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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 March 23, 2016 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement (as amended) 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, whichever is the earlier. 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 March 23, 2016 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber. Details of the Subscription Agreement (as amended by a supplemental agreement dated March 23, 2016 and entered into by the same parties) and the principal terms of the Convertible Bonds are set out below.

THE SUBSCRIPTION AGREEMENT

Date : March 23, 2016

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

Information on the Subscriber

China Guorong Assets Management Limited is a company incorporated in Hong Kong that is committed to making strategic investments in Europe and Hong Kong-listed companies.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Subscriber and its associates and their beneficial owners 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 will 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, whichever is the earlier. 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 (i.e. the date of Completion).

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.

Early redemption

Unless with the written consent of the Bondholder(s), no early redemption of the Convertible Bonds by the Company is allowed. If the Company receives a written consent for early redemption from the Bondholder(s) (see next paragraph), 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 the relevant interest and penalty interest by cash.

The Bondholder 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 Completion to the date of early redemption of the Convertible Bonds (both dates inclusive)) and a penalty interest of 2% per month (from the date of default events to the date of redemption of Convertible Bonds) within 30 days from the date of the Early Redemption Notice by cash in case of the occurrence of the following events:

- (i) save as provided under the Listing Rules or at the request of the Stock Exchange, the Listing Committee, the Securities and Futures Commission of Hong Kong or under other law that the controlling shareholder of the Company shall 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, ceases to be the Company's Chairman of the Board;
- (ii) the Company's shares having suspended from trading for over 60 consecutive trading days or the Company's listing status is cancelled;
- (iii) Before conducting a rights issue or an open offer, the Company has to notify the Subscriber in writing. If the two parties cannot agree on the terms of such proposed transaction within thirty (30) days from the notice, either the Subscriber and the Company has the right to request to redeem all the outstanding Convertible Bonds immediately; or

- (iv) the occurrence of any of the events of default and the Company is unable to rectify its breaches within sixty (60) days.

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 will 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 from the date of Completion and 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.

The Company shall not be required to allot and issue any Conversion Shares to the Bondholder nor shall the Bondholder be permitted to convert the Convertible Bond (or parts thereof) if upon such allotment and issue or conversion (as the case may be), the Bondholder and parties acting in concert with it shall be interested (whether directly or indirectly) in 30.00% (or such other amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then issued share capital of the Company at the date of the relevant exercise.

The conversion rights attaching to the Convertible Bond cannot be exercised if the issue of the Conversion Shares result in the Company being unable to fulfill the maintenance of public float requirement as required under the Listing Rules immediately after issue of the Conversion Shares.

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 discount of approximately 17.77% over the closing price of HK\$0.550 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (ii) a discount of approximately 18.20% over the average closing price of HK\$0.552 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 discount of approximately 18.03% over the closing price of HK\$0.550 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (ii) a discount of approximately 18.45% over the average closing price of HK\$0.552 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 historical business and financial performance as well as industry prospect 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 the 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.

No adjustment will be made to the Convertible Bonds to the extent that it will cause the Company to allot and issue Shares in excess of the General Mandate.

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 Completion (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 principal amount of the Convertible Bonds that can be transferred shall not be 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.

Other rights of the Subscriber

- (i) Right of refusal

Under the condition provided that the Subscriber and its party acting in concert do not trigger a mandatory offer under the "Takeovers Code" of the Securities & Futures Commission, the Subscriber has the right of first refusal to subscribe for new securities if the Company issues any new securities. To qualify for such right, the Subscriber must hold at least 25% of the principal amount of the outstanding convertible bond.

- (ii) Rights Issue and Open Offer

Before conducting a rights issue or an open offer, the Company has to notify the Subscriber in writing. If the two parties cannot agree on the terms of such proposed transaction within thirty (30) days from the notice, either the Subscriber and the Company has the right to request to redeem all the outstanding Convertible Bonds immediately.

- (iii) Dividends and Maintenance of Equity

Without prior written approval from the Subscriber, the Company shall not:

- (1) Declare or pay dividends or other distributions;
- (2) Redeem or repurchase Shares;
- (3) Reduce its share capital or change the rights of shares issued as of the date of the Subscription Agreement.

Conditions of the Subscription

Completion is conditional upon, inter alia, 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 statutory mandates, approvals and consents required to be obtained on the part of the Company in respect of the issue of the Convertible Bonds;
- (iii) after the signing of the Subscription Agreement, the Company's Shares not being suspended

from trading on the Stock Exchange for longer than 14 consecutive business days; and

- (iv) relevant parties having ensured that announcements made on the Stock Exchange on the date of Completion be true and accurate in all material respect.

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. Conditions (iii) and (iv) above can be waived by the Subscriber.

Upon Completion taking place, the Subscriber is required to deposit the amount representing 100% of the principal amount of the Convertible Bonds in clear funds 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 on which the Conditions are fulfilled (or waived), 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	<i>As at the date of this announcement</i>		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>2,144,491,200</u>	<u>100.00</u>	<u>2,501,891,200</u>	<u>100.00</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 on reasonable terms and pricing. 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 Agreement 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.

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”	holder 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 on which the Conditions are fulfilled (or waived), or such other dates as may be agreed between the Subscriber and the Company
“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 terms and conditions of 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, whichever is the earlier. If part or the whole of the Convertible Bonds has been converted into 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”	March 23, 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”	April 30, 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 (i.e. the date of Completion)
“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”	China Guorong Assets Management Limited, an independent third party not connected with any directors, chief executive or substantial shareholders of the company or its subsidiaries or any of their respective associates
“Subscription”	the subscription by the Subscriber for the Convertible Bonds pursuant to the Subscription Agreement

“Subscription Agreement”	the conditional subscription agreement dated March 23, 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, March 24, 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.