeting of the Company by Kemy Holding Inc., the controlling shareholder of the Company, is less than any other single Shareholder or Mr. Zhao Bing, the chairman of the Board and an executive Director, ceases to be the Company’s chairman of the Board;
- (ii) the Company’ listing status is cancelled; or
- (iii) the occurrence of any of the events of default.

Listing of the Convertible Bonds and the Conversion Shares

No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any stock or securities exchange.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares.

Number of Conversion Shares issuable

As at the date of this announcement, there are 2,144,491,200 Shares in issue and upon full conversion of the Convertible Bonds at the initial Conversion Price, the Conversion Shares represent: (i) approximately 16.67% of the aggregate number of the issued Shares as at the date of this announcement; and (ii) approximately 14.29% of the aggregate number of the issued Shares as enlarged by the issue of the Convertible Shares (assuming that there is no change in the aggregate number of the issued Shares other than the issue of the Conversion Shares between the date of this announcement and up to and including the date of the full conversion of the Convertible Bonds at the initial Conversion Price).

Ranking of the Conversion Shares

The Conversion Shares shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares.

Conversion period

Subject to adjustments, the Bondholder(s) may convert the whole or part of the principal amount of the Convertible Bonds into the Conversion Shares at the initial Conversion Price for the period commencing from the expiry of the sixth month since the date of the issue of the Convertible Bonds up to the Maturity Date in the whole amounts or in amounts of not less than a whole multiple of HK\$1,000,000 on each partial conversion.

Conversion Price

The price at which the Conversion Shares will be issued upon conversion of the Convertible Bonds will be HK\$0.467 per Conversion Share. The Conversion Price represents:

- (i) a premium of approximately 11.19% over the closing price of HK\$0.420 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (ii) a premium of approximately 12.80% over the average closing price of HK\$0.414 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day.

The net Conversion Price after deduction of all the relevant cost and expenses is HK\$0.466 and represents:

- (i) a premium of approximately 10.95% over the closing price of HK\$0.420 per Share as quoted on the Stock Exchange on the Last Trading Day; and

- (ii) a premium of approximately 12.56% over the average closing price of HK\$0.414 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day.

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having regard to the prevailing market price of the Shares prior to the date of the Subscription Agreement and the business performance of the Group under the prevailing market conditions.

Adjustment events

The number of Conversion Shares shall from time to time be subject to adjustments upon the grant of warrants or bonus shares, consolidation or subdivision of the Shares or any other events that would alter the par value of the Shares or the number of issued shares (other than the allotment and issuance of Shares pursuant to two share option schemes adopted by the Company both on June 3, 2011) provided that:

- (i) the adjustments would not breach the requirements of the Listing Rules;
- (ii) in case the number of the Conversion Shares is increased after the adjustment, the additional Conversion Shares:
 - (a) should be allotted and issued upon full conversion under adequate general mandate granted by the Shareholders; and
 - (b) should be subject to the approval of the listing of and the permission to deal in the additional Conversion Shares by the Listing Committee of the Stock Exchange.

Transferability

The transferability of the Convertible Bonds is subject to the following:

- (i) unless with the written consent of the Company, the Convertible Bonds cannot be transferred within six months from the date of the issue of the Convertible Bonds (no written consent is required for any transfer of the Convertible Bonds to any direct or indirect shareholder(s), subsidiary and/or fellow subsidiary of the Bondholder(s));
- (ii) unless the Bondholder(s) transfers all his/her/its Convertible Bonds, the Convertible Bonds can be transferred in the amount of not less than a whole multiple of HK\$1,000,000 on each conversion; and
- (iii) unless with the written consent of the Company and in compliance with the Listing Rules, the Bondholder(s) cannot transfer the Convertible Bonds to any connected person of the Company.

Conditions of the Subscription

Completion is conditional upon the following Conditions being satisfied:

- (i) the Listing Committee of the Stock Exchange having granted the listing of and the permission to deal in the Conversion Shares;

- (ii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the issue of the Convertible Bonds;
- (iii) there being no material adverse change in the Group's financial and/or trading position for the period from the date of the Subscription Agreement to the Completion Date;
- (iv) no event having occurred or circumstance arising which could constitute an event of default and no event having occurred or circumstance arising which, after giving notice or the lapse of time, constitutes or may constitute an event of default; and
- (v) the relevant representations and warranties remaining true and accurate as at the Completion Date.

In the event that any of the Conditions has not been satisfied or waived by the Long Stop Date, the Subscription Agreement will lapse and the parties thereto will be released from all obligations thereunder, save for the liabilities for any antecedent breaches of the Subscription Agreement. The conditions (iii), (iv) and (v) above can be waived by the Subscriber.

Upon completion of the Conditions by the Company, the Subscriber is required to deposit the clear fund representing 100% of the principal amount of the Convertible Bonds on or before the Long Stop Date at a designated bank account of the Company (or any other bank account designated by the Company in writing two Business Days before the Long Stop Date).

Completion of the Subscription

Completion shall take place at 2:00 p.m. on the Business Day after the satisfaction or waiver of the Conditions or at such other date to be agreed between the Subscriber and the Company.

GENERAL MANDATE

Upon the conversion in full of the Convertible Bonds, a maximum of 357,400,000 Conversion Shares shall be allotted and issued under the General Mandate. Under the General Mandate, the Company is authorized to allot, issue and otherwise deal with the new Shares (including the issue of any securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares) up to a maximum of 20% of the aggregate number of the issued Shares as at the date of passing the resolution approving such mandate, which amounts to 357,415,200 new Shares. The General Mandate has not been utilized prior to the date of this announcement. As such, the General Mandate will be sufficient for, and no further Shareholders' approval is required for, the allotment and issue of the Conversion Shares.

EQUITY FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

The Board confirms that there has not been any equity fund raising exercise made by the Company in the twelve months immediately preceding the date of this announcement.

EFFECTS OF THE FULL CONVERSION OF THE CONVERTIBLE BONDS

The shareholdings in the Company as at the date of this announcement and immediately after conversion in full of the Convertible Bonds (assuming that there is no other change in the issued Shares) are summarized as follows:

Shareholders	As at the date of this announcement		Immediately after conversion in full of the Convertible Bonds (assuming no share options of the Company have been exercised)	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
<i>Directors</i>				
Mr. Zhao Bing	643,616,414	30.01	643,616,414	25.73
Mr. Xia Ni	240,000	0.01	240,000	0.01
Mr. Shi Cuiming	132,000	0.01	132,000	0.01
Dr. Ma Kwai Yuen	<u>360,000</u>	<u>0.02</u>	<u>360,000</u>	<u>0.01</u>
Subscriber	<u>0</u>	<u>0.00</u>	<u>357,400,000</u>	<u>14.29</u>
Public shareholders	<u>1,500,142,786</u>	<u>69.95</u>	<u>1,500,142,786</u>	<u>59.95</u>
Total	<u><u>2,144,491,200</u></u>	<u><u>100.00</u></u>	<u><u>2,501,891,200</u></u>	<u><u>100.00</u></u>

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors are of the view that the Subscription represents a good opportunity to raise additional funds for the Company. If the Convertible Bonds are converted, it will enlarge the shareholder and capital bases of the Company.

The gross proceeds of the Subscription will be HK\$166,905,800. The net proceeds from the Subscription, after the deduction of the related expenses, are estimated to be approximately HK\$166,600,000. The Directors intend to apply the net proceeds of the Subscription for the repayment of bank borrowings and as general working capital of the Group.

The Board considers that the terms of the Subscription are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Completion of the Subscription Agreement is subject to the satisfaction of the Conditions set out in the paragraph headed “Conditions of the Subscription” above. Please refer to the paragraph headed “Principal Terms of the Convertible Bonds” above for detailed terms of the Convertible Bonds. As the issuance of the Convertible Bonds is subject to the satisfaction of certain conditions precedent and may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Business Day”	a day (excluding a Saturday, Sunday or public holiday) on which licensed banks generally are open for business in Hong Kong throughout their normal business hours
“Company”	China Fiber Optic Network System Group Ltd., a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed and traded on the main board of the Stock Exchange (stock code: 3777)
“Completion”	completion of the Subscription
“Completion Date”	the date on which the Completion shall take place, which shall be the Business Day after the satisfaction or waiver of the Conditions
“Conditions”	the conditions precedent to the Completion set out under the section headed “Conditions of the Subscription” above, and each a “Condition”
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	the initial conversion price of the Convertible Bonds, being HK\$0.467 per Conversion Share
“Conversion Shares”	the new Shares to be allotted and issued upon the conversion of the Convertible Bonds

“Convertible Bonds”	the redeemable convertible bonds in the aggregate principal amount of HK\$166,905,800 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement, which shall bear an interest of 6% per annum payable on the Maturity Date or on the date of redemption of the Convertible Bonds. If part or the whole of the Convertible Bonds has been converted into the Conversion Shares, there shall be no interest payable for that part or the whole of the Convertible Bonds
“Director(s)”	the director(s) of the Company
“General Mandate”	the general and unconditional mandate granted to the Directors at the annual general meeting of the Company held on June 23, 2015 to exercise the powers of the Company to allot, issue and deal with the Shares not exceeding 20% of the aggregate number of the issued Shares as at the date of passing the resolution approving such mandate
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	January 28, 2016, being the last trading day of the Shares on the Stock Exchange prior to the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	February 29, 2016 or any other date to be agreed by the Subscriber and the Company, being the last date for the Completion
“Maturity Date”	the date falling on the second anniversary of the date of the issue of the Convertible Bonds
“Share(s)”	the existing ordinary share(s) of US\$0.001 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Zeta Buyout Fund SPC, acting on behalf and for the accounts of Zeta Opportunities Fund SP

“Subscription”	the subscription by the Subscriber for the Convertible Bonds pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated January 28, 2016 entered into between the Company and the Subscriber relating to the Subscription
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent.

By order of the Board
China Fiber Optic Network System Group Ltd.
Zhao Bing
Chairman and Executive Director

Hong Kong, January 28, 2016

As at the date of this announcement, the executive Directors are Mr. Zhao Bing (Chairman), Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Hung, Randy King Kuen and Mr. Xia Ni; and the independent non-executive Directors are Mr. Shi Cuiming, Dr. Ma Kwai Yuen, Dr. Lui Pan, Dr. Xu Wanqiang and Prof. Jiang Desheng.