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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

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### RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into certain related party transactions, details of which are set out in note 23 headed “Material related party transactions” to the accountants’ report set out in Appendix I to this prospectus.

### NON-COMPETITION UNDERTAKING

In connection with the Placing, each of the Initial Management Shareholders (collectively, the “Covenantors” and each a “Covenantor”) entered into a deed of non-competition undertaking with the Company on 10 October 2007 pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the Relevant Period (as defined below), each of the Covenantors shall, and shall procure that their associates (other than members of the Group):

- (i) not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the business then engaged and from time to time engaged by the Group in the PRC, Hong Kong, Macau or anywhere else (the “Restricted Business”);
- (ii) not solicit any of the Group’s existing or then existing employees for employment by him/it and his/her/its associates (other than members of the Group); and
- (iii) not, without the Company’s consent, make use of any information pertaining to the business of the Group which may have come to his/her/its knowledge in his/her/its capacity as the controlling Shareholder or Director (as the case may be) or their respective associates for the purpose of competing with the Restricted Business.

The above restrictions do not apply in the following cases:-

- (i) each of the Covenantors and their respective associates (excluding members of the Group) may hold securities of any company which conducts or is engaged in any Restricted Business provided that (a) such securities are listed on a recognised stock exchange (as defined in the SFO); and (b) the aggregate number of securities held by the Covenantors and their respective associates (excluding members of the Group) do not exceed 5% of the issued shares of such company;
- (ii) each of the Covenantors and their respective associates (excluding members of the Group) may invest in the Group; and
- (iii) Mr. Li Kin Shing, one of the Covenantors, holds 1,150,000 shares in PacificNet, Inc., representing approximately 9.97% shareholding in PacificNet Inc. as at 31 December 2006. The Company has agreed that Mr. Li Kin Shing can hold such shares.

Under the deed of non-competition undertaking, the Covenantors further undertake to the Company the following:

- (i) the Covenantors shall allow, and shall procure that the relevant associates (excluding members of the Group) to allow, the Directors and the Company’s auditors to have access to such financial records of such Covenantors and/or their respective associates as may be necessary for the Company to determine whether the terms of the deed of non-competition have been complied with;

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- (ii) the Covenantors shall allow, and shall procure that their associates (excluding members of the Group) to allow, the independent non-executive Directors to review, at least on an annual basis, the Covenantors' compliance with the deed of non-competition undertaking, the options, pre-emptive rights or first rights of refusals provided by the Covenantors in their existing or future competing business;
- (iii) the Covenantors shall provide all information necessary for the annual review by the independent non-executive Directors in making a fair and reasonable assessment of the Covenantors' compliance with the deed of non-competition undertaking including but not limited to, 1) a list of listed companies in which he/she/it and/or his/her/its associates are beneficially interested or legally holds 5% or more shareholding interest and the nature of business of each of such companies; and 2) a list of private companies in which he/she/it and/or his/her/its associates beneficially and/or legally holds and the nature of business of each of such companies;
- (iv) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to the Company with a declaration annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the deed of non-competition undertaking, how the deed of non-competition undertaking has been complied with and enforced, and disclose such information in the corporate governance report under the annual report of the Company (any such disclosure would be consistent with the principles of making voluntary disclosures in the corporate governance report);
- (v) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition undertaking (e.g. the exercise of options or first rights of refusals) either through the annual report, or by way of announcements to the public;
- (vi) in the event the Covenantors or their associates (excluding members of the Group) were given any business opportunity that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist, and shall procure their relevant associates to assist, the Company in obtaining such business opportunity directly or in the event that such business opportunity relates to the provision of any service(s) which is/are supplementary to the core business of such Covenantors or the relevant associates, by ways of subcontracting or outsourcing in the terms being offered to the Covenantors or the relevant associates, or more favourable terms being acceptable to the Company provided that the Covenantors shall not proceed, and shall procure their associates not to proceed, with such opportunity should the Company decline to accept such offer; and
- (vii) each of the Covenantors agrees to indemnify the Company from and against any and all losses, damages and costs which loss, damage or cost is resulted from any failure to comply with the terms of the deed of non-competition by the Covenantors or any of their respective associates.

For the above purpose, the "Relevant Period" means the period commencing from 10 October 2007 and shall expire on the earlier of (i) the date on which the Covenantors (together with their respective associates), whether directly or indirectly, cease to be interested in 10% or more of the issued share capital of the Company; and (ii) the date on which the Shares cease to be listed on GEM.

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The independent non-executive Directors will review, at least on an annual basis, the compliance with the deed of non-competition undertaking by the Convenantors, and if applicable, the options, pre-emptive rights or first rights of refusals provided by the Convenantors on its existing or future competing businesses.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

#### Financial independence

On the basis of the following reasons, the Directors consider that the Group can operate independently from the Controlling Shareholders from a financial perspective:

- part of the proceeds from the Listing will be used to settle all non-trade balances. For further details, please refer to the paragraph headed “Use of proceeds” in the section headed “Business objectives and strategies” of this prospectus.
- the Controlling Shareholders do not intend to grant any loan, guarantee or financial assistance to the Group after Listing.
- the mortgage given by Mr. Li Kin Shing, a Controlling Shareholder, in favour of Hutchison Telecommunications in respect of a premises which the Group uses as its offices and CRM service centre has been released and replaced by letters of credit issued and to be issued by the Group in favour of Hutchison Telecommunications. For further details please see the paragraph headed “PRC Tenancy Agreement” in this section.

#### Operational Independence

##### *Independent access to sources of suppliers*

- The Group’s major suppliers are telecommunications operators and computer equipment providers, which are all accessible independently from the Controlling Shareholders.

##### *Independence of production/operation capabilities/clientele*

- In respect of the property numbered 1 in the property valuation report annexed as Appendix IV to this Prospectus, the premises is mainly used as the Group’s headquarters in Hong Kong for administrative purposes only and can be easily relocated. The Directors are of the view that the Group’s business does not rely on these premises.
- Pursuant to the tenancy agreement entered into between Mr. Li Kin Shing, a Controlling Shareholder, and China Elite in respect of property numbered 2 in the property valuation report annexed as Appendix IV to this prospectus, China Elite has the option to renew the tenancy agreement for a further term of three years upon its expiry as well as the pre-emption right to acquire the premises during the term of the tenancy. The Group has therefore secured the use of such premises up to 31 December 2012 independent from the influence of the Controlling Shareholders. For further details please see the paragraph headed “PRC Tenancy Agreement” in this section. Further, as mentioned in the section “Business Objectives and Strategies” of this prospectus, the Group has plans to set up two additional CRM service centres in the PRC. After operation has commenced in the two CRM service centres, reliance of the Group’s operation will be significantly decreased.
- All of the Group’s operating equipments and facilities such as computers, headphones, servers and exchange systems are owned by the Group.

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- During the Track Record Period, the Group had established its own customer bases and negotiated and concluded service agreements independently with customers, a majority of whom are large scale telecommunications service providers in Hong Kong, Macau and the PRC which are independent from the Group and the Controlling Shareholders. The Group's turnover during the Track Record Period was mainly derived from those customers, whereas the total turnover derived from related parties accounted for approximately 2.8%, 3.4% and 5.9% respectively of the Group's total turnover for each of the two years ended 31 December 2006 and the five months ended 31 May 2007.
- Other than the Controlling Shareholders, most of the Group's executive Directors together with the Group's senior management are also experienced in the industry and have developed long term relationship with the Group's existing customers.
- For potential new customers, the Group has established its own sales and marketing team which is able to operate independently from the Controlling Shareholders and their respective associates. The sales and marketing team will identify potential customers by themselves through attending various industry exhibitions. They will then contact and negotiate with the potential customers identified under the supervision of Ms. Li Yin, the chief operation officer of the Group. Besides, the Group has made arrangement to ensure that all contact information, communication records, and service agreements remain in the sole possession of the Group.
- Save as disclosed in the paragraph "Competing Interests" in this section of the Prospectus, none of the Controlling Shareholders and their respective associates have any business or interest which competes or may compete with the business of the Group. Therefore, there is no conflict of interests for the Group to access customers of other companies owned by the Controlling Shareholders.

### **Management Independence**

#### ***The Board***

To ensure that the Group can operate independently of the Controlling Shareholders, corporate governance measures have been adopted. The Board comprises eight Directors, which include five executive Directors, namely Mr. Li Kin Shing and Ms. Kwok King Wa who are both Controlling Shareholders, Ms. Li Yin, Mr. Wong Kin Wa and Mr. Li Wen, and three independent non-executive Directors, namely Mr. Tang Yue, Mr. Chen Xue Dao and Mr. Cheung Sai Ming. All of the Directors are experienced and capable of monitoring the operation of the Group independent from the Controlling Shareholders and safeguard the interests of the Shareholders. For details of the Directors, please see the section headed "Directors, Senior Management and Staff" of this prospectus. In the event there are conflicts of interests for approving a proposed transaction due to the dual positions of a Director as both directors of the Company and that particular company, pursuant to the relevant provisions of the Articles, the relevant Director shall be absent from the Board meeting and abstain from voting (nor be counted in the quorum) in the resolution(s) of the Board approving such transaction subject to a few exceptions, and shall not attend the shareholders' meetings at which such transaction is proposed.

There may be circumstances when three out of five executive Directors will have to abstain from voting due to potential conflict of interest. However, the other two executive Directors, namely

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Mr. Wong Kin Wa and Mr. Li Wen, are still entitled to vote during the board meetings. Both Mr. Wong and Mr. Li have extensive experience in the operation of CRM outsourcing business and possess relevant industry knowledge to discharge their duties.

In addition, as disclosed in the section headed “Directors, Senior Management and Staff” of this prospectus, (1) Mr. Chen Xue Dao was appointed as the head of Guangdong Communications Administration (廣東省通信管理局) in 2001 and is currently a member of various telecommunications related committees in the PRC; and (2) Mr. Tang Yue was an independent director, a member of compensation committee and audit committee of PacificNet, Inc. between 2003 to 2004 and is the co-founder and director of eLong. Inc., both being listed companies in the US. As confirmed by Mr. Tang Yue, he did not have any executive role in PacificNet, Inc. Directors are of the view that a majority of the independent non-executive Directors, as a whole, possess useful and relevant experience in terms of dealing matters with the Group’s customers (mainly large-scale telecommunications service providers) and the similar services involved (i.e. CRM services) and therefore are qualified to discharge their duties.

According to the service agreements entered into between the Company and the executive Directors, each of the executive Directors has undertaken to the Group, among other things, that he or she will not, without any prior written approval from the Board, (i) accept any position of a company whose business may directly or indirectly compete with the Group’s business or be engaged in any business which may directly or indirectly compete with the Group’s business; or (ii) solicit any employee of the Group or induce them to leave the Group or solicit any customers of the Group, during the term and within the six months after termination of his or her service agreement.

### *Committees*

The Group has (1) audit committee; (2) remuneration committee; and (3) nomination committee. Each committee consists of a majority of independent non-executive Directors, to monitor the operation of the Group.

The audit committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group whereas the remuneration committee’s role is to ensure that the Directors are properly remunerated without being influenced by the fact they may be the Controlling Shareholders or other reasons. The nomination committee ensures that only persons with capability and relevant experience are appointed as Directors to avoid the appointment of individuals who may affect the independence of the Board.

### *Senior Management*

The Group is also managed by senior management who can work and carry on the business of the Group independently from the Controlling Shareholders. For details of the Group’s senior management, please see the section headed “Directors, Senior Management and Staff” of this Prospectus.

### *Non-competition undertaking with the Controlling Shareholders*

The Initial Management Shareholders (as the Covenantors) have entered into a deed of non-competition undertaking with the Company and its subsidiaries. For details, please refer to the paragraph headed “Non-competition undertaking” in this section of the prospectus.

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### CONNECTED TRANSACTIONS

During the Track Record Period, the following transactions have been conducted by the Group and the Connected Persons as described below. These transactions have been conducted, and will be carried out in the ordinary and usual course of business of the Group, and on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned.

Pursuant to Chapter 20 of the GEM Listing Rules, each of the following continuing connected transactions as described below will constitute (1) continuing connected transactions of the Company exempt from the independent Shareholders' approval requirements; or (2) non-exempt continuing connected transactions of the Company upon Listing:

*Continuing connected transactions exempt from the independent Shareholders' approval requirements*

#### A. Tenancy agreements

1. Tenancy agreement between the Company and Talent Information Engineering Co. Ltd. (天龍信息工程有限公司) in respect of premises located in Hong Kong; and
2. Tenancy agreement between China Elite and Mr. Li Kin Shing in respect of premises located in the PRC.

*Non-exempt continuing connected transactions*

#### B. Service agreements

1. Service agreement between PacificNet Communications and Elitel in respect of BIS services; and
2. Service agreement between PacificNet Communications and China-HK Telecom in respect of BIS and customer hotline services.

- #### C. Service agreement between PacificNet Communications and China-HK Telecom in respect of telesales services.

### Continuing connected transactions exempt from the independent Shareholders' approval requirements

#### A. Tenancy Agreements

##### 1. HK Tenancy Agreement

A tenancy agreement (the "**HK Tenancy Agreement**") was entered into between Talent Information Engineering Co. Ltd. (天龍信息工程有限公司) ("Talent Information") as landlord and the Company as tenant in respect of the premises located at Room 3809-3810 Hong Kong Plaza, 188 Connaught Road West, Hong Kong (the "**Hong Kong Premises**"), being property numbered 1 as referred to in the property valuation report as set out in Appendix IV to this prospectus, with an aggregate gross floor area of approximately 147.44 square metres on 8 October 2007 for a term commencing on 8 October 2007 and expiring on 31 December 2009. The property is used as the office for the Group's operation in Hong Kong.

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Talent Information is a property holding company and indirectly held as to 100% by Ms. Kwok King Wa, an executive Director, chairman, an Initial Management Shareholder and a substantial Shareholder. According to the GEM Listing Rules, Talent Information is an associate of Ms. Kwok King Wa, thus a Connected Person.

As Talent Information is a Connected Person, the HK Tenancy Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

### *Historical transaction value*

For the two years ended 31 December 2006 and the five months ended 31 May 2007, the rent paid by the Group in respect of the Hong Kong Premises amounted to nil, nil and HK\$64,000 respectively.

### *Annual caps*

Pursuant to the HK Tenancy Agreement, the annual rent for the Hong Kong Premises during the tenure of the HK Tenancy Agreement is HK\$168,000, payable by the Company in advance on or before the 1st day of each calendar month. The annual rent payable to Talent Information was determined at arm's length negotiation between the parties to the HK Tenancy Agreement. The independent property valuer of the Company, Sallmanns (Far East) Limited, has also confirmed that the terms of the HK Tenancy Agreement are fair and reasonable and the rental payment under the HK Tenancy Agreement reflects the prevailing market rate. The Directors consider that the HK Tenancy Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

## 2. *PRC Tenancy Agreement*

A tenancy agreement (the “**PRC Tenancy Agreement**”, together with the HK Tenancy Agreement, the “**Tenancy Agreements**”) was entered into between Mr. Li Kin Shing as landlord and China Elite as tenant in respect of the premises located at 1<sup>st</sup> to 7<sup>th</sup> Floor, Tianlong Building except Unit B on Level 4, No. 67, Tangxinxi Street, Tangxin Industrial Zone, Xinshi Town, Baiyun District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市白雲區新市鎮棠溪工業區棠新西街67號天龍大廈1-7層(4樓B室單位除外)), being property numbered 2 as referred to in the property valuation report as set out in Appendix IV to this prospectus, with an aggregate gross floor area of approximately 6,094 square metres (the “**PRC Premises**”) on 8 October 2007. On 20 May 2005, Mr. Li Kin Shing and Hutchison Telecommunications entered into a mortgage (房地產抵押合同) pursuant to which Mr. Li Kin Shing mortgaged the PRC Premises to Hutchison Telecommunications to secure the performance of the CRM services provided by the Group under the “Managed Services Agreement — Customer Services” entered into between, among others, the Company and Hutchison Telecommunications on 22 March 2005. On 10 August 2007, the said mortgage has been released by Hutchison Telecommunications and is replaced by further letters of credit issued and to be issued by the Group in favour of Hutchison Telecommunications. The PRC Premises is used as one of the Group's CRM service centres and offices.

Mr. Li Kin Shing is an executive Director, chief executive officer, an Initial Management Shareholder and a substantial Shareholder and thus a Connected Person. China Elite is an indirect wholly-owned subsidiary of the Company. As Mr. Li Kin Shing is a Connected Person, the PRC Tenancy Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

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Pursuant to the PRC Tenancy Agreement, Mr. Li Kin Shing agreed to lease the PRC Premises to China Elite as offices and CRM service centres for a term commencing on 8 October 2007 and expiring on 31 December 2009. Under the terms of the PRC Tenancy Agreement, China Elite has the right to exercise the option to renew the PRC Tenancy Agreement for a further term of three years upon the expiry of the lease, in accordance with the terms of the PRC Tenancy Agreement. During the tenure of the PRC Tenancy Agreement, China Elite has the preemption right to acquire the PRC Premises from Mr. Li Kin Shing at fair value of the PRC Premises to be determined by an independent property valuer.

### *Historical transaction value*

For the two years ended 31 December 2006 and the five months ended 31 May 2007, the rent paid by the Group amounted to nil, nil and HK\$0.39 million respectively.

### *Annual caps*

Pursuant to the PRC Tenancy Agreement, the annual rent for the PRC Premises during the tenure of the PRC Tenancy Agreement is RMB1,020,000 (equivalent to approximately HK\$1,020,000), payable by China Elite before the 15th day of each calendar month. The annual rent payable to Mr. Li Kin Shing was determined as a result of arm's length negotiation between the parties to the PRC Tenancy Agreement. The independent property valuer of the Company, Sallmanns (Far East) Limited, has also confirmed that the terms of the PRC Tenancy Agreement are fair and reasonable and the rental payment under the PRC Tenancy Agreement reflects the prevailing market rate. The Directors consider that the PRC Tenancy Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Pursuant to Rules 20.25 and 20.26 of the GEM Listing Rules, the transactions under the HK Tenancy Agreement and the PRC Tenancy Agreement have been aggregated. On an annual basis, the aggregate rent payable by the Group to Talent Information and Mr. Li Kin Shing under the Tenancy Agreements for each of the three years ending 31 December 2009 is RMB1,188,000 (equivalent to approximately HK\$1,188,000) respectively, and each of the percentage ratios (other than the profits ratio) under Chapter 19 of the GEM Listing Rules, where applicable, in respect of the Tenancy Agreements is, on an annual basis, less than 2.5%. As such, the transactions under the Tenancy Agreements shall constitute non-exempt continuing connected transactions of the Company under Rule 20.34(1) of the GEM Listing Rules and are subject to the reporting and announcement requirements, but are exempted from the independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **Non-exempt continuing connected transactions**

### ***B. Service Agreements***

The Group currently provides, and will continue to provide, BIS and/or customer hotline services to the subscribers of Elitel's customers and China-HK Telecom.

#### *1. Elitel Service Agreement*

On 8 October 2007, Elitel and PacificNet Communications entered into a service agreement (the "Elitel Service Agreement") pursuant to which PacificNet Communications agreed to provide subscribers of Elitel's customers with BIS services. Elitel's major customers are mobile network

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operators that provide repackaged one card multiple number services under their own brands. PacificNet Communications may delegate its duties and responsibilities under the Elitel Service Agreement to other members of the Group. The term of the Elitel Service Agreement is for the period from 8 October 2007 to 31 December 2009.

Elitel is held as to 50% by Mr. Li Kin Shing, and 50% by Ms. Kwok King Wa respectively. Mr. Li Kin Shing is an executive Director, chief executive officer, an Initial Management Shareholder and a substantial Shareholder while Ms. Kwok King Wa is an executive Director, chairman, an Initial Management Shareholder and a substantial Shareholder. According to the GEM Listing Rules, Elitel is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a Connected Person. Elitel, together with its wholly owned subsidiaries namely China-HK Telecom and Directel HK, is principally engaged in the provision of one card multiple number services mainly across Hong Kong and the PRC. PacificNet Communications is an indirect wholly-owned subsidiary of the Company.

As Elitel is a Connected Person, the Elitel Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable for the services provided by the Group are determined on the number of subscribers using the BIS service on the last day of each calendar month times a fixed rate, which is agreed between the Group and Elitel. The terms offered by the Group to Elitel under the Elitel Service Agreement are no more favourable than those offered by the Group to independent customers of the Group in the ordinary course of business.

### *Historical transaction value*

For the two years ended 31 December 2006 and the five months ended 31 May 2007, the fees charged by the Group for the provision of BIS service to Elitel's customers amounted to approximately HK\$0.87 million, HK\$0.77 million and HK\$0.28 million respectively. During the Track Record Period, the Group did not enter into any service agreement with Elitel. The Directors confirm that the terms and conditions of the services to be provided to Elitel after Listing will be similar to those during the Track Record Period and no significant changes in terms and conditions were noted during the Track Record Period.

### *Annual caps*

The proposed cap amounts of the fees to be charged by the Group for the provision of services under the Elitel Service Agreement in each of the three years ending 31 December 2009 are HK\$710,000, HK\$690,000 and HK\$690,000 respectively. Such proposed cap amounts are determined based on the extent and volume of the services that the Group will provide to Elitel's customers and the price charged by the Group to other Independent Third Parties for similar services provided, which is expected to slightly decline with expected decrease in demand of BIS services in the next three years ending 31 December 2009 as it is anticipated that Elitel's customers will not be increasing their resources in the promotion of one card multiple number services. The Directors consider that the cap amounts were arrived at after due and careful consideration.

## 2. *China-HK Telecom Service Agreement*

On 8 October 2007, China-HK Telecom and PacificNet Communications entered into a service agreement (the "**China-HK Telecom Service Agreement**", together with the Elitel Service

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Agreement, the “**Service Agreements**”) pursuant to which PacificNet Communications agreed to provide subscribers of China-HK Telecom with BIS and customer hotline services. PacificNet Communications may delegate its duties and responsibilities under the China-HK Telecom Service Agreement to other members of the Group. The term of the China-HK Telecom Service Agreement is for the period from 8 October 2007 to 31 December 2009.

China-HK Telecom is held as to 50% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively. Mr. Li Kin Shing is an executive Director, chief executive officer, an Initial Management Shareholder and a substantial Shareholder while Ms. Kwok King Wa is an executive Director, chairman, an Initial Management Shareholder and a substantial Shareholder, and thus both of them are Connected Persons. According to the GEM Listing Rules, China-HK Telecom is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and a Connected Person. PacificNet Communication is an indirect wholly-owned subsidiary of the Company.

As China-HK Telecom is a Connected Person, the China-HK Telecom Service Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable for the services provided by PacificNet Communications are determined on the basis of (i) in respect of BIS service, the number of subscribers using the BIS service on the last day of each calendar month times a fixed rate, which is agreed between the Group and China-HK Telecom; and (ii) in respect of customer hotline services, the number of seats required for each particular project times a fixed rate, which is agreed between the Group and China-HK Telecom. The terms offered by PacificNet Communications to China-HK Telecom under the China-HK Telecom Service Agreement are no more favourable than those offered by the Group to independent customers of the Group in the ordinary course of business.

### *Historical transaction value*

For the two years ended 31 December 2006 and the five months ended 31 May 2007, the fees charged by the Group for the provision of such services to China-HK Telecom amounted to nil, approximately HK\$0.37 million and approximately HK\$0.44 million respectively. During the Track Record Period, the Group did not enter into any service agreement with China-HK Telecom. The Directors confirm that the terms and conditions of the services to be provided to China-HK Telecom after Listing will be similar to those during the Track Record Period and no significant changes in terms and conditions were noted during the Track Record Period.

### *Annual caps*

The proposed cap amounts of the total amount receivable by the Group from China-HK Telecom for services rendered under the China-HK Telecom Service Agreement in each of the three years ending 31 December 2009 are HK\$2.60 million, HK\$7.71 million and HK\$14.71 million respectively. The proposed cap amounts are determined based on the extent and volume of the services that the Group will provide to the customers of China-HK Telecom and the price charged by the Group to other Independent Third Parties for similar services provided. China-HK Telecom plans to substantially develop its prepaid card services with higher market potential and plans to launch the new one card two numbers services across China and Macau in the second half of 2007. In view of the above, it is expected that the customer base of China-HK Telecom will grow significantly throughout

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the three years ending 31 December 2009 which will lead to a growing demand for both customer hotline and BIS services of the Group. The Directors consider that the cap amounts were arrived at after due and careful consideration.

Pursuant to Rules 20.25 and 20.26 of the GEM Listing Rules, the transactions under the Elitel Service Agreement and the China-HK Telecom Service Agreement have been aggregated. It is anticipated that on an annual basis, the aggregate fees to be charged by the Group for the provision of BIS and/or customer hotline services under the Service Agreements for each of the three years ending 31 December 2009 are HK\$3.31 million, HK\$8.40 million and HK\$15.40 million respectively, and each of the percentage ratios (other than the profits ratio) under Chapter 19 of the GEM Listing Rules, where applicable, in respect of the Service Agreements is, on an annual basis, higher than 2.5%. As such, the transactions under the Service Agreements shall constitute non-exempt continuing connected transactions of the Company under the GEM Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### *C. China-HK Telecom Telesales Agreement*

The Group currently provides, and will continue to provide telesales services to China-HK Telecom.

On 8 October 2007, China-HK Telecom and PacificNet Communications entered into a telesales services agreement (the “**China-HK Telecom Telesales Agreement**”) pursuant to which PacificNet Communications agreed to provide telesales service to China-HK Telecom. PacificNet Communications may delegate its duties and responsibilities under the China-HK Telecom Telesales Agreement including but not limited to provision of telesales service to other members of the Group. The term of the China-HK Telecom Telesales Agreement is for the period from 8 October 2007 to 31 December 2009.

China-HK Telecom is held as to 50% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively. Mr. Li Kin Shing is an executive Director, chief executive officer, an Initial Management Shareholder and a substantial Shareholder while Ms. Kwok King Wa is an executive Director, chairman, an Initial Management Shareholder and a substantial Shareholder, and thus both of them are Connected Persons. According to the GEM Listing Rules, China-HK Telecom is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a Connected Person. PacificNet Communications is an indirect wholly-owned subsidiary of the Company.

As China-HK Telecom is a Connected Person, the China-HK Telecom Telesales Agreement will constitute a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The fees payable by China-HK Telecom to PacificNet Communications in respect of the telesales services are derived from the number of successful orders/deals for specific products and/or services marketed, times a fixed rate, of which are mutually agreed between China-HK Telecom and PacificNet Communications. The Directors consider that the China-HK Telecom Telesales Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

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### *Historical transaction value*

For the two years ended 31 December 2006 and the five months ended 31 May 2007, fees charged by the Group for the provision of the telesales services to China-HK Telecom amounted to nil, approximately HK\$3.10 million and HK\$3.70 million respectively. During the Track Record Period, the Group did not enter into any service agreement with China-HK Telecom. The Directors confirm that the terms and conditions of the services to be provided to China-HK Telecom after Listing will be similar to those during the Track Record Period and no significant changes in terms and conditions were noted during the Track Record Period.

### *Annual caps*

The proposed cap amounts of the fees receivable by the Group for the telesales services under the China-HK Telecom Telesales Service Agreement in each of the three years ending 31 December 2009 are HK\$9.97 million, HK\$11.90 million and HK\$12.79 million respectively. The proposed cap amounts are determined based on the extent and volume of the services that the Group will provide to the customers of China-HK Telecom and the price charged by the Group to other Independent Third Parties for similar services provided. In August 2006, China-HK Telecom entered into a dealership agreement with a non-wholly owned subsidiary of Hutchison Telecommunications in respect of the provision of telesales services and Fulfillment Services to such non-wholly owned subsidiary of Hutchison Telecommunications for its 2G and 3G mobile services in Hong Kong. China-HK Telecom then outsourced the telesales services to the Group and performed the Fulfillment Services by itself. The Group has been gradually deploying more resources and expects to allocate additional number of workstations for this telesales project after the new CRM service centre at the southern region has commenced operation. Based on the Group's past experience, it is expected that the Group will be able to secure an increasing number of new 2G subscribers for Hutchison Telecommunications per month for the three years ending 31 December 2009. In addition, in view of the growing potential of Hong Kong 3G market, the Group plans to deploy more resources to secure more new 3G subscribers for Hutchison Telecommunications from the second half of 2007 and expects to achieve a substantial growth in 3G subscribers for the year ending 31 December 2008 and remain steady for the year ending 31 December 2009. The average commission earned for each successful order of 3G subscriber is much higher than 2G subscriber.

The expected cap amounts of the transactions under the China-HK Telecom Telesales Agreement for each of the three years ending 31 December 2009 exceed HK10,000,000 and each of the percentage ratios (other than the profits ratio) under Chapter 19 of the GEM Listing Rules, where applicable, in respect of the transactions under the China-HK Telecom Telesales Agreement is, on an annual basis, higher than 2.5%. As such, the transactions under the China-HK Telecom Telesales Agreement will constitute non-exempt continuing connected transactions of the Company under Rule 20.35 of the GEM Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **WAIVER FROM STRICT COMPLIANCE OF THE GEM LISTING RULES**

The Company has applied for, and the Stock Exchange has granted to the Company, a waiver with respect to (i) the continuing connected transactions as referred to in paragraph A above from the announcement requirements under Rule 20.47 of the GEM Listing Rules; and (ii) the continuing connected transactions as referred to in paragraphs B and C above from both the announcement

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requirements under Rule 20.47 of the GEM Listing Rules and the independent Shareholders' approval requirements under Rule 20.48 of the GEM Listing Rules, provided that the said continuing connected transactions are conducted in compliance with the conditions (including the respective proposed cap amounts) imposed by the Stock Exchange.

The table summarises the continuing connected transactions of the Company as referred to in paragraphs A to C above and their respective proposed cap amounts:

<u>Continuing connected transactions</u>	<b>Proposed cap amounts (HK\$ '000) for the year ending 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
A. Tenancy Agreements .....	1,188	1,188	1,188
B. Service Agreements .....	3,310	8,400	15,400
C. China-HK Telecom Telesales Agreement .....	9,970	11,900	12,790

The Directors (including the independent non-executive Directors) confirm that the continuing connected transactions referred to above have been conducted and will be carried out in the ordinary course of business of the Group on normal commercial terms or, where there are insufficient comparable transactions to judge this, on terms no less favourable to the Group than those available from Independent Third Parties, which together with the proposed cap amounts are fair and reasonable and in the interests of the Shareholders and the Group as a whole. As such, the Directors (including the independent non-executive Directors) confirm that it is in the Company's interests to continue with these transactions after Listing.

The Sponsor is of the view that (i) the continuing connected transactions as referred to above for which the waiver is sought have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or, where there are insufficient comparable transactions to judge this, on terms no less favourable to the Group than those available from Independent Third Parties, and (ii) the terms and the proposed annual cap amounts of such transactions are fair and reasonable as far as the Company is concerned and are in the interests of the Shareholders and the Group as a whole.

As regards the aforementioned continuing connected transactions of the Group, in addition to other relevant provisions of the GEM Listing Rules and any conditions that may be imposed by the Stock Exchange in connection therewith, the Company is required to comply with Chapter 20 of the GEM Listing Rules, including Rules 20.35 to 20.40 of the GEM Listing Rules.

In the event that the Group enters into any new transactions or agreements with any Connected Person in the future, the Company will comply with the relevant provisions of Chapter 20 of the GEM Listing Rules. In addition, if any of the continuing connected transactions shall continue after the expiry of the current waiver and/or if the transaction amount of any of the continuing connected transactions shall exceed the expected cap amounts for each of the relevant transactions for the three years ending 31 December 2009, the Company will comply with the relevant provisions of Chapter 20 of the GEM Listing Rules.

### INFORMATION ABOUT THE ELITEL GROUP

The Elitel Group comprising Elitel and four wholly-owned subsidiaries, namely China-HK Telecom, Directel HK, Sunward Cayman and Sunward HK. Through Elitel, China-HK Telecom and

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Directel HK, the Elitel Group is principally engaged in the provision of one card multiple number services mainly in Hong Kong and the PRC. The service involves the integration of two or more phone numbers in different territories into one SIM card. The target customers of the Elitel Group include both 1) mobile network operators that provide repackaged one card multiple number services under their own brands; and 2) retail consumers, with Elitel mainly targeting at the former and China-HK Telecom and Directel HK targeting at the latter. The infrastructure of the Elitel Group involves telecommunications platforms and gateways that enable the provision of one card multiple number services. Sunward Cayman and Sunward HK are principally engaged in the provision of telecommunications value-added services but are currently inactive in business.

The Group is principally engaged in the provision of CRM outsourcing services in the PRC, Hong Kong and Macau with its major customers being telecommunications service providers and other service-oriented companies. The infrastructure of the Group consists of CRM service centres that are designed to efficiently host a substantial number of telephone service operators.

Accordingly, the Directors believe that as the principal business activities and services/ provided by the Group and that of the Elitel Group are different, there is no competition between the Group and the Elitel Group and it is unlikely that there will be competition in the future. The Sponsor, having discussed with the Directors, agree with the views adopted by the Directors.

The Directors confirm that Elitel Group, upon the request of its customers, has to provide telesales and BIS services supplementary to its core business. The Directors further confirm that, based on the unaudited consolidated management accounts of the Elitel Group, turnover from the provision of telesales and BIS services roughly accounted for less than 20% of the Elitel Group's total turnover for each of the two years ended 31 December 2006 and the five months ended 31 May 2007 respectively.

### COMPETING INTERESTS

Save as disclosed below, none of the business or interest of the Directors, Initial Management Shareholders and substantial Shareholders and their respective associates competes or may compete with the business of the Group nor has any other conflicts of interest which any such person has or may have with the Group.

#### **PacificNet Inc.**

Based on the annual report of PacificNet Inc. for the year ended 31 December 2006, Mr. Li Kin Shing, a Controlling Shareholder and an Initial Management Shareholder, acquired 1,150,000 Shares in PacificNet Inc. in September 2003, representing approximately 9.97% shareholding in PacificNet Inc. as at 31 December 2006.

PacificNet Inc., a company incorporated in the State of Delaware and listed on the NASDAQ Stock Exchange in the US, is engaged in the business of providing CRM and outsourcing services, telecommunications value-added services, telecommunications and gaming products and services in Asia. The CRM and outsourcing services provided by PacificNet Inc. include business process outsourcing such as CRM call centres, CRM and telemarketing services and IT outsourcing services including software programming and development services. There is a risk that such services provided by PacificNet Inc. may compete with the services provided by the Group. The Directors confirm that the Group had not experienced any notable customer loss in the past as a result of competition from PacificNet Inc.

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The Directors confirm that Mr. Li Kin Shing has no absolute right to appoint a director in PacificNet Inc.. As Mr. Li Kin Shing holds no board representation or management position and only holds a 9.97% minority interest in PacificNet Inc., it is highly unlikely that Mr. Li Kin Shing's interest in PacificNet Inc. would influence the decision-making of the board of directors or management of PacificNet Inc. As such, the Directors are of the view that the Group's business will not be materially and adversely impacted as a result of Mr. Li Kin Shing's shareholding interest in PacificNet Inc.

As at the Latest Practicable Date, Mr. Li confirmed that he currently had no intention to inject his interest in PacificNet Inc. into the Group. Mr. Li Kin Shing has also confirmed that he has no intention to increase his shareholding in PacificNet Inc..

Nevertheless, the Initial Management Shareholders (including Mr. Li Kin Shing) (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 10 October 2007 pursuant to which the Covenantors have undertaken to the Company that in the event the Covenantors were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company provided that the Covenantors shall not proceed with such opportunity should the Company decline to accept such offer. For further details of the deed of non-competition undertaking, please refer to the paragraph headed "Non-competition undertaking" in this section.