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PCCW Limited

電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

ANNOUNCEMENT UNDER RULE 13.09(1) OF THE LISTING RULES

PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE TELECOMMUNICATIONS BUSINESS

POSSIBLE MAJOR TRANSACTION

This announcement is made pursuant to Rule 13.09 and PN15 of the Listing Rules.

The Company submitted a proposal to the Stock Exchange pursuant to PN15 in relation to the Proposed Spin-off of the Company's Telecommunications Business. The Stock Exchange has approved the Company's proposal under PN15 and has now confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange's approval under PN15 has been granted subject to the fulfilment by the Company of certain conditions, the essence of which are referred to in this announcement and which will be further particularised in the detailed circular in respect of the Proposed Spin-off to be prepared by the Company and sent to Shareholders. The Company's intention is that the Proposed Spin-off should proceed by way of a listing of a business trust on the main board of the Stock Exchange. As this is a novel concept in Hong Kong, the Company is continuing to work with the Hong Kong regulators to finalise a structure that would enable the Business Trust to operate within Hong Kong's existing regulatory framework. The structure being discussed with the regulators involves the listing of stapled securities, with each stapled security comprising a unit in a trust and a share in the holding company of the Telecommunications Business.

The Company's intention is to dispose of only a minority stake in the Business Trust through the listing process. Thus, the majority interest in the Telecommunications Business (the current intention being that it will be a 55% interest) will be retained by the Company, and the results of the Telecommunications Group will continue to be consolidated into the financial results of the Company.

Proceeds raised from the sale of stapled securities of the Business Trust as part of the listing transaction would be used both to reduce the indebtedness of the Telecommunications Group and to generate sums for the further development of PCCW's Growth Businesses.

In accordance with the requirements of PN15, the Board proposes to enhance the interests of Shareholders by providing qualifying shareholders with an assured entitlement to stapled securities of the Business Trust by means of both a bonus issue in the form of a distribution in specie of stapled securities, and a preferential right to subscribe for stapled securities. Subject to finalisation of the details, the Company's current intention would be to distribute between 5% and 10% of the stapled securities of the Business Trust by way of a bonus issue in the form of a distribution in specie and, of the total number of stapled securities offered for subscription in the initial public offering, to make available up to 30% of such stapled securities (i.e. up to 30% of the offering) to qualifying shareholders on a preferential basis, ahead of institutional investors or the Hong Kong public generally.

The Company intends to maintain at least the same level of dividend distribution to the Shareholders as in 2010 for the three (3) years following the Proposed Spin-off of the Business Trust.

The Company has calculated that the Proposed Spin-off will constitute a major transaction for PCCW as the effect of disposing of the interest in the Telecommunications Business is anticipated to result in one or more of the percentage ratios (as defined in the Listing Rules) exceeding 25% (but each of them being less than 75%). Accordingly, the Proposed Spin-off will be subject to Shareholders' approval and a detailed circular in respect of the Proposed Spin-off will be prepared and sent to Shareholders. In accordance with PN15, an independent financial adviser, NM Rothschild & Sons (Hong Kong) Limited, has been appointed to make recommendations to the Company's independent board committee and the Shareholders as to the terms of the Proposed Spin-off and to advise the Shareholders how to vote in relation to the resolution to approve the Proposed Spin-off. It is not anticipated that any Shareholder will be excluded from voting on the Proposed Spin-off, as no Shareholder is understood to have any material interest in the proposal that is different from any other Shareholder.

The Proposed Spin-off and the listing of the stapled securities of the Business Trust on the Stock Exchange remains subject to a number of important conditions, including finalising the structure of the Business Trust to meet the requirements of the Hong Kong regulators, the approval of the Listing Committee for the listing of and permission to deal in the stapled securities of the Business Trust and approval of the Proposed Spin-off by the Shareholders.

The Proposed Spin-off is expected to benefit both the Shareholders of the Company and investors in the Business Trust. The Business Trust will have increased financial resources and a clearer focus on the mature and stable cashflow generating Telecommunications Business, thereby aligning it with the appropriate investor base that favours highly stable dividend yields, and this is expected to achieve a higher valuation from this investor base. Part of the proceeds of the Proposed Spin-off will be made available to the Company to make investments in, or to supplement, the Growth Businesses, thereby creating additional value for the Shareholders.

Accordingly, Shareholders and potential investors in the Company should be aware that there is no assurance that the Proposed Spin-off will take place. If the Proposed Spin-off does not proceed for any reason, the proposed distribution in specie of stapled securities and preferential rights to subscribe for stapled securities of the Business Trust will not be made nor can any assurances be given on the Company's future dividend policy. Shareholders and potential investors in the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

Introduction

This announcement is made pursuant to Rule 13.09 and PN15 of the Listing Rules.

Reference is made to the announcements of the Company dated March 21, 2011, March 29, 2011 and April 27, 2011. In the announcement of April 27, 2011, the Company announced its intention to seek a review of the Listing Committee's decision to reject a proposal by the Company to spin-off and seek a separate listing for the Telecommunications Business, in the form of a listed business trust.

Since that date, the Company has made a material modification to its proposal, namely to make a clear and specific commitment to retain the Solutions Business within the Group for at least three years. On this basis, the Company's proposal was re-considered by the Listing Committee, which has approved the Company's proposal and has confirmed that the Company may proceed with the Proposed Spin-off.

As referred to in the March 29, 2011 announcement, the Company's preferred option is to seek a listing for the Business Trust in Hong Kong. On this basis, the Company is continuing to work with the Hong Kong regulators to finalise a structure that would enable the Business Trust to operate within Hong Kong's existing regulatory framework. The structure being discussed with the regulators involves the listing of stapled securities, with each stapled security comprising a unit in a trust and a share in the holding company of the Telecommunications Business. In conjunction with this, the Company is also in the process of preparing a detailed listing application, to be submitted to the Stock Exchange, for the listing of and permission to deal in stapled securities of the Business Trust on the main board of the Stock Exchange.

Background

PCCW currently carries on three main lines of businesses:

- (i) The Telecommunications Business conducted by the Telecommunications Group, characterised by mature and stable cash flows;
- (ii) The "Growth Businesses", being PCCW's businesses other than the Telecommunications Business and the Property Business. The principal Growth Businesses are the Solutions Business and the Media Business, both of which are established businesses with improving profitability and cash flows; and
- (iii) The Property Business conducted by PCPD, in which the Company has an approximately 61.53% shareholding interest.

Proposed Spin-off

The Proposed Spin-off concerns only the Telecommunications Business which is to be restructured under a Business Trust. The restructuring will not alter the underlying activities of the Telecommunications Business which will continue to comprise:

- (a) local telephony services;
- (b) local data services;
- (c) international telecommunications services;

- (d) other services (including the sale of customer premises equipment, outsourcing services, consulting services, and contact centre services); and
- (e) mobile services.

The Business Trust structure would involve the Telecommunications Group being held by a business trust, which is not itself a separate legal entity but would be managed and controlled by a trustee-manager, with a wholly-owned subsidiary of the Company being appointed for this purpose. The trustee-manager would be appointed and could be removed by a resolution passed at a meeting of the holders of stapled securities of the Business Trust, by holders holding a simple majority (over 50%) of the outstanding stapled securities.

The Company's intention is to dispose of only a minority stake in the Business Trust through the listing process. Thus, the majority interest in the Telecommunications Business (the current intention being that it will be a 55% interest) will be retained by the Company, and the results of the Telecommunications Group will continue to be consolidated into the financial results of the Company.

Proceeds raised from the sale of stapled securities of the Business Trust as part of the listing transaction would be used both to reduce the indebtedness of the Telecommunications Group and to generate sums for the further development of PCCW's Growth Businesses.

PCCW after the Proposed Spin-off

As well as retaining control of the Telecommunications Business, the Company, after the Proposed Spin-off, will retain its controlling stake in PCPD and its 100% interest in each of the Solutions Business and the Media Business, which are substantial businesses in their own rights.

The Solutions Business is conducted by the Solutions Group. Since 2000, the Solutions Group has transformed itself from an in-house IT department to become a leading Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) provider in Hong Kong and China. Responsible for a growing number of large-scale IT projects in the public and private sectors, the Solutions Group has considerable industry experience and technical expertise and is viewed as a major industry player in Greater China.

Generating total revenues of approximately HK\$2.039 billion in 2010, the Solutions Group has substantial scale to offer a comprehensive range of customised solutions including data centre services, IT infrastructure outsourcing, systems integration, application development, management and maintenance, technical operations outsourcing and monitoring systems and BPO on customer and logistics management.

The Media Business is conducted by the Media Group. The Media Business is a leading, fully integrated multi-media and entertainment group in Hong Kong. It is principally engaged in:

- (a) the provision of content and interactive services through multiple distribution channels, including the operation of the largest pay television service in Hong Kong in terms of revenues;
- (b) the production of popular Chinese language programming (including news, financial news, sports, entertainment programming, music concerts and events); and
- (c) the provision of integrated advertising solutions via its television platform and through its online new media assets, currently comprising yp.com.hk (the Internet directories of

Yellow Pages), now.com and Moov. The yp.com.hk online Yellow Pages directory services are also made available over various interactive platforms and also through print.

The Media Business operates two key business lines:

- *now TV* (an internet protocol pay television (IPTV) service which derives its revenue from pay television subscription, advertising and interactive activities); and
- New Media and Directories (which includes its online content and video-streaming services now.com, Moov and its Yellow Pages business, which is largely web based, yp.com.hk).

The consolidated revenues of the Media Business have grown from approximately HK\$1.703 billion in fiscal year 2007 to approximately HK\$2.383 billion in fiscal year 2010, representing a compound annual growth rate of approximately 12%. Over the last three fiscal years, the Media Business has grown its *now TV* subscriber base from approximately 758,000 as of 31 December 2006 to approximately 1,039,000 as of 31 December 2010.

Reasons for and benefits of the Proposed Spin-off

The directors of the Company believe that the proposed listing of the Telecommunications Business, through the Business Trust, will bring about clear benefits to both the Company and the Telecommunications Business:

- (a) ***Fair valuation for the Telecommunications Business:*** The directors of the Company believe that a separate listing of the Telecommunications Business will unlock value for the Shareholders and better identify and establish the fair value of the Telecommunications Business. The directors anticipate that this value will represent a substantial enhancement to its existing value within the confines of the Company's listing, which will, in turn, increase the value of shares in the Company to the benefit of all of the Shareholders. Listing the Telecommunications Business as a Business Trust is expected to align its mature and stable cashflow generating characteristic with the appropriate investor base that favours highly stable yields and pure-plays and therefore ought to achieve a higher valuation from this investor base.
- (b) ***Proceeds of the Proposed Spin-off:*** The Company will realise substantial cash consideration from the disposal of part of the Company's holding in the Telecommunications Business; which it is anticipated will enable the Company to make investments in, or to supplement its Growth Businesses, thereby creating additional value for the Shareholders.
- (c) ***Focus, clarity of business and financial status:*** The directors of the Company believe that the separate listing of the Business Trust will allow the Telecommunications Business to create a more defined business focus and efficient resource allocation. Further, the separate listing of the Telecommunications Business will provide investors, the market generally and the rating agencies with greater clarity on the businesses and financial status of the Telecommunications Business.
- (d) ***Creates own investor base for Telecommunications Business:*** The directors of the Company believe that a separate listing of the Telecommunications Business through the Business Trust will enable it to create its own investor base and market following.
- (e) ***Increased financial resources for the Telecommunications Group:*** Part of the proceeds of the Proposed Spin-off will be made available to the Telecommunications Business to

reduce its indebtedness, thereby increasing the value and financial resources of the Telecommunications Group and benefiting both the Telecommunications Group and the Company.

- (f) **Continued control:** The directors of the Company believe that as the Company's wholly owned subsidiary will continue to be the trustee-manager of the Business Trust and the Company will continue to be the beneficial owner of a majority of the stapled securities of the Business Trust, the Shareholders will continue to enjoy the benefits from the future development and growth of the Telecommunications Business.
- (g) **No direct dilution:** If the Company were to raise capital by selling new shares of the Company in the traditional way, the Shareholders would be immediately diluted. In contrast, listing the Telecommunications Business as a Business Trust is expected to allow the Company to unlock the value of the Telecommunications Business without causing direct dilution to the Shareholders, because the Company will continue to be the majority owner of the Business Trust.

Measures to enhance the interests of Shareholders

In accordance with the requirements of PN15, the Board proposes to enhance the interests of Shareholders by providing qualifying shareholders with an assured entitlement to stapled securities of the Business Trust by means of both a bonus issue in the form of a distribution in specie of stapled securities and a preferential right to subscribe for stapled securities. Subject to finalisation of the details, the Company's current intention would be to distribute between 5% and 10% of the stapled securities of the Business Trust by way of a bonus issue in the form of a distribution in specie and, of the total number of stapled securities offered for subscription in the initial public offering, to make available up to 30% of such stapled securities (i.e. up to 30% of the offering) to qualifying shareholders on a preferential basis, ahead of institutional investors or the Hong Kong public generally.

The Company intends to maintain at least the same level of dividend distribution to the Shareholders as in 2010 for the three (3) years following the Proposed Spin-off of the Business Trust.

Major transaction

The Company has calculated that the Proposed Spin-off will constitute a major transaction for PCCW as the effect of disposing of the interest in the Telecommunications Business is anticipated to result in one or more of the percentage ratios (as defined in the Listing Rules) exceeding 25% (but each of them being less than 75%). Accordingly, the Proposed Spin-off will be subject to Shareholders' approval and a detailed circular in respect of the Proposed Spin-off will be prepared and sent to Shareholders. In accordance with PN15, an independent financial adviser, NM Rothschild & Sons (Hong Kong) Limited, has been appointed to make recommendations to the Company's independent board committee and the Shareholders as to the terms of the Proposed Spin-off and to advise the Shareholders how to vote in relation to the resolution to approve the Proposed Spin-off. It is not anticipated that any Shareholder will be excluded from voting on the Proposed Spin-off, as no Shareholder is understood to have any material interest in the proposal that is different from any other Shareholder.

General

The Stock Exchange's approval under PN15 has been granted subject to the fulfilment by the Company of certain conditions, the essence of which are referred to in this announcement and

which will be further particularised in the detailed circular in respect of the Proposed Spin-off to be prepared by the Company and sent to Shareholders. In addition, the Proposed Spin-off and the listing of the stapled securities of the Business Trust on the Stock Exchange remains subject to a number of other important conditions, including:

- satisfaction on the part of the regulators that the Business Trust structure, being a novel concept in Hong Kong, is capable of operating within Hong Kong's existing securities laws and regulations;
- the approval of the Listing Committee for the listing of and permission to deal in the stapled securities of the Business Trust;
- the approval of Shareholders in general meeting, as referred to above;
- the specific approval of one of the Company's substantial shareholders, China United Network Communications Group Company Limited (pursuant to the terms of its agreement with the Company as entered into by the former's predecessor at the time of its original investment in 2005); and
- the final decision of the Board as to important issues such as timing and pricing, being fundamental market-driven factors.

Accordingly, Shareholders and potential investors in the Company should be aware that there is no assurance that the Proposed Spin-off will take place. If the Proposed Spin-off does not proceed for any reason, the proposed distribution in specie of stapled securities and preferential rights to subscribe for stapled securities of the Business Trust will not be made nor can any assurances be given on the Company's future dividend policy. Shareholders and potential investors in the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

The Company's current estimate is that a circular will be dispatched to Shareholders in August 2011. The listing of stapled securities of the Business Trust is targeted to be completed by the fourth quarter of 2011.

Further announcement(s) in relation to the Proposed Spin-off will be made by the Company as and when appropriate.

Definitions

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| “Board” | the board of directors of the Company |
| “Business Trust” | the business trust to be established by the Company for the purposes of the Proposed Spin-off, the stapled securities of which would be the subject of an application to list on the main board of the Stock Exchange |
| “Company” or “PCCW” | PCCW Limited (stock code: 0008), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| “Group” | the Company and its subsidiaries |

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| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Media Business” | the multi-media and entertainment business carried on by the Media Group |
| “Media Group” | HKT Media Holdings Limited and its subsidiaries, all being members of the Group |
| “PCPD” | Pacific Century Premium Developments Limited (stock code: 0432), a subsidiary of the Company and the shares of which are listed on the main board of the Stock Exchange |
| “PN15” | Practice Note 15 of the Listing Rules |
| “Property Business” | the property business carried on by PCPD and its subsidiaries |
| “Proposed Spin-off” | the proposed spin-off of part of the Company’s interest in the Telecommunications Business by way of a separate listing of stapled securities of the Business Trust on the main board of the Stock Exchange |
| “Shareholders” | the shareholders of the Company |
| “Solutions Business” | the information technology and process outsourcing business carried on by the Solutions Group |
| “Solutions Group” | HKT Solutions Holdings Limited and its subsidiaries, all being members of the Group |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Telecommunications Business” | the telecommunications services business carried on by the Telecommunications Group |
| “Telecommunications Group” | Hong Kong Telecommunications HKT (CI) Limited and its subsidiaries, all being members of the Group |

By Order of the Board of
PCCW Limited
Philana WY Poon
Group General Counsel and Company Secretary

Hong Kong, June 2, 2011

The directors of the Company as at the date of this announcement are as follows:

Executive Directors:

Li Tzar Kai, Richard (Chairman); Alexander Anthony Arena (Group Managing Director); Peter Anthony Allen; Lee Chi Hong, Robert and Hui Hon Hing, Susanna

Non-Executive Directors:

Sir David Ford, KBE, LVO; Lu Yimin; Zuo Xunsheng (Deputy Chairman); Li Fushen; Chung Cho Yee, Mico; and Tse Sze Wing, Edmund, GBS

Independent Non-Executive Directors:

Professor Chang Hsin-kang, FREng, GBS, JP; Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP; Sir Roger Lobo, CBE, LLD, JP; Aman Mehta and The Hon Raymond George Hardenbergh Seitz