

**O-NET COMMUNICATIONS (GROUP) LTD:  
FOR WHAT REASON DID THIS COMPANY GO PUBLIC ?**

The latest company to tap the money-well of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC):

- (1) Is in no desperate need of the money that it is trying to raise;
- (2) Has no material debts; and,
- (3) Is controlled by 2 companies, one of which is listed on The Stock Exchange of Hongkong Ltd and one of which is controlled by the Controlling Shareholder of another company, listed on The Stock Exchange of Hongkong Ltd.

The Company, to which **TARGET** () is referring, is O-Net Communications (Group) Ltd ([I]) (Code: 877, Main Board, The Stock Exchange of Hongkong Ltd).

O-Net Communications (Group) Ltd sprung its Global Offering Prospectus on the unsuspecting investing public of the HKSAR, last Monday (April 19, 2010), when it Offered 193,280,000, one-cent Shares at an Offer Price of between \$HK2.17 Per Share and \$HK2.90 Per Share.

The business of this Company is said to be '*a leading supplier of passive optical networking subcomponents, components, modules and subsystems used in high-speed telecommunication and data communications networks ...*', according to the Global Offering Prospectus.

For **TARGET** Subscribers, not familiar with the term, '*passive optical networking ...*' – and this medium admits to its ignorance – it is explained in the Glossary of the Global Offering Prospectus as being:

- **Passive Component** – A device that passes an electronic or optical signal without affecting the basic characteristic or transmission from of such signal;
- **Passive Optical Network (or PON)** – A point-to-multipoint, fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises.

O-Net Communications (Group) Ltd is about 10 years old and its corporate history is explained at Page 96 of the Global Offering Prospectus as follows:

*'We trace our origin to 2000 when Hong Kong Kaifa (Kaifa Technology [Hongkong] Ltd), a wholly-owned subsidiary of Shenzhen Kaifa (Shenzhen Kaifa Technology Company Ltd [I]), and Mandarin IT Fund I, a private equity fund established in 2000, entered into a shareholders' agreement, pursuant to which Hong Kong Kaifa and Mandarin IT Fund I agreed to inject US\$14 million and US\$5 million respectively to establish O-Net Cayman (O-Net Communications Ltd) as a joint venture company between them. Each of Hong Kong Kaifa and Mandarin IT Fund I enjoyed the usual rights of voting, dividend and appointment of directors and was obligated to inject their respective amounts into O-Net Cayman in accordance with the terms and conditions of the shareholders' agreement.'*

*'In October 2000, O-Net Cayman set up two wholly-owned subsidiaries, O-Net Shenzhen (O-Net Communications (Shenzhen) Ltd [()]) and O-Net Hong Kong (O-Net Communications [Hongkong] Ltd). On 18 November 2000, with a view toward developing the business of fiber optics related products, O-Net Shenzhen acquired all the assets of the fiber optics department (other than the intangible assets) of Shenzhen Kaifa in consideration of approximately RMB\*16.3 million which was determined among the parties by reference to the then net asset value of the fiber optics department of Shenzhen Kaifa as at 30 September 2000. On the same date, the parties further entered into a technology transfer agreement whereby Shenzhen Kaifa transferred all intangible assets in its fiber optics department to O-Net Shenzhen in consideration of RMB38 million which was determined after arms-length negotiations between O-Net Shenzhen and Shenzhen Kaifa. During that time, Shenzhen Kaifa was primarily engaged in the hard disc drive head business. O-Net Hong Kong was established to engage in logistics. It also handled part of the Group's material purchases from overseas suppliers, and conducted trading by way of buying from O-Net Shenzhen and selling to certain overseas customers. Starting from isolator design and manufacturing, we have over the years broadened the scope of our business to include the design, manufacture and sale of optical networking subcomponents, components, modules and subsystems for power management, transmission, wavelength management, signal conditioning and monitoring.'*

\* RMB = **Renminbi**

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