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PCCW Limited
電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

DISCLOSEABLE TRANSACTION
STRATEGIC PARTNERSHIP IN RELATION TO THE IT SOLUTIONS
BUSINESS

J.P.Morgan

Exclusive financial adviser

STRATEGIC PARTNERSHIP IN RELATION TO THE IT SOLUTIONS
BUSINESS

For the purpose of forming a strategic partnership with Lenovo (the “**Partner**”) in relation to the IT Solutions Business (the “**ITS Business**”), the Company is pleased to announce that the Seller and the Partner entered into the SPA on 14 June 2022 pursuant to which the Seller agreed to sell, and the Partner agreed to purchase, the Sale Shares (representing a direct interest of 80% in PCCW Lenovo Technology Solutions and 20% in PCCW Network Services, respectively) for US\$613.6 million (equivalent to approximately HK\$4,786.1 million), of which US\$513.6 million (equivalent to approximately HK\$4,006.1 million) will be settled in cash and US\$100.0 million (equivalent to approximately HK\$780.0 million) will be settled by the issue of the Consideration Shares by the Partner to the Group.

Completion is conditional upon the satisfaction, or waiver, of the Conditions specified in the SPA and as summarised below in this announcement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Transaction is 5% or more but all of the applicable percentage ratios are less than 25%, the Transaction is a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Shareholders of the Company and potential investors should note that Completion is subject to the Conditions. Therefore, there is no assurance that the Transaction will be completed. Shareholders of the Company and potential investors should, accordingly, exercise caution when dealing in the shares of the Company.

STRATEGIC PARTNERSHIP IN RELATION TO THE ITS BUSINESS

For the purpose of forming a strategic partnership in relation to the ITS Business, the Company is pleased to announce that the Seller and the Partner entered into the SPA on 14 June 2022 pursuant to which the Seller agreed to sell, and the Partner agreed to purchase, the Sale Shares (representing a direct interest of 80% in PCCW Lenovo Technology Solutions and 20% in PCCW Network Services, respectively) for US\$613.6 million (equivalent to approximately HK\$4,786.1 million), of which US\$513.6 million (equivalent to approximately HK\$4,006.1 million) will be settled in cash, and US\$100.0 million (equivalent to approximately HK\$780.0 million) will be settled by the issue of the Consideration Shares by the Partner to the Group.

Upon Completion, (i) the Company will indirectly (through the Seller) hold an 80% interest in PCCW Network Services, which in turn will remain as the direct 100% shareholder in PCCWS and as a 20% shareholder in PCCW Lenovo Technology Solutions; and (ii) the Partner will directly hold an 80% interest in PCCW Lenovo Technology Solutions and a 20% interest in PCCW Network Services.

SUMMARY OF THE PRINCIPAL TERMS OF THE SPA

- Parties : The Seller and the Partner.
- Subject matter : The SPA provides for the sale by the Seller and the purchase by the Partner by way of the sale and purchase of the Sale Shares, which consist of:
- (a) the PCCW Lenovo Technology Solutions Sale Shares, representing an 80% interest in PCCW Lenovo Technology Solutions; and
 - (b) the PCCW Network Services Sale Shares, representing a 20% interest in PCCW Network Services.
- Consideration : (a) The total consideration for the Sale Shares is US\$613.6 million (equivalent to approximately HK\$4,786.1 million) (the “**Consideration**”), shall be settled as to:
- (i) US\$513.6 million (equivalent to approximately HK\$4,006.1 million) in cash, subject to certain customary post-completion adjustments; and

- (ii) US\$100.0 million (equivalent to approximately HK\$780.0 million) by the issue of the Consideration Shares to the Group.

The Consideration and the terms and price of the Consideration Shares were determined after arm's length negotiations between the Seller and the Partner. The Consideration Shares were included as part of the Consideration to reflect the Group and the Partner's long-term commitment to the success of the strategic partnership and confidence about the future prospects of the ITS Business.

Payment terms : The Consideration is payable by the Partner to the Seller in a combination of cash and the Consideration Shares. An amount of US\$513.6 million (equivalent to approximately HK\$4,006.1 million) will be satisfied by cash, subject to customary post-completion adjustments. An amount of US\$100.0 million (equivalent to approximately HK\$780.0 million) will be satisfied by the allotment and issue of the Consideration Shares on Completion. In the event that the listing of, and permission to deal in the relevant Consideration Shares could not be obtained, the corresponding portion of the Consideration, which amounts to US\$100.0 million, will be settled by way of cash at Completion.

Conditions precedent : Completion is conditional upon the following conditions (the "**Conditions**"):

- (i) completion of a reorganisation of the ITS Business (the "**Reorganisation**");
- (ii) the entering into of shareholders' agreement for each of PCCW Lenovo Technology Solutions and PCCW Network Services and agreements relating to certain transitional services and certain guaranteed revenue amounts between the Group and PCCW Lenovo Technology Solutions relating to such amounts to be received by PCCW Lenovo Technology Solutions; and
- (iii) customary conditions precedents, including the fundamental warranties being true and correct in all respects.

The Seller and the Partner have agreed to use their respective reasonable endeavours to satisfy, or procure that the relevant Conditions are satisfied, as soon as reasonably practicable and in any event by 31 October 2022. The Seller and the Partner may extend the period for satisfaction of the Conditions by up to two months if it is agreed by both parties.

- Lock-up of Consideration Shares : The Seller and the Partner have agreed that there will be a six-month lock-up (the “**Lock-up**”) on the Consideration Shares commencing from the date of issuance by the Partner, subject to exceptions including hedging arrangement.
- Completion : Completion shall take place on the fifth Business Day following the date on which the last Condition is satisfied and/or waived in accordance with the SPA, or such other date as the Seller and the Partner may agree in writing (the “**Completion Date**”).

REASONS FOR AND BENEFITS OF THE TRANSACTION

The formation of the strategic partnership continues the Company’s strategy of unlocking shareholder value. Specifically, the Transaction is expected to benefit the Company through:

- (1) **Leveraging the combined strengths of the Group and the Partner to accelerate expansion of the ITS Business across Asia Pacific.** The ITS Business is a leading IT services provider in Asia Pacific with over 20 years of proven track record. In addition to a market leading brand, the ITS Business will bring to the strategic partnership its strong capabilities in systems integration and application development and a highly skilled talent pool. Meanwhile, the Partner is a global technology power house across devices, infrastructure, and solutions and services. The strategic partnership will greatly enhance PCCW Lenovo Technology Solutions’ influence and competitiveness outside of Hong Kong by leveraging the combined strengths of the Group and the Partner to create value for the shareholders of both companies, in addition to customers and employees.
- (2) **Optimising resource allocation while seizing value upside from growth opportunities in the IT Solutions industry.** Upon completion, PCCWS will primarily focus on the provision of digital solutions to public sector customers in Hong Kong, while PCCW Lenovo Technology Solutions will focus on expanding its business across the Asia Pacific region. The strategic partnership enables the Group and the Partner to not only allocate capital and resources more efficiently, but also retain upside generated from the overall growth of the ITS Business.
- (3) **Unlocking synergies generated from the collaboration of the Group and the Partner.** The Partner and the Group will derive synergies from their complementary services offerings, expertise, go-to-market strategies, and solutions development

capabilities. The strategic partnership will provide one-stop customer solutions that integrate services, devices and digital infrastructure provided by the combined resources and experience of the strategic partnership.

USE OF PROCEEDS AND FINANCIAL EFFECTS OF THE TRANSACTION

The proceeds from the Transaction will be deployed to create shareholder value through various uses, including but not limited to strategic investments in growth areas such as financial services, repayment of debt and other general corporate purposes.

Based on the estimated net asset value of PCCW Lenovo Technology Solutions on Completion, as well as the direct attributable costs to be incurred for the Transaction and fulfilment of related obligations, it is currently anticipated that the Group will recognise a gain of not less than US\$100.0 million (equivalent to approximately HK\$780.0 million) in the consolidated income statement of the Group from the Transaction.

Upon Completion, PCCW Network Services and PCCWS will continue to be subsidiaries of the Company under the Listing Rules. PCCW Lenovo Technology Solutions will cease to be a subsidiary of the Company under the Listing Rules. The financial results of the PCCW Lenovo Technology Solutions Group will no longer be consolidated into the consolidated financial statements of the Group.

The Directors consider that the terms of the Transaction are fair and reasonable and in the interests of the shareholders as a whole.

INFORMATION IN RELATION TO THE COMPANY AND THE SELLER

PCCW is a global company headquartered in Hong Kong which holds interests in telecommunications, media, IT solutions, and other businesses.

The principal activity of the Company is investment holding, and the principal activities of the Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, FinTech, HealthTech, e-Commerce, Big Data Analytics, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres; multimedia businesses including the provision of interactive pay-TV services and over-the-top digital media entertainment services as well as content production, artist management and event business in Hong Kong, the Asia-Pacific region, and other parts of the world; and investments in, and development of, systems integration, network engineering, and information technology-related businesses. Through HK Television Entertainment Company Limited, the Company also operates a domestic free television service in Hong Kong.

The Seller is an indirect wholly-owned subsidiary of the Company and is an investment holding company, directly and indirectly holding entities engaged in the ITS Business.

INFORMATION IN RELATION TO THE PARTNER

The Partner is a limited liability company incorporated in Hong Kong and its shares have been listed on the Main Board of the Stock Exchange since 1994. The Partner and its subsidiaries are principally engaged in three business segments, namely Intelligent Devices Group – focused on various Smart Devices and IoT; Infrastructure Solutions Group – focused on Smart Infrastructure; and Solutions and Services Group – focused on Smart Verticals & Services.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Partner and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

INFORMATION ON PCCW NETWORK SERVICES AND PCCW LENOVO TECHNOLOGY SOLUTIONS

As at the date of the SPA, (i) PCCW Network Services and PCCW Lenovo Technology Solutions are indirect wholly-owned subsidiaries of the Company; (ii) PCCW Lenovo Technology Solutions is owned as to 20% by PCCW Network Services and 80% by the Seller; and (iii) PCCWS is wholly owned by PCCW Network Services.

Upon Completion, (i) the Company will indirectly (through the Seller) hold an 80% interest in PCCW Network Services, which in turn will remain as the direct 100% shareholder in PCCWS and a 20% shareholder in PCCW Lenovo Technology Solutions; and (ii) the Partner will directly hold an 80% interest in PCCW Lenovo Technology Solutions and a 20% interest in PCCW Network Services.

According to (i) the unaudited pro forma management accounts of PCCW Network Services prepared in accordance with Hong Kong Financial Reporting Standards and (ii) the unaudited pro forma management accounts of PCCW Lenovo Technology Solutions based on the economic interests and benefits to be owned by PCCW Lenovo Technology Solutions upon completion of the Reorganisation,

- (i) the pro forma consolidated net profits of the PCCW Network Services (without certain adjustments for Reorganisation) and PCCW Lenovo Technology Solutions for the financial year ended 31 December, 2021 were approximately US\$24.6 million (equivalent to approximately HK\$192.2 million) and US\$24.0 million (equivalent to approximately HK\$187.5 million) before taxation, and US\$15.8 million (equivalent to approximately HK\$123.1 million) and US\$24.3 million (equivalent to approximately HK\$189.5 million) after taxation respectively;
- (ii) the pro forma consolidated net profits of PCCW Network Services (without certain adjustments for Reorganisation) and PCCW Lenovo Technology Solutions for the financial year ended 31 December, 2020 were approximately US\$18.3 million (equivalent to approximately HK\$142.8 million) and US\$6.3 million (equivalent to

approximately HK\$49.0 million) before taxation, and US\$40.8 million (equivalent to approximately HK\$318.6 million) and US\$6.3 million (equivalent to approximately HK\$49.4 million) after taxation respectively; and

- (iii) the pro forma consolidated net asset value of PCCW Network Services and PCCW Lenovo Technology Solutions were US\$270.2 million and US\$337.6 million respectively as of 31 December, 2021 assuming completion of the Reorganisation.

As at the Completion Date, PCCW Network Services will not have other material assets or liabilities other than the 20% equity interest in PCCW Lenovo Technology Solutions and 100% equity interest in PCCWS.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Transaction is 5% or more but all of the applicable percentage ratios are less than 25%, the Transaction is a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The subscription of the Consideration Shares to be issued by the Partner does not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules, as all of the applicable percentage ratios in respect thereof are less than 5%.

Shareholders of the Company and potential investors should note that Completion is subject to the Conditions. Therefore, there is no assurance that the Transaction will be completed. Shareholders of the Company and potential investors should, accordingly, exercise caution when dealing in the shares of the Company.

J.P. Morgan Securities (Asia Pacific) Limited acted as exclusive financial advisor to the Company in this Transaction.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

- “BPO” business process outsourcing, including the provision of front and back office functions outsourced by the customers, including but not limited to, logistics and delivery management, electronic document management system, marketing analytics and printing services
- “Business Day” a day (other than a Saturday or Sunday) on which banks are open for general business in Hong Kong, the British Virgin Islands and the Cayman Islands

“Company” or “PCCW”	PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0008) and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States of America (ticker: PCCWY)
“Completion”	the completion of the sale and purchase of the Sale Shares in accordance with the provisions of the SPA
“Completion Date”	has the meaning given to it in the paragraph headed “Summary of the principal terms of the SPA – Completion” in this announcement
“Conditions”	has the meaning given to it in the paragraph headed “Summary of the principal terms of the SPA – Conditions precedent” in this announcement
“Consideration”	has the meaning given to it in the paragraph headed “Summary of the principal terms of the SPA – Consideration” in this announcement
“Consideration Shares”	means 86,424,677 new shares of the Partner to be allotted and issued to the Seller at HK\$9.025 per such share at Completion, representing approximately 0.72% of the total number of shares in issue of the Partner as at the date of this announcement
“Directors”	the directors of the Company
“DMS”	digital and managed services, including the (i) development and information technology support of proprietary technology solutions on behalf of customers; (ii) management on behalf of customers or support them on application services; and (iii) tailored end-to-end support to customers on third party enterprises applications
“Group”	PCCW 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

“ITS Business”	the business comprising the provision of IT Solutions carried on at the date of the SPA by certain subsidiaries of the Group, including PCCWS
“IT Solutions”	information technology services, including but not limited to DMS, TS and BPO
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lock-up Period”	has the meaning given to it in the paragraph headed “Summary of the principal terms of the SPA – Lock-up of Consideration Shares” in this announcement
“Partner” or “Lenovo”	Lenovo Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 992)
“PCCW Lenovo Technology Solutions”	Digital Era Enterprises Limited, a newly incorporated company incorporated in the British Virgin Islands, to serve as the holding company of part of the ITS Business following the Reorganisation, which is intended to be renamed to PCCW Lenovo Technology Solutions Limited on or prior to Completion, the principal business of which is PCCW Lenovo Technology Solutions Business
“PCCW Lenovo Technology Solutions Business”	the provision of digital and managed solutions, technical services and business process outsourcing services to be undertaken by PCCW Lenovo Technology Solutions and its subsidiaries
“PCCW Lenovo Technology Solutions Group”	PCCW Lenovo Technology Solutions and its Subsidiaries
“PCCW Lenovo Technology Solutions Sale Shares”	8 issued ordinary shares in the capital of PCCW Lenovo Technology Solutions, representing an 80% interest in PCCW Lenovo Technology Solutions
“PCCW Network Services”	PCCW Network Services Limited, a company incorporated in the British Virgin Islands, the principal business of which is investment holding
“PCCW Network Services Sale Shares”	2 issued ordinary shares in the capital of PCCW Network Services, representing a 20% interest in PCCW Network Services

“PCCWS”	PCCW Solutions Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of PCCW Network Services, and the principal business of which is the provision of solutions and services to public sector customers in Hong Kong
“percentage ratios”	has the meaning given to it in the Listing Rules
“Reorganisation”	has the meaning given to it in the paragraph headed “Summary of the principal terms of the SPA – Conditions precedent” in this announcement
“Sale Shares”	the PCCW Network Services Sale Shares and the PCCW Lenovo Technology Solutions Sale Shares
“Seller”	PCCW Solutions Holdings Limited, an indirectly wholly-owned subsidiary of PCCW incorporated in the Cayman Islands with limited liability
“SPA”	the share purchase agreement dated 14 June 2022 between the Seller and the Partner, relating to the sale of the Sale Shares by the Seller to the Partner, the principal terms of which are summarised in the section headed “Summary of principal terms of the SPA” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	at any relevant time any then subsidiary or subsidiary undertaking of PCCW Network Services, PCCWS and/or PCCW Lenovo Technology Solutions, as the case may be
“Transaction”	the sale by the Seller of the Sale Shares and the purchase by the Partner of the Sale Shares
“TS”	technology services, including the operation, maintenance and management of IT systems on behalf of the customers, including but not limited to, information display systems, traffic information display systems and radio and TV broadcasting systems
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

In this announcement, unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of US\$1.00 = HK\$7.80. Percentages and figures expressed in millions have been rounded.

By order of the board of
PCCW Limited
Cheung Hok Chee, Vanessa
Group General Counsel and Company Secretary

Hong Kong, 14 June 2022

As at the date of this announcement, the Directors are as follows:

Executive Directors

Li Tzar Kai, Richard (Chairman) and Hui Hon Hing, Susanna (Acting Group Managing Director and Group Chief Financial Officer)

Non-Executive Directors

Tse Sze Wing, Edmund, GBS; Meng Shusen; Wang Fang and Wei Zhe, David

Independent Non-Executive Directors

Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert; David Christopher Chance and David Lawrence Herzog