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O-Net Communications (Group) Limited

昂納光通信（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 877)

DISCLOSEABLE TRANSACTION

CONSTRUCTION CONTRACT

On 10 September 2010, O-Net Shenzhen, which is an indirect wholly owned subsidiary of the Company, has entered into the Construction Contract with the Contractor under which the Contractor has agreed to undertake the Construction Work for O-Net Shenzhen upon the Land for the Contract Price.

The Directors (including the independent non-executive Directors) consider that the terms of the Construction Contract and Contract Price are fair and reasonable and are on normal commercial terms and in the interests of the Company and its shareholders as a whole. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Contractor and its ultimate beneficial owner are Independent Third Parties.

As the applicable percentage ratios under the Listing Rules in respect of the Construction Contract exceed 5% but less than 25%, the transaction contemplated under the Construction Contract constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

CONSTRUCTION CONTRACT

The principal terms of the Construction Contract are as follows:

Date: 10 September 2010

Parties: (1) O-Net Shenzhen, an indirect wholly owned subsidiary of the Company
(2) the Contractor

Construction work

Pursuant to the Construction Contract, a factory building and a dormitory will be constructed on the Land. The factory building (which will contain office premises) will have a gross floor area of approximately 39,788 square metres, while the dormitory will have a gross floor area of approximately 17,954 square metres.

Contract Price and payment terms

The Contract Price is estimated to be RMB153,000,000 (equivalent to approximately HK\$179,800,000), and shall be payable by stages in accordance with the progress of the Construction Work as follows:

- (a) a sum of RMB1,500,000 (equivalent to approximately HK\$1,763,000) shall be payable within 15 days after commencement of the Construction Work;

- (b) the Construction Work will be carried out in nine stages and payment representing 80% of the value of the Construction Work completed in each stage shall be payable;
- (c) the Contractor submits audit report and information within 60 days upon completion of work. O-Net Shenzhen reviews the audit report and information within 60 days upon receipt from the Contractor. Upon settlement audit of the value of the Construction Work, O-Net Shenzhen shall pay up to an amount representing 95% of the value of the Construction Work done within 14 days after completion of the settlement audit for the Construction Work concerned;
- (d) the balance of the Contract Price (after retaining a sum representing 3% of such balance as the Quality Assurance Retention Money) shall be payable within 14 days after the acceptance of the completion of the Construction Work;
- (e) a sum representing 50% of the Quality Assurance Retention Money shall be payable on the first anniversary date after the acceptance of the completion of the construction work; and
- (f) the balance of the Quality Assurance Retention Money shall be payable on the second anniversary date after the acceptance of the completion of the construction work.

Duration of the construction work

Pursuant to the Construction Contract, the Construction Work will take about 365 days and is expected to complete on or around 20 September 2011.

Selection of the Contractor and basis of the Contract Price

The Contractor was selected from a group of contractors who responded through a tender process conducted in June 2010. A total of eight contractors responded to the tender, all of whom are Independent Third Parties. The Company assessed those contractors according to a number of factors including the price quotations submitted, experience and market position of the contractors and the quality of construction work to be provided by the contractors. On the basis of such factors and after due and careful consideration, the Company has chosen the Contractor to undertake the Construction Work.

The Contract Price was determined after arms-length negotiation and taking into account the above factors during the bidding process.

The Contract Price will be financed by internal resources of the Group, which are mainly from the net proceeds of the Global Offering.

REASONS FOR AND BENEFITS OF THE CONSTRUCTION CONTRACT

As disclosed in the Prospectus, the Company planned to construct new facilities on the Land located in Pingshan New District, Shenzhen and intended to apply part of the net proceeds from the Global Offering to finance the construction and build-out of new facilities. The contractual capital commitment relating to the Construction Contract was further disclosed by the Company in its annual results announcement for the year ended 31 December 2010 on 15 March 2011. The Construction Contract was entered into for the construction of new facilities on the Land, and the purpose of the construction of the new facilities is for the ordinary and usual course of business of the Group.

After the construction of the new facilities is completed, the existing operations of the Group will be transferred to the new facilities, and additional production lines and other auxiliary operations will be set up at the new facilities. The Directors believe that the expansion plan and the related increase in the production capacity will enable the Group to meet the growing demand for its products in the future.

The Directors (including the independent non-executive Directors) consider that the terms of the Construction Contract and Contract Price are fair and reasonable and are on normal commercial terms and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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

As the applicable percentage ratios under the Listing Rules in respect of the Construction Contract exceed 5% but are less than 25%, the transaction under the Construction Contract constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Due to the Company has failed to timely comply with the reporting and disclosure requirements under the Listing Rules in respect of the Construction Contract, the Group will perform a review of the effectiveness and efficiencies of the internal control systems of the Group particularly in the areas of, among others, notifiable and connected transactions and corporate governance measures in order to formulate and impose measures to remedy the deficiency identified and to prevent the future occurrence of similar incidents.

GENERAL INFORMATION

The Company and its subsidiaries are principally engaged in the design, manufacturing and sale of optical networking subcomponents, components, modules and subsystem used in high-speed telecommunications and data communications.

The Contractor is principally engaged in the construction work in the PRC.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Board”	the board of Directors
“Company”	O-Net Communications (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Construction Contract”	the construction contract entered into between the Contractor and O-Net Shenzhen on 20 September 2010 in respect of the Construction Work
“Construction Work”	the construction work carried out under the Construction Contract involving the construction of, among other things, a factory building and a dormitory on the Land
“Contractor”	中建三局第一建設工程有限責任公司 (the First Construction Engineering Limited Company of China Construction Third Engineering Bureau*), a company incorporated in the PRC
“Contract Price”	the total construction price payable by O-Net Shenzhen to the Contractor under the Construction Contract
“Directors”	directors of the Company for the time being
“Global Offering”	shall have the meaning as defined in the Prospectus

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	the third parties which are independent of the Company and its connected persons (as defined in the Listing Rules)
“Land”	the piece of land owned by the Group which is located at the western side of Cuijing Road and the southern side of Qinglansan Road, Pingshan New District, Shenzhen, the PRC with a total area of approximately 38,000 square metres
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“O-Net Shenzhen”	O-Net Communications (Shenzhen) Limited (昂納信息技術(深圳)有限公司), a company incorporated in the PRC and an indirect wholly owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus dated 19 April 2010 issued by the Company
“Quality Assurance Retention Money”	the retention money to cover the costs of rectifying any quality defects found within two years after the date of the acceptance of the completion of the construction work under the Construction Contract
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

* *For identification purposes only*

Note: For reference purpose only, the conversion of Renminbi to Hong Kong dollars is based on the exchange rate of RMB1.00 to HK\$1.18 in this announcement.

By Order of the Board
O-Net Communications (Group) Limited
Na Qinglin
Co-Chairman

Hong Kong, 29 March 2011

As at the date of this announcement, the executive Directors are Mr. Na Qinglin and Mr. Xue Yahong, the non-executive Directors are Mr. Tam Man Chi, Mr. Chen Zhujiang and Mr. Huang Bin and the independent non-executive Directors are Mr. Deng Xinping, Mr. Bai Xiaoshu and Mr. Ong Chor Wei.