LETTER FROM THE BOARD

PCCW Limited
電訊盈科有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

Executive Directors:
Mr. LI Tzar Kai, Richard (Chairman)
Mr. Srinivas Bangalore GANGAIAH (aka BG Srinivas)
(Group Managing Director)
Ms. HUI Hon Hing, Susanna
(Group Chief Financial Officer)
Mr. LEE Chi Hong, Robert

Non-Executive Directors:
Mr. TSE Sze Wing, Edmund, GBS
Mr. LI Fushen (Deputy Chairman)
Mr. MAI Yanzhou
Mr. ZHU Kebing
Mr. WEI Zhe, David

Independent Non-Executive Directors:
Mr. Aman MEHTA
Ms. Frances Waikwun WONG
Mr. Bryce Wayne LEE
Mr. Lars Eric Nils RODERT
Mr. David Christopher CHANCE
Mr. David Lawrence HERZOG

Registered office:
41st Floor, PCCW Tower
Taikoo Place, 979 King’s Road
Quarry Bay, Hong Kong

September 2, 2020

To Qualifying Shareholders

Dear Sir or Madam,

VOLUNTARY CASH PARTIAL OFFER BY STANDARD CHARTERED BANK (HONG KONG) LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE 154,592,765 SHARES IN THE SHARE CAPITAL OF THE COMPANY FROM QUALIFYING SHAREHOLDERS

INTRODUCTION

On August 6, 2020, the Offeror and the Company jointly announced that SCB, on behalf of the Offeror, would make a conditional voluntary cash partial offer to acquire 154,592,765 Offer Shares (representing approximately 2.00% of the Shares in issue, or approximately 2.82% of the
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Shares in issue held by the Qualifying Shareholders as at the Latest Practicable Date) from the Qualifying Shareholders at the Offer Price of HK$5.20 per Offer Share in cash.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) further information relating to each of the Group, the Offeror, and the Partial Offer; (ii) the letter from SCB containing details of the Partial Offer; (iii) the letter from the Independent Board Committee containing its recommendation and advice to the Qualifying Shareholders in respect of the Partial Offer; and (iv) the letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee on whether the terms of the Partial Offer are fair and reasonable so far as the Qualifying Shareholders are concerned and as to approval and acceptance in respect of the Partial Offer.

Unless the context otherwise requires, terms defined in this Composite Document shall have the same meanings when used in this letter.

THE PARTIAL OFFER

Offer Price

SCB is, on behalf of the Offeror, making the Partial Offer at the following price:

For each Offer Share .......................................................... HK$5.20 in cash

Conditions of the Partial Offer

The Partial Offer is subject to the fulfilment of the following Conditions on or prior to the First Closing Date (unless the First Closing Date is extended in accordance with the Takeovers Code):

(i) acceptances being received in respect of 154,592,765 Offer Shares for the Partial Offer; and

(ii) approval of the Partial Offer pursuant to Rule 28.5 of the Takeovers Code by Qualifying Shareholders who are registered as Shareholders in the Register as at the First Closing Date holding over 50% of the Shares not held by the Offeror and parties acting, or presumed to be acting, in concert with it, signified by means of a separate tick box on the form of acceptance specifying the number of Shares in respect of which the Partial Offer is approved.

Further details of the Partial Offer are set out in the letter from SCB in this Composite Document, Appendix I to this Composite Document and the accompanying Form of Approval and Acceptance.

As at the Latest Practicable Date, there are 7,729,638,249 Shares in issue. The Company has no other shares, options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest as at the Latest Practicable Date.
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BENEFITS TO THE QUALIFYING SHAREHOLDERS

Upon the Partial Offer becoming unconditional, each Qualifying Shareholder:

(a) will receive a payment of HK$5.20 in cash for every Share in respect of which that Qualifying Shareholder validly accepts the Partial Offer and which is taken up by the Offeror under the Partial Offer (less the seller’s ad valorem stamp duty arising therefrom) within 7 Business Days after the Final Closing Date; and

(b) will have the opportunity of retaining an interest in the Company going forward.

ENTITLEMENTS TO THE INTERIM CASH DIVIDEND AND THE DIVIDEND IN SPECIE

Reference is made to the Interim Results Announcement in which the Company announced the declaration of (i) the Interim Cash Dividend; and (ii) the Dividend in Specie.

The terms of the Partial Offer expressly provide that Qualifying Shareholders holding Shares as at the Record Date will remain entitled to receive the Interim Cash Dividend and the Dividend in Specie in respect of their Shares held as at such Record Date, whether or not such Shares are tendered for acceptance under the Partial Offer or ultimately taken up by the Offeror under the Partial Offer.

SHAREHOLDING STRUCTURE OF THE COMPANY AND EFFECT OF THE PARTIAL OFFER

The shareholding structure of the Company as at the Latest Practicable Date and after the closing of the Partial Offer (assuming that there are no changes to the total number of Shares in issue between the Latest Practicable Date and the Final Closing Date) is set out in the section headed “Shareholding structure of the Company and effect of the Partial Offer” in the letter from SCB in this Composite Document.

If the Partial Offer is approved and becomes unconditional, the Offeror and its concert parties will become interested in more than 30% of the voting rights of the Company without being required to make a mandatory general offer under Rule 26 of the Takeovers Code, and, thereafter, will be permitted (in accordance with the creeper requirements under the Takeovers Code) to increase their aggregate shareholdings in the Company by up to 2% in each subsequent 12-month period without being required to make a mandatory general offer under Rule 26 of the Takeovers Code.

INTENTION OF THE OFFEROR

Your attention is drawn to the letter from SCB in this Composite Document which sets out, among other things, the intentions of the Offeror regarding the business of the Company. The Board notes that the Offeror intends that the existing businesses, staffing and assets deployment of the Group in the ordinary course be continued (including as set out in the announcements of the Company on August 6, 2020) and considers that the Group should continue to review its strategy and focus to best suit the operating environment of the Group, and does not intend that major changes to the business of the Group be introduced. The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group.

The Board acknowledges the intentions of the Offeror in respect of the Group.
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The Offeror and the Board have not entered and do not intend to enter into any agreement, arrangements or understanding to (i) acquire and/or develop any new business; and (ii) save as set out in the announcements of the Company made on August 6, 2020, dispose of or downsize the existing businesses and/or material operating assets, of the Company.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers; the provision of interactive pay-TV services, over-the-top (OTT) digital media entertainment services in Hong Kong, the Asia Pacific region and other parts of the world; investments in, and development of, systems integration, network engineering, and information technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited, the Company also operates a domestic free television service in Hong Kong.

Reference is made to the announcements of the Company on August 6, 2020 in which the Company: (i) announced the proposed transfer of PCCW Media Limited to the HKT Group and the Strategic Review; and (ii) announced the declaration of the Dividend in Specie which will leave the Company with a reduced interest in Pacific Century Premium Developments Limited (Stock Code: 0432).

As part of the Strategic Review, the Company has submitted a proposal to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules in relation to a proposed spin-off which would involve a separate listing of PCCW OTT on a recognised stock exchange in the United States through a registered public offering. The terms of any spin-off, including offering size, price range and any assured entitlement to PCCW OTT securities for Shareholders, have not yet been finalised and further announcement(s) will be made by the Company as and when appropriate. The proposed spin-off, if it proceeds, is not expected to amount to a discloseable transaction for the Company, and PCCW OTT is expected to remain as a subsidiary of the Company after the spin-off.

Shareholders and potential investors of the Company should note that there is no assurance that a spin-off or any other strategic initiative pursuant to the Strategic Review will take place or as to when either of them may take place or the terms thereof.

PUBLIC FLOAT

The Stock Exchange has stated that if, at the closing of the Partial Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, is held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend dealings in the Shares.
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As at the Latest Practicable Date, the Company has a public float of approximately 52.49% of the Shares in issue. Assuming that the Partial Offer is completed, the Company will have a public float of approximately 51.01% of the Shares in issue immediately following completion of the Partial Offer (assuming that there are no changes to the total number of Shares in issue between the Latest Practicable Date and the Final Closing Date) and accordingly the number of Shares in public hands will continue to meet the 25% minimum public float requirement under Rule 8.08 of the Listing Rules.

RECOMMENDATION

The Principal, being the Chairman of the Board, an Executive Director and the sole ultimate beneficial owner of the Offeror, has not joined the rest of the Board in giving his views on the Partial Offer or the recommendation to the Qualifying Shareholders as set out in this letter.

An Independent Board Committee, which comprises all of the Non-Executive Directors, has been established by the Board to make a recommendation to the Qualifying Shareholders as to whether the terms of the Partial Offer are fair and reasonable and as to approval and acceptance taking into account the advice from Somerley, the Independent Financial Adviser to the Independent Board Committee.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee in respect of the Partial Offer and in particular as to whether the terms of the Partial Offer are fair and reasonable and as to approval and acceptance.

GENERAL

Your attention is drawn to the letter from SCB and to Appendix I to this Composite Document and the accompanying Form of Approval and Acceptance for the principal terms and the acceptance and settlement procedures in relation to the Partial Offer.

Your attention is also drawn to (1) the letter from the Independent Board Committee in this Composite Document which contains the Independent Board Committee’s advice to Qualifying Shareholders in respect of approval and acceptance of the Partial Offer and (2) the letter from Somerley in this Composite Document which contains, among other things, Somerley’s advice to the Independent Board Committee in respect of the Partial Offer and principal factors and reasons considered by it in arriving at such advice.

Your attention is further drawn to the general information as set out in Appendix III to this Composite Document.

Yours faithfully,
By Order of the Board
PCCW Limited
BG Srinivas
Group Managing Director