THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in PCCW Limited (the "**Company**"), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer to sell or an invitation to acquire, purchase or subscribe for securities nor is it calculated to invite any such offer or invitation in the United States or in any other jurisdiction.

The securities of the HKT Trust (as defined herein) and HKT (as defined herein) referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws of the United States, and such securities may not be offered or sold in the United States absent registration under the U.S. Securities Act or, pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Neither the HKT Trust nor HKT intends to register its securities under the U.S. Securities Act or to engage in a public offering of its securities in the United States.

The implementation of the Proposed Spin-off (as defined herein) is subject to, among others, the Stock Exchange granting approval for the listing of, and permission to deal in, all of the Share Stapled Units (as defined herein). Shareholders and potential investors should therefore exercise caution when dealing in or investing in the securities of the Company.

PCCW®

PCCW Limited

電 訊 盈 科 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE TELECOMMUNICATIONS BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED IN THE FORM OF A SHARE STAPLED UNITS STRUCTURE AND PROPOSED ADOPTION OF THE 2011-2021 OPTION SCHEME

Independent Financial Adviser to the Independent Board Committee and the Shareholders

ROTHSCHILD

A letter from the Board is set out on pages 22 to 152 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on pages 153 to 154 of this circular. A letter from the independent financial adviser to the Independent Board Committee and the Shareholders is set out on pages 155 to 180 of this circular.

A notice convening an extraordinary general meeting ("**EGM**") of the Company to be held at 10:30 a.m. on Wednesday, 12 October 2011 at 9th Floor, Telecom House, 3 Gloucester Road, Wan Chai, Hong Kong is set out on pages N1 to N3 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM or at any adjourned meeting in person, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Investor Communications Centre, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

26 September 2011

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EGM *(Note)*	10:30 a.m. on Wednesday, 12 October 2011
Announcement of the poll results of the EGM	Wednesday, 12 October 2011

Preferential Offering

The timetable relating to the Preferential Offering will be announced at a later stage in accordance with Rule 13.66 of the Listing Rules.

First Distribution

Last day for dealing in the Shares cum-entitlement to the First Distribution	The date which is four business days prior to the First Distribution Record Date
First day of dealings in the Shares ex-entitlement to the First Distribution	The date which is three business days prior to the First Distribution Record Date
Latest time for lodging transfers of Shares to qualify for the First Distribution	4:30 p.m. on the date which is two business days prior to the First Distribution Record Date
Register of members of the Company closes	From one business day prior to the First Distribution Record Date to the First Distribution Record Date
Reference time on the First Distribution Record Date for determining entitlements to the First Distribution	**4:30 p.m. on the First Distribution Record Date**
Register of members of the Company re-opens on	The date which is one business day after the First Distribution Record Date
Despatch of Share Stapled Unit certificates pursuant to the First Distribution to First Distribution Qualifying Shareholders (other than First Distribution Overseas Shareholders)	The date which is forty business days after the First Distribution Record Date
Despatch of cheques to First Distribution Overseas Shareholders of the net proceeds of the sale of Share Stapled Units to which they would otherwise receive pursuant to the First Distribution on or before	The date which is forty-seven business days after the First Distribution Record Date

Note: The register of members of the Company will not be closed for the EGM.

Second Distribution

Last day for dealing in the Shares cum-entitlement to the Second Distribution	The date which is four business days prior to the Second Distribution Record Date
First day of dealings in the Shares ex-entitlement to the Second Distribution	The date which is three business days prior to the Second Distribution Record Date
Latest time for lodging transfers of Shares to qualify for the Second Distribution	4:30 p.m. on the date which is two business days prior to the Second Distribution Record Date
Register of members of the Company closes	From one business day prior to the Second Distribution Record Date to the Second Distribution Record Date
Reference time on the Second Distribution Record Date for determining entitlements to the Second Distribution	**4:30 p.m. on the Second Distribution Record Date**
Register of members of the Company re-opens on	The date which is one business day after the Second Distribution Record Date
Despatch of Share Stapled Unit certificates pursuant to the Second Distribution to Second Distribution Qualifying Shareholders (other than Second Distribution Overseas Shareholders)	The date which is forty business days after the Second Distribution Record Date
Despatch of cheques to Second Distribution Overseas Shareholders of the net proceeds of the sale of Share Stapled Units which they would otherwise receive pursuant to the Second Distribution on or before	The date which is forty-seven business days after the Second Distribution Record Date

All times refer to Hong Kong local time. Please note that the above tentative timetable depends on the final timetable of the Proposed Spin-off and thus it may be subject to further changes. Further announcement(s) will be made as and when necessary.

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"2008 Restructuring"	the reorganisation of the telecommunications services, media and IT solutions businesses under HKTGH, through its wholly-owned subsidiaries, the final step of which was completed in the fourth quarter of 2008
"2011-2021 Option Scheme"	the Share Stapled Units option scheme proposed to be adopted by the HKT Trust and HKT, which will take effect subject to, among other things, the commencement of dealings in the Share Stapled Units on the Main Board of the Stock Exchange, the terms of which are summarised in the section headed "Summary of the Principal Terms of the 2011-2021 Option Scheme and Share Stapled Units Award Schemes" in Appendix VI to this circular
"Acquisition"	the transfer of the Telecommunications Business to HKT pursuant to the Pre-IPO Restructuring
"Adjusted Funds Flow"	the Telecommunications Group's EBITDA, less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measure derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The computation of the Telecommunications Group's Adjusted Funds Flow may not be comparable to similarly titled measures of other companies
"ADSL"	asymmetric digital subscriber line technology used for data transmission over fixed-line telephone lines
"Annual Adjusted Funds Flow"	the Telecommunications Group's Adjusted Funds Flow for a financial year as derived from HKT's annual audited consolidated financial statements
"Application Forms"	the application forms to be issued by the HKT Trust and HKT and to be used for the subscription of Share Stapled Units pursuant to the Hong Kong Public Offering and the Preferential Offering
"ARPU"	average revenue per user per month
"associate"	has the meaning given to it in the Listing Rules

"Assured Entitlement"	the entitlement of the Qualifying Shareholders to apply for the Reserved Share Stapled Units on an assured basis under the Preferential Offering determined on the basis of their respective shareholdings in the Company at 4:30 p.m. on the Record Date
"ATM"	asynchronous transfer mode
"Authorised Business"	the authorised business of the HKT Trust as prescribed in the Trust Deed, being: (a) investing in HKT (including without limitation investment in securities and other interests in HKT); (b) the exercise of the Trustee-Manager's powers, authorities and rights, and the performance of its duties and obligations, under the Trust Deed; and (c) any thing or activity which is necessary or desirable for or in accordance with the activities referred to in paragraphs (a) and/or (b) above
"Beneficial Owner"	any beneficial owner of Shares whose Shares are registered, as shown in the register of members of the Company, in the name of a registered Shareholder on the Record Date
"BLUE Application Form(s)"	the application form(s) to be sent to Qualifying Shareholders to subscribe for Reserved Share Stapled Units pursuant to the Preferential Offering
"Board"	the board of Directors
"BPO"	business process outsourcing, a subset of outsourcing arrangement that involves the contracting of the operations and responsibilities of specific business functions (or process) to a third-party service provider
"BTS"	base stations
"business day"	a day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general business in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate

"CAS No. 1"	CAS Holding No. 1 Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company
"Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Account"	a securities account maintained by a CCASS Participant with CCASS
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"CDMA 2000"	a 3G technology standard used to send voice, data and signalling data between mobile phones and cell sites, the other major 3G standard being W-CDMA
"CDMA IS-95"	a 2G technology standard used to send voice, data and signalling data between mobile phones and cell sites, the other major 2G standard being GSM
"CDN"	content delivery network or content distribution network, a system of computers containing copies of data placed at various nodes of a network
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being
"Company" or "PCCW"	PCCW Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Stock Exchange (Stock Code: 0008) and traded in the form of American Depositary Receipts, each representing 10 Shares, on the OTC Markets Group Inc. in the United States (Ticker: PCCWY)

"Consideration Share Stapled Units"	such number of the Share Stapled Units to be jointly issued by the HKT Trust and HKT to CAS No. 1 (or to such person or entity as CAS No. 1 may direct) as part settlement of the consideration for the Acquisition
"Controlling Holder of Share Stapled Units"	the holder of not less than 30% of the issued Share Stapled Units, namely, the Company
"Convertible Instruments"	any options, warrants or similar rights for the subscription or issue of Share Stapled Units issued by the HKT Trust and HKT and any securities issued by HKT or any subsidiaries of HKT which are convertible into or exchangeable for Share Stapled Units and references to an issue of Share Stapled Units "pursuant to" any Convertible Instruments means an issue of Share Stapled Units pursuant to exercise of any subscription (or similar), conversion or exchange rights under the terms and conditions of such Convertible Instruments
"Director(s)"	the director(s) of the Company
"Distributable Income"	in respect of the HKT Trust, has the meaning given in the section headed "Part VI — Distribution policy of the HKT Trust and profit forecast" in the "Letter from the Board" in this circular
"Distribution Overseas Shareholders"	the First Distribution Overseas Shareholders and the Second Distribution Overseas Shareholders
"Distribution Qualifying Shareholders"	the First Distribution Qualifying Shareholders and the Second Distribution Qualifying Shareholders
"Distributions in Specie"	the conditional special dividend to be declared by a board committee of the Company and to be satisfied by way of two distributions in specie of Share Stapled Units to the Distribution Qualifying Shareholders comprising the First Distribution and the Second Distribution, subject to the satisfaction of certain conditions as described in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Distributions in Specie to Distribution Qualifying Shareholders" in the "Letter from the Board" in this circular
"DSL"	digital subscriber line, a family of technologies that provides digital data transmission over the wires of a local telephone network

"EBITDA"	represents consolidated earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the group's share of results of associates and jointly controlled companies. While EBITDA is commonly used in the telecommunications, media and IT services industries worldwide as an indicator of operating performance and liquidity, it is not presented as a measure of operating performance in accordance with HKFRS. Furthermore, EBITDA is not a measure of the financial performance leverage or liquidity under HKFRS and should not be considered as representing net cash flows from operating activities or any other performance measure derived in accordance with HKFRS or an alternative to cash flow from operations or a measure of liquidity. The computation of EBITDA may not be comparable to similarly titled measures of other companies
"EGM"	the extraordinary general meeting of the Company to be held at 10:30 a.m. on Wednesday, 12 October 2011 at 9th Floor, Telecom House, 3 Gloucester Road, Wan Chai, Hong Kong convened by the notice of the extraordinary general meeting set out on pages N1 to N3 of this circular (or any adjournment thereof)
"Exchange Right"	the right of the Registered Holders of Share Stapled Units under the Trust Deed, exercisable by passing an Extraordinary Resolution of Registered Holders of Units, to require all of the Share Stapled Units in issue to be exchanged for the Ordinary Shares held by the Trustee-Manager which are Linked to the Units which are components of the Share Stapled Units. If the Exchange Right is exercised, the Trust Deed would terminate, the Units and the Preference Shares would be exchanged and cancelled and the former Registered Holders of Share Stapled Units would hold listed and, subject to the prior approval of the Stock Exchange, tradeable Ordinary Shares in HKT

"Extraordinary Resolution of Registered Holders of Units"	a resolution proposed and passed as such by a majority consisting of 75% or more of the total number of votes cast for and against such resolution at a meeting of Registered Holders of Units duly convened and held in accordance with the provisions of the Trust Deed
"First Distribution"	has the meaning ascribed to it in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Distributions in Specie to Distribution Qualifying Shareholders" in the "Letter from the Board" in this circular
"First Distribution Overseas Shareholders"	Shareholders whose names appear in the register of members of the Company at 4:30 p.m. on the First Distribution Record Date and whose addresses as shown in such register are in any of the Specified Territories, except for those Shareholders who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie set out in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to receive Share Stapled Units under the Distributions in Specie" in the "Letter from the Board" in this circular and any Shareholders or Beneficial Owner(s) at that time who are otherwise known by the Company to be resident in any of the Specified Territories, except those Shareholders or Beneficial Owners who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to receive Share Stapled Units under the Distributions in Specie" in the "Letter from the Board" in this circular
"First Distribution Qualifying Shareholders"	Shareholders whose names appear in the register of members of the Company at 4:30 p.m. on the First Distribution Record Date
"First Distribution Record Date"	means, subject to the Proposed Spin-off proceeding, the earlier of (i) one business day after the date on which the HKT Trust and HKT publish an announcement of their annual or interim financial results in accordance with the Listing Rules for the first time following the Listing Date or (ii) the last business day of the fiscal quarter in which the Listing occurs
"Forecast Year"	1 January 2011 to 31 December 2011
"FTTB"	fiber-to-the-building
"FTTH"	fiber-to-the-home

"FTTx"	fiber-to-the-x, a generic term for any broadband network architecture that uses optical fiber to replace all or part of the usual metal local loop used for last mile telecommunications
"Gbps"	gigabit(s) per second
"Global Offering"	the global offering of Share Stapled Units jointly by the HKT Trust and HKT for subscription at the Offer Price under the International Offering, the Hong Kong Public Offering and the Preferential Offering
"Government"	the Government of Hong Kong
"Greater China Region"	the PRC, Hong Kong, Macau and Taiwan
"Group" or "PCCW Group"	the Company and its subsidiaries from time to time and the expressions "member of the Group" and "member of the PCCW Group" shall be construed accordingly
"GSM"	global system for mobile communications, a 2G cellular mobile phone standard. The other major 2G cellular mobile phone standard being CDMA
"HIBOR"	Hong Kong Inter-bank Offer Rate
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited in its capacity as nominee for HKSCC as operator of CCASS and any successor, replacement or assign of HKSCC Nominees as nominee for HKSCC as operator of CCASS
"HKT"	HKT Limited, a company incorporated in the Cayman Islands with limited liability which will, following completion of the Proposed Spin-off, have its Ordinary Shares and Preference Shares listed on the Stock Exchange and all its issued Ordinary Shares held by the Trustee-Manager

"HKT Shareholder(s)"	person(s) registered at the relevant time in the Principal Register of Members of HKT or the Hong Kong Register of Members of HKT as the holder(s) of an Ordinary Share and/or a Preference Share
"HKT Share Stapled Units Purchase Scheme"	the Share Stapled Units award scheme (involving purchases of Share Stapled Units already in issue) proposed to be adopted by HKT, the anticipated principal terms of which are summarised in the section headed "Summary of the Principal Terms of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes" in Appendix VI to this circular
"HKT Share Stapled Units Subscription Scheme"	the Share Stapled Units award scheme (involving subscriptions for new Share Stapled Units) proposed to be adopted by HKT, the anticipated principal terms of which are summarised in the section headed "Summary of the Principal Terms of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes" in Appendix VI to this circular
"HKT Trust"	the trust to be established under the Laws of Hong Kong as a fixed single investment trust and known as the "HKT Trust"
"HKT Trust Property"	all property and rights of any kind whatsoever that are held on trust for the Registered Holders of Units, in accordance with the terms of the Trust Deed, including: (a) securities and other rights and interests in HKT acquired by the HKT Trust; (b) contributions of money to the HKT Trust and subscription monies for the issuance of Units; (c) the rights in respect of any contract, agreement or arrangement relating to the Authorised Business entered into by and on behalf of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust; and (d) profits, interest, income and property derived from the securities, money and other rights and interests referred to in paragraphs (a) to (c) above
"HKTC"	PCCW-HKT Telephone Limited, a company incorporated in Hong Kong on 24 June 1925 and an indirect wholly-owned subsidiary of PCCW
"HKTGH"	HKT Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, an indirect wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of CAS No. 1. HKTGH will be an indirect wholly-owned subsidiary of HKT following the completion of the Pre-IPO Restructuring

"HKTL"	PCCW-HKT Limited (formerly known as Cable & Wireless HKT Limited and Hong Kong Telecommunications Limited), a company incorporated in Hong Kong on 17 June 1987 and an indirect wholly-owned subsidiary of PCCW
"Holders of Share Stapled Units"	persons registered in the Share Stapled Units Register as holders of Share Stapled Units and, where the registered holder of Share Stapled Units is HKSCC Nominees, shall also include, where the context so admits, the CCASS Participants whose CCASS Accounts are deposited with the Share Stapled Units
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Share Stapled Units"	the Share Stapled Units proposed to be initially offered jointly by the HKT Trust and HKT pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the proposed offer of the Hong Kong Offer Share Stapled Units for subscription by the public in Hong Kong for cash jointly by the HKT Trust and HKT at the Offer Price on and subject to and in accordance with the terms and conditions to be described in the Prospectus and the Application Forms
"Hong Kong Register of Members of HKT"	the branch register of members of HKT to be established and maintained by HKT in Hong Kong in accordance with the articles of association of HKT and the Trust Deed
"Hong Kong Underwriters"	the underwriters to be appointed by the Trustee-Manager and HKT to underwrite the Hong Kong Public Offering
"HSPA"	high speed packet access
"IDD"	international direct dialing
"Independent Board Committee"	the independent committee of the Board comprising 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, being all the independent non-executive Directors, established by the Company to consider the Proposed Spin-off and advise Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote in respect of the Proposed Spin-off at the EGM, taking into account the recommendation of Rothschild in that regard

"Intellectual Property Rights"	trademarks, patents, domain names and designs (if any)
"International Offer Share Stapled Units"	the Share Stapled Units proposed to be initially offered jointly by the HKT Trust and HKT pursuant to the International Offering (subject to reallocation), together with, where relevant, any additional Share Stapled Units that may be jointly issued by the HKT Trust and HKT pursuant to any exercise of the Over-allotment Option
"International Offering"	the proposed offer of the International Offer Share Stapled Units jointly by the HKT Trust and HKT at the Offer Price to institutional and professional investors and others (including professional and institutional investors in Hong Kong) who are eligible, under the relevant securities laws and regulations, to participate in the Global Offering, as further described in the section headed "Part XVI — Structure of the Global Offering" in the "Letter from the Board" in this circular
"International Underwriters"	the underwriters to be appointed by the Trustee-Manager and HKT to underwrite the International Offering
"Internet"	the global system of interconnected computer networks
"IP"	Internet protocol, the protocol used for communicating data across a network
"IPLC"	international private leased circuit, a point-to-point private line used by an organisation to communicate between offices that are geographically dispersed throughout the world
"IPTV"	Internet protocol television, a system through which Internet television services are delivered using the architecture and networking methods of the IP suite over a packet-switched network infrastructure, e.g., the Internet and managed broadband Internet access networks
"IPv6"	Internet protocol version 6
"Joint Registered Holders of Share Stapled Units"	such persons for the time being entered in the Share Stapled Units Register as joint holders of a Share Stapled Unit
"Joint Registered Holders of Units"	such persons for the time being entered in the Units Register as joint holders in respect of a Unit
"Joint Sponsors"	the joint sponsors appointed by the Trustee-Manager and HKT in respect of the Listing, being China International Capital Corporation Hong Kong Securities Limited, Deutsche Bank AG, Hong Kong Branch and Goldman Sachs (Asia) L.L.C.

"Latest Practicable Date"	23 September 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Linked"	the matching and linking of each Unit in the HKT Trust with and to a specifically identified Ordinary Share held by the Trustee-Manager in its capacity as trustee-manager of the HKT Trust, so that the Registered Holder of the Unit has a beneficial interest in the specifically identified Ordinary Share and any transfer of the Unit also transfers the beneficial interest in the Ordinary Share, in accordance with the Trust Deed; and "Linking" shall be construed accordingly
"Listing"	the listing of the Share Stapled Units on the Main Board of the Stock Exchange
"Listing Date"	the date on which the Share Stapled Units are first listed and from which dealings in the Share Stapled Units are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LTE"	long term evolution technology, considered a fourth generation technology for cellular mobile
"Macau"	the Macau Special Administrative Region of the PRC
"Mbps" or "Mbit/s"	megabit(s) per second
"Media Business"	the television and "new media" businesses carried on by the Media Group (as described in the section headed "Part VIII — The Remaining Businesses — The Media Business" in the "Letter from the Board" in this circular)
"Media Group"	Media Holdings and its subsidiaries
"Media Holdings"	HKT Media Holdings Limited, a company incorporated in the Cayman Islands with limited liability and which is an indirect wholly-owned subsidiary of the Company
"MHz"	megahertz or million hertz
"MPLS"	multi-protocol label switching network, a mechanism in high-performance telecommunications networks which directs and carries data from one network node to the next with the help of labels and helps to preserve quality of service on IP networks

"MPLS VPN"	a family of methods for harnessing the power of MPLS to create VPNs
"NGN"	next generation network, a broad term to describe key architectural evolutions in telecommunication core and access networks, also referred to as the migration from circuit switched networks to packet switched IP networks
"Non-Compete Agreement for Media Restricted Business"	the non-compete agreement proposed to be entered into between HKT and the Company in respect of the Media Restricted Business (as defined in the section headed "Part XI — PCCW's relationship with the HKT Trust and HKT after the Proposed Spin-off — Potential conflicts of interest" in the "Letter from the Board" in this circular)
"Non-Compete Agreement for Solutions Restricted Business"	the non-compete agreement proposed to be entered into between HKT and the Company in respect of the Solutions Restricted Business (as defined in the section headed "Part XI — PCCW's relationship with the HKT Trust and HKT after the Proposed Spin-off — Potential conflicts of interest" in the "Letter from the Board" in this circular)
"Non-Compete Agreement for Telecommunications Restricted Business"	the non-compete agreement proposed to be entered into between HKT and the Company in respect of the Telecommunications Restricted Business (as defined in the section headed "Part XI — PCCW's relationship with the HKT Trust and HKT after the Proposed Spin-off — Potential conflicts of interest" in the "Letter from the Board" in this circular)
"Non-Compete Agreements"	the Non-Compete Agreement for Telecommunications Restricted Business, the Non-Compete Agreement for Media Restricted Business and the Non-Compete Agreement for Solutions Restricted Business

"Non-Qualifying Shareholder(s)"	Shareholders whose names appear in the register of members of the Company at 4:30 p.m. on the Record Date and whose addresses as shown in such register are in any of the Specified Territories, except for those Shareholders who satisfy the conditions to participate in the Preferential Offering set out in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering" in the "Letter from the Board" in this circular and any Shareholder(s) or Beneficial Owners at that time who are otherwise known by the Company to be resident in any of the Specified Territories, except for those Shareholders or Beneficial Owners who satisfy the conditions to participate in the Preferential Offering set out in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering" in the "Letter from the Board" in this circular
"Offer Price"	the final subscription price of each Share Stapled Unit under the Global Offering, determined as described in the section headed "Part XVI — Structure of the Global Offering — The Global Offering" in the "Letter from the Board" in this circular
"OFTA"	Office of the Telecommunications Authority of Hong Kong
"Ordinary Resolution of Registered Holders of Units"	a resolution proposed and passed as such by a majority, being more than 50%, of the total number of votes cast for and against such resolution at a meeting of Registered Holders of Share Stapled Units duly convened and held in accordance with the provisions of the Trust Deed
"Ordinary Shares"	ordinary shares of HK$0.0005 each in HKT conferring the rights set out in the articles of association of HKT
"Other PCCW Group Businesses"	businesses of the PCCW Group excluding the Telecommunications Business, the Media Business, the Solutions Business and the Property Business, which primarily consist of UKBB's business described in the section headed "Part VIII — The Remaining Businesses — Other Remaining Businesses" in the "Letter from the Board" in this circular

"Over-allotment Option"	an option proposed to be granted by the HKT Trust and HKT to the International Underwriters (exercisable by or on behalf of the International Underwriters in whole or in part at one or more times from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering), pursuant to which the HKT Trust and HKT may be required to jointly issue new Share Stapled Units representing not more than 15% of the number of Share Stapled Units initially being offered under the Global Offering, at the Offer Price, solely to cover the over-allocation of Share Stapled Units (if any)
"PCPD"	Pacific Century Premium Developments Limited, a company incorporated in Bermuda with limited liability having its shares listed on the Stock Exchange and which was indirectly owned as to approximately 61.53% by the Company as at the Latest Practicable Date
"PCRD"	Pacific Century Regional Developments Limited, a company incorporated in Singapore on 25 October 1963 and the shares of which are listed on the SGX-ST(SES:P15) and which owned approximately 21.29% of the Shares in PCCW as at the Latest Practicable Date
"PN 15"	Practice Note 15 of the Listing Rules
"PON"	passive optical network
"PRC" or "China"	the People's Republic of China (excluding Hong Kong, Macau and Taiwan for the purpose of this circular)
"Pre-IPO Restructuring"	the restructuring of the Group to be implemented by the Company to establish the HKT Trust, HKT and the ownership structure of the Telecommunications Business, as described in the section headed "Part III — Introduction to the proposed listing structure involving the HKT Trust, HKT and the issue of Share Stapled Units — Pre-IPO Restructuring" in the "Letter from the Board" in this circular
"Preference Shares"	preference shares of HK$0.0005 each in HKT conferring the rights set out in the articles of association of HKT

"Preferential Offering"	the proposed preferential offer to the Qualifying Shareholders of Share Stapled Units representing approximately 10% of the Share Stapled Units initially offered under the Global Offering as Assured Entitlements (assuming the Over-allotment Option is not exercised) and up to an additional 20% of the Share Stapled Units initially offered under the Global Offering (assuming the Over-allotment Option is not exercised) to satisfy applications for excess Share Stapled Units, out of the Share Stapled Units being offered under the International Offering at the Offer Price on and subject to the terms and conditions to be stated in the Prospectus and in the BLUE Application Forms, as further described in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — The Preferential Offering" in the "Letter from the Board" in this circular
"Price Determination Date"	the date on which the Offer Price is determined for the purpose of the Global Offering
"Principal Register of Members of HKT"	the principal register of members of HKT maintained in the Cayman Islands
"Projection Year"	1 January 2012 to 31 December 2012
"Property Business"	the property businesses carried on by the Property Group
"Property Group"	PCPD and its subsidiaries
"Proposed Spin-off"	the proposed spin-off and separate listing of the Telecommunications Business on the Main Board of the Stock Exchange in the form of a Share Stapled Units structure, as described in this circular
"Prospectus"	the prospectus proposed to be jointly issued by the HKT Trust and HKT in connection with the Hong Kong Public Offering
"PTG Licensing Arrangements"	two agreements each dated 28 November 2008, entered into between HKTC and HKTL (being members of the Remaining Group) on the one hand, and Hong Kong Telecommunications (HKT) Limited (being a member of the Telecommunications Group) on the other hand, each relating to a licence in respect of operational activities carried on at certain properties which are the subject of private treaty grants from the Government, in each case as may be amended or supplemented from time to time
"PTG Telephone Exchanges"	telephone exchanges and other premises under private treaty grants granted by the Government

"QIBs"	Qualified Institutional Buyers, as defined in Rule 144A under the U.S. Securities Act
"Qualifying Shareholder(s)"	Shareholders (other than Non-Qualifying Shareholders) whose names appear in the register of members of the Company at 4:30 p.m. on the Record Date
"Record Date"	the record date for determining the Assured Entitlement of the Qualifying Shareholders to the Reserved Share Stapled Units, to be determined and announced by the Board at a later stage in accordance with Rule 13.66 of the Listing Rules
"Registered Holders of Share Stapled Units"	persons registered at the relevant time in the Share Stapled Units Register as holders of Share Stapled Units, including persons so registered as Joint Registered Holders of Share Stapled Units; and the expression "Registered Holder of a Share Stapled Unit" and similar expressions shall be construed accordingly. For the avoidance of doubt, references to "Registered Holders of Share Stapled Units" and "Joint Registered Holders of Share Stapled Units" shall not include CCASS Participants
"Registered Holders of Units"	persons registered at the relevant time in the Units Register as holders of Units, including persons so registered as Joint Registered Holders of Units; and the expression "Registered Holder of a Unit" and similar expressions shall be construed accordingly
"Registrar"	the Company's share registrar being Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
"Remaining Businesses"	the businesses of the PCCW Group other than the Telecommunications Business that will be separately listed in the form of a Share Stapled Units structure; such other businesses principally comprising the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses
"Remaining Group"	the members of the PCCW Group which conduct the Remaining Businesses
"Reserved Share Stapled Units"	the Share Stapled Units proposed to be offered jointly by the HKT Trust and HKT to Qualifying Shareholders pursuant to the Preferential Offering and which are to be allocated out of the Share Stapled Units to be offered under the International Offering

"RMB"	Renminbi, the lawful currency of the PRC
"Rothschild"	Rothschild (Hong Kong) Limited, a corporation licensed to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO which has been appointed by the Company as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote at the EGM in respect of the Proposed Spin-off
"SDH"	synchronous digital hierarchy
"Second Distribution"	has the meaning ascribed to it in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Distributions in Specie to Distribution Qualifying Shareholders" in the "Letter from the Board" in this circular
"Second Distribution Overseas Shareholders"	Shareholders whose names appear in the register of members of the Company at 4:30 p.m. on the Second Distribution Record Date and whose addresses as shown in such register are in any of the Specified Territories, except for those Shareholders who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie set out in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to receive Share Stapled Units under the Distributions in Specie" in the "Letter from the Board" in this circular and any Shareholders or Beneficial Owners at that time who are otherwise known by the Company to be resident in any of the Specified Territories, except for those Shareholders or Beneficial Owners who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie set out in the section headed "Part XVII — Assured entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to receive Share Stapled Units under the Distributions in Specie" in the "Letter from the Board" in this circular
"Second Distribution Qualifying Shareholders"	Shareholders whose names appear in the register of members of the Company at 4:30 p.m. on the Second Distribution Record Date

"Second Distribution Record Date"	a date to be announced by the Company, which is currently expected to be a date falling around sixty business days after the First Distribution Record Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Share Stapled Unit(s)"	the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a Unit in the HKT Trust; (b) the beneficial interest in a specifically identified Ordinary Share Linked to the Unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the HKT Trust; and (c) a specifically identified Preference Share Stapled to the Unit
"Share Stapled Units Award Schemes"	the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme
"Share Stapled Units Register"	the register of Registered Holders of Share Stapled Units
"Shareholder(s)"	holder(s) of Shares
"Shares" or "PCCW Shares"	ordinary shares of HK$0.25 each in the share capital of the Company
"Smartphone"	mobile phone offering advanced capabilities
"Solutions Business"	the businesses carried on by the Solutions Group (as described in the section headed "Part VIII — The Remaining Businesses — The Solutions Business" in the "Letter from the Board" in this circular)
"Solutions Group"	Solutions Holdings and its subsidiaries
"Solutions Holdings"	HKT Solutions Holdings Limited, a company incorporated in the Cayman Islands with limited liability and which is an indirect wholly-owned subsidiary of the Company

"SONET"	synchronous optical networking, sometimes referred to as SDH or synchronous digital hierarchy of optical networking
"Specified Territories"	(a) in respect of the Preferential Offering, Australia, Bahamas, Guernsey, India, Isle of Man, Italy, Jamaica, Japan, Malaysia, Nepal, New Zealand, Pakistan, the Philippines, Seychelles, Thailand and the U.S.; and (b) in respect of the Distributions in Specie, Bahamas, Guernsey, India, Italy, Jamaica, Japan, Nepal, New Zealand, Pakistan, the Philippines, Seychelles, Thailand and the U.S.
"Stapled"	the means by which each Unit in the HKT Trust is attached to a specifically identified Preference Share so that one may not be dealt with without the other, in accordance with the Trust Deed; and "Stapling" shall be construed accordingly
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Telecommunications Business"	the businesses carried on by the Telecommunications Group as if the Pre-IPO Restructuring had been completed (as described in the section headed "Part IV — The Telecommunications Business" in the "Letter from the Board" in this circular)
"Telecommunications Group"	HKT and its subsidiaries taken as a whole, as if the Pre-IPO Restructuring had been completed
"Trust Deed"	the trust deed to be executed by the Trustee-Manager and HKT to constitute the HKT Trust
"Trust Group"	HKT Trust, HKT and its subsidiaries
"Trustee-Manager"	HKT Management Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Company and the proposed trustee-manager of the HKT Trust
"Trustee Ordinance"	the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UKBB"	UK Broadband Limited, an indirect wholly-owned subsidiary of the Company

"Underlying Non-Qualifying Shareholder"	a person (i) who holds Share(s) directly through a CCASS Participant (other than a CCASS Investor Participant) on the First Distribution Record Date or the Second Distribution Record Date (as the case may be) and whose address is shown on the records of such CCASS Participant on the First Distribution Record Date or the Second Distribution Record Date (as the case may be) as being in a Specified Territory or (ii) who, to the knowledge of a CCASS Participant (other than a CCASS Investor Participant), holds Share(s) directly through such CCASS Participant on the First Distribution Record Date or the Second Distribution Record Date (as the case may be) on behalf of a person located in a Specified Territory
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Unit"	an undivided interest in the HKT Trust, which confers the rights stated in the Trust Deed as being conferred by a Unit (whether in its own right or as a component of a Share Stapled Unit)
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"Unitholders"	(a) persons registered in the Units Register as holders of Units and include, for the avoidance of doubt, persons holding Units as components of the Share Stapled Units and registered in the Share Stapled Units Register as holders of the Share Stapled Units which include the Units; and (b) where the registered holder of Share Stapled Units is HKSCC Nominees, shall also include, where the context so admits, the CCASS Participants whose CCASS Accounts are deposited with the Units registered in the name of HKSCC Nominees. For the avoidance of doubt, references to "Registered Holders of Units" and "Joint Registered Holders of Units" shall not include CCASS Participants
"Units Register"	the register of Registered Holders of Units required to be established and maintained by the Trustee-Manager under the Trust Deed, or by a registrar appointed by the Trustee-Manager
"US$ or US dollars"	United States dollars, the lawful currency of the United States

"U.S. Securities Act"	U.S. Securities Act of 1933, as amended
"Valuation Report"	the valuation report dated 26 September 2011 in relation to the Media Business and the Solutions Business prepared by Deloitte & Touche Financial Advisory Services Limited, a copy of which appears in the section headed "Valuation Report of the Media Business and Solutions Business" in Appendix V to this circular
"VDSL"	very-high-bitrate digital subscriber line, a digital subscriber line technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires (up to 52 Mbit/s downstream and 16 Mbit/s upstream) and on coaxial cable (up to 85 Mbit/s down-and upstream), utilising the frequency band from 25 kHz to 12 MHz. An enhanced variant known as VDSL-2 can offer even higher data rates
"VPN"	virtual private network, a secure way of connecting to a private local area network at a remote location, using the Internet or any insecure public network to transport the network data packets privately, using encryption
"W-CDMA"	wideband code division multiple access, a 3G cellular standard, the other major standard being CDMA 2000
"Wi-Fi"	the trademark used to brand a variety of products that belong to a class of wireless local area network devices
"ZhongYing JV"	中盈優創資訊科技有限公司 (Unihub China Information Technology Company Limited), a company established in the PRC on 17 June 2003 and an indirect non wholly-owned subsidiary of the Company

PCCW Limited
電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

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

Non-executive Directors:
Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng *(Deputy Chairman)*
Li Fushen
Chung Cho Yee, Mico
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
The Hon Raymond George Hardenbergh Seitz

Registered office:
39th Floor, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong

26 September 2011

To the Qualifying Shareholders and, for information purposes only, the Non-Qualifying Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE TELECOMMUNICATIONS BUSINESS ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
IN THE FORM OF A SHARE STAPLED UNITS STRUCTURE
AND
PROPOSED ADOPTION OF THE 2011-2021 OPTION SCHEME**

PART I
INTRODUCTION AND OVERVIEW

Introduction

Reference is made to the Company's announcements dated 21 March 2011, 29 March 2011, 27 April 2011, 2 June 2011, 8 September 2011 and 25 September 2011 relating to the Proposed Spin-off and separate listing of the Telecommunications Business. On 14 March 2011, the Company submitted a formal application to the Stock Exchange for the Stock Exchange's approval of the Proposed Spin-off pursuant to PN 15. On 2 June 2011, the Stock Exchange approved the Company's proposal under PN 15 and confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange's approval under PN 15 has been granted subject to the fulfillment by the Company of certain conditions, details of which are set out in the section headed "Part XII — Conditions precedent for the Proposed Spin-off" in this letter.

On 11 July 2011, the Trustee-Manager and HKT submitted, through their appointed joint sponsors, Deutsche Bank AG, Hong Kong Branch, Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited, a formal application to the Stock Exchange for the listing (on the Main Board of the Stock Exchange) of, and permission to deal in, the Share Stapled Units in issue as at the date of the Prospectus and the Share Stapled Units to be issued under the Global Offering (including Share Stapled Units which may be issued pursuant to the exercise of the Over-allotment Option) and the Share Stapled Units which may be issued pursuant to the exercise of options granted under the 2011-2021 Option Scheme.

One or more of the percentage ratios (as defined in the Listing Rules) in respect of the Proposed Spin-off exceeds 25%, but each of them is less than 75%. The Proposed Spin-off is, therefore, a major transaction for the Company under the Listing Rules and accordingly is subject to Shareholders' approval. The Proposed Spin-off is also subject to Shareholders' approval under paragraph 3(e)(2) of PN 15 and is subject to the requirements of paragraph 3(e)(4) of PN 15, described below.

In accordance with the requirements of paragraph 3(e)(4) of PN 15:

(a) an Independent Board Committee comprising all of the Company's independent non-executive Directors, namely 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, has been established by the Company to consider the Proposed Spin-off, to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote in respect of the Proposed Spin-off at the EGM, taking into account the recommendation of Rothschild in that regard; and

(b) Rothschild has been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote at the EGM in relation to the ordinary resolution to approve the Proposed Spin-off.

The purposes of this circular are:

(a) to provide Shareholders with information on (i) the background to, the reasons for, and the benefits and effects of, the Proposed Spin-off and such other information relating to the Proposed Spin-off as is required by the Listing Rules, (ii) the Assured Entitlement, (iii) the Distributions in Specie, (iv) the proposed adoption of the 2011-2021 Option Scheme and (v) the proposed Share Stapled Units Award Schemes to be adopted by HKT;

(b) to set out the advice of the Independent Board Committee as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and in relation to voting in respect of the Proposed Spin-off at the EGM;

(c) to set out the letter from Rothschild containing its recommendation to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and its advice to the Shareholders regarding how to vote at the EGM in respect of the Proposed Spin-off; and

(d) to give notice to the Shareholders of the EGM at which ordinary resolutions will be proposed for the Shareholders to consider and, if thought fit, approve the Proposed Spin-off, provided that a minimum market capitalisation of HK$28.6 billion is achieved for the HKT Trust pursuant to the Global Offering, and the transactions related thereto and the adoption of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 153 to 154 of this circular which contains the recommendations of the Independent Board Committee to the Shareholders concerning the Proposed Spin-off; and (ii) the letter from Rothschild to the Independent Board Committee and the Shareholders set out on pages 155 to 180 of this circular containing its advice to the Independent Board Committee and the Shareholders in this regard.

Shareholders should note that the Proposed Spin-off and the Global Offering are dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there can be no assurance that the Proposed Spin-off will proceed. Accordingly, Shareholders and other persons contemplating buying or selling Shares are reminded to exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions.

This circular is being provided to you solely for your consideration of the matters being determined at the EGM and is not intended to, and does not, constitute an offer to sell or a solicitation of an offer to buy any Share Stapled Units in connection with the Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for Share Stapled Units in connection with the Global Offering or otherwise should be made solely on the basis of the information contained in the relevant prospectus or offering circular. Other than in

Hong Kong and a proposed public offering without listing in Japan, no action has been or will be taken in any jurisdiction that would permit a public offering of the Share Stapled Units to be offered in the Global Offering in any jurisdiction where action for that purpose is required, including but not limited to the United States.

Overview of the Group's businesses

PCCW currently carries on four main lines of business:

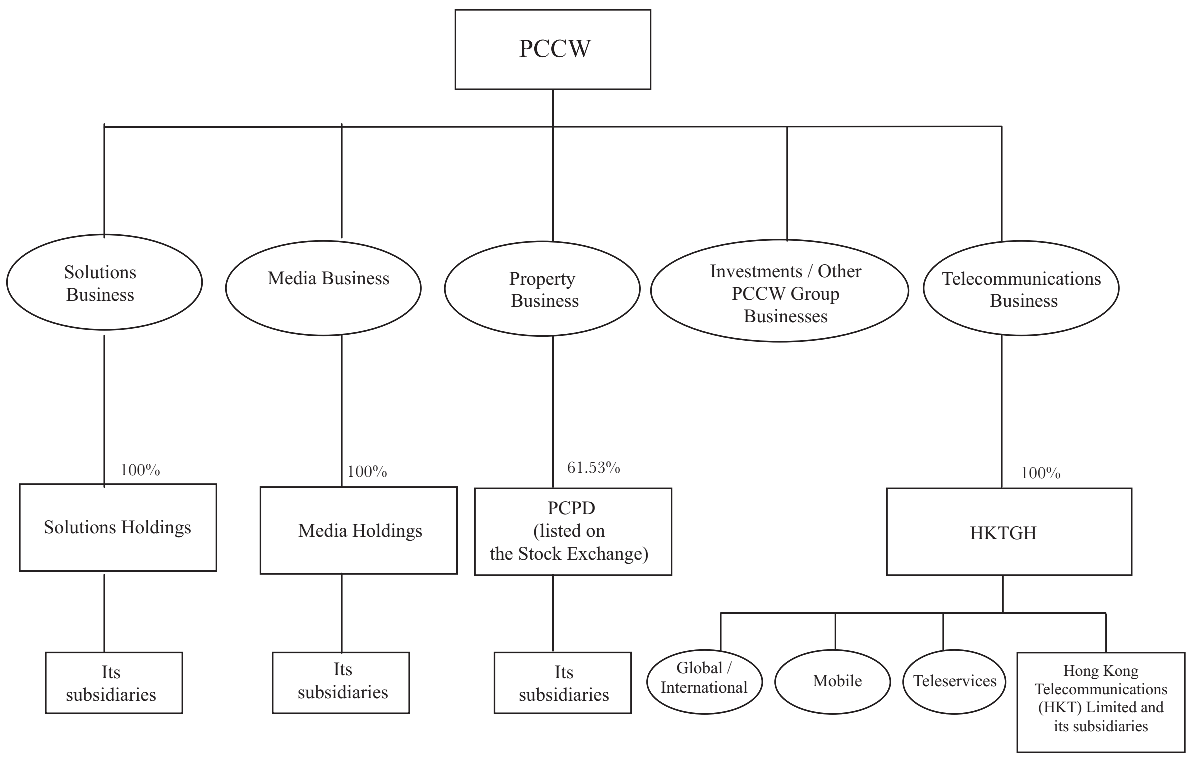
(a) the Telecommunications Business, described in more detail in the section headed "Part IV — The Telecommunications Business" below;

(b) the Solutions Business, described in more detail in the section headed "Part VIII — The Remaining Businesses — The Solutions Business" below;

(c) the Media Business, described in more detail in the section headed "Part VIII — The Remaining Businesses — The Media Business" below; and

(d) the Property Business conducted by PCPD, in which the Company had an approximately 61.53% shareholding as at the Latest Practicable Date.

The Company's principal businesses are shown in the following simplified chart, which shows the position after completion of Stage 1 of the Pre-IPO Restructuring described in the section headed "Part III — Introduction to the proposed listing structure involving the HKT Trust, HKT and the issue of Share Stapled Units — Pre-IPO Restructuring" below:



Overview of the Proposed Spin-off

The Proposed Spin-off involves the spin-off and separate listing of the Telecommunications Business on the Main Board of the Stock Exchange, in the form of a Share Stapled Units structure. The Proposed Spin-off includes a Global Offering of (i) at least 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised; and (ii) no more than 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is exercised in full. There will also be Distributions in Specie to Distribution Qualifying Shareholders of an aggregate of approximately 5% of the Share Stapled Units in issue following the completion of the Global Offering.

In the case of the Global Offering involving 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 55% ownership interest in HKT Trust and HKT (being the interest in HKT Trust and HKT after the exercise of the Over-allotment Option in full and after the Distributions in Specie), and the Trustee-Manager would be wholly-owned by PCCW. Accordingly, PCCW would retain approximately 55% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 70% ownership interest in HKT Trust and HKT (being the interest in HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie), and the Trustee-Manager would be wholly-owned by PCCW. Accordingly, PCCW would retain approximately 70% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

PCCW would continue to consolidate the financial results of the Telecommunications Business following completion of the Proposed Spin-off.

Assured entitlements for the benefit of Shareholders

In accordance with the requirements of PN 15 and as contemplated by the Company's announcement dated 2 June 2011, the Company is providing:

(a) the Qualifying Shareholders the right to apply for Share Stapled Units under the Preferential Offering on a preferential basis as to allocation only, with the Assured Entitlement of Qualifying Shareholders to the Share Stapled Units under the Preferential Offering representing approximately 10% of the Share Stapled Units initially offered under the Global Offering. In addition, Share Stapled Units representing up to an additional approximately 20% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders under the Preferential Offering to satisfy applications for excess Share Stapled Units; and

(b) the Distribution Qualifying Shareholders with distributions of Share Stapled Units representing an aggregate of approximately 5% of the Share Stapled Units in issue following the completion of the Global Offering and assuming that the issued share capital of PCCW as at the Latest Practicable Date remains unchanged, such distributions to be made to Distribution Qualifying

Shareholders in proportion to their respective shareholdings in PCCW held as at 4:30 p.m. on the First Distribution Record Date and the Second Distribution Record Date, as the case may be. Distribution Overseas Shareholders will be entitled to the Distributions in Specie but will not receive Share Stapled Units under the Distributions in Specie. Instead, the Share Stapled Units which they would otherwise have received pursuant to the Distributions in Specie will be sold by the Company on their behalf and they will receive a cash amount equal to the net proceeds of such sale.

Details of the Preferential Offering are set out in Part XVII of this letter under the section headed "Assured entitlements to the Share Stapled Units — The Preferential Offering". Details of the Distributions in Specie are also set out in Part XVII of this letter, under the section headed "Assured entitlements to the Share Stapled Units — Distributions in Specie to Distribution Qualifying Shareholders".

The Proposed Spin-off is subject to market conditions

The Directors wish to emphasise that, even if the Proposed Spin-off is approved by an ordinary resolution of the Shareholders passed at the EGM and the other outstanding conditions are fulfilled, the final decision of the Board as to whether or not to proceed with the Proposed Spin-off is subject to market conditions and pricing. The Board will only proceed with the Proposed Spin-off if the Board considers that the price for the Share Stapled Units which can be obtained under the Global Offering, which is subject to market conditions, is such that proceeding with the Proposed Spin-off on those terms would be in the interests of the Company and its Shareholders as a whole.

The Preferential Offering will not proceed and the Distributions in Specie will not be made unless the Proposed Spin-off proceeds.

PART II
REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Directors believe that the Proposed Spin-off and separate listing of the Telecommunications Business are in the interests of the Company and the Shareholders taken as a whole based on the following reasons:

(a) ***Fair valuation for the Telecommunications Business***: The Directors 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 the Telecommunications Business' existing value within the confines of the Company's listing. Listing the Telecommunications Business in the form of the Share Stapled Units structure described in this circular is expected to align its mature and stable cashflow generating characteristic with the appropriate investor base that favours stable distributions and pure-play investments.

(b) ***Focus, clarity of business and financial status***: The Directors believe that the separate listing will allow the Telecommunications Business to create a more defined business focus and efficient resource allocation. Also, the separate listing of the Telecommunications Business will provide investors, the market generally and rating agencies with greater clarity on the businesses and financial status of the Telecommunications Business.

Furthermore, the separate listing of the Telecommunications Business by PCCW will also increase the visibility of the Remaining Group's businesses and further crystallise the value of those higher growth businesses by aligning them with the appropriate type of investors.

(c) ***Increased financial resources for the Telecommunications Group***: If the net proceeds of the Proposed Spin-off are HK$7.8 billion or less, the entire amount of the net proceeds will be made available to the Telecommunications Group to reduce its indebtedness, and hence will allow the Telecommunications Group to reduce its annual interest expenses. Such interest expense savings will allow the HKT Trust and HKT to have additional cash for distribution to Holders of Share Stapled Units (including PCCW). A higher amount of distributions to Holders of Share Stapled Units is therefore expected to increase the value of the Telecommunications Group, benefiting both the Telecommunications Group and the Company. See Part XIII of this letter headed "Estimated net proceeds and intended use of proceeds" for further details of the estimated net proceeds of the Proposed Spin-off and the intended use of proceeds.

(d) ***Proceeds of the Proposed Spin-off***: If the net proceeds of the Proposed Spin-off exceed HK$7.8 billion, the Company would receive the net proceeds in excess of HK$7.8 billion pursuant to the terms of the Pre-IPO Restructuring, which would enable the Company to make additional investments in, or to supplement, its growth businesses such as the Media Business and the Solutions Business, thereby creating additional value for PCCW Shareholders. See Part XIII of this letter headed "Estimated net proceeds and intended use of proceeds" for further details of the estimated net proceeds of the Proposed Spin-off and the intended use of proceeds.

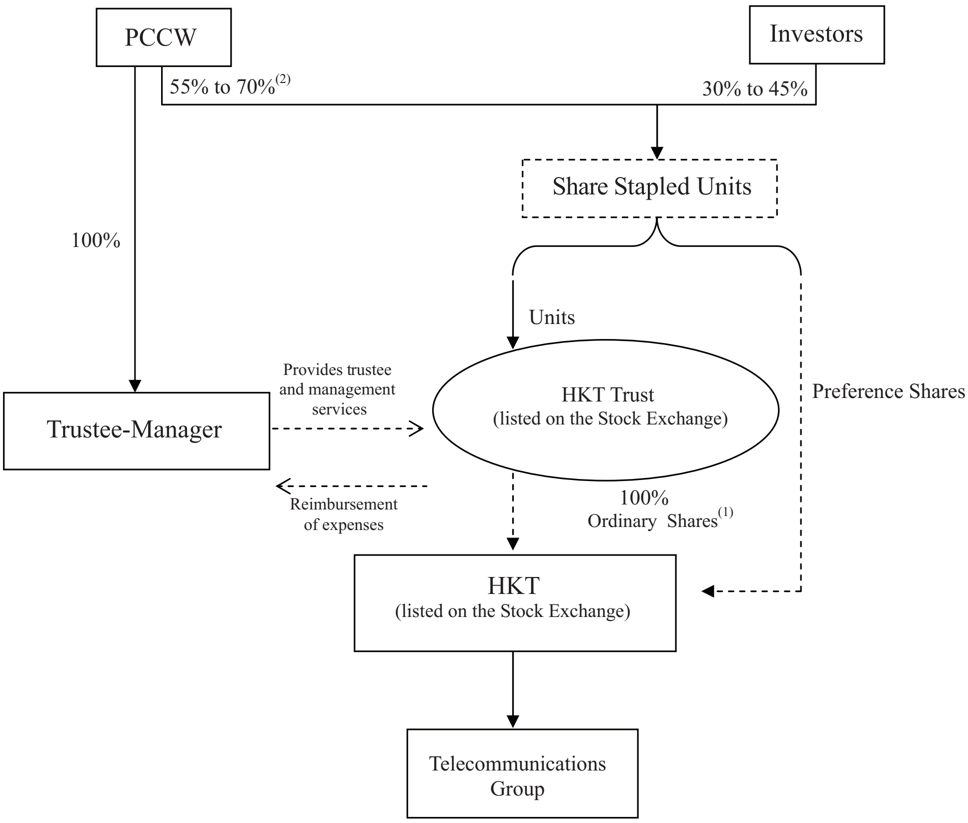
(e) ***Continued control***: The Directors believe that as the Company will continue to be the beneficial owner of a majority of the Share Stapled Units, the Shareholders will continue to enjoy the benefits from the future development and growth of the Telecommunications Business.

(f) ***No direct dilution***: If the Company were to raise capital by issuing new shares of the Company, interests of the Shareholders may be immediately diluted. In contrast, listing the Telecommunications Business in the form of the Share Stapled Units structure described in this circular is expected to enable the Company to unlock the value of the Telecommunications Business and Remaining Businesses without causing direct dilution to interests of the Shareholders, because the Company will continue to be the majority owner of the HKT Trust and HKT.

PART III
INTRODUCTION TO THE PROPOSED LISTING STRUCTURE INVOLVING THE HKT TRUST, HKT AND THE ISSUE OF SHARE STAPLED UNITS

Structure

The chart below illustrates a simplified version of the proposed listing structure, immediately following the completion of the Global Offering:



Notes:

(1) As the HKT Trust is not a separate legal entity, all of the HKT Trust Property, being the assets of the HKT Trust, will be held by the Trustee-Manager for the benefit of the Registered Holders of Units. Subject to the exercise of the Exchange Right, all of the issued Ordinary Shares must be registered in the Principal Register of Members of HKT in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust.

(2) The Over-allotment Option can only be exercised to the extent that PCCW's holding of Share Stapled Units remains at not less than 51% of the Share Stapled Units in issue following the exercise of the Over-allotment Option. This is because under the terms of the consent of China United Network Communications Group Company Limited (which held approximately 18.48% of PCCW as at the Latest Practicable Date), if there is any listing of the Telecommunications Business, the PCCW Group is permitted to dispose of up to 49% of the Group's voting interest in HKT. Please refer to the section headed "Conditions precedent for the Proposed Spin-off — Consent from China Unicom" in Part XII of this letter.

In the case of the Global Offering involving 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 55% of the HKT Trust and HKT (being the interest in HKT Trust and HKT after the exercise of the Over-allotment Option in full and the Distributions in Specie). Accordingly, under this scenario, PCCW would retain approximately 55% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 70% of the HKT Trust and HKT (being the interest in HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie). Accordingly, under this scenario, PCCW would retain approximately 70% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

Share Stapled Units

Subscribers under the Global Offering would subscribe for Share Stapled Units jointly issued by the HKT Trust and HKT. Each Share Stapled Unit comprises three components:

(a) a Unit in the HKT Trust;

(b) the beneficial interest in a specifically identified Ordinary Share in HKT held by the Trustee-Manager, which is "Linked" to the Unit; and

(c) a specifically identified Preference Share in HKT which is "Stapled" to the Unit.

Meaning of "Linked"

All of the issued Ordinary Shares of HKT must be held by the Trustee-Manager in its capacity as trustee and manager of the HKT Trust. Each Unit in the HKT Trust issued by the Trustee-Manager must correspond with a specifically identified Ordinary Share held by the Trustee-Manager and confer a beneficial interest in that specifically identified Ordinary Share such that a transfer of a Unit is effective to transfer the beneficial interest in the Ordinary Share. The Trust Deed characterises this relationship as each Unit being "Linked" to a specifically identified Ordinary Share of HKT held by the Trustee-Manager.

Meaning of "Stapled"

Each Unit in the HKT Trust issued by the Trustee-Manager must be attached or "Stapled" to a specifically identified Preference Share, with the Preference Share to be held by the Unitholder (along with the Unit) as full legal and beneficial owner, so that one cannot be traded without the other. The Trust Deed characterises this relationship as each Unit being "Stapled" to a specifically identified Preference Share.

Numbers of Units, Ordinary Shares and Preference Shares must be the same

Under the Trust Deed and the articles of association of HKT, the number of Ordinary Shares and Preference Shares in issue must be the same at all times and must also, in each case, be equal to the number of Units of the HKT Trust in issue.

Listing of the Share Stapled Units

The Share Stapled Units will be listed on the Stock Exchange. There will be a single price quotation on the Stock Exchange for a Share Stapled Unit. No price quotations will be given for the individual components (Unit, beneficial interest in an Ordinary Share and Preference Share) of a Share Stapled Unit. Under the Trust Deed, each Unit must remain Linked to a specifically identified Ordinary Share in HKT and Stapled to a Preference Share in HKT and, subject to the exercise of the Exchange Right described below, "unbundling" of the Share Stapled Units is prohibited. Accordingly, subject to the exercise of the Exchange Right, investors can only deal in the Share Stapled Units on the Stock Exchange and are not permitted to deal in the individual components of the Share Stapled Units.

Listing of the Units, the Ordinary Shares and the Preference Shares

As described above, the Share Stapled Units will be listed on the Stock Exchange. In addition, the Units, the Ordinary Shares and the Preference Shares will also be listed on the Stock Exchange from the outset. The HKT Trust and HKT will, from the outset, be listed issuers under the Listing Rules and accordingly, the HKT Trust (including the Trustee-Manager) and HKT will be subject to the provisions of the Listing Rules. However, while the HKT Trust remains in effect, trading on the Stock Exchange shall only take place in the form of Share Stapled Units. The Units, the Ordinary Shares and the Preference Shares will not be separately traded on the Stock Exchange (and no price quotation for any of them will be available) prior to the exercise of the Exchange Right. Following the exercise of the Exchange Right and subject to the Stock Exchange's prior approval, the Ordinary Shares will be separately traded on the Stock Exchange (and will have their own price quotation) and the Units and the Preference Shares would have been cancelled.

The HKT Trust and HKT both to be listed on the Stock Exchange

The HKT Trust and HKT will both be listed on the Stock Exchange and be "listed issuers" under the Listing Rules; and, therefore, the HKT Trust (including the Trustee-Manager) and HKT will be subject to the provisions of the Listing Rules. In addition, the Share Stapled Units, the HKT Trust, the Trustee-Manager and HKT will be subject to the provisions of the SFO and the Takeovers Code. Repurchases of Share Stapled Units (or their individual components) will not be permitted unless and until expressly permitted by relevant codes and guidelines which may be issued by the SFC from time to time.

Reasons for adopting the Share Stapled Units structure

The Share Stapled Units structure comprises: (a) a Unit in the HKT Trust, (b) a beneficial interest in a specifically identified Ordinary Share in HKT held by the Trustee-Manager on behalf of the Unitholder, which is "Linked" to the Unit and (c) a specifically identified Preference Share in HKT which is "Stapled" to the Unit.

The HKT Trust and the Units

The HKT Trust and the proposal for the HKT Trust to issue Units to investors reflects the commercial objective to adopt a framework, through a trust structure, within which a distribution policy based on

Adjusted Funds Flow can be more clearly articulated and pursued; and within which the Telecommunications Group can more clearly signal its intention to focus principally on distributions and to differentiate itself from other listed issuers on that basis. Investors in a trust typically subscribe for units, which represent undivided interests in the trust property.

The beneficial interests in the specifically identified Ordinary Shares

The Ordinary Shares confer rights to dividends and other distributions from HKT. The Ordinary Shares are the means by which the HKT Trust owns the equity in HKT in trust for the Registered Holders of Units. The Ordinary Shares represent the entire economic interest derived from HKT, except in the case of a winding up of HKT or, if the HKT Trust is terminated, a redemption of the Preference Shares on termination at their par value.

The rationale for having each Ordinary Share specifically identified and Linked to a Unit is that the Linking provisions result in the SFO being applicable to the Units as derivatives of the underlying listed Ordinary Shares.

The Exchange Right also assists in the application of key provisions of the SFO to the Units.

The Linking arrangement and the Exchange Right mean that, ultimately, investors in Units could, by passing an Extraordinary Resolution of Registered Holders of Units, terminate the HKT Trust and exchange their Units for the underlying Ordinary Shares in a listed company (being HKT) on a one for one basis.

The Preference Shares

The Preference Shares do not confer any rights to participate in any dividends, distributions or other payments being made by HKT, except in the case of the winding up of HKT or, if the HKT Trust is terminated, the redemption of the Preference Shares on termination at their par value. The Preference Shares have been included as components of the Share Stapled Units, and the Stapling structure has been adopted, to ensure that the Share Stapled Units (and, thereby, the HKT Trust, including the Trustee-Manager, and HKT) are clearly subject to all the provisions of the SFO (the application of certain provisions of the SFO to the Units on an independent basis might otherwise be arguable).

Trustee-Manager's specific and limited role

With a view to seeking to ensure that investors in the Share Stapled Units have equivalent investor protections under the existing legal framework in Hong Kong to those available to shareholders in a company listed on the Stock Exchange, the Trustee-Manager has a specific and limited role, which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the Telecommunications Business, which is run by HKT and its operating subsidiaries.

Advantages and disadvantages of adopting the listing structure involving the listing of the HKT Trust and HKT and the issue of Share Stapled Units

A proposed listing of the Telecommunications Business in the form of the listing structure described in this circular is expected to align its mature and stable cashflow generating characteristic with the appropriate investor base that favours stable distributions and pure-play investments. The directors of HKT and the Trustee-Manager believe that a listing of the Telecommunications Business in this form with a clearly expressed distribution policy stated in the Trust Deed and in the articles of association of HKT (see below under the section headed "Part VI — Distribution policy of the HKT Trust and profit forecast" in this letter) and an explicit focus on distributions will give greater assurance to investors that they will receive distributions from Adjusted Funds Flow after debt repayment, if required, that are higher than the dividends that could be distributed from accounting profit.

The directors of the Trustee-Manager and HKT believe that the HKT Trust provides a framework within which a distribution policy based on Adjusted Funds Flow can be more clearly articulated and pursued; and within which the Telecommunications Group can more clearly signal its intention to focus principally on distributions and to differentiate itself from other listed issuers on that basis. The directors of the Trustee-Manager and HKT also believe that the overall arrangements (including the directors of the Trustee-Managers' and the directors of HKT's dual roles as directors of the Trustee-Manager and HKT, the requirement for amounts to be held in segregated accounts pending distribution to investors and the requirement to announce and explain any future change to the distribution policy) will impose additional rigour and discipline as regarding the implementation of the stated distribution policy.

The disadvantages of adopting a listing structure involving the listing of the HKT Trust and HKT and the issue of Share Stapled Units include that:

- It is a novel structure and has no precedent in the Hong Kong market. Despite considerable efforts having been made to ensure that investors would have the benefit of investor protections as Holders of Share Stapled Units equivalent to those enjoyed by shareholders of companies listed on the Stock Exchange, the application of the relevant investor protection legislation to the Share Stapled Units structure is subject to the interpretation of the Courts. To mitigate this risk, an opinion has been obtained from leading counsel that the Share Stapled Units (and, thereby, the HKT Trust, including the Trustee-Manager and HKT) would be subject to the SFO. The Share Stapled Units (and, thereby, the HKT Trust, including the Trustee-Manager, and HKT) are also subject to the Takeovers Code and the Listing Rules.

- There are administration costs associated with the HKT Trust, principally as a result of the requirement to prepare and publish additional financial statements for the HKT Trust and the Trustee-Manager. However, the additional administration costs are not significant, having regard to the specific and limited role of the Trustee-Manager, and the directors of HKT and the Trustee-Manager believe that the additional administration costs are outweighed by the benefits that are expected to accrue to Holders of Share Stapled Units in terms of the expected higher distributions as generally compared to dividends that are distributed from accounting profit referred to above.

- The duration of the HKT Trust is a fixed period, of 80 years less one day, upon the expiry of which the HKT Trust will terminate. In summary, upon such expiry, the Registered Holders of Share Stapled Units would be entitled to have the Ordinary Shares which are Linked to the Units held by them (as components of their Share Stapled Units) distributed to them in specie.

- There are, at the Latest Practicable Date, certain unknown elements arising out of the trust structure, including as regards the Hong Kong profits tax treatment of distributions made by the HKT Trust to Holders of Share Stapled Units. Pursuant to a legal opinion obtained by HKT from its tax counsel, it is understood that, under the Hong Kong Inland Revenue Department's current practice, Hong Kong profits tax is generally not payable by unitholders on distributions from other Hong Kong-listed unit trusts. However, there is no assurance that the Hong Kong Inland Revenue Department will apply this practice to distributions made by the HKT Trust to Holders of Share Stapled Units. The Trustee-Manager and HKT have applied to the Hong Kong Inland Revenue Department for an advance ruling confirming that distributions to Holders of Share Stapled Units are not subject to Hong Kong profits tax. As at the Latest Practicable Date, the Hong Kong Inland Revenue Department has not finished processing the application. If the Hong Kong Inland Revenue Department does not apply its current practice and/or if there is any change of the current practice, this may reduce the after-tax distributions to Holders of Share Stapled Units.

- Also, the Directors are uncertain as to how the creation of the trust structure might impact upon the corporate credit ratings of the Telecommunications Group. Hong Kong Telecommunications (HKT) Limited, a subsidiary within the Telecommunications Group, has been assigned an overall corporate credit rating of "Baa 2" by Moody's and "BBB" by Standard & Poor's. In June 2011, Moody's announced that it was reviewing its rating on Hong Kong Telecommunications (HKT) Limited for a possible downgrade and Standard & Poor's is also conducting a review of its rating. As at the Latest Practicable Date, the reviews are on-going.

HKT

HKT was incorporated in the Cayman Islands as an exempted company with limited liability on 14 June 2011. HKT will be the holding company of the Telecommunications Business and will indirectly own and control the operating subsidiaries which conduct the Telecommunications Business.

HKT will have two classes of shares:

(a) Ordinary Shares, which will confer voting rights at general meetings of shareholders (one vote per Ordinary Share) and rights to dividends and distributions from HKT; and

(b) Preference Shares, which will also confer voting rights at general meetings of shareholders (one vote per Preference Share), but will have no rights to dividends or other distributions from HKT except in the case of the winding up of HKT. Further information in relation to the rights conferred by the Preference Shares, and the reason for including the Preference Shares as components of the Share Stapled Units, is set out below in this part under the heading "Rights conferred by the Preference Shares" on page 36 of this circular.

The intention of the directors of HKT and the Trustee-Manager is that HKT and its subsidiaries will only engage in telecommunications, and telecommunications related businesses. However, telecommunications is a dynamic business sector characterised by rapid changes to business models in response to, or in anticipation of, advances in communications technology. Having regard to the rapid pace of evolution of communications technology, the consequent requirement for businesses which wish to be successful to evolve with those changes and the practical difficulties of formulating a sufficiently flexible definition of a telecommunications business, the directors of HKT and the Trustee-Manager do not consider it practicable, nor in the interests of Holders of Share Stapled Units, to expressly restrict the scope of HKT's business activities in its memorandum and articles of association to telecommunications, and telecommunications related businesses. Accordingly, HKT's memorandum of association, as is customary for a Cayman Islands incorporated company having its securities listed on the Stock Exchange, provides that HKT's scope of business activities is unlimited. Having regard to that, investors in the Share Stapled Units should note that the memorandum and articles of association of HKT do not restrict its business activities to telecommunications businesses only and that HKT has the legal capacity to engage in other types of businesses if such other businesses are in the interests of the Holders of Share Stapled Units as a whole.

The HKT Trust

General

The HKT Trust will be a fixed single investment trust, meaning that the HKT Trust may only invest in securities and other interests in a single entity, being HKT, and that the HKT Trust will confer on Registered Holders of Units a beneficial interest in specifically identifiable property (in this case the Ordinary Shares) held by the HKT Trust.

The HKT Trust will be constituted by a Hong Kong law governed trust deed entered into between the Trustee-Manager and HKT. Under the Trust Deed, the Trustee-Manager will be appointed as the trustee and manager of the HKT Trust. The Trustee-Manager will have legal ownership of the assets of the HKT Trust and will declare, under the Trust Deed, that it will hold those assets on trust for the Registered Holders of Units.

HKT Trust Property in segregated accounts

All trust property will be held in segregated accounts controlled jointly by the Trustee-Manager and HKT.

Scope of activities

The scope of activities of the HKT Trust specified in the Trust Deed will essentially be limited to investing in HKT; and the powers, authorities and rights of the Trustee-Manager conferred by the Trust Deed are commensurately limited.

No debt

The HKT Trust will not be permitted to incur debt.

The Trustee-Manager and its specific role

The Trustee-Manager, HKT Management Limited, was incorporated in Hong Kong under the Companies Ordinance on 14 June 2011. It has an issued and paid up share capital of HK$1.00 and is a wholly-owned subsidiary of PCCW. The Trust Deed provides that for as long as the Trustee-Manager is a subsidiary of PCCW, it must be wholly-owned by PCCW.

The Trustee-Manager will have a specific and limited role, which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the Telecommunications Business, which is managed by HKT and its operating subsidiaries.

No fees payable to the Trustee-Manager

The costs and expenses of administering the HKT Trust may be deducted from the trust property, but, commensurate with its specific and limited role, the Trustee-Manager will not receive a separate management fee.

Removal and replacement of the Trustee-Manager

The Trust Deed will provide that the Trustee-Manager can be removed and replaced by an Ordinary Resolution of Registered Holders of Units. The Trust Deed contains detailed provisions relating to the resignation, removal and replacement of the Trustee-Manager.

Board of directors of the Trustee-Manager

The Trust Deed will require that the board of directors of the Trustee-Manager shall at all times be the same individuals who serve as directors of HKT; that no person shall serve as a director of the Trustee-Manager unless he also serves as a director of HKT at the same time; and that no person shall serve as a director of HKT unless he also serves as a director of the Trustee-Manager at the same time.

Entrenchment of critical feature of the Share Stapled Units structure in the Trust Deed

The critical features of the Share Stapled Units structure are entrenched in the Trust Deed.

Rights conferred by the Preference Shares

The Preference Shares will not confer any rights to participate in any dividends, distributions or other payments to be made by HKT, except in the case of the winding up of HKT. On a winding up of HKT, each registered holder of a Preference Share is entitled to be paid, from the assets available for distribution amongst the HKT Shareholders, an amount equal to the Offer Price before any distribution of those assets is made in respect of the Ordinary Shares. Thereafter, the balance of the remaining assets available for distribution amongst the HKT Shareholders shall be distributed amongst the registered holders of the Preference Shares and the Ordinary Shares (pari passu) as if the same constituted one class of shares (in proportion to the number of shares held by them respectively).

On a termination of the HKT Trust, HKT would be required to redeem each Preference Share at a redemption price equal to the par value of the Preference Share.

Distributions to be made in respect of the Units and distribution policy

While the HKT Trust remains in effect, all dividends, distributions and other payments from HKT, derived from the Telecommunications Group, will be paid in respect of the Ordinary Shares held by the Trustee-Manager and distributed to the Registered Holders of Share Stapled Units.

The distribution policy of the HKT Trust and HKT is summarised in the section headed "Part VI — Distribution Policy of the HKT Trust and Profit Forecast".

Exchange Right

The Trust Deed will include an Exchange Right for the benefit of Registered Holders of Share Stapled Units. By passing an Extraordinary Resolution of Registered Holders of Units, Registered Holders of Share Stapled Units may require that all (but not part only) of the Share Stapled Units in issue be exchanged (on a one for one basis) for the underlying Ordinary Shares held by the Trustee-Manager that are Linked to the Units being exchanged. If the Exchange Right were to be exercised, the HKT Trust and the Trust Deed would terminate, the Units and Preference Shares would be exchanged with the Trustee-Manager and cancelled pursuant to the exercise of the Exchange Right and the former Registered Holders of Share Stapled Units would become the holders of an equal number of listed Ordinary Shares in HKT, which would, subject to the prior approval of the Stock Exchange, be tradeable on the Stock Exchange on an independent basis.

Registered Holders of Share Stapled Units holding not less than 5% of the Share Stapled Units in issue and outstanding may request the Trustee-Manager to convene a general meeting of the Holders of Share Stapled Units in writing. At least twenty-one days' notice (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of the meeting shall be given to the Registered Holders of Share Stapled Units to consider the Extraordinary Resolution of Registered Holders of Units to exercise the Exchange Right. The notice shall specify the place, day and hour of meeting and the terms of any resolution to be proposed thereat. A Registered Holder of Share Stapled Units is entitled to attend, speak and vote at any general meeting of the Registered Holders of Units in person or by proxy. A resolution put to vote at any general meeting shall be decided by poll and the result of the poll shall be deemed to be the resolution of the meeting.

Further information regarding the relationship between the Units, the Ordinary Shares and the Preference Shares and the beneficial interests

Subject to the exercise of the Exchange Right, at all times:

(a) the number of Units in issue must be equal to the number of Ordinary Shares in issue (and vice versa);

(b) the number of Units in issue must also be equal to the number of Preference Shares in issue (and vice versa); and

(c) the number of Ordinary Shares in issue must be equal to the number of Preference Shares in issue (and vice versa).

Linking arrangements

Subject to the exercise of the Exchange Right, all of the issued Ordinary Shares must be registered in the Principal Register of Members of HKT in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust. Each Unit issued or to be issued by the HKT Trust must be matched by and Linked to a specifically identified Ordinary Share issued or to be issued by HKT to the Trustee-Manager in its capacity as trustee-manager of the HKT Trust. The Trustee-Manager must not issue or sell any Units to any person unless an identical number of specifically identified Ordinary Shares is or has been issued by HKT to the Trustee-Manager in its capacity as trustee-manager of the HKT Trust before, or at substantially the same time as, the issue or sale of the relevant Units. HKT must not issue or sell any Ordinary Shares unless the Ordinary Shares are specifically identified and issued to the Trustee-Manager in its capacity as trustee-manager of the HKT Trust and an identical number of Units in respect of the relevant specifically identified Ordinary Shares are or will be issued by the Trustee-Manager.

Each Unit confers on the Registered Holder of a Unit a beneficial interest, on and subject to the terms and conditions of the Trust Deed, in a specifically identified Ordinary Share registered in the Principal Register of Members of HKT in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust.

The Trustee-Manager shall distribute the proceeds of any and all dividends, distributions and other payments to be made in respect of the specifically identified Ordinary Shares registered in the Principal Register of Members of HKT in the name of the Trustee-Manager to the Registered Holders of the relevant Units which are matched with and Linked to those specifically identified Ordinary Shares, upon and subject to the terms and conditions of the Trust Deed (including, without limitation, those terms and conditions permitting certain payments and other deductions to be made out of the HKT Trust Property).

Each Share Stapled Unit may be exchanged for the specifically identified Ordinary Share which is matched with and Linked to the Unit which is a component of the relevant Share Stapled Unit, in accordance with the Trust Deed.

Stapling arrangements

In addition to the requirements described above, for each Unit to be matched by and Linked to a specifically identified Ordinary Share held by the Trustee-Manager in its capacity as trustee-manager of the HKT Trust, at all times, subject to an exercise of the Exchange Right:

(a) each Unit issued or to be issued by the HKT Trust must be Stapled to a specifically identified Preference Share issued or to be issued by HKT;

(b) the Trustee-Manager must not issue or sell any Units to any person unless an identical number of specifically identified Preference Shares is or has been issued by HKT and those Preference Shares are issued or transferred to the same persons to whom the Units are issued or sold (and registered in the Principal Register of Members of HKT or the Hong Kong Register of Members of HKT in the names of the same persons in which the Units are registered in the Units Register), in the ratio of one specifically identified Preference Share for each Unit and on the basis that each specifically identified Preference Share is Stapled to a Unit so that one may not be dealt with without the other; and

(c) HKT must not issue or sell any Preference Shares unless the Preference Shares are to be Stapled to Units as described above.

Units and Ordinary Shares to remain Linked and Units and Preference Shares to remain Stapled

Under the Trust Deed, the Trustee-Manager and HKT must ensure that, subject to the exercise of the Exchange Right, each Unit remains Linked to a specifically identified Ordinary Share registered in the Principal Register of Members of HKT in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust and that each Unit remains Stapled to a specifically identified Preference Share.

The Trust Deed will contain detailed provisions requiring that Units, Ordinary Shares and Preference Shares may only be offered for subscription and issued by the HKT Trust and HKT, and may only be transferred by their holders, in the form of Share Stapled Units; and not in the forms of the individual components of Units, Ordinary Shares or Preference Shares.

The Trust Deed will also provide that, subject to the exercise of the Exchange Right, the Trustee-Manager must not consolidate, sub-divide, cancel, buy-back or redeem any Units and HKT must not consolidate, sub-divide, cancel, buy-back or redeem any Shares unless there is a corresponding consolidation, sub-division, cancellation, buy-back or redemption of the Units and of both the issued specifically identified Ordinary Shares which are Linked to the relevant Units and the issued specifically identified Preference Shares which are Stapled to the relevant Units.

Meetings of Holders of Share Stapled Units and notices of meetings and other documents

Meetings to be held on a combined basis

If a meeting of Registered Holders of Units is convened, a meeting of HKT Shareholders must also be convened and vice versa. The Trust Deed will provide that meetings of Unitholders and HKT Shareholders shall be held on a combined basis as a single meeting and characterised as a meeting of Registered Holders of Share Stapled Units or, if that is not possible, the meetings shall be held separately but concurrently or, where necessary, consecutively.

Resolution(s) to be proposed at meetings

In relation to meetings held on a combined basis as a single meeting, to the extent practicable, a single resolution shall be proposed to approve the matter to be considered by Unitholders and HKT Shareholders and the resolution shall be characterised as a resolution of Registered Holders of Share Stapled Units (which shall serve as both a resolution of Unitholders and a resolution of HKT Shareholders).

In relation to meetings of Unitholders and HKT Shareholders to be held separately but concurrently or consecutively, to the extent practicable, the same or a substantially similar resolution shall be proposed for consideration at each meeting.

Voting at meetings

In relation to both combined meetings characterised as meetings of Registered Holders of Share Stapled Units and meetings of Unitholders and HKT Shareholders held separately but concurrently or consecutively, a Registered Holder of a Share Stapled Unit shall cast a single vote in respect of that Share Stapled Unit, which shall serve as a vote in respect of both the Unit and the Preference Share Stapled to the Unit. In respect of each individual Share Stapled Unit, the voting rights conferred by the Unit and the voting rights conferred by the Preference Share Stapled to the Unit can only be exercised in the same way (either for or against) in respect of a single resolution proposed at a meeting characterised under the Trust Deed as a meeting of Registered Holders of Share Stapled Units or (as the case may be) the resolutions of Unitholders and HKT Shareholders dealing with the same, or substantially the same, matter.

Votes conferred by the Ordinary Shares held by the Trustee-Manager

The Trust Deed will provide that the Trustee-Manager shall only exercise the voting rights conferred by the Ordinary Shares held by it in respect of a resolution proposed at a meeting of HKT Shareholders (whether held on a combined basis or separately), in accordance with the directions of the holders of the Units which are Linked to those Ordinary Shares. Those voting directions are given to the Trustee-Manager by the Registered Holders of Units exercising the voting rights conferred by the Units held by them. The Trustee-Manager is required to exercise the voting rights conferred by the Ordinary Shares Linked to those Units in the same way.

Summary

Accordingly, as a result of the arrangements described above, a holder of a Share Stapled Unit will be entitled to exercise the following voting rights conferred by the Share Stapled Unit:

(a) a vote of the Unit which is a component of the Share Stapled Unit, at meetings of Unitholders convened and held in accordance with the provisions of the Trust Deed; and

(b) two votes at meetings of HKT Shareholders convened and held in accordance with the provisions of the articles of association of HKT and the Trust Deed. Those votes are:

    (i) a vote in respect of the Preference Share which is Stapled to the Unit and registered in the name of the Registered Holder of the Share Stapled Unit; and

    (ii) a vote in respect of the Ordinary Share which is Linked to the Unit and registered in the name of the Trustee-Manager. The vote conferred by the Ordinary Share which is Linked to the Unit is exercised by the Registered Holder of the Share Stapled Unit giving a direction to the Trustee-Manager to vote that Ordinary Share at meetings of HKT Shareholders.

Forms of proxy and voting paper for use at meetings

In respect of combined meetings of Unitholders and HKT Shareholders characterised under the Trust Deed as meetings of Registered Holders of Share Stapled Units and separate meetings of Unitholders and HKT Shareholders held concurrently or consecutively, in each case, to the extent permitted by relevant laws and regulations, the form of proxy and the voting paper for use at the meeting(s) will each be produced as a composite document. Completion of the form of proxy or voting paper in respect of a Share Stapled Unit, by ticking the box either for or against a resolution of Registered Holders of Share Stapled Units, will constitute:

(a) a vote of the Unit which is a component of the Share Stapled Unit in respect of any required resolution of Unitholders;

(b) a vote of the Preference Share which is Stapled to the relevant Unit in respect of any required resolution of HKT Shareholders; and

(c) a direction to the Trustee-Manager to vote the Ordinary Share which is Linked to the relevant Unit in respect of any required resolution of HKT Shareholders in the same way (either for or against the relevant resolution) as the Unit and the Preference share referred to in (a) and (b) above have been voted.

Announcements, circulars and other documents

The Trust Deed will require that the Trustee-Manager and HKT shall ensure that Registered Holders of Share Stapled Units shall be sent all announcements, circulars and other documents required to be issued to HKT Shareholders and/or Registered Holders of Units, for any reason.

Modification of the Trust Deed

The Trustee-Manager and HKT shall jointly, by mutual agreement between them and, subject to the relevant laws and regulations, be entitled by supplemental deed to modify, amend, alter or add to the provisions of the Trust Deed if and to the extent that such modification, amendment, alteration or addition:

(a) either does not prejudice the interests of the Unitholders or any prejudice is immaterial; and does not operate to release to any material extent the Trustee-Manager from any responsibility to the Unitholders; and does not increase the costs or charges payable from the HKT Trust Property (other than charges, fees and expenses incurred in connection with the supplemental deed); or

(b) is necessary in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law), including, without limitation, requirements under applicable laws and regulations; or

(c) is made to correct a manifest error; or

(d) is made to reflect any changes made to applicable laws and regulations after the Listing Date provided that the relevant modification, amendment, alteration or addition is consistent with the changes made to such laws and regulations and is approved by an Extraordinary Resolution of Registered Holders of Units. This provision would permit the Trustee-Manager and HKT, acting jointly by mutual agreement between them and subject to the prior approval by an Extraordinary Resolution of Registered Holders of Units, to modify, amend, alter or add to the provisions of the Trust Deed to change the arrangements set out in the Trust Deed to make them consistent with a structure which complies with any future relevant laws and regulations which are introduced in Hong Kong to specifically govern the listing, operation and management of listed trusts which hold an operating business (including holding such a business by holding shares in one or more companies conducting an operating business) as the sole or principal asset of the trust ("**New Specific Regulations**"). If such New Specific Regulations are introduced in the future the Trustee-Manager and HKT would have the authority, subject to prior approval by an Extraordinary Resolution of Registered Holders of Units, to change the arrangements set out in the Trust Deed to a structure which is authorised under, and fully compliant with, the New Specific Regulations and to dispense with those aspects of the arrangements set out in the Trust Deed which are not required under such New Specific Regulations, provided that the New Specific Regulations are fully complied with in respect of any changed structure and any modifications, amendments, alterations or additions to the provisions of the Trust Deed.

The Trustee-Manager shall certify in writing that, in its opinion, the relevant modification, amendment, alteration or addition falls within one or more of the descriptions above.

Subject to the provision described above, the Trust Deed will specify a number of provisions in respect of which no modification, amendment, alteration or addition is permitted. Those provisions include the provisions relating to Linking the Units to the underlying Ordinary Shares held by the Trustee-Manager and Stapling the Units to the Preference Shares (including the provisions regarding coordination between the Trustee-Manager and HKT in connection with any new issues of Share Stapled Units); the Exchange Right; the provisions requiring that the membership of the board of directors of the Trustee-Manager and the board of directors of HKT be the same; the provisions relating to provision of financial information and compliance with the applicable Listing Rules; and the provision described below prohibiting the Trustee-Manager from accepting any offer to sell, or otherwise disposing of, the Ordinary Shares held by the Trustee-Manager.

In addition, the Trust Deed will provide that there can be no modification, amendment, alteration or addition of or to clause 23.1(i) of the Trust Deed which provides that for as long as the Trustee-Manager is a subsidiary of PCCW it must remain a wholly-owned subsidiary of PCCW.

Subject to the above, any other modification, amendment, alteration or addition to the provisions of the Trust Deed may only be made with the sanction of an Extraordinary Resolution of Registered Holders of Units.

No modification, amendment, alteration or addition to the provisions of the Trust Deed shall impose upon (i) any Unitholder any obligation to make further payments in respect of the Units included in his holding of Share Stapled Units (where the issue price of such Units has already been fully paid) or to accept any liability in respect thereof; or (ii) any holder of Preference Shares or Ordinary Shares any obligation to make further payments in respect of the shares included in his holding of Share Stapled Units (where the issue price of such Shares has already been fully paid).

The Trustee-Manager shall as soon as practicable after any modification, amendment, alteration or addition to the provisions of the Trust Deed give notice of the relevant modification, amendment, alteration or addition to the Registered Holders of Units, unless the relevant modification, amendment, alteration or addition is not, in the opinion of the Trustee-Manager, of material significance. All fees, costs and expenses incurred by the Trustee-Manager in connection with any such document supplemental to the Trust Deed (including expenses incurred in the holding of a meeting of Registered Holders of Units, if necessary) shall be charged against the HKT Trust Property.

The Trust Deed also requires that the structure be disclosed in listing documents and annual reports to be issued by the HKT Trust and HKT and that any proposed changes to the structure be disclosed by way of announcement published in accordance with the Listing Rules.

Limitation of liability of Holders of Share Stapled Units

The Trust Deed will contain provisions that are designed to limit the liability of a Holder of a Share Stapled Unit to the amount paid or payable for any Share Stapled Unit. The provisions seek to ensure that if the issue price of the Share Stapled Unit held by a Holder of Share Stapled Units has been fully paid, no such Holder of Share Stapled Units, by reason alone of being a Holder of Share Stapled Units or a Unitholder, will be personally liable to indemnify the Trustee-Manager or any creditor of the HKT Trust in the event that the HKT Trust Property is insufficient for the purposes of indemnifying the Trustee-Manager as provided in the Trust Deed.

Matters requiring the approval of Registered Holders of Units

The Trust Deed will require that the following matters may only be effected with prior approval by an Ordinary Resolution of Registered Holders of Units:

(a) the listing of the Share Stapled Units on an alternative stock exchange;

(b) offers of new Share Stapled Units and/or Convertible Instruments on a pro rata basis as a rights issue where any such issue together with such Convertible Instruments (assuming full conversion), would increase the total number of issued Share Stapled Units by more than 50%;

(c) any issue of or any agreement to issue new Share Stapled Units or Convertible Instruments other than on a pro rata basis (a limited general mandate to issue Share Stapled Units will be approved by an Ordinary Resolution of Registered Holders of Units prior to the Listing Date, as described in the section headed "General mandate to issue Share Stapled Units" below);

(d) adoption of a Share Stapled Units option scheme, pursuant to which Share Stapled Units and/or Convertible Instruments are to be issued (it is proposed that, subject to approval by Shareholders at the EGM, the 2011-2021 Option Scheme would be adopted by an Ordinary Resolution of Registered Holders of Units passed prior to the Listing Date);

(e) any issue of Share Stapled Units or Convertible Instruments to a connected person (as defined in the Listing Rules) (other than (i) pursuant to a rights issue on a pro rata basis or (ii) where the connected person receives a pro rata entitlement to Share Stapled Units and/or Convertible Instruments in its capacity as a Registered Holder of Share Stapled Units) which does not fall within the exempted issues under the Trust Deed;

(f) issue of new Share Stapled Units at an issue price that is at a discount of more than 20% (or such other percentage as may, from time to time, be prescribed by the Listing Rules) to the market price;

(g) sub-division or consolidation of Units/Preference Shares;

(h) declaration by the Trustee-Manager/HKT of a distribution to the Registered Holders of Units other than in cash (for the avoidance of doubt, distributions are only declared in respect of the Units and no distributions may be declared in respect of the Preference Shares except in the case of the winding up of HKT);

(i) the appointment and removal of an auditor;

(j) the fixing of the auditor's remuneration;

(k) removal and appointment of the Trustee-Manager;

(l) termination of the HKT Trust in the event that any law is passed which renders the HKT Trust illegal, or in the reasonable opinion of the Trustee-Manager, impracticable or inadvisable to continue the HKT Trust;

(m) a transaction which is a connected transaction for the HKT Trust or HKT under the Listing Rules and which is not exempt from independent shareholders approval requirements under the Listing Rules; and

(n) a transaction which is a major transaction, very substantial disposal or very substantial acquisition under the Listing Rules, provided that if the Listing Rules permit approval for the transaction to be given by written shareholders approval from a shareholder or closely allied group of shareholders who together hold more than 50% in nominal value of the securities giving the right to attend and vote at a general meeting to approve the transaction (in lieu of holding a general meeting of shareholders), the transaction can be effected with the written approval from a Registered Holder of Units or a closely allied group of Registered Holders of Units together holding more than 50% of the total number of Units in issue at the relevant time, provided that any other applicable requirements imposed under the Listing Rules in order for the transaction to be approved in that manner are also satisfied.

The Trust Deed will require that the following matters may only be effected with prior approval by an Extraordinary Resolution of Registered Holders of Units:

(a) change of name of the HKT Trust;

(b) exchange of Share Stapled Units for Ordinary Shares pursuant to the Exchange Right;

(c) termination of the HKT Trust by the Trustee-Manager; and

(d) modification of the Trust Deed.

The Trust Deed will require that, notwithstanding anything expressed or implied to the contrary in the Trust Deed, the following matters may only be effected with prior approval by an Ordinary Resolution of Registered Holders of Units and resolutions of the board of directors of the Trustee-Manager and the board of directors of HKT, in each case, passed by an affirmative vote of not less than 90% of the directors of the Trustee-Manager and HKT, as the case may be, present and voting at the relevant board meeting (including by way of an alternate):

(a) any disposal (including creation of encumbrances or third party rights) of any assets and business owned and operated by Hong Kong Telecommunications (HKT) Limited and its subsidiaries as at the Listing Date (collectively, the "**Existing Telecom Assets**"), to the extent that (i) the total or net asset value of the Existing Telecom Assets subject to such disposal and all prior disposals made after the Listing Date (if any), will in aggregate represent 10% or more of the total or net asset value (as the case may be) of the Existing Telecom Assets as at the Listing Date or (ii) any of the percentage ratios calculated under Chapter 14 of the Listing Rules would, when applied to such disposal and all prior disposals of Existing Telecom Assets made after the Listing Date (if any), be 10% or more;

(b) any disposal (including creation of encumbrances or third party rights) of any shares, securities or voting interest in Hong Kong Telecommunications (HKT) Limited;

(c) an issue of any new securities or convertible securities not on a pro-rata basis by the HKT Trust, HKT or Hong Kong Telecommunications (HKT) Limited (or a grant of a mandate to any of the boards of the Trustee-Manager, HKT or Hong Kong Telecommunications (HKT) Limited to do so); and

(d) any amendment to the provisions of the Trust Deed referred to in (a) to (c) above.

References to Hong Kong Telecommunications (HKT) Limited in the Trust Deed and the paragraph above are applicable to any successor of Hong Kong Telecommunications (HKT) Limited or transferee of the Existing Telecom Assets which is a member of the Telecommunications Group.

Subject to the foregoing, any other modification, amendment, alteration of, or addition to, the provisions of the Trust Deed may be made with the sanction of an Extraordinary Resolution of Registered Holders of Units, except that no modification, amendment, alteration or addition shall impose upon any Unitholder any obligation to make further payments in respect of the Units held by him or to accept any additional liability in respect thereof.

Modification of class rights

If at any time the Units in the HKT Trust are divided into different classes of Units, rights attached to any class of Units in the HKT Trust may only be modified with prior approval by an Extraordinary Resolution of Registered Holders of Units of the relevant class passed at a separate meeting of the Registered Holders of Units of that class. The rights conferred upon the Registered Holders of Units of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such Units, be deemed to be varied by the creation or issue of further Units ranking *pari passu* therewith. Notwithstanding anything to the contrary in the Trust Deed, the quorum for a separate meeting of Registered Holders of Units is the holder of at least one-third of the Units of that class.

Powers of the Trustee-Manager to administer the HKT Trust

The Trustee-Manager has the necessary powers under the Trust Deed to perform its function of administering the HKT Trust.

Powers of the Trustee-Manager in relation to the Listing

Under the Trust Deed, the Trustee-Manager has been granted the powers necessary for the Listing and the issue and sale of the Share Stapled Units pursuant to the Global Offering.

Duties of the Trustee-Manager under the Trust Deed

The Trustee-Manager shall at all times act honestly and exercise the degree of care and diligence required of the Trustee-Manager under Hong Kong law and the Trust Deed in relation to the administration of the HKT Trust. The Trustee-Manager shall (a) act honestly and in good faith in the best interest of all the Registered Holders of Units as a whole; (b) give priority to the interests of all the Registered Holders of Units as a whole over its own interests in the event of a conflict between the interests of all the Registered Holders of Units as a whole and its own interests; (c) treat all Registered Holders of Units fairly and equally; (d) ensure that the HKT Trust Property is properly accounted for and be answerable to the Registered Holders of Units for the application or misapplication of any HKT Trust Property; (e) act for proper purpose; (f) avoid actual and potential conflicts of interest and duty; and (g) disclose fully to the Registered Holders of Units its interests in contracts with the HKT Trust and/or the Telecommunications Group. The Trustee-Manager shall not make improper use of any information acquired by virtue of its position as trustee or manager of the HKT Trust to gain, directly or indirectly, an advantage for itself or for any other person to the detriment of the Registered Holders of Units.

The Trustee-Manager shall have the fiduciary duty to hold the HKT Trust Property on trust for the benefit of the Registered Holders of Units, and to comply with the Trust Deed and the relevant laws and regulations.

Segregated accounts

The Trustee-Manager shall be responsible for the safe custody of the HKT Trust Property and shall comply with the following provisions:

(a) all or any amount of cash received by the Trustee-Manager from the Telecommunications Group for the purpose of making distributions to the Unitholders must be deposited in a segregated distributions account pending the relevant distribution to Unitholders. Amounts standing to the credit of the distributions account shall be held on trust for the Registered Holders of Units upon and subject to the terms and conditions of the Trust Deed. The distribution account shall be opened and maintained with a licensed bank in Hong Kong in the joint names of the Trustee-Manager and HKT and shall be operated by joint authorised signatories, at least one of whom shall be designated by the Trustee-Manager and at least one of whom shall be designated by HKT;

(b) all of the Ordinary Shares held by the Trustee-Manager under the Trust Deed must be held in a custody account opened and maintained with a licensed bank in Hong Kong in the joint names of the Trustee-Manager and HKT. The custody account shall be operated by joint authorised signatories, at least one of whom shall be designated by the Trustee-Manager and at least one of whom shall be designated by HKT. Securities held in the custody account shall be held on trust for the Registered Holders of Units upon and subject to the terms and conditions of the Trust Deed; and

(c) all or any amount of cash received by the Trustee-Manager as the proceeds of subscriptions for the issue and/or sale of Share Stapled Units shall be deposited in a subscriptions account pending the issue of the Share Stapled Units subscribed for by investors and completion of the relevant investment in HKT by way of subscription for shares in HKT. The subscriptions account shall be opened and maintained with a licensed bank in Hong Kong in the joint names of the Trustee-Manager and HKT and operated by joint authorised signatories, at least one of whom shall be designated by the Trustee-Manager and at least one of whom shall be designated by

HKT. Amounts standing to the credit of the subscriptions account shall be held on trust for the Registered Holders of Units pending the acceptance of their subscription applications for Share Stapled Units and the issue of their Share Stapled Units; and thereafter shall be held on trust for HKT; in each case, upon and subject to the terms and conditions of the Trust Deed.

Save where the Trustee-Manager is fraudulent, in wilful default or negligent, the Trustee-Manager shall not incur any liability to the Unitholders in respect of or be responsible for losses incurred through the insolvency of, or any act or omission of, any of the licensed banks in Hong Kong with which the distributions account, the custody account and/or the subscriptions account are opened.

The duties of the Trustee-Manager specified in the Trust Deed will include duties to:

- ensure that the HKT Trust Property is properly segregated and held for the benefit of the Unitholders in accordance with the provisions of the Trust Deed;
- give priority to the interests of the Unitholders as a whole over its own interests in the event of a conflict of interests of Unitholders as a whole and its own interest;
- administer the HKT Trust in a proper and efficient manner in accordance with the relevant laws and regulations and the Trust Deed;
- send to Registered Holders of Share Stapled Units such reports, within the time limits and disclosing the matters, as required by the Trust Deed and the relevant laws and regulations;
- keep or cause to be kept such books as will sufficiently explain the transactions and financial position of the HKT Trust and of the Trustee-Manager and enable true and fair accounts to be prepared from time to time and in such manner as will enable such books to be conveniently and properly audited;
- ensure that the Trust Deed and the articles of association of HKT are made available for inspection by the public in Hong Kong, free of charge, at all times during business hours at the place of business of the Trustee-Manager and ensure that copies of such documents are available upon request by any person upon the payment of a reasonable fee; and
- keep or cause to be kept such books that accurately record and minute the proceedings of all general meetings of Registered Holders of Units and the resolutions passed at those general meetings of Registered Holders of Units.

Financial statements and reports

The Trustee-Manager shall prepare and publish (at the expense of the HKT Trust):

(a) annual reports and accounts of the HKT Trust to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the annual reports and accounts of the HKT Trust;

(b) semi-annual reports and accounts of the HKT Trust to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the semi-annual reports and accounts of the HKT Trust; and

(c) the financial statements, preliminary announcements of results and other reports, circulars and information required to be provided under the Listing Rules applicable to the HKT Trust and other relevant laws and regulations, within any relevant prescribed time periods.

HKT shall prepare and publish:

(a) annual reports and accounts of HKT to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the annual reports and accounts of HKT;

(b) semi-annual reports and accounts of HKT to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the semi-annual reports and accounts of HKT; and

(c) the financial statements, preliminary announcements of results and other reports, circulars and information required to be provided under the Listing Rules applicable to HKT and other relevant laws and regulations, within any relevant prescribed time periods.

The Trustee-Manager shall prepare and publish (at the expense of the HKT Trust):

(a) annual accounts of the Trustee-Manager to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the annual reports and accounts of the HKT Trust; and

(b) semi-annual accounts of the Trustee-Manager to be published and distributed to Registered Holders of Share Stapled Units within the period prescribed by the Listing Rules for the publication of the semi-annual reports and accounts of the HKT Trust.

The financial statements of the HKT Trust and HKT referred to above shall be prepared on a consolidated basis. The financial statements of the Trustee-Manager referred to above shall be prepared on an unconsolidated basis, unless the Trustee-Manager has any subsidiaries, in which case those financial statements shall be prepared on a consolidated basis.

The Trustee-Manager and HKT shall prepare and publish their respective reports referred to above in the form of a combined document which shall be sent to the Registered Holders of Share Stapled Units within the applicable period(s) referred to above. The combined document shall also include the accounts of the Trustee-Manager in respect of the relevant period.

The financial statements of the HKT Trust, HKT and the Trustee-Manager referred to above shall include:

(a) a balance sheet, income statement and cashflow statement;

(b) a distributions statement (in respect of the HKT Trust and HKT only);

(c) comparative figures for each of the foregoing for the corresponding previous period;

(d) accounting policies and explanatory notes;

(e) in respect of the annual accounts for a full financial year, an auditor's report; and

(f) such other information as may be prescribed by the Listing Rules, including but not limited to any and all corporate governance reports required by the Listing Rules.

The Trustee-Manager's corporate governance report referred to above in paragraph (f) shall include a description of the policies and measures taken by the Trustee-Manager to manage conflicts and potential conflicts of interests between (1) the HKT Trust and (2) any Unitholder holding 30% or more of the Units in issue, or any director or shareholder of the Trustee-Manager holding 30% or more of the issued shares in the Trustee-Manager.

Subject to relevant laws and regulations and unless otherwise agreed by the Trustee-Manager and HKT, the Trustee-Manager and HKT shall procure that the financial statements of the HKT Trust, HKT and the Trustee-Manager are prepared under the same accounting standards and using substantially the same accounting policies. The financial statements of the HKT Trust, HKT and the Trustee-Manager referred to above shall each be prepared in accordance with the relevant laws and regulations and either (1) HKFRS or (2) International Financial Reporting Standards as promulgated from time to time by the International Accounting Standards Board.

The annual accounts of the HKT Trust, HKT and the Trustee-Manager, covering a full financial year, shall each be audited by the same auditor and shall be accompanied by a report of the auditor.

The annual accounts of the HKT Trust, HKT and the Trustee-Manager, covering a full financial year, shall be laid before the Registered Holders of Units in each annual general meeting of Registered Holders of Units and accompanied by a copy of the report of the auditor thereon and a report made by the directors of the Trustee-Manager.

Board of directors of the Trustee-Manager and the board of directors of HKT to be the same

The board of directors of the Trustee-Manager shall at all times comprise the same individuals who serve as directors of HKT. No person shall serve as a director of the Trustee-Manager unless he also serves as a director of HKT at the same time. No person shall serve as a director of HKT unless he also serves as a director of the Trustee-Manager at the same time. The office of a director of the Trustee-Manager shall be vacated if he ceases to be a director of HKT. The office of a director of HKT shall be vacated if he ceases to be a director of the Trustee-Manager.

The articles of association of the Trustee-Manager shall contain provisions to the effect set out above and the articles of association of HKT shall contain provisions to the effect set out above. No person shall be appointed or serve as an alternate in respect of a director of the Trustee-Manager unless he is also appointed and serves as an alternate of the same person in his capacity as a director of HKT. No person shall be appointed or serve as an alternate in respect of a director of HKT unless he is also appointed and serves as an alternate of the same person in his capacity as a director of the Trustee-Manager.

Duties of the directors of the Trustee-Manager under the Trust Deed

A director of the Trustee-Manager shall:

- act honestly and in good faith and exercise such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience holding his office with the Trustee-Manager in the discharge of the duties of his office and, in particular, shall take all reasonable steps to ensure that the Trustee-Manager discharges its duties under the Trust Deed;

- give priority to the interest of all the Registered Holders of Units as a whole over the interest of the Trustee-Manager in the event of a conflict between the interest of all the Registered Holders of Units as a whole and the interest of the Trustee-Manager;

- act for proper purpose;

- be answerable to the Trustee-Manager and the Registered Holders of Units for the application or misapplication of any HKT Trust Property;

- avoid actual and potential conflicts of interest and duty; and

- disclose fully and fairly his interest in contracts with the Trustee-Manager and/or the Telecommunications Group.

An officer or agent of the Trustee-Manager shall not make improper use of any information acquired by virtue of his position as an officer or agent of the Trustee-Manager to gain, directly or indirectly, an advantage for himself or for any other person to the detriment of the Registered Holders of Units. The duty of a director of the Trustee-Manager under the Trust Deed shall be paramount and override any conflicting duty of such director to the shareholders of the Trustee-Manager. The memorandum of association and articles of association of the Trustee-Manager shall contain provisions to that effect and a company shall not be eligible to be appointed, or to continue, as a trustee-manager of the HKT Trust if either its memorandum of association or articles of association do not contain those provisions.

Terms of appointment and removal of the Trustee-Manager

The Trust Deed will provide that the appointment and removal of the Trustee-Manager shall only be in accordance with the Trust Deed and applicable laws and regulations. Under the Listing Rules, the Stock Exchange would normally expect the Trustee-Manager to be a company which has not carried on any business other than the management and operation of the HKT Trust as its trustee-manager.

The Trustee-Manager will be appointed as the trustee and manager of the HKT Trust under the Trust Deed. Subject to the relevant laws and regulations, the Trustee-Manager is entitled to apply, or to be reimbursed from, the HKT Trust Property (at such times and over such periods as the Trustee-Manager may determine in any particular case) for all liabilities in respect of the HKT Trust whether incurred directly or indirectly by the Trustee-Manager, fees, costs, charges and expenses that may be properly suffered or incurred by the Trustee-Manager in the performance of its obligations or the exercise of its powers under the Trust Deed, or otherwise arising out of or in connection with the Trust Deed, including but not limited to the amounts specified in the Trust Deed.

Under the Trust Deed, the Trustee-Manager may be removed as trustee-manager of the HKT Trust by an Ordinary Resolution of Registered Holders of Units, or it may resign as trustee-manager. Any removal or resignation of the Trustee-Manager must be made in accordance with the procedures as set out in the Trust Deed. Any purported change of the Trustee-Manager of the HKT Trust is ineffective unless it is made in accordance with the Trust Deed. The removal or resignation shall only be effective upon the original trustee-manager or the resigning trustee-manager (as the case may be) having taken all necessary steps to transfer legal title to all HKT Trust Property to the incoming trustee-manager, including, but not limited to the Ordinary Shares. The responsibilities and obligations of the Trustee-Manager which is being removed or is resigning will only cease, and the responsibilities and obligations of the incoming trustee-manager will only commence, on all those necessary steps having been completed.

The Trustee-Manager will remain the trustee-manager of the HKT Trust until another person is appointed to be the trustee-manager of the HKT Trust by an Ordinary Resolution of Registered Holders of Units and such appointment shall be effective from the date stated in the resolution of the Registered Holders of Units. The Trust Deed and the articles of association of the Trustee-Manager will provide that for so long as the Trustee-Manager is a subsidiary of PCCW, it must remain a wholly-owned subsidiary of PCCW. An announcement will be made when there is any change of Trustee-Manager or the directors of the Trustee-Manager and HKT.

General mandate to issue Share Stapled Units

A general mandate will be granted to the directors of the Trustee-Manager and HKT, subject to the "lock-up" provisions under Rule 10.08 of the Listing Rules and any other applicable provisions of the Listing Rules and the provisions of the Trust Deed requiring that Units be Linked to Ordinary Shares and Stapled to Preference Shares, to issue or agree (conditionally or unconditionally) to issue Share Stapled Units, after the Listing Date and on or prior to the date of the first annual general meeting of Holders of Share Stapled Units held after the Listing Date (whether directly or pursuant to any subscription or conversion rights), otherwise than pursuant to a rights issue and without the approval of an Ordinary Resolution of Registered Holders of Units or an Ordinary Resolution of HKT Shareholders if the total number of new Share Stapled Units issued, or agreed (conditionally or unconditionally) to be issued, under the general mandate does not increase the number of Share Stapled Units outstanding immediately following the Listing Date by more than 20%.

Any issue of, or any agreement (whether conditional or unconditional) to issue, new Share Stapled Units exceeding the percentage threshold specified above shall require specific prior approval by an

Ordinary Resolution of Registered Holders of Units and an ordinary resolution of HKT Shareholders, except that agreements to issue new Share Stapled Units exceeding such percentage threshold which are conditional upon specific prior approval by such ordinary resolutions may be entered into without first obtaining such prior approval.

The authority granted under the general mandate described above:

(i) shall only be exercisable if and to the extent that following the issue of any new Share Stapled Units under the general mandate, PCCW shall continue to hold not less than 51% of the Share Stapled Units (on a fully diluted basis, taking into account and assuming full exercise of all rights, options (including but not limited to any options issued under any Share Stapled Units option scheme and any over allotment options in connection with the Global Offering) and other entitlements (in whatever nature or form) that may be exchanged or converted into or otherwise may result in further issuance or disposal of Share Stapled Units; and

(ii) shall only remain in effect until the conclusion of the first annual general meeting of the Holders of Share Stapled Units following the Listing Date, or the expiration of the period within which such annual general meeting is required to be held, or until revoked, renewed or varied by an Ordinary Resolution of Registered Holders of Units, whichever occurs first.

Application of the Takeovers Code to the HKT Trust

The Share Stapled Units will confer voting rights exercisable at general meetings of HKT. Upon completion of the Global Offering, HKT will be a public company in Hong Kong with a primary listing of its equity securities on the Stock Exchange. Accordingly, the Takeovers Code applies in full in respect of the Share Stapled Units.

When an offer is made, e.g. a mandatory general offer under Rule 26 of the Takeovers Code, or a voluntary general offer under the Takeovers Code (including a partial offer), it would need to be made on the basis that the securities offered to be purchased would be the Share Stapled Units (and any Convertible Instruments outstanding at the relevant time) and that the offeree under the Takeovers Code would be HKT.

All the other provisions of the Takeovers Code which are applicable to public companies in Hong Kong with a primary listing on the Stock Exchange are equally applicable in respect of the Share Stapled Units, as voting rights in respect of HKT, and in respect of any Convertible Instruments.

Under the Trust Deed, the Trustee-Manager is not permitted to accept any offer to sell the Ordinary Shares which are held by the Trustee-Manager or to otherwise dispose of those Ordinary Shares. Any offer made under the Takeovers Code in respect of the Share Stapled Units must be made, and may only be accepted, in respect of the Share Stapled Units and any Convertible Instruments outstanding at the relevant time. The Trust Deed will provide that an offer under the Takeovers Code cannot be made, or accepted by the Trustee-Manager, only in respect of the Ordinary Shares held by the Trustee-Manager.

The HKT Trust will not be permitted to make an offer under the Takeovers Code for the securities of another entity, because that would exceed the scope of its specific and limited role and powers. HKT will be permitted to make an offer under the Takeovers Code for the securities of another entity and, if such an offer were to be made, HKT would be the offeror for the purposes of the Takeovers Code.

Under the Trust Deed, the Trustee-Manager will be prohibited from repurchasing or redeeming any Share Stapled Units on behalf of the HKT Trust unless and until expressly permitted to do so by relevant codes and guidelines issued by the SFC from time to time; and only with the agreement of HKT and in circumstances where HKT repurchases the Ordinary Shares and the Preference Shares included in any Share Stapled Units to be repurchased.

Under the Trust Deed, Holders of Share Stapled Units have no right to demand for the repurchase or redemption of their Share Stapled Units.

Application of Part XV of the SFO

Division 2 of Part XV of the SFO imposes duties to disclose "interests in shares" of listed corporations and "short positions" in such shares on those who, respectively, acquire or dispose of such interests or have or cease to have such positions. Similar disclosure obligations are placed on directors and chief executives of listed corporations, by Division 7 of Part XV of the SFO. Part XV of the SFO also empowers a corporation and the SFC to investigate those holding "interests in shares" or having "short positions" in shares.

The Share Stapled Units include shares in the "relevant share capital" of HKT and, accordingly, the duties to disclose interests in shares and short positions under Division 2 of Part XV of the SFO are applicable in respect of the Share Stapled Units. Similarly, the Share Stapled Units include "interests in shares" of HKT for the purpose of Division 7 of Part XV of the SFO and, accordingly, the disclosure obligations placed on directors and chief executives of listed corporations under Division 7 of Part XV of the SFO are equally applicable in respect of the Share Stapled Units.

By way of illustration, a person holding 5% of the Share Stapled Units in issue would be required to disclose an interest under Division 2 of Part XV of the SFO in 5% of the "relevant share capital" of HKT. Both the Ordinary Shares and the Preference Shares are "relevant share capital." A person holding 5% of the Share Stapled Units in issue would have an interest in 5% of the Ordinary Shares Linked to the Units held by that person and 5% of the Preference Shares Stapled to the Units held by that person, which in aggregate represent 5% of the total number of issued voting shares in HKT and, therefore, 5% of the "relevant share capital" of HKT.

The powers of HKT under section 329 of Division 5 of Part XV of the SFO and the powers of the SFC under section 356 of Division 11 of Part XV of the SFO to investigate those holding interests in shares or having short positions are also both applicable in respect of the Share Stapled Units.

The Trustee Ordinance, common law duties of trustees, remedies for breach of trust and liability regime

Trustee Ordinance

The Trustee Ordinance governs all trusts created and governed by the laws of Hong Kong and is stated to apply in full to all trusts created in Hong Kong, unless the instrument creating the trust specifies otherwise. The Trust Deed constituting the HKT Trust states that the Trustee Ordinance applies in full to HKT Trust except that Part II and Part III do not apply to HKT Trust.

Part I and Parts IV to IX of, as well as the Schedule to, the Trustee Ordinance apply to the HKT Trust and contain provisions relating to, among others, the creation of a trust, the duties and powers of a trustee and beneficiaries, administration of a trust and the retirement, removal and appointment of a trustee. Part II of the Trustee Ordinance has been excluded from application to the HKT Trust because it confers on a trustee powers of investment that are wider than appropriate for HKT Trust, which is a fixed single investment trust which may invest in the securities of only one entity, namely shares of HKT; and in respect of which the Trustee-Manager has a specific and limited role, which is to administer the HKT Trust. Part III of the Trustee Ordinance has also been excluded from application to the HKT Trust because it confers on trustees powers that are wider than those conferred on the Trustee-Manager under the Trust Deed and which would not be consistent with the specific and limited role of the Trustee-Manager. In addition, Part III of the Trustee Ordinance relates to personal representatives, which are not relevant to the HKT Trust.

Common law duties of a trustee

The obligations, duties and powers of a trustee when managing a trust vary depending on the nature of the trust. The HKT Trust will be a single fixed investment trust and the obligations, duties and powers of the Trustee-Manager are limited accordingly. Trustees' duties are usually categorised as being either "management" or "fiduciary" but they often overlap.

The Trustee-Manager's management duties under common law include, in relation to the HKT Trust: a duty on a new Trustee-Manager to acquaint himself with the HKT Trust, a duty to carry out and follow the Trust Deed, a duty to treat Registered Holders of Share Stapled Units equally, a duty to keep accounts and make the accounts and HKT Trust documents available to Registered Holders of Units, and a duty to act honestly and reasonably in good faith for the best interest of all Registered Holders of Units.

The Trustee-Manager's fiduciary duties under common law include, in relation to the HKT Trust: a duty not to purchase the HKT Trust Property or to lend money to itself, a duty not to profit by virtue of its role as trustee of the HKT Trust, a duty not to profit from confidential information regarding the HKT Trust and a duty not to put itself in a position where its interests conflict with its duties to the Registered Holders of Units.

Remedies for breach

A Trustee-Manager who does not carry out its duties and obligations contained in the Trust Deed or as imposed by law will be in breach of trust and will be liable to the Registered Holders of Units. Generally, under the common law, when there is a breach of trust, the Trustee-Manager can be compelled to do something required by the terms of the trust (in this case, the terms of the Trust Deed) or prevented from doing something prohibited by the terms of the trust (in this case, the terms of the Trust Deed). The Trustee-Manager can also be required to restore the HKT Trust Property that has been passed away in the breach, to provide value equivalent to value of property passed away or to pay equitable compensation to the HKT Trust to compensate the beneficiaries' loss. The Trustee-Manager may also be obliged to put the HKT Trust estate back to the same position it would have been had the breach not occurred. However, under the common law, it may be difficult to establish a liability for breach of trust, as the Holders of Share Stapled Units must prove that the HKT Trust Property has incurred a loss and that the loss would not have occurred but for the breach. The Trustee-Manager may also be entitled to certain defences to breach of trust under the common law. These remedies would be enforced by making an application to the Hong Kong courts.

The Trust Deed will limit the liability of the Trustee-Manager (including its directors, employees, agents or delegates) in the absence of fraud, wilful default, negligence or breach of the Trust Deed. In addition, the Trust Deed provides that the Trustee-Manager and any of its directors, employees, servants and agents is entitled to be indemnified against any actions, costs, claims, damages, expenses or demands to which it or he/she may be subject as the Trustee-Manager of the HKT Trust (or as such a director, employee, agent or delegate) so long as such action, cost, claim, damage, expense, penalty or demand is not occasioned by fraud, wilful default or negligence. As a result, the rights of the HKT Trust and the Holders of Share Stapled Units to recover claims against the Trustee-Manager are limited.

Liability regime

The HKT Trust can only act through the Trustee-Manager. If the Trustee-Manager enters into a contract with a third party, the Trustee-Manager is liable under the contract to a potentially unlimited degree. Similarly, the Trustee-Manager can also be personally liable in tort for its or its agents' acts or omissions in connection with the administration of the HKT Trust.

As a general principle, creditors and contractual counterparties of the HKT Trust and other third parties will have no direct access to the HKT Trust Property, because the HKT Trust has no separate legal existence. The Trustee-Manager is entitled under the Trust Deed to an indemnity out of the HKT Trust Property in respect of the Trustee-Manager's personal liability where a contract has been properly entered into during the administration of the HKT Trust and within the powers conferred by the Trust Deed and in the absence of fraud, wilful default or negligence by the Trustee-Manager. Similarly, where the Trustee-Manager has acted within its powers under the Trust Deed, it will be entitled to an indemnity in respect of claims in tort by third parties, in the absence of fraud, wilful default or negligence on the part of the Trustee-Manager.

Creditors', other contractual counterparties' and other third parties' only means of access to the HKT Trust Property is by subrogation to the Trustee-Manager's right to be indemnified out of the HKT Trust Property in the circumstances described above.

Key differences between the HKT Trust and other common forms of trusts

There are many types of trusts established for a variety of different purposes. Trusts may be listed or unlisted. The key distinguishing features of the HKT Trust, as compared to other types of trusts are:

- The HKT Trust will be a fixed single investment trust and may only invest in securities and other interests in HKT. The Trustee-Manager has a specific and limited role, which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the Telecommunications Business, which is run by HKT and its operating subsidiaries. The trustees or managers of other trusts typically have wider powers of investment and would typically invest in and manage a portfolio of securities issued by different entities and/or other assets, albeit consistent with a stated investment theme or mandate.

- The role of the Trustee-Manager will be specific and limited to administering the HKT Trust in the context of its restricted scope of investment as described above.

- While the HKT Trust remains in effect, the Share Stapled Units cannot be repurchased or redeemed by the HKT Trust or HKT unless and until specific regulations which expressly permit that are introduced by the SFC. The Holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units.

- Any issue by the HKT Trust and HKT of new Share Stapled Units on a non pro rata basis requires prior approval by an Ordinary Resolution of Registered Holders of Units.

- The HKT Trust will not be permitted to incur debt.

Pre-IPO Restructuring

PCCW will implement the Pre-IPO Restructuring prior to the Proposed Spin-off to reorganise the ownership structure of the Telecommunications Business and establish the HKT Trust. The Pre-IPO Restructuring is proposed to be implemented in the manner described below.

The Pre-IPO Restructuring will comprise two stages:

Stage 1: Transfer of certain businesses out of HKTGH, such that HKTGH will hold only the Telecommunications Business.

Stage 1 of the Pre-IPO Restructuring comprises the following steps:

(a) CAS No. 1 has established two new BVI investment holding companies, being Esencia Investments Limited and Great Epoch Holdings Limited, to act as an intermediate holding company of the Media Group and to act as an intermediate holding company of the Solutions Group, respectively.

(b) Transferring HKT Network Services Limited and, indirectly, its three subsidiaries, PCCW-HKT Business Services Limited, PCCW-HKT Technical Services Limited and Pacific Century CyberWorks Solutions (Macau) Limited, from a subsidiary of HKTGH to PCCW Network Services (China) Limited, a company within the Solutions Group. The consideration for this transfer of HK$214.2 million, being an amount equal to the fair market value of HKT Network Services Limited, will be settled on the basis of an inter-company balance left outstanding.

(c) 電訊盈科(北京)有限公司 (PCCW (Beijing) Limited#), a company within the Telecommunications Group, will transfer certain contracts, employees and assets relevant to the Telecommunications Group's business to another company within the Telecommunications Group, 電訊盈科科技(北京)有限公司 (PCCW Technology (Beijing) Limited#) at carrying cost. Thereafter, the Telecommunications Group will transfer 電訊盈科(北京)有限公司 (PCCW (Beijing) Limited#) to the Remaining Group. The consideration for this transfer of HK$51.8 million, being an amount equal to the fair market value of 電訊盈科(北京)有限公司 (PCCW (Beijing) Limited#), will be settled on the basis of an inter-company balance left outstanding.

(d) PCCW-HKT DataCom Services Limited, a company within the Telecommunications Group, will transfer certain intellectual property rights in relation to the Remaining Businesses at nominal consideration to the Remaining Group.

(e) Transferring the Solutions Group's 76.43% interest in Unihub Global Network Technology (China) Limited and thereby its 50% interest in ZhongYing JV, which is currently under the Solutions Group, to a company within the Telecommunications Group. The consideration for this transfer of HK$126.5 million, being an amount equal to the fair market value of the Solutions Group's 76.43% interest in Unihub Global Network Technology (China) Limited, will be settled on the basis of an inter-company balance left outstanding.

\# *unofficial name*

(f) Transferring Pacific Century Cable Holdings Limited, a company within the Remaining Group, and thereby its 50% interest in Reach Ltd., from PCCW to HKT. The consideration for this transfer of HK$70.6 million, being an amount equal to the fair market value of Pacific Century Cable Holdings Limited, will be settled on the basis of an inter-company balance left outstanding. Reach Ltd. is a 50/50 owned joint venture formed in Year 2000 between PCCW and Telstra Corporation Limited ("**Telstra**") and provides international communications infrastructure services, principally to PCCW and Telstra. The operations and services provided by Reach Ltd. are telecommunications related and are more in line with the businesses of the Telecommunications Group than the Remaining Group. Therefore, PCCW's interest in Reach Ltd. will be transferred to the Telecommunications Group through the transfer of Pacific Century Cable Holdings Limited to the Telecommunications Group as part of the Pre-IPO Restructuring.

(g) Transferring Media Holdings and, indirectly, its subsidiaries and jointly controlled companies from HKTGH to Esencia Investments Limited, a new intermediate holding company of the Media Group, immediately under CAS No. 1. This transfer will be effected by way of a distributions in specie of the shares in Media Holdings and the contribution of those shares to Esencia Investments Limited. HKTGH will declare and pay a dividend to CAS No. 1 of an amount equal to the carrying cost of Media Holdings.

(h) Transferring Solutions Holdings and its subsidiaries, from a subsidiary of HKTGH to Great Epoch Holdings Limited, a new intermediate holding company of the Solutions Group, immediately under CAS No. 1. This transfer will be effected by way of a series of distributions in specie of the shares in Solutions Holdings and the contribution of those shares to Great Epoch Holdings Limited. HKTGH will declare and pay a dividend to CAS No. 1 of an amount equal to the carrying cost of Solutions Holdings.

(i) Hong Kong Telecommunications (HKT) Limited, a member of the Telecommunications Group, will assign the benefit of two technical services agreements to PCCW Solutions Limited, a member of the Solutions Group. The consideration for this transfer is HK$59.0 million, being an amount equal to the fair market value of these agreements.

(j) As between the Telecommunications Group and the Remaining Group, the inter-company balances applicable to both trading operations and non-trading matters (for example, shareholder's loans and the balances arising out of the Pre-IPO Restructuring steps set out above) will be transferred and set-off such that a single net balance will be owed by HKTGH to CAS No. 1.

(k) HKTGH will issue new ordinary shares to CAS No. 1 to capitalise the net inter-company balance.

The Pre-IPO Restructuring steps in paragraph (a) to (f) above will be completed prior to the date of the Prospectus, while the remaining steps referred to in paragraph (g) to (k) above will occur on the day immediately before the Listing Date.

Completion of the transfers of Media Holdings and Solutions Holdings in Stage 1 of the Pre-IPO Restructuring will trigger an obligation for Hong Kong Telecommunications (HKT) Limited, the major operating company under the Telecommunications Group, to make a mandatory repayment of the outstanding amount under its existing syndicated and bilateral facilities from third party commercial banks. The amount of such repayment will be determined by reference to the value of the assets being transferred out of HKTGH. There will also be a pro rata reduction in the undrawn portion of such syndicated and bilateral facilities from third party commercial banks. The total available size of the syndicated and bilateral facilities of Hong Kong Telecommunications (HKT) Limited was HK$26,330 million, of which HK$15,775 million was the outstanding amount as at 31 August 2011. Hong Kong Telecommunications (HKT) Limited is expected to meet the mandatory repayment obligation within 15 business days of the completion of the transfers of the Media Business and the Solutions Business out of the HKTGH group. Hong Kong Telecommunications (HKT) Limited has sufficient resources including new banking facilities in place for the mandatory repayment estimated at approximately HK$6.9 billion.

Following completion of Stage 1 of the Pre-IPO Restructuring, HKTGH will hold only the Telecommunications Business. The Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses will continue to be held by PCCW and/or its wholly-owned subsidiaries and will be held separately from (and outside of) the Telecommunications Group under HKTGH.

Stage 2: Transfer of the Telecommunications Business to the Trustee-Manager.

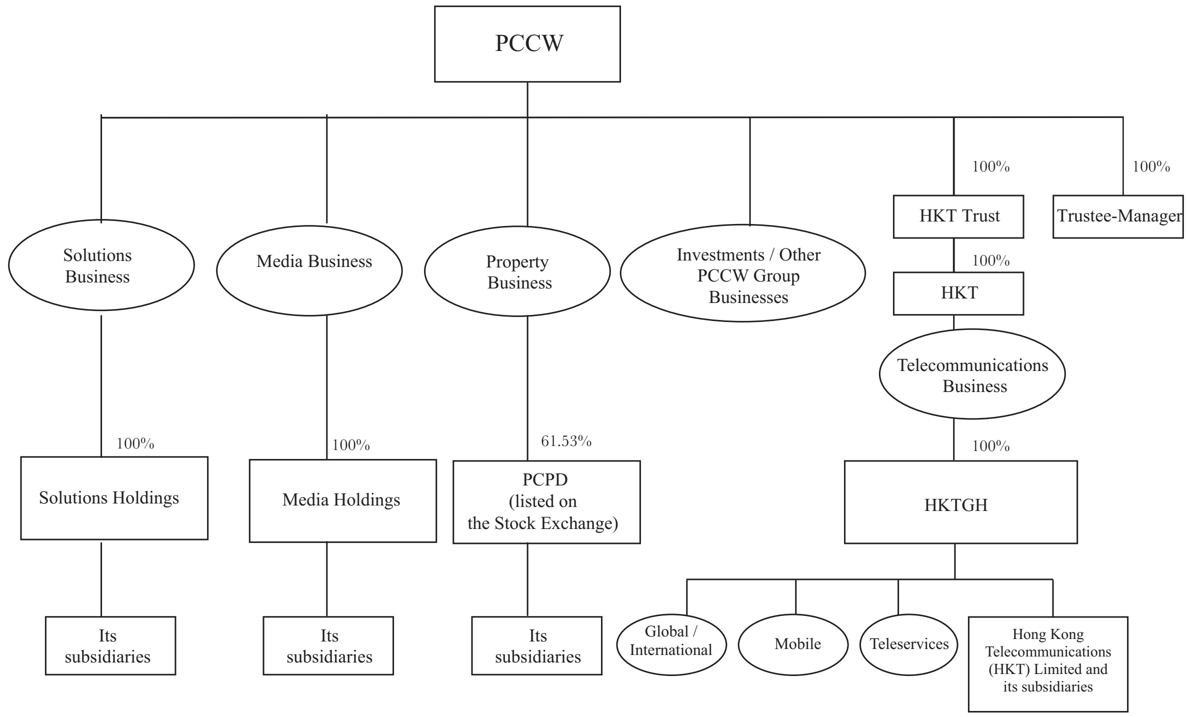
Stage 2 of the Pre-IPO Restructuring will comprise the following steps:

(a) CAS No. 1 will transfer the Telecommunications Business to HKT, by transferring the entire issued share capital of HKTGH (and, thereby, its subsidiaries and jointly controlled companies) to HKT at fair value equivalent to the value of CAS No. 1's percentage share of HKT's market capitalisation on the Listing Date. The consideration will be settled by the allotment and issue of 4,363,361,192 new Ordinary Shares and 4,363,361,192 new Preference Shares and the issue of a promissory note by HKT to CAS No. 1. The promissory note, to be issued on completion of the transfer (which will occur shortly before the Listing Date), will entitle CAS No. 1 to receive the amount (if any) by which the net proceeds of the Global Offering (including the net proceeds from any exercise of the Over-allotment Option) exceeds HK$7.8 billion. Accordingly, if such net proceeds are equal to or less than HK$7.8 billion, the promissory note would have no worth. Any amounts payable on the promissory note will be settled on or shortly after the exercise or lapse of the Over-allotment Option (as the case may be).

(b) CAS No. 1 will transfer the entire issued ordinary share capital of HKT (comprising the 4,363,361,192 Ordinary Shares referred to above, plus the 15,600 Ordinary Shares previously in issue) to the Trustee-Manager in its capacity as the trustee and manager of the HKT Trust, in consideration for the issue of 4,363,376,792 Consideration Share Stapled Units (within which would be comprised the 4,363,376,792 Preference Shares already then held by CAS No. 1) to be jointly issued by the HKT Trust and HKT to CAS No. 1.

The transfer of HKTGH to HKT and the transfer of the entire issued ordinary share capital of HKT to the Trustee-Manager in its capacity as the trustee and manager for the HKT Trust will occur shortly before the Listing Date.

The Company's principal businesses are shown in the following simplified chart, which shows the position after completion of Stage 2 of the Pre-IPO Restructuring:



Issue of Share Stapled Units under the Global Offering

The HKT Trust and HKT will issue new Share Stapled Units to investors for cash under the Global Offering. Under the Trust Deed, prior to the issue of any Share Stapled Units, the Trustee-Manager and HKT must agree on the terms of issue, including the issue price of the Share Stapled Units and the respective amounts to be subscribed for the Units, the Ordinary Shares and the Preference Shares. In all cases, the number of Units, Ordinary Shares and Preference Shares to be issued must be identical. The Trustee-Manager, in its capacity as trustee and manager of the HKT Trust will subscribe for, and HKT will agree to issue to the Trustee-Manager, a number of new Ordinary Shares equal to the number of Units to be issued (in the form of Share Stapled Units) under the Global Offering. The Ordinary Shares will be held by the Trustee-Manager for the benefit of the Holders of Share Stapled Units upon and subject to the terms and conditions of the Trust Deed. At the same time, investors under the Global Offering will subscribe for the identical number of Preference Shares, also to be issued in the form of Share Stapled Units.

For the purposes of the Shareholders' approval required under PN 15 and Chapter 14 of the Listing Rules, Shareholders are requested to approve the Proposed Spin-off provided that the terms of the Global Offering would achieve a minimum market capitalisation of the HKT Trust of not less than HK$28.6 billion. If the minimum market capitalisation of the HKT Trust of HK$28.6 billion is not achieved from the Global Offering, the Proposed Spin-off will not proceed. The Directors will consider various factors affecting the offering size and if a revised valuation is reached that is lower than the minimum market capitalisation of HK$28.6 billion as stated in this circular, Shareholders' approval at another general meeting will be required to approve the Proposed Spin-off under PN 15 and Chapter 14 of the Listing Rules.

For the purposes of the Global Offering, the Trustee-Manager and HKT have agreed that the Trustee-Manager will subscribe for the Ordinary Shares at a subscription price equal to the Offer Price less (i) the amount of the Offer Price agreed to be allocated to the subscription price for the Preference Shares and (ii) any costs and expenses properly incurred and paid by the Trustee-Manager in connection with the Global Offering. The net proceeds from the Global Offering to be received by HKT, if less than or equal to HK$7.8 billion, will all be retained by HKT and applied towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities, described in the section headed "Introduction to the Proposed Listing structure involving the HKT Trust, HKT and the issue of Share Stapled Units — Pre-IPO Restructuring" in Part III of this letter. If the net proceeds of the Global Offering are more than HK$7.8 billion, HK$7.8 billion will be applied towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities, and all of the amount in excess of HK$7.8 billion will be used to settle the promissory note issued by HKT under paragraph (a) of Stage 2 of the Pre-IPO Restructuring above. See the section headed "Estimated net proceeds and intended use of proceeds" in Part XIII of this letter from the Board for further details of estimated net proceeds of the Proposed Spin-off and the intended use of proceeds.

PART IV
THE TELECOMMUNICATIONS BUSINESS

The Telecommunications Business comprises three business segments: telecommunications services, mobile services and other Telecommunications Group businesses, as described below:

Telecommunications services (TSS)

The telecommunications services segment provides four core areas of telecommunications products and services: local telephony services, local data and broadband services, international telecommunications services and other services.

- **Local telephony services:** The Telecommunications Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. The Telecommunications Group has a leadership position in the fixed-line telecommunications market in Hong Kong. The Telecommunications Group's local telephony services had approximately 2.63 million exchange lines in service as at 30 June 2011, and the leading market share of approximately 61.2% based on the number of exchange lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **Local data and broadband services:** The Telecommunications Group's local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The Telecommunications Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications. The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services.

As at 31 July 2011, the NETVIGATOR ADSL 1.5M service reached approximately 98% of all households in Hong Kong. There were approximately 1.44 million broadband access lines as at 30 June 2011 while the total contracted bandwidth for local data services was 1,243 Gbps as at 30 June 2011. The Telecommunications Group's broadband service had the leading market share of approximately 65.4% based on the number of broadband access lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **International telecommunications services:** The Telecommunications Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fiber and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Telecommunications Group's network currently provides connectivity in approximately 1,500 cities in 110 countries and serves the enterprise and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The Telecommunications Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totaled 1,326 million minutes for the year ended 31 December 2010 and 618 million minutes for the six months ended 30 June 2011, and IPLC exit bandwidth based on the capacity in service totalled 149 Gbps as at 30 June 2011.

- **Other services:** Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and contact centre services ("**Teleservices**"). In addition, the Telecommunications Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

Mobile services

The Telecommunications Group offers 2G, 3G and CDMA mobile services which are marketed under the 'PCCW mobile' brand. The Telecommunications Group has invested significantly in expanding its 3G network since 2005. In addition, a jointly controlled company of the Telecommunications Group holds a licence from OFTA which will enable the Telecommunications Group to provide next generation high speed 4G mobile data services in the future. As at 30 June 2011, the Telecommunications Group had approximately 1.51 million subscribers and according to the number of mobile subscribers in Hong Kong provided by OFTA, the Telecommunications Group's mobile services had a market share of approximately 12.1% based on the number of subscribers. The Telecommunications Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communication needs.

Other Telecommunications Group businesses

The other businesses of the Telecommunications Group primarily comprise revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

For more information about the Telecommunications Group, please refer to Appendix II to this circular.

PART V
THE TRUSTEE-MANAGER AND DIRECTORS AND SENIOR MANAGEMENT OF THE TELECOMMUNICATIONS BUSINESS

HKT Management Limited

The Trustee-Manager was incorporated in Hong Kong under the Companies Ordinance on 14 June 2011 and is a wholly-owned subsidiary of the Company. The Trust Deed and the articles of association of the Trustee-Manager will provide that for so long as the Trustee-Manager is a subsidiary of PCCW, it must remain a wholly-owned subsidiary of PCCW; and that provision of the Trust Deed cannot be amended. The Trustee-Manager can be removed and replaced by an Ordinary Resolution of Registered Holders of Units.

Board of directors of the Trustee-Manager and board of directors of HKT

The Trust Deed will require that:

(a) the board of directors of the Trustee-Manager shall at all times be the same individuals who serve as directors of HKT;

(b) no person shall serve as a director of the Trustee-Manager unless he also serves as a director of HKT at the same time; and

(c) no person shall serve as a director of HKT unless he also serves as a director of the Trustee-Manager at the same time.

Accordingly, the membership of the board of directors of the Trustee-Manager and the membership of the board of directors of HKT will be the same at all times. The Trust Deed will also require that the memberships of the audit committee of HKT and the audit committee of the Trustee-Manager must be the same. On the Listing Date, the board of directors of the Trustee-Manager and the board of directors of HKT will each consist of 3 executive directors, 4 non-executive directors, and 4 independent non-executive directors, as follows:

Name	Position/Title
Mr. LI Tzar Kai, Richard	Proposed Executive Chairman and executive director
Mr. Alexander Anthony ARENA	Executive director

Ms. HUI Hon Hing, Susanna	Executive director
Mr. Peter Anthony ALLEN	Proposed non-executive director
Mr. CHUNG Cho Yee, Mico	Proposed non-executive director
Mr. LU Yimin	Proposed non-executive director
Mr. LI Fushen	Proposed non-executive director
Professor CHANG Hsin-kang, FREng, GBS, JP	Proposed independent non-executive director
Sir Roger LOBO, CBE, LLD, JP	Proposed independent non-executive director
The Hon Raymond George Hardenbergh SEITZ	Proposed independent non-executive director
Mr. Sunil VARMA	Proposed independent non-executive director

Further information in relation to each of the individuals named above, other than Mr. Sunil Varma, is set out in Part 2 ("Particulars of Directors") of Appendix X ("General Information") to this circular. The equivalent information in relation to Mr. Sunil Varma is as follows:

Mr. Sunil VARMA is a certified chartered accountant as well as a cost and management accountant. He has extensive working experience of over 40 years including with Price Waterhouse Management Consultants and the IBM Consulting Group, specialising in management and business-problem consulting. He was the partner responsible for establishing and developing the Price Waterhouse consulting practice in Indonesia and was the Head of the Price Waterhouse consulting practice in Hong Kong until 1994. Mr. Varma was the vice president and principal responsible for the IBM Consulting Group in India between 1996 and 1998. He was the interim chief financial officer and managing director of Asia Online, Ltd. from 1999 to 2000 and was the interim chief financial officer of HCL - Perot Systems in India in 2003. Mr. Varma had previously worked in a number of countries in Africa and the Asia Pacific region including Australia, India, Indonesia, Hong Kong, Thailand and the PRC. He advised large multinationals as well as domestic companies in the areas of corporate governance, financial management, organisational strengthening, efficiency improvement, process re-engineering and business systems. He is experienced in a cross-section of industries including financial services, information technology, energy, fertilizers and steel. He had previously conducted several large assignments for public sector organisations, funded by World Bank, Asian Development Bank and other multi-lateral funding agencies. Mr. Varma is also a director and the chairman of audit committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd., Shriram City Union Finance Ltd., Vistaar Livelihood Finance Pvt. Ltd. as well as a director and a member of the audit committee of Shriram EPC Ltd. in India. Mr. Varma obtained his Bachelor of Arts degree in mathematics and economics from Punjab University in July 1962. He has been an Associate member of the Institute of Chartered Accountants of India since August 1966 and a Fellow since June 1972, and an associate member of the Institute of Cost and Management Accountants of India since September 1975.

Professor Chang Hsin-kang, FREng, GBS, JP, Sir Roger Lobo, CBE, LLD, JP and the Hon Raymond George Hardenbergh Seitz will each resign as independent non-executive Director of the Company with effect from the Listing Date and will be replaced by Mr. Wei Zhe (David) as an independent non-executive Director of the Company.

Senior management of the Telecommunications Group

The following table sets forth certain information concerning the senior management of the Telecommunications Group:

Name	Position/Title
Mr. Paul BERRIMAN	Chief Technology Officer, Technology Strategy and Development
Mr. CHAN Kee Sun, Tom	Managing Director, Consumer Group
Mr. CHAN Wing Wa	Managing Director, Engineering
Mr. CHOW Ding Man (Gary)	Managing Director, Commercial Group and Engineering
Mr. C Marc HALBFINGER	Chief Executive Officer, PCCW Global
Mr. LEUNG Tak Sing, Dominic	Managing Director, Business Processes
Mr. Richard Wayne MIDGETT II	Managing Director, Wireless Business
Ms. Philana Wai Yin POON	Group General Counsel and Company Secretary
Mr. Lindsay Scott SERVIAN	Acting Head of Group Human Resources and Customer Experience

Mr. Paul BERRIMAN is the Chief Technology Officer, Technology Strategy and Development, a position which he held since May 2007, having joined PCCW in 2002. Mr. Berriman is primarily responsible for leading the Telecommunications Group's product and technology roadmap and strategic development. Prior to his present appointment, he had held positions as Head of Strategic Market Development and SVP, Strategy and Marketing. Mr. Berriman has over 25 years of experience in telecommunications, media and convergence. In 2009 he was recognised by the IPTV World Forum with their Special Merit Award for Outstanding Industry Contribution. In 2008 he was listed as one of the Global Telecoms Business Magazine's top 100 "most influential persons in telecoms". Prior to joining PCCW in 2002, Mr. Berriman was the Managing Director of Arthur D. Little in Hong Kong, a management consultancy firm, and was involved in telecommunications consultancy projects globally. Previously he also held executive, technical, engineering and operations management roles in several major Hong Kong service providers including the Hong Kong Telephone Company and Hong Kong Telecom CSL. Mr. Berriman graduated with a Bachelor of Science degree in Electro-acoustics from the University of Salford in the UK in July 1979, and a Master of Business Administration degree from the University of Hong Kong in November 1985. He became a Chartered Engineer in June 1986 and is a full member of The Institution of Engineering and Technology, and a member of Intel Communications Board of Advisors, Intel Consumer Board of Advisors and Juniper Networks Executive Forum and Advisory Council. He has been a member of OFTA's Technical Standards Advisory Committee for over 12 years. He is not and has not been a director of any listed companies in the last three years.

Mr. CHAN Kee Sun, Tom is the Managing Director, Consumer Group, a position which he held since 2006. He is responsible for product development, marketing and promotion, customer sales network, customer service and back office technical support. Before his present appointment, Mr. Chan had held various management and executive positions within PCCW in the areas of finance, regulatory affairs, operations, as well as sales and marketing. As a professional accountant, Mr. Chan was engaged in audit and financial analyst positions prior to joining the group of HKTL in 1988. Mr. Chan graduated from Cardiff University, UK with a Bachelor of Economics and Social Studies degree in July 1982. He is a fellow member of the Association of Chartered Certified Accountants since October 1990 and the Chartered Institute of Marketing in the UK since February 2001. He is not and has not been a director of any listed companies in the last three years.

Mr. CHAN Wing Wa is the Managing Director, Engineering. He is primarily responsible for the planning and operation of the local fixed and mobile network which supports a full range of telecommunications services including voice, broadband data, interactive multimedia service and carrier services as well as large-scale customer projects serving the customers in Hong Kong and overseas. He started his career as a software engineer in the Standard Telephones and Cables Ltd in the United Kingdom. He joined the Hong Kong Telephone Company in 1977 and has spent over 35 years in the telecommunications industry. He has held various senior positions in the network engineering departments of Hong Kong Telecom, Cable & Wireless HKT and PCCW. Mr. Chan became the Director of Network Operations in January 1998. He took up the position of Director of Chief Executive Office in November 1999 and was the Managing Director of Cascade Limited, a wholly-owned technical services subsidiary of PCCW from 2003 to 2008. Mr. Chan gained a Polytechnic Diploma in Electrical and Electronic Engineering (with distinctions) in July 1975 from the Plymouth Polytechnic in the UK and a Diploma in Management for Executive Development (top in the class) in 1986 from the Chinese University of Hong Kong. He attended the International Executive Development training organised by INSEAD in 1994. Mr. Chan is a Chartered Engineer since October 1982 and a member of the Institution of Engineering and Technology since July 1982 and the Hong Kong Institution of Engineers since March 1986. He is not and has not been a director of any listed companies in the last three years.

Mr. CHOW Ding Man (Gary) is the Managing Director, the Commercial Group and Engineering. He oversees the business for the enterprise and wholesales sectors, a leading call centre outsourcing business and the engineering services unit of the Telecommunications Group. He is also responsible for the development of ICT business in the Asia region. Mr. Chow joined the group of HKTL in 1986 and later took the position of telecommunications system account manager. Later, he held senior positions in various functions including sales, product, marketing, strategy development, customer relationship management and call centre. Mr. Chow graduated with a Bachelor of Science degree from the University of Hong Kong in November 1984. He is the President of the Fixed Network & Valued Added Service Group of the Communications Association of Hong Kong. He is not and has not been a director of any listed companies in the last three years.

Mr. C Marc HALBFINGER is the Chief Executive Officer, PCCW Global, a position which he held since July 2007. He is primarily responsible for the integrated global communication solutions business. He has spent the past 23 years in media and telecommunications services with experience in cable TV, directories, cellular, and international voice, video, data and Internet. Mr. Halbfinger joined PCCW in May 2000 as the Senior Vice President, Business Development of Pacific Convergence Corporation, Ltd. covering Europe and North America markets where he was involved in early commercial development of now. In 2001, he helped found Beyond-The-Network, which later became part of PCCW Global, and was initially appointed as the President for Europe, Middle East, and Africa. Prior to joining PCCW, Mr. Halbfinger was a Vice President at Teleglobe serving the Mediterranean and South Europe. Previously, he was a senior manager at Global One, Sprint

International, and a subsidiary of Southwestern Bell Corporation. Among other academic achievements, Mr. Halbfinger earned a Master of Science (Econ.) in international relations from the London School of Economics and Political Science in August 1988. He is not and has not been a director of any listed companies in the last three years.

Mr. LEUNG Tak Sing, Dominic is the Managing Director, Business Processes, which was formed in November 2009. He is responsible for reviewing and overhauling PCCW's business processes and related systems. Mr. Leung has more than 25 years of experience in information and communications technologies, including 10 years in broadband TV planning and operations. Prior to his present appointment, he had been the Managing Director of TV & New Media since 2006, where he was responsible for now, MOOV, and now.com.hk, as well as business development of IPTV opportunities internationally. Mr. Leung joined Cable & Wireless HKT's multimedia business unit in 1994. His previous appointments included the Executive Vice President of Consumer Marketing & Business, responsible for marketing, product development and management of PCCW's consumer telephone and broadband services. Mr. Leung graduated from the University of Toronto with a Bachelor of Arts degree in June 1979, and from Canada's University of Windsor with a Bachelor of Commerce degree in May 1980. He is not and has not been a director of any listed companies in the last three years.

Mr. Richard Wayne MIDGETT II is the Managing Director, Wireless Business. He is primarily responsible for the application and development of the wireless business. He has over 30 years of experience in the telecommunications industry. Mr. Midgett began his career with Cable & Wireless USA, where he served in a range of technical roles in nationwide field service operations and exchange engineering. After joining Hong Kong Telecom CSL in 1989, he took up roles spanning the areas of business development, product development, government policy and regulation, and lastly overseeing the commercial line-of-business for roaming, international, carrier and wholesale services before moving to PCCW in 2007. Mr. Midgett's most notable industry activities include serving as chairman and a member of the governing committee of the GSM Association and GSM Asia Pacific and as a member of the board of governors of the Universal Wireless Communications Consortium. He is not and has not been a director of any listed companies in the last three years.

Ms. Philana Wai Yin POON is the Group General Counsel and Company Secretary. She has been the Group General Counsel since 2004 and the Company Secretary since 2007. Ms. Poon holds directorships in various PCCW Group companies. She is primarily responsible for legal and company secretarial matters of the Group. She has over 15 years of post qualification experience both in private practice and in-house. Ms. Poon has held various senior positions since she joined HKTL in 1998 as Group Legal Advisor. Prior to joining PCCW, Ms. Poon was in private practice from 1992 to 1998. Ms. Poon earned a Bachelor of Commerce degree from the University of Toronto in November 1989 and a Doctor of Law degree from Cornell University in May 1992. She is not and has not been a director of any listed companies in the last three years.

Mr. Lindsay Scott SERVIAN is the Acting Head of Group Human Resources and Customer Experience. In his role as the Acting Head of Group Human Resources, Mr. Servian is responsible for human resource management for the Telecommunications Group. In his capacity as Acting Head of Customer Experience, Mr. Servian leads the Telecommunications Group's efforts to raise its customer service standards, and customer's experience with the Telecommunications Group. Prior to this, he was the Managing Director, Advertising and Interactive Services responsible for the sale of advertising and transaction-based services to third party clients in Hong Kong and China riding on PCCW's quad play. Prior to joining PCCW in 2001, Mr. Servian worked in i-Onyx (HK) Limited, a listed company, as Chief Operating Officer and Executive Director, and before that in Cable & Wireless plc where, between 1997 and 2000, he was Managing Director of Cable & Wireless Teleservices HK, and Managing Director, Chairman and General Manager of Cable & Wireless Teleservices, Taiwan. Mr. Servian has worked in the telecommunications industry since 1986, and has spent the past 20 years in Asia. During this time he has held management and executive positions in business development, strategy, human resources, customer service, advertising and interactive services, call-centres, satellite and submarine cable systems, and in mobile and fixed network systems. Mr. Servian earned an M.A. Honours in Economic Science from the University of Aberdeen in July 1984, and studied corporate finance in a London Business School programme. He is not and has not been a director of any listed companies in the last three years.

PART VI
DISTRIBUTION POLICY OF THE HKT TRUST AND PROFIT FORECAST

The Trust Deed will require the HKT Trust to distribute 100% of its cash flows from dividends, other distributions and any other amounts received (in each case net of applicable taxes and expenses) by the HKT Trust from the Telecommunications Group, after such cash flows have been applied to pay the operating expenses of the HKT Trust, including the Trustee-Manager's expenses (the "**Distributable Income**").

The distributions received by the HKT Trust from the Telecommunications Group will come from the Telecommunications Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, if required, for each financial year. Please note that the Telecommunications Group's Annual Adjusted Funds Flow is an amount derived from HKT's annual financial results only. The Trust Deed and the articles of association of HKT will state the current intention of the directors of HKT to declare and distribute 100% of the Telecommunications Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, if required, for each financial year, to the HKT Trust to fund distributions in respect of the Share Stapled Units to be made by the HKT Trust.

It is the current intention of the directors of HKT that the Telecommunications Group will declare and make distributions to the HKT Trust on a semi-annual basis, with the interim and final distributions in respect of a full financial year being equal, in aggregate, to 100% of the Telecommunications Group's Annual Adjusted Funds Flow in respect of the relevant financial year, after adjusting for potential debt repayment, if required, in respect of that financial year.

The respective proportions of the aggregate annual distribution to be paid as an interim distribution and a final distribution shall be determined by the board of directors of HKT in its discretion; and the amount of the interim distribution need not be equal to the amount of the Telecommunications Group's Adjusted Funds Flow (after adjusting for potential debt repayment, if required) in respect of the first six months of the financial year (or other period in respect of which the distribution is made) or proportionate to the Annual Adjusted Funds Flow (after adjusting for potential debt repayment, if required) in respect of the relevant financial year.

In the context of the Share Stapled Units structure, HKT may declare and make distributions to the HKT Trust out of HKT's available funds and not only out of accounting profits. Subsidiaries of HKT may upstream amounts to HKT, by a combination of distributions from distributable reserves and inter-company loans, to fund distributions by HKT.

HKT may make distributions out of its distributable reserves (including share premium) to the HKT Trust which in turn is required under the Trust Deed to make distributions to the Registered Holders of Share Stapled Units. The Trustee-Manager, in its capacity as trustee-manager of the HKT Trust, is not subject to restrictions relating to profits available for distribution, in respect of the amounts that it can distribute to Holders of Share Stapled Units.

Immediately after completion of the Global Offering, the expected amount of reserves, representing share premium, available to HKT for distribution is approximately HK$28.0 billion, based on a minimum market capitalisation of the HKT Trust of HK$28.6 billion.

The subsidiaries of HKT, following the completion of the Pre-IPO Restructuring, will have at least HK$5.7 billion of distributable reserves as at 30 June 2011 that can be distributed to HKT.

The distributable reserves of HKT will be increased by any net profit earned, or decreased by any net losses incurred, or decreased by any distributions made, in subsequent periods.

The HKT Trust will make distributions to Holders of Share Stapled Units on a semi-annual basis, from the interim and final distributions to be made by the Telecommunications Group to the HKT Trust, referred to above. The Trustee-Manager will pay the interim distribution within four months after 30 June and the final distribution within six months after 31 December of each year. The Trustee-Manager will distribute 100% of its Distributable Income in respect of each financial year, by way of the interim and final distributions described above in this paragraph.

Distributions will be declared in Hong Kong dollars. All Share Stapled Units will be held through HKSCC Nominees, or directly by Registered Holders of Share Stapled Units in the form of certificates issued jointly by the Trustee-Manager and HKT (in their discretion) in respect of the Share Stapled Units. Each Registered Holder of Share Stapled Units will receive his pro rata share of the Hong Kong dollar distribution declared.

The current intention of the directors of HKT is to declare and distribute 100% of the Telecommunications Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, if required, for each financial year, to the Trustee-Manager in respect of the Ordinary Shares held by it, to fund distributions in respect of Units to be made by the HKT Trust. This distribution policy is a statement of the current intention of the directors of HKT only. It is not a legally binding obligation of the directors of HKT, HKT, the Trustee-Manager or the HKT Trust and is subject to change. Accordingly, the form, frequency and amount of future distributions (if any) will depend on the earnings, financial position and results of operations of the Telecommunications Group, as well as contractual restrictions (including compliance with financial undertakings imposed under the Telecommunications Group's loan facilities agreements such as the ratio of EBITDA to interest and the ratio of net debt to EBITDA in respect of any relevant period), provisions of applicable law and other factors including but not limited to funding requirements with reference to the prevailing business environment and operations, expansion plans, other capital management considerations, the overall stability of distributions and prevailing industry practice.

The HKT Trust may not be able to make distributions to Holders of Share Stapled Units at all or the level of distributions may fall. If the Telecommunications Group's businesses do not generate sufficient income, the Telecommunications Group's cash flow and the Telecommunications Group's (and therefore the HKT Trust's) ability to make distributions will be adversely affected.

As HKT is incorporated in the Cayman Islands, its operations are subject to the Cayman Companies Law, the common law of the Cayman Islands and to its constitution which comprises the memorandum and articles of association of HKT.

Statements of distribution

Period from the Listing Date to 31 December 2011

The Prospectus will state that the directors of the Trustee-Manager and HKT expect that, in the absence of unforeseen circumstances, total distributions payable to Holders of Share Stapled Units will be not less than the pro-rata expected distributions for the year ending 31 December 2011. Assuming the Listing Date is prior to 31 December 2011, the pro-rata expected distributions to be paid to Holders of Share Stapled Units is calculated based on the expected Annual Adjusted Funds Flow of HK$2,356 million for the year ending 31 December 2011, multiplied by the number of days from the Listing Date to 31 December 2011 (both dates inclusive) and divided by 365 (being the number of calendar days in the financial year ending 31 December 2011).

Financial year ending 31 December 2012

The Prospectus will state that the directors of the Trustee-Manager and HKT expect that, in the absence of unforeseen circumstances, total distributions to Holders of Share Stapled Units of not less than HK$2,574 million will be declared and paid in respect of the financial year ending 31 December 2012.

Each financial year from 1 January 2013 onwards

The Trust Deed and the articles of association of HKT will state the current intention of the directors of HKT that, in respect of each financial year, the Telecommunications Group will declare and distribute 100% of the Telecommunications Group's Annual Adjusted Funds Flow (after adjusting for potential debt repayment, if required, for each financial year) to the HKT Trust to fund distributions to Holders of Share Stapled Units. The sustainability of distributions will depend on the availability of the expected Annual Adjusted Funds Flow. The level of distributions to Holders of Share Stapled Units going forward may be affected by a number of factors, including but not limited to general business environment, technological changes, changes in regulations, competition and whether substantial maintenance costs or capital expenditure may be incurred, many of which are factors that are beyond the control of the directors of HKT.

Bases and assumptions

The foregoing statements will be expressly qualified in the Prospectus as being statements of the present intentions of the directors of HKT, are not legally binding or guaranteed obligations, and subject to modification in the absolute discretion of the directors of HKT. The Prospectus will also state that the form, frequency and amount of future distributions (if any) on the Share Stapled Units will depend on the earnings, financial position and results of operations of the Telecommunications Group, as well as contractual restrictions (including existing limitations on borrowings under the Trust Deed and compliance with financial undertakings imposed under the Telecommunications Group's loan facilities agreements such as the ratio of EBITDA to interest and the ratio of net debt to EBITDA in respect of any relevant period), provisions of applicable law and other factors including but not limited to funding requirements with reference to the prevailing business environment and operations, expansion plans, other capital management considerations, the overall stability of distributions and prevailing industry practice.

Profit forecast and profit projection

The statements of distribution above are based on the profit forecast for the HKT Trust for the year ending 31 December 2011 and the profit projection for the HKT Trust for the year ending 31 December 2012, set out below and to be set out in the Prospectus.

Overview

The forecast EBITDA and consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2011 are set forth in the paragraph headed "Profit Forecast for the financial year ending 31 December 2011" below.

The projected EBITDA and consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2012 are set forth in the paragraph headed "Profit Projection for the financial year ending 31 December 2012" below.

The (i) forecast EBITDA and forecast consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2011; and (ii) the projected EBITDA and projected consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2012, for which the Trustee-Manager and HKT are responsible, have been prepared based on accounting policies consistent with those adopted by the Company as set out in Note 2 of the audited financial statements of the Company for the year ended 31 December 2010 and on the bases and assumptions set out below.

Bases and Assumptions

The forecast of the EBITDA and consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2011 have been prepared based on the Telecommunications Business' audited combined financial statements for the six months ended 30 June 2011 and the forecast results for the remaining six months ending 31 December 2011. The projection of the EBITDA and consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2012 have been prepared based on the Telecommunications Business' projected results for the 12 months ending 31 December 2012. The profit forecast and profit projection have been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Company as set out in Note 2 of the audited financial statements of the Company for the year ended 31 December 2010.

The Trustee-Manager and HKT consider that the presentation of EBITDA would assist the Holders of Share Stapled Units to understand the performance of the HKT Trust and the Telecommunications Group and it is a measure that HKT uses to measure the performance of the Telecommunications Group's business.

In arriving at the profit forecast and profit projection, the directors of the Trustee-Manager and HKT have made the following assumptions:

(a) the asset portfolio of the HKT Trust remains unchanged;

(b) no further equity capital will be raised during the Forecast Year and the Projection Year, other than any potential equity capital to be raised from the Proposed Spin-off;

(c) the HKT Trust and the Telecommunications Group will not incur additional material capital expenditure, other than the projected capital expenditure to be stated in the Prospectus;

(d) foreign exchange rate of US$1.00:HK$7.80 is assumed for the Forecast Year and the Projection Year;

(e) changes in applicable accounting standards or other financial reporting requirements will have no material impact to the HKT Trust and the Telecommunications Group;

(f) there will be no material changes in inflation rates, interest rates, foreign exchange rates or other economic conditions from those currently prevailing in the context of the Telecommunications Group's operations;

(g) there will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the countries or territories in which the Telecommunications Group operates;

(h) there will be no economic crisis, wars, riots, military incidents, pandemic diseases or natural disasters that would have a material impact on the Telecommunications Group's business and operating activities;

(i) the Telecommunications Group's operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the directors of the Trustee-Manager and HKT, including the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents;

(j) there will be no interruption of operations that will adversely affect the Telecommunications Group as a result of shortage in supply of energy, labour shortage or disputes or any other circumstances which are beyond the control of the directors of the Trustee-Manager and HKT; and

(k) the Telecommunications Group will be able to recruit sufficient and qualified employees to meet its operating requirements during the Forecast Year and the Projection Year.

Profit forecast for the financial year ending 31 December 2011

The directors of the Trustee-Manager and HKT believe that, on the bases and assumptions set forth above and in the absence of material adverse unforeseen circumstances, the forecast EBITDA for the year ending 31 December 2011 is expected to be not less than HK$7,385 million and the consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2011 is expected to be not less than HK$934 million.

Profit projection for the financial year ending 31 December 2012

The directors of the Trustee-Manager and HKT believe that, on the bases and assumptions set forth above and in the absence of material adverse unforeseen circumstances, the EBITDA for the year ending 31 December 2012 is projected to be not less than HK$7,621 million and the consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2012 is projected to be not less than HK$1,364 million.

Report by the reporting accountant

A report from PricewaterhouseCoopers, as the reporting accountant of the HKT Trust and HKT, reviewing and reporting on the accounting policies and calculations on which the profit forecast and profit projection set out in the paragraphs headed "Profit forecast for the financial year ending 31 December 2011" and "Profit projection for the financial year ending 31 December 2012" are made is set out in Appendix VIII to this circular, in accordance with the requirements of Appendix I, Part B, paragraph 29(2) of the Listing Rules.

Sensitivity analysis

The profit forecast and profit projection are forward looking and are therefore subject to changes in market conditions. The following analysis shows how changes in the key operating metrics may impact the forecast EBITDA and forecast consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2011, and the projected EBITDA and projected consolidated net profit attributable to the Holders of Share Stapled Units for the year ending 31 December 2012.

1. Increase / (decrease) in fixed-line blended ARPU

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(120)	(60)	60	120
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(100)	(50)	50	100

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(121)	(60)	60	121
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(101)	(50)	50	101

2. Increase / (decrease) in number of exchange lines in service

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(61)	(30)	30	61
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(51)	(25)	25	51

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(60)	(30)	30	60
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(50)	(25)	25	50

3. Increase / (decrease) in retail broadband blended ARPU

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(166)	(83)	83	166
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(139)	(69)	69	139

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(174)	(87)	87	174
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(145)	(73)	73	145

4. Increase / (decrease) in number of retail consumer broadband subscribers

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(65)	(33)	33	65
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(54)	(28)	28	54

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(68)	(34)	34	68
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(57)	(28)	28	57

5. Increase / (decrease) in mobile blended post-paid ARPU

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(72)	(36)	36	72
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(72)	(36)	36	72

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(89)	(45)	45	89
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(89)	(45)	45	89

6. Increase / (decrease) in number of mobile post-paid subscribers

(a) For the year ending 31 December 2011

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in forecast EBITDA	(38)	(19)	19	38
Increase / (decrease) in forecast consolidated net profit attributable to the Holders of Share Stapled Units	(38)	(19)	19	38

(b) For the year ending 31 December 2012

(HK$ million)	(10)%	(5)%	5%	10%
Increase / (decrease) in projected EBITDA	(47)	(24)	24	47
Increase / (decrease) in projected consolidated net profit attributable to the Holders of Share Stapled Units	(47)	(24)	24	47

The above sensitivity analysis is for references only and are intended to show a range of possible outcomes under different market conditions. Actual variation could exceed the ranges shown above. The above sensitivity analysis is not meant to be exhaustive, and the profit forecast and profit projection are subject to additional uncertainties. While the Trustee-Manager and HKT have considered for the purpose of the profit forecast and profit projection what the directors of the Trustee-Manager and HKT believe are the appropriate estimates of the key operating metrics for the year ending 31 December 2011 and the year ending 31 December 2012, such operating metrics may differ materially from the Telecommunications Group's estimates, and are dependent on market conditions and other factors that are beyond the Telecommunications Group's control.

Important

Statements contained in this profit forecast and profit projection section that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set forth above in this section and are subject to certain risks and uncertainties which could cause actual results to differ materially from those forecast and projected. Under no circumstances should the inclusion of such information herein or in the Prospectus be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by any of the Company, the HKT Trust, HKT, the Trustee-Manager, the Joint Sponsors, the Underwriters or any other person, nor that these results will be achieved or are likely to be achieved.

Please note that none of the Company, the HKT Trust, HKT, the Trustee-Manager, the Joint Sponsors, the Underwriters or any other person guarantees the performance of the HKT Trust or HKT, the repayment of capital or the payment of any distributions, or any particular return on the Share Stapled Units.

The profit forecast and the profit projection have been prepared on the bases set out above and in accordance with HKFRS and are consistent in all material respects with those accounting policies adopted by the Company as set out in Note 2 of the audited financial statements of the Company for the year ended 31 December 2010. The profit forecast and the profit projection have been prepared on a consolidated basis, reflecting the forecast and projected consolidated income statements of the HKT Trust for the financial years ending 31 December 2011 and 31 December 2012.

The profit forecast and the profit projection should be read together with the report of PricewaterhouseCoopers referred to above, set out in Appendix VIII to this circular, and the principal bases and assumptions set out above.

Having regard to the various factors noted above, investors should exercise caution in relying on the profit forecast and the profit projection generally and, in particular, (i) investors should exercise the highest caution in making any comparison, whether as to individual line items or overall financial performance, as between the projected income statement appearing above and any historic financial results, and (ii) investors should not treat any individual line item in the projected income statement as a forecast in its own right.

PART VII
SUMMARY FINANCIAL INFORMATION IN RELATION TO THE TELECOMMUNICATIONS GROUP

The following is a summary of the Telecommunications Group's unaudited consolidated financial results for each of the two years ended 31 December 2009 and 2010.

	(Unaudited) For the year ended 31 December	
	2009	**2010**
	HK$ million	
Profit before income tax and extraordinary items	2,509	2,371
Profit after income tax and extraordinary items	1,912	1,852

The above represents the results of the Telecommunications Group attributable to the PCCW Group which are after PCCW Group eliminations *(Note)*. The audited results of the Telecommunications Business before PCCW Group eliminations *(Note)* are set out in Appendix IV to this circular.

Note: In 2008, the PCCW Group reorganised its principal businesses under HKTGH, resulting in fair value adjustments to certain tangible and intangible assets with corresponding depreciation and amortisation charges recognised in the results of the Telecommunications Group. Such fair value adjustments and corresponding depreciation and amortisation charges are reversed at PCCW Group level through PCCW Group eliminations.

PART VIII
THE REMAINING BUSINESSES

The principal Remaining Businesses, comprising the Solutions Business and the Media Business, have progressed beyond "start-up" phases and they have achieved critical mass in terms of staff, business operations and financial performance. They now form a solid base for expansion.

After the Proposed Spin-off, PCCW is expected to hold:

(i) In the case of the Global Offering involving 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 55% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT after the exercise of the Over-allotment Option in full and the Distributions in Specie); or

(ii) In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 70% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie).

Based on the above, in addition to PCCW retaining between 55% to 70% interest in, and control of, the Telecommunications Business, the Solutions Business and Media Business will also continue to drive the future operations of PCCW. The Solutions Business has established itself as a premier information technology ("**IT**") outsourcing and business process outsourcing provider in Hong Kong, and is poised to expand geographically by building on its presence in the PRC. Operating as a fully integrated multi-media and entertainment group, the Media Business intends to expand its core competence by introducing enhanced service offerings in its content and interactive services and to also expand geographically beyond Hong Kong.

The two businesses have become established leaders in their respective industries, and are poised to enter a new phase of growth through an integrated business proposition. By leveraging their respective expertise, it is anticipated that the Media Business and the Solutions Business will seek to become a leading interactive entertainment and IT service provider focused on next-generation growth opportunities in Hong Kong, as well as the Greater China Region.

With the increasing popularity of new media platforms such as online video services and mobile media in China, it is expected that there will be significant demand for quality media content, as well as expertise in data traffic management and integration in the region. PCCW is well-positioned to capture this growing demand, as it believes that few competitors would be able to replicate its expertise, brand recognition and ability to create unique interactive content in both segments.

It is anticipated that the Solutions Business and the Media Business will benefit from significant synergies and become a leader in the Greater China Region market through its unique value proposition. For instance, PCCW recently made a strategic investment into a leading Internet TV provider in China. As this new platform continues to grow, it would require significant media resources, as well as data systems management expertise to support a growing subscriber base. PCCW intends to make similar investments going forward and believes it will gain value from investment value appreciation and being involved in the eco-system as supplier.

Fundamentally, there are clear synergies between the Solutions Business and the Media Business. For instance, now TV's distinct competitive advantage of service delivery through advanced technology such as transactional services and real-time interactivity is well supported by the Solutions Group's world class capabilities in applications and systems solutions development and in managed services in delivering high quality video across multiple platforms.

With increasing demand for such IT expertise, the Solutions Business is well-positioned and well-qualified to support the Media Business in developing unique proprietary applications that differentiates the Media Group's services from its competitors. Using the Media Group's operation as a successful and credible proof of concept, the Solutions Group can also commercialise the applications by licensing or customising the applications for its third-party clients.

The Media Business

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 and most commercially successful pay television service in Hong Kong;

(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 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 ("**New Media and Directories**")).

The consolidated revenues of the Media Business have grown from HK$1.703 billion in fiscal year 2007 to HK$2.383 billion in fiscal year 2010, representing a compound annual growth rate of 12%. Over the last four fiscal years, the Media Business has grown its now TV subscriber base from 758,000 as of 31 December 2006 to 1,039,000 as of 31 December 2010 and its ARPU has increased from HK$94 to HK$165 over the same period. A combination of the Media Business' competitive strengths including its brand, wide variety of content and its focus on providing superior customer service, enables it to attract and retain customers beyond relying on any single piece of content. In 2010, both subscribers and revenue continued to grow year-on-year despite the non-renewal of the rights to broadcast the English Premier League ("**EPL**").

now TV

The Media Business operates the leading subscription television service in Hong Kong under the now TV brand delivering both self-produced and licensed content to its subscribers using advanced IPTV technology. now TV commenced operations in September 2003 with an offering of 23 channels of programming and has increased its content to over 190 standard and high definition local and international programming channels and over 2,000 hours of on-demand content. For the majority of its channels, it is the exclusive provider to Hong Kong viewers. As at 31 December 2010, now TV had over 1 million subscribers representing a penetration rate of approximately 45% of Hong Kong television households. In seven years of operation, it has become the market leader as the largest pay television operator in Hong Kong in terms of revenue.

now TV licenses its television content from numerous world-class international content partners and provides programming in 15 languages, predominantly Cantonese, Mandarin and English. It is also a leading producer of Chinese language news, financial news, sports and entertainment programming in addition to music and events production which complements its wide portfolio of licensed international television content. Furthermore, now TV's television programming and interactive services are available on multiple platforms such as online and mobile.

New Media and Directories

In addition to now TV, the Media Business also operates the New Media and Directories businesses. New Media's digital music service, MOOV, is Hong Kong's first and largest multi-platform digital streaming music service with a catalogue of over 200,000 local, Asian and international songs titles, 100 concerts-on-demand and 1,000 music videos. Meanwhile, its online content service, now.com, is a subscription based video streaming proposition offering over 5,000 streaming videos, including popular local drama series, variety shows, news and online games.

The Media Business also operates one of Asia's leading directories businesses under the Yellow Pages brand. Over time, Yellow Pages has been transformed into Hong Kong's leading multimedia advertising solutions platform through its web-based directories service yp.com.hk with over 70% of Yellow Pages' revenue derived from online advertising. Its directories are also offered through a range of other interactive media platforms including mobile and now TV.

Competitive Strengths

PCCW believes that its success and potential for future growth of the Media Business are attributable to the following competitive strengths:

now TV's expansive suite of channels, attractive exclusive content and demonstrated strength in local program production have allowed now TV to continually grow its subscriber base and revenues and achieve premium ARPU over its competitors.

now TV offers a diverse suite of channels and interactive services that are designed to appeal to various segments of Hong Kong's population. Due to its attractive content, now TV has been successful at growing the subscriber base, revenues and achieving premium ARPU. Furthermore, through its unique a-la-carte pricing model and targeted up-selling strategies, now TV has been able to increase customer traction throughout the customers' subscription contract period by encouraging them to purchase additional channels and new services such as video on demand and other interactive services thereby increasing ARPU.

now TV has achieved a critical mass of subscribers and is expected to substantially improve profitability over the next several years.

Since its launch in 2003, now TV has continued to grow its subscriber base and has reached a critical mass of over one million subscribers by the end of 2009. Despite no longer offering EPL coverage since mid-2010, now TV nevertheless added over 30,000 subscribers during 2010, by attracting new and existing subscribers through its comprehensive suite of programming content and interactive services.

Management expects profitability to further improve going forward, as now TV continues to attract new subscribers, while acquiring attractive content at economic costs.

The Media Business has strong brands and a solid reputation for delivering superior customer experiences with a strong focus on innovation and quality.

The Media Business has created brand leaders in the industry categories of its operations, including the market leading pay television and digital music brands in Hong Kong. Its strong brands and customer affinity that has developed around the brands allow the Media Business to achieve continued growth.

The Media Business' brand recognition and solid reputation facilitate its ability to increase the subscriber base for now TV and attract consumers to its multi-media products. It enjoys the highest brand preference by consumers amongst pay television services in Hong Kong, according to a monthly brand tracking survey prepared by TNS for PCCW Media Limited. now TV commenced operations in 2003 and has become the pay television market leader in less than seven years of operations, increasing its content offering from just 23 channels to over 190 channels and growing its market penetration of Hong Kong households from less than 10% in 2003 to approximately 45% as at 31 December 2010.

The Media Business has subsequently expanded its New Media operations, most notably with the launch of its MOOV branded digital music service, which, with over 340,000 subscribers, is now the largest multi-platform digital music service provider in Hong Kong. The Media Business' Yellow Pages and yp.com.hk brands are also well recognised household brands and is the leading directory service in Hong Kong and one of Asia's key directories market players.

Advanced interactivity creates service differentiation and enhances the Media Business' competitiveness in a crowded market environment.

now TV's IPTV platform permits the delivery of significantly more content and functionality than other non-IPTV platforms making the television viewing experience on now TV more interactive and personalised. The value of such functionality to now TV is in various aspects, i.e. improved customer viewership, enhanced viewing experience through interactivity capabilities, customer stickiness, strengthened brand awareness and a growing subscriber base. New functionalities and services can also generate incremental revenues beyond television subscription, grow new media revenues and capture an expanded share of advertising sales.

now TV offers several interactive television services including the following key services:

- now Select: now TV subscribers are able to access both transactional (i.e. pay-per-view) and subscription video on-demand content through the now Select service. now Select gives viewers a wider selection of standard definition (SD) and high definition (HD) content with both newer program windows (such as DVD window for blockbuster Hollywood movies) and the ability to time shift their viewing experience. The now Select service offers over 2,000 hours of content including sports, movies and drama, lifestyle, music, kids, documentary, news and adult programming.

- Interactivity with Live Audience Participation: In addition to existing interactive functionalities such as i-ads, opinion polling, voting, movie ticketing and on-line banking, now TV has developed interactive features to its self-produced content, such as its recent interactive game show. Giving Hong Kong viewers a truly unique way to immerse in an innovative television experience, this exciting new breed of interactive entertainment merges traditional program formats with advanced IPTV technology. The flexibility of this interactive capability creates possibilities in the near future to develop new program formats such as learning through entertainment with educational themes and for sponsorships.

The Media Business has an integrated suite of products with extensive reach over multiple delivery platforms.

The Media Business delivers content, new media and advertising and interactive services across multiple platforms, creating significant opportunities to cross-promote services and grow its business in Hong Kong as well as regionally. Customers can easily access a variety of content on multiple platforms and devices via their television sets, through personal computers on the Internet (e.g. now.com), Smartphones, game consoles and other multi-media devices. With the increasing mobility of consumers and rapid proliferation of viewing devices, management believes that there is a significant opportunity to increase overall revenues and customer ARPU as well as advertising revenues through developing these services across various media outlets and creating a unique and comprehensive 360 degree viewing experience.

Delivery of subscription television service over a modern and secure IPTV platform.

The Media Business' modern and intelligent IPTV platform provides a number of advantages and clear differentiation over traditional radio frequency broadcast, satellite signal, and cable television platforms. In contrast to traditional radio frequency, satellite or cable television broadcasts, the Media Business' content is delivered over a switched network whereby only the content that a customer is authorised to receive is streamed securely into the customer's home. This frees up bandwidth, allowing for the secure delivery of significantly more content and functionality than other traditional non IPTV platforms and allows significant opportunities to enhance the television viewing experience making it more interactive, unique and personalised. In 2011, an innovative real-time game show engine designed for "live" game shows and variety programs was built on top of the IPTV platform that is powerful, reliable and also scalable to enable the provision of instantaneous responses back to program participants.

The IPTV platform also permits now TV to accurately track the programs watched and the duration of watching for each viewing household which facilitates now TV and its advertisers to have a better understanding of its audience profile and their viewing preferences and habits. In addition, the IPTV network architecture protects the distribution of content at three separate levels which results in significantly lower risk of piracy than the platforms used by its primary competitors. now TV has built a real-time game show engine that is powerful, reliable, and also scalable to ensure 100% uptime and instantaneous responses to participants. The engine is also tied to broadcast operations that could enable now TV to produce live shows and give instantaneous and accurate responses to viewers.

The Media Business has an experienced management team.

The Media Business' core management team possesses a wealth of experience in broadcasting, productions, content acquisition and sales and marketing. They come with a strong media background from major broadcasters of free and pay television operators and from consumer services industries.

Mr. CHAN Ching Cheong, George, *Chairman, PCCW Media Group*

Mr. Chan joined the Media Group in the summer of 2010 and was appointed with a view to strengthening the independence of the Media Group's operations, as he brings with him a body of externally-derived experience. Mr. Chan has 19 years of experience with TVB between the periods 1975 to 1989 (as Controller (Marketing and Sales) from 1982-1989) and 2004 to 2009 (as Assistant Managing Director). He has also had a successful career as an entrepreneur and as a director of several prominent companies engaged in media, telecommunications and technology in Hong Kong and overseas. Amongst other successful start-ups, he co-founded TVB-USA, STAR-TV, Pacific Century Group and PCCW in 1984, 1990, 1994 and 1999 respectively. Mr. Chan graduated with a B.Sc. (Hons) from the University of Hong Kong and also has an MBA from the University of San Francisco.

Ms. LEE Hoi Yee, Janice, *Managing Director, TV and New Media*

Since October 2010, Ms. Lee has been in charge of the Company's pay television, new media and content businesses, including 'now TV' and 'MOOV' digital music service. From November 2009 to September 2010, Ms Lee was Executive Vice President of TV & New Media, within the Media Group. From April 2006 to November 2009, she was the Executive Vice President of Marketing and Content Development within the Media Group. Ms. Lee joined the Company in January 2003. She has 20 years of experience in media and consumer businesses. Her media experience includes STAR TV, a regional role at Warner Bros' Consumer Products division, and the Group's Interactive Multimedia Business Unit. She has also held positions as Head of International Personal Banking and Strategic Planning, and Head of Communications and PR at Citibank Consumer Bank in Hong Kong. Ms. Lee graduated from The University of Sydney, Australia with a bachelor's degree in economics, with majors in economics, commercial law and accounting.

Mr. HO Lai Chuen, *Executive Vice President and General Manager, Production*

Mr. Ho joined the Company as Executive Vice President and General Manager, Production in April 2011. He brings with him over 30 years of experience in production and broadcasting and has been with TVB since 1977. Mr. Ho has held various key positions at TVB and was most recently Controller (Non-Drama production) of their Production Division. He was responsible for strategic planning, management and implementation of a wide range of productions including variety shows, fundraising galas, musicals, documentaries, infotainment and sports programmes. He has successfully implemented many award winning programs during his time at TVB and has experience in negotiation with overseas TV stations, government authorities, charity organisations for execution of joint productions and events. Mr. Ho has coordinated and consulted on many productions to maximise advertising and licensing revenue.

Mr. TO Chi Hak (Felix), *Vice President, now HK and now 101*

Mr. To has worked his way across the full spectrum of the media industry in Hong Kong over a career spanning 25 years, from newspaper, magazine and comic publishing, radio, web portals, to over 15 years in TV programming and production, and has been in a management position since 1997. Mr. To has been associated with a number of media industry milestone programs, including Hong Kong's first China-based documentary production house licensing over 15 hours of work to National Geographic Channel and Discovery (2000-2002), the setting up of Hong Kong's first entertainment news channel (2003-2005), and lately the first city-wide daily live interactive game show "ATM" (2011).

Mr. LAI Yu Ching, *Vice President, now SPORTS*

Since January 2007 Mr. Lai has been responsible for the planning and production of now SPORTS channel. He came to now TV with more than 30 years of media and production experience covering television, radio and multimedia services. He is the pioneer in the setting up of the Sports Department in both terrestrial TV stations, TVB and ATV. He was a founding member of the Hong Kong Cable TV and launched the first 24 hour Sports Channel for Cable TV, which was the first pay television station in Hong Kong. He also held the position as Chief Executive Officer of Macau (Yat Yuen) Canidrome

Company Ltd and Radio Vilaverde Lda, Macau. Mr. Lai is the founder and Honorable Chief Executive Officer of the Hong Kong Sports Programs Production Association, Hong Kong Soccer Commentators Association and Hong Kong 5-A-Side Football Association. Mr. Lai is a holder of an MBA from the University of South Australia.

Mr. CHEUNG Chi Kong, *Executive Vice President, News and Business Information*

Mr. Cheung is a veteran journalist with 30 years of reporting and managerial experience. Prior to joining PCCW in August 2005, Mr. Cheung was the Assistant Controller of News and Information Services at TVB, responsible for managing its terrestrial news services, setting up a 24-hour news channel and building a state-of-the-art digital newsroom. In 2005, he joined now TV as Senior Vice President and set up Hong Kong's third 24-hour news channel. Mr. Cheung accomplished an EMBA degree from the Chinese University of Hong Kong in 2008, after obtaining a Bachelor of Social Science degree, majoring in journalism and communication, from the same university in 1980.

Ms. SOU Yuen Kwan, Helen, *Senior Vice President, New Media*

Since August 2010, Ms. Sou has been in charge of new media business opportunities that leverage on the transforming digital lifestyle of consumers. Ms. Sou runs the new media business of now.com.hk — a premium video content subscription portal in Hong Kong and successfully launched MOOV — Hong Kong's leading multi-platform digital music service. She joined PCCW in 2001. Ms. Sou has many years of experience in consumer banking and retail industry including Manhattan id credit card / Chase Manhattan Bank where she had successfully developed the youth segment proposition for the credit card business and at Just Gold, transforming the retailer from a traditional gold jewellery business to an up-market jewellery fashion boutique. Ms. Sou graduated from the Chinese University of Hong Kong with a bachelor's degree in Business Administration.

Mr. LO Ting Fai, *Senior Vice President, Strategy*

Mr. Lo is responsible for the Media Group's business strategy and creativity. Mr. Lo has diverse experiences in the creative profession, including media and technology. He focuses on businesses that deliver solid user experiences and communication. Prior to joining PCCW, Mr. Lo was Creative Director, Asia at Apple Computer Trading (Shanghai) Ltd. Beijing Branch (Apple Inc.). Mr. Lo holds a Master's degree from the University of Oxford. He also has a bachelor's degree with first class honours from the Chinese University of Hong Kong.

Ms. CHAN Pui Chi (Belinda), *Senior Vice President, Operations & Technology*

Ms. Chan has been Senior Vice President, Operations & Technology for TV & New Media since 2007 and oversees the technology and operations for 'now TV'. She has project managed some early on demand trials and has been responsible in deploying 'now TV' in 2003 including a number of key interactive features and quad play applications. Prior to joining the Group, Ms. Chan was Vice President, Technology at Citibank, N.A., Global Consumer Banking in Hong Kong with responsibility for technology development and deployment of strategic initiatives including Visa Cash, Internet Banking and Internet Stock Trading. Ms. Chan graduated from The City University, London, with a bachelor's degree in Business Computing Systems.

Growth strategies

Achieving sustainable growth in Hong Kong

(a) Maintain ARPU Growth through Value-added Services and Premium Content

now TV seeks to maintain its ARPU growth by offering new and attractive content to create up-selling opportunities amongst its existing customers. For example, now TV launched its pay-per-view (PPV) Video Express Service in 2010 which offers blockbuster movies from major Hollywood studios as early as DVD release dates in Hong Kong. now TV has also launched a premium sports content package, which adds to its basic sports pack channels including PGA Golf, NBA TV as well as rugby channel Setanta.

(b) Increasing Self-Production to Build Customer Loyalty and Subscriber Growth

To further penetrate the Hong Kong pay television market and to increase stickiness to the now TV platform, the Media Business plans to further enhance its self-production volume in accordance with market demand.

now TV currently produces over 16,000 hours of original television programming each year covering the key genres of news, financial news, sports, lifestyle and other entertainment programmes. Its production of current affairs and documentaries has won many awards in the past.

- General entertainment programs - Over the past few years, now TV has also demonstrated its strength in creating innovative and relevant local content especially in lifestyle and infotainment programs. now TV will continue to expand its production in this genre with new program ideas and formats, especially in the entertainment and reality programming genres.

- Interactive programs and services - Breaking new ground in Asian television history, now TV's interactive live game show format "ATM" (merging a traditional game format with advanced interactivity) has opened up immense new production possibilities such as interactive programs with educational themes, targeted ads and sponsorships, etc.

- Music services - the Media Business' music division focuses on music production and distribution, music publishing, artiste management and event management across Greater China whilst MOOV is Hong Kong's leading digital music pioneer. MOOV produces over 10 exclusive MOOV Live concert performances each year as well as aggregates over 200,000 song titles from over 200 international and local music labels. Both teams will continue to expand their production capabilities focusing on growing the Hong Kong business as well as extending their reach in overseas markets.

All of the above content expansion will not only benefit the Hong Kong business, but the Media Business can also leverage these productions for distribution in the mainland and to internationally target Chinese-language communities.

Multi-screen strategy to expand addressable market

In addition to developing valuable content assets, the Media Business plans to leverage its multi-screen strategy to increase its customer base by expanding the addressable market beyond households to individuals. This can be achieved by distributing now TV and New Media content through devices beyond the traditional television, such as game consoles, personal computers, mobile phones, Smartphones and tablets including the Telecommunications Group's eye tablet.

Through the device users can access now TV content and various interactive and new media applications including MOOV.

The Media Business has entered into an arrangement with Sony whereby, for a monthly fee, customers can stream now TV's content to its PlayStation 3. The Media Business will continue to explore opportunities to embed its now TV service and New Media content onto third party devices including iOS and Android devices.

International expansion through platform and content growth - a two-pronged strategy

With the increasing broadband penetration in key mainland Chinese cities, and the surging consumer demand for content over Internet and on mobile devices, the overall Internet market size in the mainland has increased from RMB71 billion to RMB151 billion from 2008 to 2010 and is further estimated to reach RMB245 billion in 2011 and RMB775 billion in 2014. Correspondingly, Internet advertising revenue reached RMB32 billion in 2010.

Furthermore, the online video streaming market has been growing at over 78% year on year for the past 2 years and is expected to reach RMB5.6 billion in 2011 and projected to reach RMB16 billion by 2014. Stimulated by the proliferation of Smartphones and increased mobile data offerings by mobile operators, the number of mobile Internet users is also expected to reach 415 million in 2011 and 750 million in 2014. This fast growth in Internet and mobile Internet markets clearly indicates an appetite and strong demand for quality mobile and Internet content (all figures are per iResearch).

(a) Growth through platform expansion - Without investing in a physical network in markets beyond Hong Kong, the most effective way for the Media Business to break into a new market is through offering content services as an OTT (over-the-top) provider riding on the Internet and through distribution to overseas pay television platforms.

    As speed to market and the ability to attract customer base and traffic are critical success factors, the Media Business will consider expansion through strategic partnership with existing OTT online video service to significantly increase the Media Business' prospects of success. The Media Business believes that OTT services will act as the Media Business' virtual network of delivery without the CAPEX intensive and time consuming network build out in a new market typically required for entry into a new market.

    The Media Business' solid Hong Kong pay television operations with 45% market penetration also presents itself as an ideal partner for mainland companies to explore opportunities to cooperate with its Hong Kong IPTV operations.

With a clear distribution strategy, the Media Business will embark on further investment into creating and building content assets and to aggregate and re-package third party content. Management believes that content will become increasingly sought after with distribution and broadband market expanding rapidly. The Media Business' ability to own content rights together with securing distribution will allow the Media Business to evolve into a full-fledged content and distribution company with access to new subscriptions, distribution and advertising revenue beyond the Hong Kong market.

(b) Growth through Content - with an increasing number of IPTV platforms in Asia and a rising number of Internet video streaming services by OTT providers, there has been a significant increase in appetite and consumption of content on IPTV platforms as well as new media platforms. The Media Business plans to capitalise on this trend by:

(i) Expanding international content distribution capabilities and offering a suite of four to five now TV branded channels to regional media operators:

- now Chinese Channel - 24 X 7 HD Cantonese language channel focusing primarily on lifestyle, travel and entertainment programs.

- now Entertainment News Channel - launched in the third quarter of 2011, a 24 X 7 entertainment news channel in Cantonese and Mandarin that is differentiated through unique content such as exclusive stories from celebrities, scripted and unscripted reality shows.

- now Asian Drama Channel - 24 X 7 channel showcasing Asian drama series from mainland China, Taiwan, Korea and Japan.

- now Business News Channel - with Hong Kong as a key financial hub, BNC will be distributed to other regional markets through satellite and other distribution means. The channel is currently also available in mainland China via satellite with landing rights for hotels and permitted units.

- Music concerts, stage shows and promotions.

(ii) Repackaging and aggregating mainland Chinese content - Content production in mainland China is currently highly fragmented and spread across a large number of independent producers. Given the Media Business' expertise in content management, it plans to act as an aggregator and distributor of Chinese content to both Hong Kong and regional markets by selecting, editing and repackaging content to suit both Hong Kong and overseas audiences' viewing preferences.

(iii) Aggregate international content - leverage on the Media Business' current relationships with international content players and its reputation over many years as a trusted partner to extend and acquire content for the mainland online video market.

New growth opportunities - Application for a domestic free television program service licence

In March 2010, the Media Business submitted an application for a domestic free television program service licence in Hong Kong. The application is in the final stages of consideration by the Broadcasting Authority. The Media Business believes that it has a high chance of securing this licence because its application is based on access to the consumers' homes via broadband. This technology would give the Media Business a competitive edge over traditional broadcasting because it is capable of two-way interactive communications whereas broadcasting by use of radio frequency is a one way broadcast. Following the licence approval, the Media Business intends to provide a 24 hour Cantonese language channel which would carry both internationally licensed and now TV's self-produced content consisting of news, finance, current affairs, documentary, lifestyle, travel, variety show, arts and culture, sports, music and kids programs across all age groups. Additional channels will be provided as the Media Business' domestic free television service becomes established and grows. The Media Business' proposal to launch a free television service is not conditional on being granted spectrum by the Government. The intention is for its free television service to use the existing broadband network and to develop this new aspect of the Media Business' television business through this unique means of transmission.

The Media Business believes that broadcasting a free television channel would not only provide an additional source of advertising revenue on an incremental cost basis only but also serve as a promotion for the broader range of self-produced now TV content. By operating a free television channel, now TV will also establish itself as a main stream media in Hong Kong in addition to being the leading pay television service. The Media Business' application to be a free television licensee is a key part of its growth strategy as it considers free television as complementary to its existing pay television and new media businesses. By unlocking synergies in both production and advertising resources, management believes both businesses can benefit as the Media Business becomes a truly integrated local and regional media player.

now TV key business functions

Content development and programming

now TV has accumulated a wealth of experience in content acquisition and negotiation over the past eight years to achieve the right portfolio of content and channels in a cost effective manner. It has established important industry relationships to allow it to access content from around the globe. At present, now TV offers a total of over 190 channels including 22 movie and drama channels, 16 travel and documentary channels, 24 news and information channels, 9 channels of children's programming, 48 entertainment and leisure channels, 26 sports channels, 12 foreign language channels, 19 TVB Pay Vision channels through a carriage arrangement, 6 channels of adult programming as well as 15 themed music channels.

now TV has been granted exclusive rights to many channels in Hong Kong, including over 110 exclusive channels that are only available on now TV, for contract terms generally running from 3 to 5 years.

now TV has also expanded its rights to cover new media platforms such as mobile and Internet and continues to acquire premium content such as Hollywood blockbuster movies to offer on a pay-per-view basis as early as same day DVD release in Hong Kong.

Television production capability

now TV operates an all-digital production facility, including full graphics facilities, audio and video post-production facilities, set and lighting design, art direction and complete program production resources. Through these production facilities, now TV produces original news, financial news, sports, variety and infotainment programming. These programs are produced primarily in Cantonese and are used to complement now TV's acquired content and thereby enhancing its reach to the mass audience in Hong Kong. now TV also has program outsourcing partnerships with several well known production companies in Hong Kong and plans to co-produce food, lifestyle and drama programs with mainland China content partners.

In a few years, now TV's production capabilities have grown significantly and it is now recognised as an established production house producing popular programs.

now TV has won numerous local and international awards for these achievements, including:

- Award of Merit - The Indie Fest 2011, Award of Merit Accolade 2011 - "Poverty in Hong Kong Series"

- Winner of Peabody Award 2009, Silver World Medal of New York Festival 2010, Award of Merit - Accolade 2010, Grand Prize of Lorenzo Natali Prize 2009, Silver Winner of Telly Awards 2010 - "Sichuan Earthquake: One Year On"

- Award of Merit - The Indie Fest 2010 - "Twin Cities Series"

- Award of Merit - Hugo TV Award 2009 - "World Financial Tsunami"

- Winner - Asian Television Award 2009 and Bronze Winner of Telly Awards 2010 - "June Fourth 20 Years On"

- Award of Excellence - Accolade 2010 and Bronze Winner of Telly Awards 2010 - "Communist China: Our Utopia"

- Best News Report of Asian Television Award 2008 - "Sichuan Earthquake"

now TV's production capabilities also include an in-house talent management business which seeks to identify, develop and promote entertainers, including actors, singers, announcers and other performers across the PRC, Hong Kong and Taiwan, to maximise their career potential and marketability to provide airtime and exposure to new artists.

Management believes that managing the careers of popular Hong Kong and other Asian entertainers will further enable the Media Business to develop and produce successful television and multi-media content.

Sales and marketing

Through effective sales and marketing activities in addition to a strong content line-up, now TV's total subscriptions have experienced consistent growth since 2007 from 758,000 subscribers reaching 1,039,000 subscribers by December 2010, representing a compound annual growth rate of approximately 8% since 1 January 2007. Total revenues (including television advertising) were HK$2.032 billion in 2010 with ARPU of HK$165 in December 2010.

(a) Pricing and packaging

now TV offers an a-la-carte subscription model where customers build their own individualised channel packages with the ability to choose channels they want to watch. Meanwhile effective promotions and offers such as mini-packages and super value packages help attract and retain high ARPU customers. The a-la-carte model also provides now TV with the opportunity to increase customer ARPU during the customer's contract life cycle by up-selling them additional channels on an individual or group basis. There are also other subscription video-on-demand transactional services such as pay-per-view movies which generate incremental ARPU.

now TV's intelligent IPTV platform is able to accurately track detailed program viewership profile for each household and the duration of viewing for each household. This has assisted now TV in devising strategies for pricing, up-selling, programming, packaging and targeted advertising to its subscribers.

(b) Customer acquisition

now TV conducts customer acquisition through a mix of direct and indirect channels including:

- Direct sales: Direct sales include door-to-door sales, mobile booths at shopping complexes and housing estates and other direct interactions targeted at potential subscribers.

- Telesales: the Media Business outsources the telesales function to the Telecommunications Group where it has access to flexible manpower to meet with its call centre sales resources requirements based on activity level.

- Retail: now TV and its New Media services are sold through over 60 Telecommunications Group retail outlets across Hong Kong in prime locations.

- Customer promotions and advertisements: now TV uses a myriad of marketing and advertising media to market its subscription television and new media services including billboards, television advertising, print ads, advertorials, electronic direct mail, cross channel promotions on now TV etc.

- Electronic On-Screen Subscriptions - Riding on its advanced IPTV technology, customers can also directly subscribe to individual channels by using their remote control through the user interface on-screen. This is a unique sales channel to now TV.

- Commercial sales: now TV sells its services directly to commercial establishments such as hotels, serviced apartments, offices, private clubs, restaurants, bars and lounges.

(c) *Customer retention*

now TV has been able to retain subscribers through a combination of subscriber management, proactive retention efforts, churn prediction modelling and provision of a wide array of channels/ services with quality content at attractive prices and flexible packages. now TV's monthly churn rate had averaged around a healthy 1% over the past 3 years. Due to its successful a-la-carte customer proposition, a majority of now TV's customers do not churn off the service entirely during economic downtimes but instead, choose to purchase smaller packages of pay channels and this provides future up-selling opportunities.

Television advertising sales

now TV sells advertising airtime and interactive ads on both its self-produced and licensed third party channels. On self-produced channels, now TV sells up to 10 minutes each hour. On third party channels, now TV generally sells up to 3 minutes each hour. Advertising rates are currently based on program genre as well as the potential reach of the various channels. now TV has increased rates on an annual basis as its subscriber base increases and as the potential reach of certain popular channels have grown. In particular, the now Business News Channel and the now News and now SPORTS channels have been key drivers of advertising revenue. The now Business News Channel has established itself as a leading financial channel in Asia, with a solid and growing advertiser base, including the majority of warrant issuers and many major banking, finance, property and luxury goods products in Hong Kong. With prestigious sporting events such as the PGA Tour, NBA, La Liga, ATP tennis, French Open and US Open, the Media Business is also able to attract top brands to sponsor and advertise on now TV and other multi-media platforms.

New media and directories

New media content services

The Media Group's New Media and Directories businesses include its online content and video-streaming service, now.com; Hong Kong's largest digital music subscription service, MOOV; and its Yellow Pages business of which revenues are now 70% web based. New Media services revenue totals HK$351 million in 2010.

(a) MOOV. MOOV is Hong Kong's first and largest multi-platform digital music service which offers over 200,000 local, Asian and international song titles , over 1,000 music videos and over 100 music concerts on-demand from over 200 international and local music labels. MOOV is a quadruple-play service which can be accessed online, on-demand through MOOV on now TV and on the Telecommunications Group's **eye2** device and mobile devices.

(b) now.com. The now.com content service is a subscription online entertainment service offering over 5,000 streaming videos, including popular local drama series, news, sports and online games. The video content available on now.com includes self-produced content and other content that are licensed for streaming over multiple platforms.

New Services - the New Media business will launch a series of vertical online video streaming services covering sports, news and movies. In addition to leveraging now TV's self produced content, the Media Business has begun to expand rights of acquired third party content to cover multiple platforms. This is expected to open up new advertising and subscription opportunities to the Media Business as these new platforms will help expand the addressable market to personal and "on-the-go" subscriptions on multiple devices.

The Media Business also plans to not just extend its content rights across platforms but also across territories. In its target expansion market, it proposes to acquire multi-territory rights to support its expansion plans in overseas markets including mainland China and certain South East Asian countries.

Directories

The Media Business' directories services primarily consist of the Yellow Pages service, which is recognised by its "walking fingers" trademark. The Yellow Pages is one of Asia's key directory market players and has been transformed into a leading multi-media advertising solution company aimed to help its advertisers to reach their customers in a cost-effective way. The Media Business' directories services team provides total advertising solutions, from pre-campaign support to post-campaign analysis. The services offered include:

- Internet Yellow Pages - yp.com.hk contains information about 200,000 businesses in 1,800 industry classifications in Hong Kong. It can be searched and navigated easily by users in English, traditional Chinese and simplified Chinese. yp.com.hk attracts a monthly average of over 65 million page views and 1,500,000 unique users. Advertisers can promote their businesses in yp.com.hk by banners, simple website, online stores and keywords. Currently, Yellow Pages' online business accounts for over 70% of total Yellow Pages revenue and is available on various interactive platforms (i.e. Internet, mobile and YP Channel 502 on now TV).

- Printed Yellow Pages - This printed directory listing has a circulation of around 0.7 million and includes the name, address and telephone number of the business included in alphabetical order in the relevant industry classification.

- Search Engine Marketing - The Media Business assists local businesses reach users with its professional search engine marketing service. Its search marketing team assists businesses in writing their promotional messages and selecting appropriate keywords for the major search engines such as Yahoo! Hong Kong and Baidu. It also provides different online media solutions for customers.

- Mobile Yellow Pages - The mobile Yellow Pages enables consumers to search for, and connect to local services and merchants instantly via mobile handsets. Other features include MYP Map, a digital map services (with location-based services technology) and a "click2call" function which enables connection to local services at anytime. Mobile Yellow Pages comprises the largest merchant database in Hong Kong, with more than 15,000 company profiles and business contacts, as well as the largest directory database of around 300,000 company listings in Hong Kong.

- Yellow Pages SMS - yp sms is a do-it-yourself PC-based system that enables customers to create and broadcast sms messages conveniently and cost effectively across various mobile operators.

- Yellow Pages 502 - yp 502 enables customers to search the Yellow Pages over the now TV platform for a variety of local products and services. Viewers can search through various categories such as Property, Dining, Pets, Home Services and Useful Hotlines with their now TV remote control. The yp 502 content is also available on yp.com.hk and the Telecommunications Group's **eye2** device.

  As opposed to traditional Internet search portals, which only search for online websites, search results on the yp.com.hk site also include businesses that have no online presence. This provides the Media Business with a larger advertising base than other Internet search portals, and is a key reason behind the website's status as a top 8 website in Hong Kong based on the number of hits per month.

Employees

As of 31 August 2011, the Media Business employed 1,492 persons on permanent and contract basis (excluding those performing corporate functions). The average number of years of service of the employees is approximately 8.52 years for management staff and 3.25 years for others. The Company has in place human resource strategies which include a structured framework and processes for selection, development, compensation and succession.

The Solutions Business

Since 2000, the Solutions Group has transformed itself from an in-house IT department to become a premier 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 a wealth of industry experience and technical expertise and is viewed as a major industry player in Greater China.

Generating total revenues of HK$2,039 million in 2010, the Solutions Group has substantial scale to offer a comprehensive range of customised solutions including data centre services, IT infrastructure outsourcing, system integration, application development, management and maintenance, technical operations outsourcing and monitoring systems, BPO on customer and logistics management.

With extensive experience in a wide range of services and impressive project credentials, the Solutions Group is a trusted partner to blue-chip clients across the financial, telecommunications, media, retail, manufacturing, transportation and public sectors.

The Solutions Group operates four key business lines:

(a) *Outsourcing and Managed Services* (*“**OMS**”)*

The OMS business offers a complete range of managed services and data centre services (under the *Powerbase* brand) spanning from data centre design and management to cloud computing services.

(b) *System Solutions Development and Integration (“**SSDI**”)*

The SSDI business provides an extensive pool of development resources, and a cost effective outsourcing model to companies across all industries. SSDI services includes IT consulting, enterprise resource planning (“**ERP**”) implementation, as well as the development, integration, and management of applications. In addition, the Solutions Group operates five outsourced development centres (“**ODCs**”) in Beijing, Shanghai, Guangzhou, Xian and Hong Kong with over 1,000 developers.

(c) *Technical Services and Infrastructure Solutions (“**TSIS**”)*

The TSIS business segment provides services that combine communications engineering expertise with IT technologies for both the public and commercial sectors. The division has expertise in the deployment of control and monitoring systems, technical operations and round-the-clock operation maintenance.

(d) *BPO and Logistics (“**BPOL**”)*

The BPOL business takes on its clients’ non-core business processes, which include transaction processing (i.e. payment collection, order fulfilment), document lifecycle management solutions (i.e. document scanning, e-document management system), direct marketing solutions (i.e. printing, direct marketing support services), VIP management (i.e. customer database management, loyalty membership management), and Cloud-based Point of Sales services. BPOL also provides services that cover logistics management and supply chain solutions utilising a variety of Radio-Frequency-Identification (“**RFID**”) technologies.

Competitive strengths

PCCW believes that the success and potential for future growth of the Solutions Business are attributable to the following competitive strengths:

Leadership position in the IT services industry in Hong Kong and China

The Solutions Group is the largest professional IT services provider in Hong Kong and the second largest professional IT services provider in Hong Kong and China combined, with market shares of approximately 12.2% and 3.6% (by revenue) respectively in 2010. The Solutions Group was ranked as No. 1 in the 2010 China Top IT Outsourcing Service Enterprises, organised by China Software & Services Outsourcing Network. In addition, Gartner, an internationally recognised technology research firm, ranked the Solutions Group as No. 1 IT services provider within the Hong Kong public sector and communications sectors, No.2 BPO service provider in Hong Kong, and No.2 professional communications IT services provider in Hong Kong and China combined. In 2010, Gartner ranked the Solutions Group as the largest systems integration service provider, one of the top 2 largest ITO service providers, one of the top 2 largest BPO service providers and one of the top 5 largest consulting service providers in Hong Kong. Finally, the Solutions Group was ranked as No. 17 in the 2011 Global Outsourcing 100 organised by the International Association of Outsourcing Professionals. Through its *Powerbase* brand, the Solutions Group is one of the largest data centre and facilities management service providers in Hong Kong and China respectively.

Through the breadth and depth of its experience, the Solutions Group has gained several global accreditations, which has successfully helped the Solutions Group to win new mandates. Some of the Solutions Business' global accreditations are summarised below.

- CMMI Level 5 for software engineering
- PMP for project management professionals
- PRINCE2 and PMI for project management
- SSADM for stage-wise system analysis & design methodology
- ISO20000 for IT service management
- ISO27001 for IT security management
- ISO9001 for network and IT services
- Certified CRM Consultants (Siebel)
- Certified Database Professionals (MS SQL, Oracle, DB2, Sybase)
- Certified Network Specialists (Cisco, Huawei)
- Certified Security Specialists (CISSP, Checkpoint, CCSE)
- Quality Specialists (CISA, CQA)
- Unix Specialists (IBM/AIX, HP/UX, Sun Solaris)
- China National Accreditation of Registrars

With its leading position in Hong Kong and China, the Solutions Business is well-positioned to leverage its strong market recognition and scale to capture opportunities within the region and deliver unique solutions to clients.

Strong capabilities in complex, mission-critical projects and comprehensive end-to-end service offering

The Solutions Business has a strong, proven platform that leverages its core capabilities to identify, penetrate, and seamlessly implement large-scale projects while continuously maintaining a competitive cost structure. It has been involved in several projects that have been highly beneficial to the development of various companies and also the development of Hong Kong's infrastructure.

Entrenched and long-term relationships with a diverse base of blue-chip clients and renowned technology partners

The Solutions Business has built a profitable and sustainable business by winning large-scale, long-term projects and ensuring stable recurring revenue streams. As a result of its exceptional execution and management of projects, the Solutions Business has become the preferred service provider and trusted partner for leading corporations and entities in the region.

Aside from its deep long-term relationships with its clients, the Solutions Business has also cultivated solid relationships with its network of software and hardware partners that are leaders in their own respective fields, enabling the Solutions Group to effectively tailor solutions for its clients and manage its costs.

Well-positioned to capture significant growth opportunities in China

According to IDC, a globally recognised IT research firm, the China IT services market for the top four industries - telecommunications, government, banking and manufacturing - is expected to grow at over 15% CAGR from 2010 to 2013. The Solutions Group has a unique platform to further expand within the China IT services market utilising its world-class execution and project management capabilities given that it has already delivered substantial services to government agencies, leading telecom franchises and major banks in the country.

The Solutions Business' extensive achievements and experience in China together with its current footprint across the major cities in China provides the business with a strong position to capture the high growth expected in the China IT services market.

Strong financial performance with high visibility into future revenue streams

The Solutions Business has consistently generated substantial revenue for the past several years, with total revenue in 2010 of HK$2.039 billion. Meanwhile, its profitability in terms of EBITDA and EBITDA margins have improved significantly. The Solutions Business' EBITDA in 2008, 2009 and 2010 were HK$184 million, HK$201 million and HK$284 million respectively, growing at a CAGR of 24.2% and its EBITDA margins in the three years were 9.7%, 11.2% and 13.9%, respectively. The strong increase in profitability of the business is a result of the Solutions Business' focus to streamline its operations and effective cost management. Going forward, the Solutions Business plans to monetise its leading market positions to continue to drive growth and profitability across its entire business.

Experienced management team with proven track record

The Solutions Business has a highly experienced management team that has a deep understanding of the Hong Kong and China markets.

Mr. FOK Yiu Cheung (George), *Managing Director*

Mr. Fok heads up the Solutions Business and leads the team of IT professionals to provide total IT solutions to both government and corporate clients. He has over 30 years of experience in the banking and IT industries and has been with the PCCW Group since 1996. Before joining the Solutions Group, Mr. Fok held senior IT management positions at several firms including the Commonwealth Bank of Australia, JP Morgan, and National Westminster Bank.

Ms. LAM Shook Fun, Maria, *Senior Vice President, Sales and Strategic Development*

Ms. Lam is responsible for sales and marketing, new product development, and partnership management to enhance the service portfolio of the Solutions Business. She has been with the PCCW

Group since 1996 and has held key management positions across the other business segments of PCCW including the mobile, interactive TV and Internet business. Prior to joining PCCW, Ms. Lam held positions in both client coverage and marketing at various firms including IBM China, Bank of America, Ogilvy & Mather and Wunderman Hong Kong.

Mr. KWOK Chi Wah (Roger), *Senior Vice President, TSIS*

Mr. Kwok is in charge of the technical services team within the Solutions Group. He joined the PCCW Group in 1971, and was behind the engineering of the Company's data network, and message and packet switch network. Mr. Kwok led the customer network team and later took charge of large scale technical outsourcing services to both the public and private sectors within the Solutions Business.

Mr. CHAN Man Yuen, Martin, *Senior Vice President, OMS*

Mr. Chan leads the team that provides state of the art data centre hosting, managed services, and IT infrastructure support to clients in both China and Hong Kong. He has over 28 years of experience in the IT industry and very strong experience in the fields of e-commerce, telecommunications, financial services and infrastructure. He has been with the Group since 1989.

Mr. LAI Ping Sum (Sam), *Vice President, BPOL*

Mr. Lai is in charge of the BPO and Logistics business segment within the Solutions Group. He has been with the PCCW Group since 1983 starting as an engineer leading the design of dedicated networks for services including Telebetting, Infoline and Paging. He has extensive experience in customer service and innovative operation design of Dynamic Work Force Management System which significantly improved both quality and efficiency of service provision for the Group.

Ms. YAU Christine Siew Feong, *Vice President, SSDI*

Ms. Yau leads the development and implementation of solutions for client projects and she has extensive development and delivery experience of SI strategy and architecture, project and quality assurance management, and business process re-engineering. Prior to joining the Solutions Group in 1996, Ms. Yau worked for the Department of Defense of Australia, the Australian Wool Corporation and the Guardian Royal Exchange.

Dedicated and highly competent workforce

The Solutions Group had 2,657 high quality staff in Hong Kong and China as at 31 August 2011 with extensive educational backgrounds and additional opportunities for professional development through firm-sponsored training programs. Over 70% of the IT staff of the Solutions Group are university graduates with proficiency in English and Chinese communication skills.

The average number of years of service of the employees is approximately 22.64 years for management and 7.59 years for others.

Growth Strategies

The Solutions Business' key strategies for growth within its four business lines are summarised below:

OMS - Continue to invest in and expand data centre services, managed services, application management and cloud computing services

The Solutions Group is not only one of the first data centre service providers in Hong Kong (under the "Powerbase" brand), but also one of the largest managed services provider in the city today managing approximately 18,000 square meters of hosting areas, over 350 applications, over 1,000 servers, over 800 database instance, and over 30,000 end users. To meet the rising demand for its services, it plans to double its data centre capacity by square footage in the next three years. Specifically, the team intends to increase data centre space by approximately 18,000 m^2 from 2011 to 2013 to capture the demand for high-power density and Tier-3+ data centres from global financial service institutions, multi-national corporations and IT companies. The planned new data centre space will utilise a mix of premises from both internal and external third party leased venues, as well as venues obtained from partners in China.

The Solutions Business is also proposing to expand its managed services and application management business by building on the strong foundation of its existing data centre business. It is exploring to further leverage its strong international best practices (e.g. certifications of ISO20000, ISO27001 and CMMI Level-5.), as well as the abundant IT skill labour available in China by opening new or expanding existing centres, to capture demand from data network support, infrastructure management and support, operations support and IT service management services for multi-national corporations, financial service institutions and government agencies.

Building on its successful completion of several pilot projects in cloud computing in 2010, the Solutions Business plans to continue to expand in this fast-growing sector. The Solutions Group was awarded the Best Cloud Innovation Award 2011 by IT Xinwen and IT Time in China. It will continue to nurture new product offerings such as desktop and enterprise cloud computing. In addition to developing its own cloud computing services that could be customised based on customer needs, the Solutions Business also intends to partner with leading IT vendors to offer a full spectrum of services including Infrastructure-as-a-Service (IaaS) and Software-as-a-Service (SaaS).

SSDI - Leverage ODCs and project delivery models to capture large scale systems projects in Hong Kong and to replicate proven solutions to clients in China

The Solutions Group has over 700 ERP specific professionals, one of the largest ERP teams in the industry, allowing it to service large scale projects such as the nationwide ERP implementation across 31 provinces in the PRC, which required 350 ERP professionals. By leveraging on this resource and its strong track record of capturing large scale projects in Hong Kong, the Solutions Business plans to grow the SSDI business especially in the areas of information systems, management systems, and ERP systems. In addition, to complement opportunities in Hong Kong, the Solutions Business also expects to capitalise on its expertise and replicate its existing portfolio of solutions to capture new opportunities across China. Specific areas of focus include: customised ERP systems, warehouse management systems, logistics systems, contract management systems and human resource management systems. The team also expects to replicate solutions to capture opportunities arising from customised solutions including: identity management, portal infrastructure with security module, transport information system, health care and data management.

TSIS - Deploy its strong industry domain expertise to target opportunities in display systems, control and monitoring systems, security and other systems

Through more than 650 experienced engineering staff, TSIS has planned, designed, and implemented a wide range of technical solutions including communications, navigation, surveillance and management systems for the purposes of transportation management, information dissemination, structured cabling, security and entertainment. Utilising its strong domain expertise and operation experience from supporting the public sector in Hong Kong over the past several decades, TSIS plans to replicate proven solutions across fast-growing areas such as China, Macau as well as other countries in the region, while maintaining its operational efficiency and project team deployment model to drive margin enhancement. While Hong Kong has historically contributed the majority of the revenue for the TSIS business, the business team expects China to account for an increasingly large portion of the business going forward. Apart from recurring technical operation outsourcing, the growth in revenue is expected to be driven by i) projection and LED display systems, ii) extra low voltage systems, and iii) control and monitoring systems.

BPOL - Strengthen its core capabilities to drive business process outsourcing services, supply chain solutions and cloud-based services

Taking into consideration the fast growing market for outsourcing as corporations become more cost-focused, the Solutions Business intends to pursue a strategy that will continue to strengthen the core capabilities of the BPOL business to drive business process outsourcings services such as data conversion, after sale services, client management, document management, logistics management and supply chain solutions. It has formed a strategic partnership with the Hong Kong branch of a global industry organisation that focuses on improving supply chain efficiency, to jointly promote the increase in RFID adoption and provide a track-and-trace platform as a service that enhances efficient operations of a supply chain.

The Solutions Business also plans to penetrate into customised cloud-based solutions to address customer needs for point of sales, online accounting and electronic-documentation management. The team has focused not only on corporations with large networks of outlets or franchise stores, but also on the over 6,000 active small-medium enterprises in Hong Kong.

The Company's commitment to retain the Solutions Business for at least three years

In connection with the application made to the Stock Exchange for approval of the Proposed Spin-off under PN 15, the Company made a clear and specific commitment, and hereby undertakes, to retain the Solutions Business within the Group for at least three years from the Listing Date to ensure that the Remaining Group has a sufficient business to retain its listing status.

The Property Business

The Property Business comprises the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia Pacific region. The Property Business is carried on by PCPD, which has its shares listed on the Main Board of the Stock Exchange. PCCW held an indirect interest of approximately 61.53% in PCPD's issued share capital as at the Latest Practicable Date.

The Property Business reported external revenues of approximately HK$1.4 billion in the financial year ended 31 December 2010. As at 31 August 2011, the Property Business employed approximately 323 full time staff.

Other Remaining Businesses

The PCCW Group has invested in businesses that are complementary to its core operation and in companies and investment funds that would generate long term returns. The principal investments managed at the Group level as at 31 December 2010 were:

(a) Venture portfolio - The Group has invested in start up companies with growth potential and in third-party managed investment funds. The Group has been exiting many of its venture investments to realise investment returns over the last few years. As at 31 December 2010, the principal investment remaining is its investment in private equity funds managed by China Broadband Capital Partners L.P. ("**CBC Capital**"). CBC Capital focuses on investing in the media and communications sectors of mainland China. The carrying value of the Group's investments in private equity funds managed by CBC Capital as at 31 December 2010 was approximately HK$200 million.

(b) UKBB is an indirect wholly-owned subsidiary of PCCW and has acquired 2 national spectrum licenses totalling 124MHz of spectrum in the 3.5GHz and 3.6GHz bands that are internationally recognised as being suitable for the deployment of 4th Generation (4G) Long Term Evolution (LTE) high speed wireless broadband data services. Currently, UKBB is the only operator in the UK that has spectrum available for the deployment of such 4G LTE services. UKBB also has acquired a further 2.3GHz of spectrum covering the UK in the 4GHz, 28GHz and 40GHz bands suitable for fast wireless backhaul and fixed link wireless services. UKBB designs and supplies wireless solutions, and is a distributor of a range of wireless equipment, to the public sector and channel partners in the UK. The Group believes that the UK broadband market has the potential for growth due to the relatively low household broadband penetration rate as compared with developed markets in Asia such as Hong Kong, South Korea and Singapore. As the mobile broadband demand is growing very rapidly, driven by Smartphones and tablets, there exists an opportunity for UKBB to provide a wholesale proposition to the mobile network operators. The business is still in its development stage and the carrying value of UKBB as at 31 December 2010 was HK$397 million.

PART IX
SUMMARY FINANCIAL INFORMATION IN RELATION TO THE REMAINING GROUP

Unaudited financial information in relation to the Remaining Group

The unaudited financial results of the Remaining Group for each of the three financial years ended 31 December 2010 are set out in Appendix IV to this circular.

Management's discussion and analysis of the Remaining Group (excluding PCPD)

Management's discussion and analysis of the Solutions Business and the Media Business (excluding the Property Business conducted by PCPD which has its shares listed on the Stock Exchange), in each case in respect of the three financial years ended 31 December 2010, is set out in Appendix III to this circular.

PART X
MEDIA AND SOLUTIONS BUSINESSES INDEPENDENT VALUATION AND MANAGEMENT FORECAST

Independent valuation of the Media Business and the Solutions Business

The Company has commissioned Deloitte & Touche Financial Advisory Services Limited to prepare a valuation report on the fair market value of the Media Business and the Solutions Business. According to the Valuation Report, the value of the Media Business as at 30 June 2011 was in the range of approximately HK$7,500 million to HK$8,200 million; and the value of the Solutions Business as at 30 June 2011 was in the range of approximately HK$3,400 million to HK$3,800 million. The Valuation Report, including the basis of valuation and assumptions and the fair market value of the Media Business and the Solutions Business, is set out in its entirety in Appendix V to this circular.

Management forecast for the Media Business and the Solutions Business for the year ending 31 December 2011

The Valuation Report is based on, inter alia, management forecast of the respective financial performances of the Media Business and the Solutions Business for the year ending 31 December 2011.

The forecast for which the Directors are responsible, has been prepared based on accounting policies consistent with those adopted for the purpose of the annual report of PCCW and its subsidiaries and on the bases and assumptions set out below.

Bases and assumptions

In arriving at the forecast, the Directors have made the following assumptions:

(a) the asset portfolio of each of the Media Business and the Solutions Business remains unchanged;

(b) no further equity capital of PCCW will be raised during the forecast period;

(c) the Media Business and the Solutions Business will not incur additional material capital expenditure other than as budgeted;

(d) foreign exchange rate of US$1.00:HK$7.80 is assumed for the forecast period;

(e) changes in applicable accounting standards or other financial reporting requirements will have no material impact to the Media Business and the Solutions Business;

(f) there will be no material changes in inflation rates, interest rates, foreign exchange rates or other economic conditions from those currently prevailing in the context of the operations of each of the Media Business and the Solutions Business;

(g) there will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the countries or territories in which the Media Business and the Solutions Business operate;

(h) there will be no economic crisis, wars, riots, military incidents, pandemic diseases or natural disasters that would have a material impact on the business and operating activities of each of the Media Business and the Solutions Business;

(i) the operations and business of each of the Media Business and the Solutions Business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents;

(j) there will be no interruption of operations that will adversely affect each of the Media Business and the Solutions Business as a result of shortage in supply of energy, labour shortage or disputes or any other circumstances which are beyond the control of the Directors; and

(k) the Media Business and the Solutions Business will be able to recruit sufficient employees to meet its operating requirements during the forecast period.

Forecast EBITDA of the Media Business and the Solutions Business for the financial year ending 31 December 2011

The Directors believe that, on the bases and assumptions set forth above and based primarily on a combination of key factors including the expected increase in the now TV installed base and ARPU driven by new content offerings, including self-produced interactive programmes and expansion on premium sports content offerings, the full year impact of the savings in content costs as a result of the non-renewal of the English Premier League broadcast rights, and in the absence of unforeseen circumstances, the forecast EBITDA of the Media Business for the year ending 31 December 2011 is not less than HK$628 million.

The Directors believe that, on the bases and assumptions set forth above and in the absence of unforeseen circumstances, the forecast EBITDA of the Solutions Business for the year ending 31 December 2011 is not less than HK$380 million.

Report by reporting accountant

A report from PricewaterhouseCoopers, as reporting accountant in respect of the forecast earnings in connection with the business valuation of the Media Business and Solutions Business is set out in Appendix IX to this circular.

The calculations and accounting policies in respect of the forecast earnings used in the business valuation of the Media Business and Solutions Business have been reviewed and reported on by reporting accountant, in accordance with Appendix I, Part B, paragraph 29(2) of the Listing Rules. The Board has also confirmed to the Stock Exchange, in accordance with Appendix I, Part B, paragraph 29(2) of the Listing Rules, that those forecasts have been made after due and careful enquiry.

PART XI
PCCW'S RELATIONSHIP WITH THE HKT TRUST AND HKT AFTER THE PROPOSED SPIN-OFF

Strategy

PCCW intends to continue to optimise the performance of its existing operations and to strengthen its existing position as one of the leading telecommunications, media and information and communications providers in Hong Kong.

As the Telecommunications Business represents an important strategic asset of PCCW, PCCW intends to hold its investment in the HKT Trust and HKT on a long term basis. There is no plan for PCCW to hold such an investment for a specific minimum period. In addition to retaining not less than 55% of the equity in, and control of, the HKT Trust and HKT on a long term basis, PCCW intends to focus on the Media Business and the Solutions Business, which the Board believes are businesses with substantial potential for growth. PCCW intends to crystallise the value of those growth businesses through increasing visibility and additional funding and to align those businesses with an investor base that favours high growth businesses. After the Proposed Spin-off, the Media Business and the Solutions Business will continue to drive the future operations of PCCW. PCCW intends to establish a strategic priority around growing the Media Business for it to become the leading interactive Media platform operator, providing compelling content through in-house production and aggregation, delivered through multiple strategies including IPTV and the Internet. On the other hand, the Solutions Business has established itself as a premier IT outsourcing and BPO provider in Hong Kong, and plans to expand geographically by building its presence in the PRC.

Relationship between PCCW and the HKT Trust/HKT

After the Proposed Spin-off, PCCW is expected to hold:

(i) In the case of the Global Offering involving 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 55% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT after the exercise of the Over-allotment Option in full and after the Distributions in Specie); or

(ii) In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 70% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie).

Based on the above, HKT will remain a subsidiary of PCCW (and the HKT Trust will be majority controlled by PCCW) while the Trustee-Manager will be a wholly-owned subsidiary of PCCW.

Upon completion of the Global Offering, PCCW's business will include the interest in the HKT Trust and HKT described in the paragraph immediately above, the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses. The Telecommunications Business is one distinct business amongst the range of diversified businesses of the PCCW Group.

Independence of the HKT Trust and HKT from the Remaining Group

The Board is satisfied that the HKT Trust and HKT can carry on business independently of the Remaining Group and its associates after the Listing on the basis of the following:

- **Clear delineation between the Telecommunications Business and the Remaining Businesses**

It is acknowledged that there will be a continuing relationship between the Telecommunications Group and the Remaining Group, including the Media Group and the Solutions Group. In essence, the Media Group is reliant on the Telecommunications Group for the provision of network and related services given that the "now TV" product is delivered to the consumer via the Telecommunications Group's broadband network. In turn, the Telecommunications Group is reliant on the Media Group for the provision of media content which it is capable of offering to customers as part of a "bundled service" over the platforms offered by the Telecommunications Group.

That said, the essence of each side's business is clearly delineated. The Media Group presently focuses on the creation and acquisition of media content for broadcast to its principal customers, being the subscribers of the "now TV" service. On the other hand, the Telecommunications Group's focus is as owner and operator of telecommunications networks. As "now TV" and the New Media services operated and being developed by the Media Group are capable of being viewed over platforms other than television, such as mobile telephones, Internet and fixed-line "eye" phone screens, being platforms offered and operated by the Telecommunications Group, there is a close degree of co-operation between the Media Group and the Telecommunications Group, with the bundled-selling of products to customers of both.

Similarly, the Solutions Group is reliant on the Telecommunications Group for the provision of certain connectivity services, linking various data centres or other network sites operated by the Solutions Group. The Telecommunications Group is reliant on the Solutions Group for the provision of customized solutions services such as help desk services, problem management, change management, production services, system and database support, IT security services, data centre services, backup management, service level management, disaster recovery services, systems solutions development and integration services including application management services as well as business processing, order fulfillment and logistical services. Nevertheless, the nature of the Solutions Business is clearly distinct and delineated from that of the Telecommunications Business. The former dealing with software and IT systems and the latter dealing with telecommunications networks. Through the regime to be put in place as described below, the Board is confident that the business between the Telecommunications Group and the Remaining Group will be conducted on arms-length, normal commercial terms.

Owing to the nature of the technology used in the telecommunications and media industries, it is natural that there would be some convergence of the services provided. However there is a clear and fundamental distinction between the three businesses. The Telecommunications Business is a telephone company, principally providing fixed and mobile connectivity services; the Media Business is a pay television company, principally focussed on content and pay television services; and the Solutions Business principally deals with IT system deployment and integration work. The Directors believe that each of the Telecommunications Group and the Remaining Group can function, operate and carry on business independently of each other based on the following reasons:

(a) Each of the Telecommunications Business, the Media Business and the Solutions Business has an established and substantial business in its own right. The revenue of each of the Telecommunications Business, the Media Business and the Solutions Business for the year ended 31 December 2010 was approximately HK$18,527 million, HK$2,383 million and HK$2,039 million, respectively.

(b) Each of the Telecommunications Business, the Media Business and the Solutions Business is led by its own management team which possesses a wealth of experiences in its industry. The Telecommunications Business is led by a management team that has track record in both the development and delivery of telecommunications services as well as in the execution of its business strategies. The Media Business is led by a management team experienced in broadcasting, productions, content acquisition and sales and marketing with strong media background from major broadcasters of free and pay television operators and from consumer services industries. The Solutions Business has an experienced management team that has deep understanding of the Hong Kong and China IT solutions markets. Each of these businesses has its own staff force where the Telecommunications Business had 15,626 employees as at 31 August 2011 while the Media Business and the Solutions Business employed 1,492 and 2,657 employees, respectively, as at 31 August 2011.

(c) These transactions between each of (i) the Telecommunications Group with the Media Group; and (ii) the Telecommunications Group with the Solutions Group, are not material in value as far as the Telecommunications Group is concerned. On an aggregated annual basis, the capped amounts payable by each of (i) the Telecommunications Group to the Media Group, or vice versa;

and (ii) the Telecommunications Group to the Solutions Group, vice versa; does not exceed 5% in percentage ratios (other than the profits ratio) by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Please see Appendix VII for details of the continuing transactions.

To address potential conflicts of interests between the Remaining Group and the Telecommunications Group, it is proposed that the following procedures will be adopted:

(a) HKT will enter into the Non-Compete Agreements with PCCW, the details of which are set out in the section headed "Part XI — PCCW's Relationship with the HKT Trust and HKT after the Proposed Spin-off — Potential conflicts of interest" in this letter on page 119 of this circular;

(b) the HKT Trust and HKT will each maintain a sufficient level of independence of directorship and management from the Remaining Group. Further details are discussed in the section headed "Part XI — PCCW's Relationship with the HKT Trust and HKT after the Proposed Spin-off — Independence of the HKT Trust and HKT from the Remaining Group — Independence of management and directorship" in this letter on page 112 of this circular. The majority of the directors of the Trustee-Manager will have no role in, and be independent from, the Remaining Group. Moreover, the Remaining Group will have a team of full-time senior management and employees focused exclusively on the business of the Remaining Group;

(c) the management structure of the Remaining Group includes and will continue to include an audit committee, a remuneration committee, a nomination committee and a regulatory compliance committee for the Remaining Group, the terms of reference of each of which will require them to be alert to prospective conflict of interest issues and to formulate their proposals accordingly (the Telecommunications Group, under the HKT Trust and HKT, will also have its own audit committee, remuneration committee, nomination committee and regulatory compliance committee); and

(d) any connected transactions or continuing connected transactions between the Remaining Group and the Telecommunications Group will be transacted in compliance with the Listing Rules. Further details are discussed in the section headed "Part XI — PCCW's Relationship with the HKT Trust and HKT after the Proposed Spin-off — Independence of the HKT Trust and HKT from the Remaining Group — Independence of management and directorship" in this letter on pages 112 to 117 of this circular.

Further, in order to protect the interest of the Telecommunications Group to ensure no interruption of its business operations, PCCW will undertake to HKT that it shall procure that each of HKTC and HKTL complies with its obligations under the licensing arrangements in respect of land and/or buildings the use or occupation of which is licensed by them to the Telecommunications Group, and, in particular, not to attempt to dispose of any land and/or buildings subject to private treaty grants by the government of Hong Kong to a third party.

- **Financial independence of the Telecommunications Group from PCCW**

The Telecommunications Group will be financially independent of PCCW.

(a) Performance bonds and corporate guarantees

There are a limited number of performance bonds in the name of companies in the Remaining Group which utilise the bank facilities of the Telecommunications Group. As at Latest Practicable Date, performance bonds in the aggregate amount of approximately HK$167.0 million had been issued by the relevant banks to customers of the Solutions Group in respect of work being undertaken by the Solutions Group for those customers.

In addition, in support of certain performance obligations of a member of the Remaining Group, the Telecommunications Group has also entered into certain guarantees in favour of the independent third parties with whom the member of the Remaining Group has contracted for the supply of certain services or lease or licence of certain equipment or software. As at Latest Practicable Date, the estimated aggregate contingent liability of the Telecommunications Group in respect of all of these corporate guarantees was approximately HK$193.9 million.

So far as practicable, HKT will seek to work with the Company and the relevant parties to seek to novate the relevant guarantee obligations to other entities within the Remaining Group. Moreover, on an ongoing basis following Listing, HKT does not intend that any member of the Telecommunications Group will issue any corporate guarantee for any member of the Remaining Group. Therefore, HKT does not expect the outstanding amount of performance bonds to increase after the Listing. In addition, the Company had unutilised banking facilities of HK$595 million as at 30 June 2011.

To protect the Telecommunications Group from any liability in respect of these performance bonds and corporate guarantees, the Company will enter into a back-to-back deed of indemnity in favour of HKT for itself and on behalf of members of the Telecommunications Group pursuant to which the Company irrevocably agrees to act, so far as it can, as primary obligor, or otherwise indemnify HKT and/or relevant member of the Telecommunications Group, on demand, against all losses, claims, damages, costs and liabilities which any of them may sustain in connection with any of the performance bonds and corporate guarantees referred to above.

Please see the paragraphs headed "F. Financial assistance — Financial assistance by the Telecommunications Group for the benefit of the PCCW Group — (29) Use of bank facilities" and "F. Financial assistance — Financial assistance by the Telecommunications Group for the benefit of the PCCW Group — (30) Corporate guarantees in support of the obligations of PCCW Solutions Limited" in the section headed "Continuing transactions between the Remaining Group and the Telecommunications Group" set out as Appendix VII to this circular for further details of these performance bonds and corporate guarantees.

(b) Inter-company debt

The net amount due to ultimate holding company and fellow subsidiaries by the Telecommunications Group as at 30 June 2011 was approximately HK$2.7 billion which principally arose from intercompany funding. Any outstanding balance of this immediately before the spin-off and separate listing of the Telecommunications Group will be capitalised upon the Proposed Spin-off. Such inter-company debt was created as a result of the 2008 Restructuring where Hong Kong Telecommunications (HKT) Limited obtained banking facilities to finance the acquisition of the business and assets from HKTC and subsequently, Hong Kong Telecommunications (HKT) Limited borrowed from other members of the Remaining Group for the repayment of such banking facilities. Such inter-company debt will not undermine the financial independence of the Telecommunications Group as it generates positive cash flows year on year and, thus, it is not dependent upon this inter-company balance.

(c) Guarantees in respect of three series of notes

Furthermore, HKTC, a member of the Remaining Group, has in the past provided guarantees to co-guarantee debt repayment obligations of the Telecommunications Group under three series of notes. Each series of notes has been issued by a different special purpose vehicle within the Telecommunications Group. The original (sole) guarantor, in each case, was HKTC as HKTC was formerly (i) the holding company of each of the special purpose vehicles; and (ii) the principal domestic operating entity and holder of the domestic fixed line licence.

However, in the 2008 Restructuring, HKTC transferred its business and assets, including the note-issuing special purpose vehicles, to Hong Kong Telecommunications (HKT) Limited, a company within the Telecommunications Group. New guarantees for each series of notes were issued to the noteholders by each of Hong Kong Telecommunications (HKT) Limited (as the 'successor entity' to the business and assets of HKTC) and HKTGH (as the new holding company of the Telecommunications Business, the Solutions Business and the Media Business). No consent was required to be given by noteholders for the provision of these new guarantees, rather it was Hong Kong Telecommunications (HKT) Limited and HKTGH's obligation to provide them in the context of purchasing HKTC's business and assets.

The new guarantees were given by way of supplemental indenture to the relevant indenture in respect of the notes. In each case, the supplemental indenture was exercised by, amongst others, Hong Kong Telecommunications (HKT) Limited and HKTGH and the trustee of notes for the benefit of noteholders. These guarantees were issued as additional joint and several (equal ranking) guarantees and not as replacement guarantees, meaning that, in theory, HKTC, a company within the Remaining Group, retains a liability in respect of each series of notes. However, in practice HKTC's residual guarantee is effectively worthless as it is, in essence, a shell company (unlike each of Hong Kong Telecommunications (HKT) Limited and HKTGH which are companies of substance and would be the only entities against which the noteholders could enforce any meaningful recovery). As these guarantees were given prior to the 2008 Restructuring, which was before the transfer of all businesses and assets of HKTC to Hong Kong Telecommunications (HKT) Limited, the continual existence of these guarantees in respect of the three series of notes were merely for the reasons that (i) HKTC remains the title holder to the grants of private treaty properties from the Government on which 69 telephone exchanges are operated. However, HKTC's interest in the private treaty grants is a nominal interest, the beneficial interest having been acquired by Hong Kong Telecommunications (HKT) Limited in the 2008 Restructuring; and (ii) the administrative inconvenience and difficulties associated with convening meetings of the noteholders to seek consents to the removal of HKTC as a guarantor.

In the context of the 2008 Restructuring, and to the maximum extent permitted by the terms of the private treaty grants, HKTC granted, pursuant to a licence agreement dated 28 November 2008, to Hong Kong Telecommunications (HKT) Limited, a licence to install, store, operate and maintain equipment, machinery, chattels and installations at the PTG Telephone Exchanges and respective rights of pre-emption to purchase the PTG Telephone Exchanges for a nominal consideration if HKTC is successful in obtaining the relevant government consent. HKTC continues to meet and defray all costs, expenses and outgoings of the PTG Telephone Exchanges (including but not limited to rates and Government rent) but Hong Kong Telecommunications (HKT) Limited is responsible for re-imbursing HKTC the outgoings on a periodic basis. HKTC is required to pay the amount of any income or profit received by HKTC to Hong Kong Telecommunications (HKT) Limited in respect of the PTG Telephone Exchanges.

Moreover, in the event of a disposal of any of the PTG Telephone Exchanges to a third party, as might be initiated by Hong Kong Telecommunications (HKT) Limited, HKTC would pay the entire net proceeds from the disposal to Hong Kong Telecommunications (HKT) Limited. Thus, as regards independent third parties, there is a pass-through to Hong Kong Telecommunications (HKT) Limited of all costs and proceeds in respect of the PTG Telephone Exchanges.

As between HKTC and Hong Kong Telecommunications (HKT) Limited, the parties treat each other as if Hong Kong Telecommunications (HKT) Limited is the beneficial owner of the PTG Telephone Exchanges, reflected in the fact that Hong Kong Telecommunications (HKT) Limited paid HKTC an aggregate consideration of approximately HK$1.9 billion for the licence. This equated to the market value of the property interests at the time of the 2008 Restructuring. As such, although HKTC remains the title holder to the PTG Telephone Exchanges, its interest in them is, effectively, nominal.

The business and assets of HKTC were transferred to Hong Kong Telecommunications (HKT) Limited in the 2008 Restructuring and it has no other assets except the legal interests in private treaty grants on which telephone exchanges are operated. These private treaty grants were also licensed to Hong Kong Telecommunications (HKT) Limited in the 2008 Restructuring. HKTL was previously the listed holding company of the Telecommunications Business, which PCCW has acquired in 2000. As both of these companies do not have any businesses and assets but liabilities, they will not be injected into the Telecommunications Group.

These note guarantees do not, in any way, affect the independence (financial or otherwise) between the Telecommunications Group and the Remaining Group nor the business delineation between them. The responsibility for redeeming the notes rests entirely with the Telecommunications Group, as it is the Telecommunications Group alone that has been the beneficiary of the note issue proceeds. The Directors believe that the Telecommunications Group is able to meet its debt repayment obligations as and when they fall due and is not financially dependent on the guarantee of HKTC, which is an inactive company and has no business and assets. Please see the paragraph headed "F. Financial assistance — Financial assistance by the PCCW Group for the benefit of the Telecommunications Group — (27) Note guarantees" in the section headed "Continuing transactions between the Remaining Group and the Telecommunications Group" set out as Appendix VII to this circular for further details of these note guarantees.

(d) Corporate guarantees by the Remaining Group for the benefit of the Telecommunications Group

In addition, in support of certain performance obligations of members of the Telecommunications Group, the Remaining Group has also entered into certain guarantees in favour of the independent third parties with whom members of the Telecommunications Group have contracted for the supply of certain services or purchase of certain equipment. As at Latest Practicable Date, the estimated aggregate contingent liability of the Remaining Group in respect of all of these corporate guarantees was approximately HK$49.6 million.

So far as practicable, HKT will seek to work with PCCW and the relevant parties to seek to novate the relevant guarantee obligations to other entities within the Telecommunications Group. Moreover, on an ongoing basis following Listing, HKT does not intend that any member of the Remaining Group will issue any corporate guarantees for any members of the Telecommunications Group. To protect the Remaining Group from any liability in respect of these corporate guarantees, HKT will enter into a back-to-back deed of indemnity in favour of PCCW for itself and on behalf of members of the PCCW Group pursuant to which HKT irrevocably agrees to act, so far as it can, as primary obligor, or otherwise indemnify PCCW and/or relevant member of the PCCW Group, on demand, against all losses, claims, damages, costs and liabilities which any of them may sustain in connection with any of the corporate guarantees referred to above. Please see the paragraph headed "F. Financial assistance — Financial Assistance by the PCCW Group for the benefit of the Telecommunications Group — (28) Corporate guarantees in support of the obligations of the Telecommunications Group" in the section headed "Continuing transactions between the Remaining Group and the Telecommunications Group" set out as Appendix VII to this circular for further details of the corporate guarantees.

- **Independence of management and directorship**

The Directors of PCCW, and their respective senior executive management roles, after the Listing Date will be:

Name	**Position/Title**
Mr. LI Tzar Kai, Richard	Chairman and executive Director
Mr. CHAN Ching Cheong, George	Proposed Group Managing Director and executive Director
Ms. HUI Hon Hing, Susanna	Group Chief Financial Officer and executive Director
Mr. LEE Chi Hong, Robert	Executive Director
Sir David FORD, KBE, LVO	Non-executive Director
Mr. TSE Sze Wing, Edmund, GBS	Non-executive Director
Mr. LU Yimin	Non-executive Director
Mr. ZUO Xunsheng	Deputy Chairman and Non-executive Director
Mr. LI Fushen	Non-executive Director

Name	Position/Title
Dr. the Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP	Independent non-executive Director
Mr. Aman MEHTA	Independent non-executive Director
Mr. WEI Zhe (David)	Proposed independent non-executive Director

Information in relation to each of the Directors listed above is either set out in Part 2 ("Particulars of Directors") of Appendix X ("General Information") to this circular, or in the case of Mr. Chan Ching Cheong, George, on page 84 of this circular under the heading headed "Part VIII — The Remaining Businesses — The Media Business — The Media Business has an experienced management team" in this letter, or in the case of Mr. Wei Zhe (David), is set out below:

Mr. WEI Zhe (David) will be appointed as an independent non-executive Director of the Company. Mr. Wei has over 15 years of experience in both investment and operational management in the PRC. Prior to launching Vision Knight Capital Partners LLP, a private equity investment fund in 2011, Mr. Wei was the chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on the Stock Exchange in 2007. Prior to Alibaba.com Limited, Mr. Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr. Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Ltd. Prior to that, Mr. Wei served as managing director and head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr. Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited in the past three years. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr. Wei was also the vice chairman of China Chain Store & Franchise Association. He holds a Bachelor's degree in International Business Management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

Mr. Peter Anthony Allen will resign as an executive Director with effect from the Listing Date and Mr. Chung Cho Yee, Mico will resign as a non-executive Director of PCCW with effect from the Listing Date. Both will serve as non-executive directors of the Trustee-Manager and HKT. Similarly, Professor Chang Hsin-kang, FREng, GBS, JP, Sir Roger Lobo, CBE, LLD, JP and the Hon Raymond George Hardenbergh Seitz will resign as independent non-executive Directors of PCCW with effect from the Listing Date and will serve as independent non-executive directors of the Trustee-Manager and HKT.

Information in relation to senior management of the Solutions Business and the Media Business is set out in this circular under the headings "Part VIII — The Remaining Businesses — The Media Business — The Media Business has an experienced management team" and "Part VIII — The Remaining Businesses — The Solutions Business — Experienced management team with proven track record", respectively.

The names of the directors of the Trustee-Manager and HKT on the Listing Date, and their respective roles, are set out in this circular under the heading "Part V — The Trustee-Manager and senior management of the Telecommunications Business — Board of Directors of the Trustee-Manager and board of directors of HKT"; and information in relation to the senior management of the Telecommunications Group on completion of the Proposed Spin-off is set out in this circular under the heading "Part V — The Trustee-Manager and senior management of the Telecommunications Business — Senior management of the Telecommunications Group".

The Trustee-Manager and HKT (on the one hand) and PCCW (on the other hand) will have boards of directors that function independently of each other.

The Trustee-Manager and HKT will have three executive directors. While the Group Managing Director, Mr. Alexander Anthony Arena, will have no on-going role for PCCW, the other two executive Directors (Mr. Li Tzar Kai, Richard and Ms. Hui Hon Hing, Susanna) will continue to have executive responsibilities for PCCW, one as Chairman and executive Director and the other as Group Chief Financial Officer and executive Director. Mr. Li's role for both the Telecommunications Group and the Remaining Group is an active strategic role. He will not be involved in day-to-day management and operation or have any administrative role in the Telecommunications Group and the Remaining Group. The prospect of synergies to the benefit of both PCCW and HKT, and Mr. Li's role in developing these synergies, should not be overlooked.

On the other hand, Ms. Hui will be primarily responsible for overseeing the financial matters of the Telecommunications Group. As an executive director of both the Telecommunications Group and the PCCW Group, Ms. Hui will have overall responsibility for the finance-related functions of both groups including the investor relations, treasury and tax functions. As the Telecommunications Group is the largest group within the PCCW Group and the most complex in terms of matters such as numbers of active companies, external financing arrangements, overseas operations and cross-border issues, the description of Ms. Hui working full-time on the business of the Telecommunications Group is considered to be a fair overview of her role. However, as HKT will continue to be a subsidiary of PCCW and given the need for PCCW to consolidate the accounts of each of the Telecommunications Group, the Media Group and the Solutions Group, Ms. Hui will continue to act as PCCW's Group Chief Financial Officer. As the Group Chief Financial Officer of PCCW, Ms. Hui will be supported by the Chief Financial Officer of the Solutions Group and the Chief Financial Officer of the Media Group and finance teams, which would handle all of the accounting and consolidation functions for those two main businesses of the Remaining Group, with Ms. Hui responsible for the overall consolidation functions of the PCCW Group. As Ms. Hui has worked for HKTL since 1999 and then the PCCW Group since 2000, her knowledge of the entire group's operations, and of the transactional arrangements between the Telecommunications Group and members of the Remaining Group, benefits both PCCW and HKT. The Directors are confident that Ms. Hui will be able to execute her roles as described above as she will be supported by the senior management teams of each of the Telecommunications Group and the Remaining Group, as well as the Chief Financial Officer of the Solutions Group, the Chief Financial Officer of the Media Group and finance teams.

Of the four non-executive directors of the Trustee-Manager and HKT (excluding for these purposes the independent non-executive directors), two are also non-executive Directors of PCCW. After

Listing, Mr. Peter Anthony Allen, a non-executive director of the Trustee-Manager and HKT, will not be a Director of PCCW nor will he hold any directorships in the Remaining Group. However, Mr. Allen will continue to be the Group Managing Director and an executive director of PCRD, a company listed on the SGX-ST and which owned approximately 21.29% of the Shares in PCCW as at the Latest Practicable Date.

For the reasons set out below, the directors of the Trustee-Manager and HKT believe that the Telecommunications Group will operate independently of the Remaining Group after Listing:

(i) The majority of the members of the boards of directors of the Trustee-Manager and HKT are independent of the Board. In particular, at least 7 of the 11 directors (being Messrs Arena, Allen, Chung, Chang, Lobo, Seitz and Varma) will be free from any common directorships with the Remaining Group.

(ii) The Group Managing Director, Mr. Alexander Anthony Arena, will have no on-going role for PCCW and will have dedicated responsibility for the Telecommunications Group. Mr. Arena will not be a Director of PCCW after the Listing. He will be primarily responsible for the overall management of HKT in both the day-to-day and strategic senses. The management team and the staff of HKT will report to Mr. Arena and he will be accountable to the board of directors of HKT for the outcomes of the business versus the established business plans and budgets, a role he can pursue without risk of conflict.

(iii) With four independent non-executive directors out of a total board size of 11, which exceeds the best practices outlined in the Code of Corporate Governance Practices in the Listing Rules, there will be a sufficiently robust and independent voice on these boards of directors to counterbalance any situations of conflict of interest and protect the interests of independent Holders of Share Stapled Units if such situations arise.

(iv) The following corporate governance measures will be in place to adequately deal with any potential conflict of interest in respect of conflicting position of overlapping directors and senior management of the Trustee-Manager and HKT (on the one hand) and the Remaining Group (on the other hand), and to safeguard the interests of independent Holders of Share Stapled Units:

- the conflicted directors of the Trustee-Manager and HKT will abstain from voting and not be counted in the quorum for the relevant board meeting in the case of any issues of conflict being decided by the board of directors of the Trustee-Manager and HKT. In this context, a conflict, so far as the board of directors of HKT (and the board of directors of the Trustee-Manager) is concerned will be taken to include any matter in which the Remaining Group has an interest (direct or indirect);

- the above corporate governance measure will be incorporated in the Trustee-Manager's articles of association;

- instances of actual and potential conflict have been indentified (please see Appendix VII to this circular), minimised (by virtue of the Non-Compete Agreements) and will be regulated in accordance with the Listing Rules. Where the boards of the Trustee-Manager and HKT are required to determine matters under the Non-Compete Agreements or any connected transactions, such matters will be referred to the independent non-executive directors of the Trustee-Manager and HKT and/or to those who do not have a material interest in the matter;

- a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually by the independent non-executive directors of the Trustee-Manager and HKT and HKT's auditors; and

- specific corporate governance measures have been put in place in respect of enforcement of the Non-Compete Agreements.

(v) The prospect of future conflicts of interest is eliminated or reduced by defining the respective scope of business carried on by various groups within the enlarged PCCW Group and to regulate the conduct of such businesses through three Non-Compete Agreements:

- from PCCW (on behalf of the Remaining Group) in favour of the Telecommunications Group as regards the Telecommunications Restricted Business;

- from HKT (on behalf of the Telecommunications Group) in favour of the Media Group as regards the Media Restricted Business; and

- from HKT (on behalf of the Telecommunications Group) in favour of the Solutions Group as regards the Solutions Restricted Business.

Please refer to the section headed "Part XI — PCCW's Relationship with the HKT Trust and HKT after the Proposed Spin-off — Non-Compete Agreements" in this letter on page 120 of this circular for further details of each of these Non-Compete Agreements.

(vi) To ensure compliance with the terms of the Non-Compete Agreements, the Trustee-Manager and HKT will put in place the following procedures:

- as part of their respective internal control system, each will maintain a register of all opportunities/transactions arising from the implementation of the Non-Compete Agreements;

- each will incorporate in its internal audit plan a review of the implementation of the Non-Compete Agreements; and

- as part of their review of the internal audit reports at least twice a year, the Trustee-Manager's audit committee and HKT's audit committee will review the internal audit reports on the implementation of the Non-Compete Agreements to ascertain that the terms of the Non-Compete Agreements have been complied with. The review will include the examination of supporting documents and such other data deemed necessary to the Trustee-Manager's audit committee and HKT's audit committee. If a member of the

Trustee-Manager's audit committee or HKT's audit committee has an interest in a transaction arising from the implementation of the Non-Compete Agreements, he or she is to abstain from participating in the review and approval process in relation to that transaction.

In addition, the Trustee-Manager and HKT must each establish and appoint an audit committee in accordance with the Listing Rules, from among its independent non-executive directors.

- **Independence of administrative capability**

The employees (approximately 4,149, excluding corporate functions staff, working principally for the Remaining Group as of 31 August 2011) engaged in the businesses carried on by the Remaining Group (excluding the Telecommunications Group and disregarding UKBB) will be employed by a service company, which will be an indirect wholly-owned subsidiary of PCCW. That service company will be within the Remaining Group and will not be transferred to HKT. The employees (approximately 15,626, as of 31 August 2011) engaged in the Telecommunications Business will be employed by a separate service company, which will be indirectly wholly-owned by HKT. The Remaining Group and the Telecommunications Group will each have their own separate principal places of business upon Listing as follows:

(a) the Media Group will have its own dedicated principal place of business which is currently at 17th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong and has its own television and production studios in Hong Kong;

(b) the Property Group has its own dedicated principal place of business at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong;

(c) the Solutions Group has its own dedicated principal place of business at level 6, Cyberport 2, 100 Cyberport Road, Hong Kong; and

(d) the Telecommunications Group will have its own dedicated principal place of business at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong and will also have facilities throughout Hong Kong.

The Remaining Group and the Telecommunications Group will each have their own separate:

(a) accounting and finance functions, except for internal audit which will remain with the Telecommunications Group and provide services to the Remaining Group, as and when required, pursuant to the administrative support arrangements described below;

(b) legal department, excluding the company secretarial team which will remain with the Telecommunications Group and provide services to the Remaining Group, as and when required, pursuant to the administrative support arrangements described below; and

(c) human resources team.

The accounting and finance, legal and human resources personnel who now work principally for the businesses in the Remaining Group will be employed by the service company referred to above and will comprise the relevant separate accounting and finance, legal and human resources teams of the Remaining Group, contemplated above. Conversely, those accounting and finance, legal and human resources personnel who currently work principally in the Telecommunications Business will be employed by the service company referred to above and will comprise the separate accounting and finance, legal and human resources teams within the Telecommunications Group.

In addition to the separate administrative capabilities described above, the Telecommunications Group will agree, under an Administrative Support Agreement, to provide additional administrative support as and when requested by the Remaining Group to supplement the Remaining Group's own independent administrative teams described above. The additional administrative support would include the availability of additional support in the following areas:

(a) legal and corporate secretariat support, corporate communications and human resources;

(b) security, fraud management and risk management support;

(c) treasury and taxation;

(d) accounting, finance and internal audit;

(e) customers accounts management services (billing management, credit management and cash management), customer complaints handling support and procurement; and

(f) technology strategy and development support.

In view that the HKT Trust and HKT will remain a consolidated subsidiary of PCCW and for the purpose of aligning implementation of group corporate governance policy, the abovementioned administrative services will be on shared service arrangements. Apart from PCCW, such administrative services can also be provided by other independent third party suppliers with comparable pricing.

- **Continuing transactions between the Remaining Group and the Telecommunications Group**

Upon Listing, there will be various transactions between the Telecommunications Group and the Remaining Group, which are continuing connected transactions under the Listing Rules for the Telecommunications Group (but not for the Remaining Group). Details of those continuing transactions are set out in Appendix VII to this circular. All of those continuing transactions would continue to be conducted on arm's length commercial terms and will be capable of being satisfactorily monitored by the management of the Remaining Group.

In view of the matters set out above, the Telecommunications Group will be administratively independent of the Remaining Group, and is capable of carrying on its business independently of its controlling shareholder and its associates after Listing.

Potential conflicts of interest

Trustee-Manager

The Trustee-Manager and HKT will institute the following procedures to deal with conflict of interest issues:

- All resolutions in writing of the directors of the Trustee-Manager and HKT in relation to matters concerning the Telecommunications Group must be approved by a majority of the directors of the Trustee-Manager and HKT, including at least one independent non-executive director.

- In respect of matters in which PCCW and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by PCCW and/or its subsidiaries to the boards of directors of the Trustee-Manager and HKT to represent PCCW's (or its subsidiaries') interests will abstain from voting. In such matters, the quorum must comprise a majority of the independent non-executive directors of the Trustee-Manager and HKT and must exclude any nominee directors appointed by PCCW and/or its subsidiaries.

- Where matters concerning the Telecommunications Group relate to transactions entered into or to be entered into with a related party of the Trustee-Manager (which would include relevant associates thereof), the HKT Trust or HKT, the boards of directors of the Trustee-Manager and HKT are required to consider the terms of the transactions to satisfy themselves that the transactions are conducted on normal commercial terms, are not prejudicial to the interests of the Telecommunications Group and the Holders of Share Stapled Units and are in compliance with all applicable requirements of the Listing Rules and the Trust Deed relating to the transaction in question. The boards of directors of the Trustee-Manager and HKT will also review these contracts to ensure that they comply with the provisions of the Listing Rules and the Trust Deed relating to connected transactions (as may be amended from time to time) as well as any other guidelines as may from time to time be prescribed by the SFC and the Stock Exchange that apply to trusts (if any).

Please also refer to the paragraph headed "Independence of management and directorship" above in this section for the measures adopted to ensure compliance with the terms of the Non-Compete Agreements.

PCCW

The potential conflicts of interests which may arise from the interests of PCCW, the directors of the Trustee-Manager and HKT and their respective associates in any entity carrying on the same business and/or dealing in similar products as the HKT Trust are summarised below.

The Trustee-Manager is an indirect wholly-owned subsidiary of PCCW. There may be potential conflict of interests between the HKT Trust, the Trustee-Manager and PCCW.

Following the Pre-IPO Restructuring, the HKT Trust will hold the Telecommunications Business while the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses will continue to be held by PCCW and/or its wholly-owned subsidiaries and will be held separately from (and outside of) the Telecommunications Group under HKT.

After the Proposed Spin-off, PCCW will hold:

(i) In the case of the Global Offering involving 40% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 55% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT after the exercise of the Over-allotment Option in full and after the Distributions in Specie); or

(ii) In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, approximately 70% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie).

Although the Trustee-Manager is a wholly-owned subsidiary of PCCW, the board composition of the Trustee-Manager includes four independent non-executive directors.

Non-Compete Agreements

To eliminate or reduce the prospects of conflicts of interests between the Telecommunications Group and the Remaining Group, HKT and PCCW have entered into certain non-compete agreements in relation to the business segments in which conflicts of interests may arise, as set out below.

- **Non-Compete Agreement for the Telecommunications Restricted Business**

  To eliminate or reduce the prospects of conflicts of interests between the Remaining Group and the Telecommunications Group, it is proposed that PCCW and HKT will enter into a non-compete agreement for the Telecommunications Restricted Business (as defined below), the main features of which are as follows:

  - Subject to the exceptions set out below, PCCW irrevocably undertakes to HKT that it shall not, and (where relevant) it shall procure that none of the members of the Remaining Group shall be engaged, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, or interested in, directly or indirectly, whether as a shareholder (other than being a director or a Holder of Share Stapled Units of the HKT Trust and its subsidiaries), partner, agent or otherwise, any Telecommunications Restricted Business within the Telecommunications Restricted Territory (as defined below).

- PCCW further undertakes to HKT that:

  ○ it shall procure that each of HKTC and HKTL (being members of the Remaining Group) (i) complies with its obligations under the PTG Licensing Arrangements (as defined below) and, in particular, will not permit or attempt to procure any disposal to a third party or parties of any land and/or building the subject of private treaty grants from the government of Hong Kong without the prior written consent of Hong Kong Telecommunications (HKT) Limited (being a member of the Telecommunications Group); and (ii) passes any rental proceeds received by HKTC and HKTL to Hong Kong Telecommunications (HKT) Limited; and

  ○ it will not take or permit to be taken any action or steps that would have a material adverse effect on any of the interconnection agreements entered into between HKTC (or any other subsidiaries of PCCW not falling within the Telecommunications Group) and other carriers.

- PCCW further irrevocably undertakes with HKT that, in the event that any opportunity is made available to PCCW to invest in any independent third party business which is engaged in the Telecommunications Restricted Business (an "**Investment Opportunity**"), PCCW will use its best efforts to procure that such Investment Opportunity is offered to the Telecommunications Group and the Telecommunications Group shall have a right of first refusal in respect of such Investment Opportunity. In particular, PCCW shall:

  ○ direct to HKT any such Investment Opportunity;

  ○ provide to HKT all information and documents possessed by any of them or their respective associates in respect of the Investment Opportunity to enable HKT to evaluate the merit of the Investment Opportunity and all reasonable assistance as requested by HKT to enable HKT to secure the Investment Opportunity; and

  ○ not pursue the Investment Opportunity unless and until the board of directors of HKT resolves (with the supportive votes of a majority of independent non-executive directors of HKT) that the Telecommunications Group shall not pursue such Investment Opportunity or HKT does not proceed with the acquisition of the Investment Opportunity within one month from the date of the offer.

- "**Telecommunications Restricted Business**" is defined as the business of providing any of the following telecommunications services:

  ○ **Local telephony services**: local telephony services consist of fixed-line local telecommunications services, multimedia services, wholesale, interconnection services provided to other telecommunications carriers and service providers;

  ○ **Local data and broadband services**: local data services consist of data transmission services such as private or virtual private IP network services for private and public sector organisations and business and residential local broadband services in Hong Kong;

  - **International telecommunications services**: international telecommunications services consist primarily of wholesale and retail international services in multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fiber and satellite transmission solutions, voice data and video services and managed network services and transmission solutions as well as CDNs for content delivery;

  - **Mobile services**: mobile services comprise 2G, 3G, 4G and CDMA mobile telephone services; and

  - **Other services**: other services comprise sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and contact centre services ("**Teleservices**"),

  and would include any other business that may compete, directly or indirectly with such business.

- The "**Telecommunications Restricted Territory**" would extend to any jurisdiction in which the Telecommunications Group carries on its business as at the date of the agreement.

- "**PTG Licensing Arrangements**" is defined as the two agreements each dated 28 November 2008 entered into between HKTC and HKTL (being members of the Remaining Group), on the one hand and Hong Kong Telecommunications (HKT) Limited (being a member of the Telecommunications Group) on the other hand, each relating to a licence in respect of operational activities carried on at certain properties the subject of private treaty grants from the Government, in each case as may be amended or supplemented from time to time.

The exceptions under the Non-Compete Agreement for Telecommunications Restricted Business are:

- the holding of shares or being interested in shares or other securities in any company which conducts or is engaged in any Telecommunications Restricted Business (a "**Subject Company**"), provided that:

  - such shares or securities are listed on a recognised stock exchange;

  - the aggregate equity interest or number of shares held by PCCW and its associates do not exceed 10% of the issued capital or issued shares of the Subject Company; and

  - PCCW and its associates do not have board or management control of the Subject Company.

Non-Compete Agreement for Media Restricted Business

To eliminate or reduce the prospects of conflicts of interests between the Telecommunications Group and the Media Group, it is proposed that HKT and PCCW will enter into the Non-Compete Agreement for the Media Restricted Business (as defined below), the main features of which are as follows:

- Subject to the exceptions set out below, HKT irrevocably undertakes to PCCW that it shall not, and (where relevant) it shall procure that none of the members of the Telecommunications Group shall (and shall use its best efforts to procure that none of its consolidated affiliates shall) be engaged, in the Territory, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of PCCW and its subsidiaries), partner, agent or otherwise, in the Media Restricted Business without PCCW's prior consent.

- "**Media Restricted Business**" is defined as the business of providing pay and free television services:

  ○ under a government licence, permit or concession granted by a governmental authority; or

  ○ under an exception for the provision of pay television programme services via the Internet contained in any legislation under which a licence, permit or concession referred to above may be granted,

and would include the production, acquisition and/or supply of the said television programme services for the purpose of conducting the business of providing pay and/or free television services.

- The "**Media Restricted Territory**" would extend to Hong Kong, the PRC, Macau and Taiwan.

The exceptions under the Non-Compete Agreement for Media Restricted Business are:

- the provision of services by the Telecommunications Group consisting of the conveyance without material variation or alteration of content by means of a telecommunications network, of television programme services provided by any person;

- the provision by the Telecommunications Group of content ancillary to or in connection with its Telecommunications Business;

- the provision by the Telecommunications Group of consultancy, engineering and/or information technology solutions services in relation to pay television programme services; and

- the acquisition or holding of shares in a competing entity (i.e. one that is engaged in any part of the Media Restricted Business) provided that:

  ○ such shares are held for investment purposes and are, or are proposed to be, listed on any internationally recognised stock exchange and such investment is less than 25% of the outstanding voting shares of such competing entity; or

- ○ the consolidated revenues of such competing entity from any service or activity constituting part of the Media Restricted Business is less than 25% of the total consolidated revenues of such competing entity at the date of investment; or

- ○ such shares are held for investment purposes and do not confer rights to be involved directly or indirectly with the operations of such entity and the relevant shareholding has been disclosed in writing by HKT prior to the date of the Prospectus.

The balance that the parties seek to achieve in the Non-Compete Agreement for Media Restricted Business is to ensure that the Telecommunications Group's independent involvement in delivering content is peripheral to its core Telecommunications Business. In particular, the Telecommunications Group is restricted from producing, branding or re-packaging licensed pay TV channels.

The Media Restricted Business covers the core parts of the Media Business. The scope has been heavily negotiated internally within the PCCW Group and a delicate balancing act has been struck with each of the core businesses of the Telecommunications Group, the Media Group and the Solutions Group so as to protect the core business of each group. HKT confirmed that the non-inclusion of the overlapping businesses as described in the exceptions under the Non-Compete Agreement for Media Restricted Business above will not affect the clear business delineation between the Telecommunications Business and the Remaining Business (in particular the Media Business).

Non-Compete Agreement for Solutions Restricted Business

To eliminate or reduce the prospect of conflicts of interests between the Telecommunications Group and the Solutions Group, in addition to the Non-Compete Agreement for Media Restricted Business, it is also proposed that HKT and PCCW will enter into the Non-Compete Agreement for Solutions Restricted Business (as defined below), the main features of which are as follows:

- Subject to the exceptions set out below, HKT irrevocably undertakes to PCCW that it shall not, and (where relevant) it shall procure that none of the members of the Telecommunications Group shall be engaged in the Solutions Restricted Business in the Solutions Restricted Territory, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of PCCW and its subsidiaries), partner, agent or otherwise, in the Solutions Restricted Business without PCCW's prior consent.

- "**Solutions Restricted Business**" is defined as any business primarily engaged in providing (a) software integration and software, solutions and applications development services and (b) IT managed services, in each case, as delivered by the Solutions Group to its customers as of completion of the Pre-IPO Restructuring.

- "**Solutions Restricted Territory**" would be Hong Kong and the PRC.

The exceptions under the Non-Compete Agreement for Solutions Restricted Business are:

- the Telecommunications Group or any associates of HKT may provide Connectivity-Related Services (as defined below) and, in particular such Connectivity-Related Services as are, at the date of completion of the Pre-IPO Restructuring, operated by the Telecommunications Group other than through the Solutions Group;

- the Telecommunications Group or any associates of HKT may provide any and all such services that a customer for the time being of the Telecommunications Group may require provided that (i) the Telecommunications Group provide or will be providing Connectivity (as defined below) or Connectivity-Related Services to that customer and (ii) the services provided from time to time to that customer predominantly comprise of Connectivity or Connectivity-Related Services;

- the Telecommunications Group may conduct and develop software integration and software solutions and applications development services and IT managed services for its own benefit or for the benefit of any member of the Telecommunications Group; and

- the Telecommunications Group or any associates of HKT may possess:

  - an investment in an entity which engages in a Solutions Restricted Business in the Solutions Restricted Territory if the aggregate investment of the Telecommunications Group in the entity does not exceed US$10 million (excluding growth in the value of the investment over time);

  - an economic interest in an entity which engages in a Solutions Restricted Business in the Solutions Restricted Territory if the aggregate of the economic interests held by the Telecommunications Group in the entity is not more than 30%;

  - an investment or other involvement in businesses currently operated by the Telecommunications Group; or

  - its 50% stake in ZhongYing JV;

For the foregoing purposes:

- "**Connectivity**" shall mean capacity and connectivity for the carriage of telecommunications or electronic communications of all descriptions and by all means of transmission.

- "**Connectivity-Related Services**" shall mean services provided in connection with the provision of Connectivity, including (1) network systems integration services; (2) sales, installation, customisation, operations and maintenance of communications equipment and systems for commercial or residential customers; (3) managed services which integrate telecommunications services, facilities, communications equipment or systems and professional services to enterprise customers, carrier customers and residential customers; and (4) computing and storage systems, data and voice communications systems, multi-media communications systems, infrastructure system for communication platforms, and security management devices and systems.

The Solutions Restricted Business covers the core parts of the Solutions Business. The scope has been heavily negotiated internally within the PCCW Group and a delicate balancing act has been struck with each of the core businesses of the Telecommunications Group, the Media Group and the Solutions Group so as to protect the core business of each group. HKT confirmed that the non-inclusion of the overlapping businesses as described in the exceptions under the Non-Compete Agreement for Solutions Restricted Business above will not affect the clear business delineation between the Telecommunications Business and the Remaining Business (in particular the Solutions Business).

Please also refer to the paragraph headed "Independence of management and directorship" in this section of the circular for the measures adopted to ensure compliance with the terms of the Non-Compete Agreements.

PART XII
CONDITIONS PRECEDENT FOR THE PROPOSED SPIN-OFF

Conditions of the approval of the Proposed Spin-off under PN 15

The Stock Exchange's approval of the Proposed Spin-off under PN 15 was subject to the following conditions:

(i) the Company providing an undertaking to retain the Solutions Business for three years after the completion of the Proposed Spin-off;

(ii) making additional disclosure relating to the Remaining Group's business in this circular; and

(iii) the Company satisfying the Listing Division of the Stock Exchange that it meets the requirements concerning independence of directorship and management under PN 15.

The Board confirms that the above conditions have been fulfilled.

Other conditions

In addition, the Proposed Spin-off will be conditional on, among others, the following:

(i) all relevant notifications, consents and regulatory approvals (including, but not limited to, the approval from the Stock Exchange for the listing of, and permission to deal in, all the Share

Stapled Units in issue and to be issued pursuant to the Global Offering (including the Share Stapled Units which may be issued pursuant to the Over-allotment Option and Share Stapled Units which may fall to be issued pursuant to the exercise of options granted under the 2011-2021 Option Scheme) on the Main Board of the Stock Exchange);

(ii) the HKT Trust and HKT complying with the stock admission requirements of HKSCC so that the Share Stapled Units will be accepted as eligible securities of HKSCC for deposit, clearance and settlement in CCASS;

(iii) the terms and structure of the Global Offering being agreed among the Company, the Trustee-Manager, HKT and the Underwriters;

(iv) 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);

(v) the final decision of the Board as to important issues such as timing and pricing, being fundamental market-driven factors;

(vi) satisfaction on the part of the regulators that the HKT Trust structure, being a novel concept in Hong Kong, is capable of operating within Hong Kong's existing securities laws and regulations;

(vii) the Shareholders passing an ordinary resolution by way of poll at the EGM approving the implementation of the Proposed Spin-off and other related matters;

(viii) the execution and delivery of the underwriting agreement in relation to the Hong Kong Public Offering to be entered into between, among others, the Trustee-Manager, HKT, the Controlling Holder of Share Stapled Units and the Hong Kong Underwriters on or prior to the date of registration of the Prospectus with the Registrar of Companies in Hong Kong;

(ix) the execution and delivery of the underwriting agreement in relation to the International Offering to be entered into between, among others, the Trustee-Manager, HKT, the Controlling Holder of Share Stapled Units and the International Underwriters on or about the Price Determination Date;

(x) the Offer Price having been duly agreed between the Trustee-Manager, HKT and the Underwriters on or about the Price Determination Date; and

(xi) the obligations of the underwriters under the underwriting agreements to be entered into between, among others, the Trustee-Manager, HKT, the Controlling Holder of Share Stapled Units and the Underwriters in respect of the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by or on behalf of the Underwriters) and the underwriting agreements not being terminated in accordance with their terms or otherwise, on or before the dates and times to be specified therein.

If any of these and other applicable conditions are not fulfilled or waived, if applicable, prior to the dates and times to be specified, or if the Board decides not to proceed with the Proposed Spin-off, the Proposed Spin-off will not proceed and the Stock Exchange will be notified immediately and an announcement will be published by the Company as soon as practicable thereafter.

The Proposed Spin-off is subject to market conditions

The Directors wish to emphasise that, even if the Proposed Spin-off is approved by an ordinary resolution of the Shareholders passed at the EGM and the other outstanding conditions are fulfilled, the final decision of the Board as to whether or not to proceed with the Proposed Spin-off is subject to market conditions and pricing. The Board will only proceed with the Proposed Spin-off if the Board considers that the price for the Share Stapled Units which can be obtained under the Global Offering, which is subject to market conditions, is such that proceeding with the Proposed Spin-off on those terms would be in the interests of the Company and its Shareholders as a whole.

The Preferential Offering and the Distributions in Specie will not proceed unless the Proposed Spin-off proceeds.

Consent from China Unicom

The Company entered into a subscription agreement on 19 January 2005 with China Netcom Group Corporation (BVI) Limited and China Network Communications Group Corporation (the "**Subscription Agreement**"), for the subscription by China Netcom Group Corporation (BVI) Limited for Shares representing approximately 20% of the issued share capital of the Company on completion of the subscription. Pursuant to the merger of China Network Communications Group Corporation and China United Network Communications Group Company Limited ("**China Unicom**"), which took effect in January 2009, China Unicom assumed all rights and obligations of China Network Communications Group Corporation and is the successor to all assets of China Network Communications Group Corporation. Accordingly, China Unicom is a party to the Subscription Agreement, as successor to China Network Communications Group Corporation.

The Subscription Agreement provides that the Company shall not, without the written consent of China Unicom (such consent not to be unreasonably withheld or delayed), sell or dispose of more than 10% of the PCCW Group's voting interest in HKTC, other than in connection with a bona fide reorganisation relating to the Group. Pursuant to the 2008 Restructuring, the Group completed a bona fide reorganisation of the type expressly permitted under the Subscription Agreement as not requiring China Unicom's consent. As a result of the 2008 Restructuring, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, acquired the telecommunications business and assets of HKTC. Accordingly, the reference in the Subscription Agreement to HKTC is now construed as applying to Hong Kong Telecommunications (HKT) Limited.

China Unicom has given its consent under the Subscription Agreement to the Proposed Spin-off, on terms that the 10% of the PCCW Group's voting interest in Hong Kong Telecommunications (HKT) Limited permitted to be disposed of under the Subscription Agreement without China Unicom's consent will have been fully used up by the Proposed Spin-off and that the consent permits the disposal of up to 49% of the Group's voting interest in Hong Kong Telecommunications (HKT)

Limited. Accordingly, a further consent from China Unicom under the Subscription Agreement would be required for any transaction which would result in PCCW holding less than a 51% voting interest in either the HKT Trust or HKT, or disposing of any interest in the Trustee-Manager (which holds all the issued Ordinary Shares of HKT).

The rights of China Unicom under the Subscription Agreement, including the rights to appoint three Directors to the Board and to appoint members to various committees of the Board, as well as the requirement to obtain China Unicom's consent for any disposal of the PCCW Group's voting rights in respect of Hong Kong Telecommunications (HKT) Limited below the 51% threshold permitted by the current consent, will continue to apply and remain in full force and effect after completion of the Proposed Spin-off.

PART XIII
ESTIMATED NET PROCEEDS AND INTENDED USE OF PROCEEDS

Based on preliminary analysis and the assumption that the minimum market capitalisation of the HKT Trust is HK$28.6 billion and subject to the final offering structure of the HKT Trust which is dependent on market conditions:

(i) if the dilution of the Company's interest in the HKT Trust and HKT resulting from the Global Offering of approximately 36.7% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the net proceeds to be received is estimated to be approximately HK$10.0 billion; and

(ii) if the dilution of the Company's interest in the HKT Trust and HKT resulting from the Global Offering of approximately 25.0% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the net proceeds to be received is estimated to be approximately HK$6.8 billion.

HKT intends to use the net proceeds from the Global Offering as follows:

- if the net proceeds are HK$7.8 billion or less, the entire net proceeds will be retained by HKT and applied towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities described in the paragraph headed "Pre-IPO Restructuring" in Part III of this letter; and

- if the net proceeds exceed HK$7.8 billion (but not otherwise), the entire amount of the net proceeds in excess of HK$7.8 billion would be paid to CAS No. 1, a wholly-owned subsidiary of PCCW, for the settlement and cancellation of the promissory note issued to it under the Pre-IPO Restructuring as partial consideration for the Acquisition.

The HKT Trust and HKT expect to grant to the International Underwriters the Over-allotment Option. In the event that the net proceeds from the Global Offering, including any net proceeds received from the exercise of the Over-allotment Option, are less than or equal to HK$7.8 billion, HKT currently plans to apply all such net proceeds (after deducting proportionate underwriting fees and related expenses) towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities.

In the event that the net proceeds from the Global Offering, including any net proceeds received from the exercise of the Over-allotment Option, are more than HK$7.8 billion, HKT currently plans to use HK$7.8 billion of such net proceeds (after deducting proportionate underwriting fees and related expenses) towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities and all of the amount in excess of HK$7.8 billion to settle the promissory note issued by HKT under paragraph (a) of Stage 2 of the Pre-IPO Restructuring as set out in the section headed "Introduction to the proposed listing structure involving the HKT Trust, HKT and the issue of Share Stapled Units — Pre-IPO Restructuring" in Part III of this letter.

Any proceeds received by the Company from HKT's settlement and cancellation of the promissory note issued to CAS No. 1 would be used to make additional investments in, or to supplement, its growth businesses such as the Media Business and the Solutions Business, and also as additional working capital for the Remaining Businesses.

The Prospectus is expected to contain further details on the use of proceeds, including information relating to the minimum and the maximum offering price, the minimum and the maximum size of the Global Offering and the corresponding allocation of the net proceeds at the minimum and the maximum offering price.

PART XIV
FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF

For the purposes of determining the financial effects of the Proposed Spin-off on the Company as set out below, it is assumed that the HKT Trust will achieve a minimum market capitalisation of HK$28.6 billion pursuant to the Global Offering. For illustration purposes, the financial effects of the Proposed Spin-off on the Company assuming the Company will hold approximately 58.3% of the Share Stapled Units in issue after the Global Offering and before any exercise of the Over-allotment Option in full and after the Distributions in Specie, and 55% of the Share Stapled Units in issue after the Global Offering and after the exercise of the Over-allotment Option in full and after the Distributions in Specie, are shown below. In addition, the financial effects of the Proposed Spin-off on the Company if the Company holds 70% of the Share Stapled Units in issue after the Global Offering and before any exercise of the Over-allotment Option and after the Distributions in Specie is also shown below. The Directors will consider various factors, including prevailing market conditions and pricing of the Offering, when determining the final size of the Global Offering.

Accounting treatment

The unaudited combined net asset value of the Telecommunications Group and the capital and reserves attributable to equity holders at the PCCW Group level (which is presented after the effects of Group eliminations as more fully described in note 2 of the balance sheet in Appendix IV) as at 31 December

2010 was a negative of approximately HK$16,389 million and a negative of approximately HK$16,551 million, respectively. After the completion of the Proposed Spin-off, PCCW is to retain control of at least 58.3% interest of the Share Stapled Units in issue before any exercise of the Over-allotment Option and after the Distributions in Specie. If the Over-allotment Option is exercised in full and after the Distributions in Specie, PCCW will retain control of at least 55% interest of the Share Stapled Units in issue after the completion of the Proposed Spin-off. PCCW will continue to consolidate the Telecommunications Group as long as it retains control of over 50% interest in the Telecommunications Business. In accordance with Hong Kong Accounting Standard 27 (Revised) "Consolidated and separate financial statements" issued by the HKICPA, a change in a parent's ownership in a subsidiary that does not result in a loss of control should be accounted for as an equity transaction, hence, the difference between the consideration to be received from the dilution of interest in the Telecommunications Group and the corresponding carrying value of the net assets of the Telecommunications Group will be recorded directly in equity attributable to shareholders of PCCW. Any surplus of the consideration to be received over the corresponding carrying value of the net assets of the Telecommunications Group will be credited directly as a gain to the reserves attributable to the equity holders at PCCW Group level. Such gain as a result of the completion of the Proposed Spin-off would not go through PCCW's consolidated income statement or statement of comprehensive income.

The aforesaid consideration to be received from the dilution of interest in the Telecommunications Group from the Global Offering cannot be reliably estimated at this time as the capital market environment is constantly changing, and it is difficult to determine a reasonably accurate price for the offering in advance given the market volatility. The stake in the Telecommunications Group that will eventually be offered to public investors in the initial public offering also cannot be determined accordingly at present as that will depend on the eventual demand for the Share Stapled Units and the price of the offering.

Assuming the minimum market capitalisation of approximately HK$28.6 billion is achieved and the dilution of interest in the HKT Trust and HKT from the Global Offering is 36.7% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the net proceeds to be received by HKT would be approximately HK$10.0 billion of which HK$2.2 billion will be used to settle a portion of the promissory note issued to CAS No. 1 a wholly-owned subsidiary of the Company after the Pre-IPO Restructuring. The resulting gain to be credited to the reserves attributable to the equity holders at PCCW Group level would be approximately HK$12.5 billion, taking into account the effects of the dilution of interest in the HKT Trust and HKT resulting from the Global Offering of approximately 36.7% of the Share Stapled Units in issue and the Distributions in Specie. This gain to be credited to the reserves attributable to the equity holders at PCCW Group level would increase to approximately HK$14.3 billion if the Over-allotment Option is fully exercised and the net proceeds to be received by HKT would increase by approximately HK$1.6 billion, which will be used to settle a portion of the promissory note issued to CAS No. 1, a wholly-owned subsidiary of the Company after the Pre-IPO Restructuring.

If the dilution of interest in the HKT Trust and HKT from the Global Offering of approximately 25% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the gain credited to the reserves attributable to equity holders at PCCW Group level would be approximately HK$8.9 billion taking into account the effects of the dilution of interest in the HKT Trust and HKT from the Global Offering of approximately 25% of the Share Stapled Units in issue and after the Distributions in Specie.

Following the completion of the Proposed Spin-off and assuming the exercise in full of the Over-allotment Option and after the Distributions in Specie, the Company's interest in the Telecommunications Group would decrease from 100% to at least 55%. As the Company will continue to hold more than 50% of the Share Stapled Units following the completion of the Proposed Spin-off, the assets and liabilities of the Telecommunications Group will continue to be consolidated into the PCCW Group's financial statements. However, the profit and equity of the Telecommunications Group attributable to equity holders of the Company will be reduced following the completion of the Proposed Spin-off.

Assuming the dilution of interest in the HKT Trust and HKT resulting from the Global Offering is 40% of the Share Stapled Units in issue after the full exercise of the Over-allotment Option and the Distributions in Specie had taken place on 1 January 2010, the consolidated profit attributable to Shareholders of the PCCW Group for the year ended 31 December 2010 would decrease by approximately HK$812 million, being 45% of the net profit attributable to the equity holders of the Telecommunications Group at the PCCW Group level after Group eliminations in 2010 of HK$1,804 million. If the dilution of interest in the HKT Trust and HKT from the Global Offering is reduced from 40% to 25% and assuming such dilution of interest in the HKT Trust and HKT and the Distributions in Specie had taken place on 1 January 2010, the reduction in net profit attributable to Shareholders of the PCCW Group for the year ended 31 December 2010 would be approximately HK$541 million, being 30% of the net profit attributable to the equity holders of the Telecommunications Group at the PCCW Group level after Group eliminations in 2010 of HK$1,804 million.

The Proposed Spin-off will increase the consolidated net assets of the PCCW Group by the amount of net proceeds received from the Global Offering. Assuming that (i) the dilution of interest in the HKT Trust and HKT resulting from the Global Offering before any exercise of the Over-allotment Option of 36.7%; (ii) net proceeds to be received from Global Offering is approximately HK$10.0 billion; (iii) HK$7.8 billion of the net proceeds will be used by HKT for repayment of the Telecommunications Group's debt and (iv) HK$2.2 billion of the net proceeds would be applied by the Telecommunications Group to settle a portion of the promissory note issued to CAS No.1, a wholly-owned subsidiary of the Company after the Pre-IPO Restructuring, the consolidated total assets and liabilities of the PCCW Group will increase by HK$2.2 billion and decrease by HK$7.8 billion, respectively. The total assets of the PCCW Group would increase further by approximately HK$1.6 billion if the Over-allotment Option is exercised in full. Assuming a dilution of interest in the HKT Trust and HKT from the Global Offering is approximately 25% of the Share Stapled Units in issue before any exercise of the Over-allotment Option and all of the net proceeds of approximately HK$6.8 billion will be used for repayment of the Telecommunications Group's debt, the consolidated total liabilities of the PCCW Group would decrease by HK$6.8 billion.

The unaudited pro forma financial information of the PCCW Group illustrating the effects of the Proposed Spin-off are set out in Appendix IV to this circular.

Unaudited income statements and balance sheets for the PCCW Group, the Telecommunications Group, PCPD and the Remaining Group as at and for the financial year ended 31 December 2010

Appendix IV to this circular sets out:

(a) unaudited income statements for the financial year ended 31 December 2010; and

(b) unaudited balance sheets as at 31 December 2010,

for the PCCW Group and showing breakdowns for the Telecommunications Group, PCPD, the Remaining Group (other than PCPD) and Group eliminations.

PART XV
FUTURE DIVIDEND DISTRIBUTIONS

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.

PART XVI
STRUCTURE OF THE GLOBAL OFFERING

Underwriting agreements and Share Stapled Units borrowing agreement

In connection with the Proposed Spin-off, the Company will enter into underwriting agreements relating to the Global Offering with, among others, the Trustee-Manager, HKT, the Controlling Holder of Share Stapled Units and the Underwriters. In addition, CAS No. 1 will enter into a Share Stapled Units borrowing agreement with a stabilising manager pursuant to which it will lend Share Stapled Units to the stabilising manager in order to facilitate the settlement of over-allocations in connection with the International Offering.

The Global Offering

The Global Offering comprises the Hong Kong Public Offering, the International Offering and the Preferential Offering. Of the Share Stapled Units offered under the Global Offering, approximately 90% of the Share Stapled Units initially offered under the Global Offering will be conditionally placed pursuant to the International Offering (of which approximately 10% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders pursuant to the Preferential Offering as an Assured Entitlement and additional Share Stapled Units representing up to approximately 20% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders to satisfy applications for excess Share Stapled Units pursuant to the Preferential Offering) and the remaining approximately 10% of the Share Stapled Units initially offered under the Global Offering will initially be offered to the public in Hong Kong under the Hong Kong Public Offering (subject, in each case, to reallocation, the basis of which will be set out in the Prospectus). The Share Stapled Units offered under the International Offering will be offered to institutional and professional investors and others (including to professional and institutional investors in Hong Kong) who are eligible, under the relevant securities laws and regulations, to participate in the Global Offering.

The Hong Kong Public Offering will be open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Share Stapled Units to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Share Stapled Units in Hong Kong and other jurisdictions. Prospective professional, institutional, corporate and other investors will be asked to specify the number of Share Stapled Units under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date. The International Offering will also include a public offering without listing of the Offer Share Stapled Units in Japan. The Preferential Offering is open only to Qualifying Shareholders.

In connection with the Global Offering, the HKT Trust and HKT expect to grant the Over-allotment Option to the International Underwriters. Further details are set out in the section headed "Structure of the Global Offering — Over-allotment Option" below.

The Hong Kong Public Offering is expected to be fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters, in each case on a several basis, each being subject to the conditions set out in the section headed "Part XII — Conditions Precedent for the Proposed Spin-off" in this letter. The Hong Kong underwriting agreement and the international underwriting agreement are expected to be conditional upon each other.

The Offer Price is expected to be determined by agreement between the Trustee-Manager, HKT and the Underwriters on or before the Price Determination Date, when market demand for the Share Stapled Units will be determined.

If the Underwriters, the Trustee-Manager and HKT are unable to reach agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.

In connection with the Global Offering, the price of the Share Stapled Units may be stabilised in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO. Details of how any intended stabilisation will be conducted and regulated will be contained in the Prospectus.

Over-allotment Option

The HKT Trust and HKT expect to grant to the International Underwriters, the Over-allotment Option, exercisable in whole or in part at one or more times from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering and the Preferential Offering. Pursuant to the Over-allotment Option, the HKT Trust and HKT may be required to jointly issue additional Share Stapled Units representing not more than 15% of the number of Share Stapled Units initially offered under the Global Offering, at the Offer Price, to, among other things, cover

over-allocations in the International Offering, if any. The Underwriters may also cover such over-allocations by purchasing Share Stapled Units in the secondary market or by a combination of purchase(s) in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase(s) will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, (i) in the case of the Global Offering involving a dilution of PCCW's interest in the HKT Trust and HKT of approximately 36.7% of the Share Stapled Units in issue before the exercise of the Over-allotment Option in full, the number of Share Stapled Units being offered in the Global Offering will increase to approximately 40% of the total Share Stapled Units in issue immediately following the completion of the Global Offering and exercise of the Over-allotment Option in full; or (ii) in the case of the Global Offering involving a dilution of PCCW's interest in the HKT Trust and HKT of approximately 25% of the Share Stapled Units in issue before the the Over-allotment Option is exercised in full, the number of Share Stapled Units being offered in the Global Offering will increase to approximately 27.7% of the total Share Stapled Units in issue immediately following the completion of the Global Offering and the exercise of the Over-allotment Option in full. The Over-allotment Option can only be exercised to the extent that PCCW's holding of Share Stapled Units remains at not less than 51% of the Share Stapled Units in issue following the exercise of the Over-allotment Option. This is because of the terms of the consent of China United Network Communications Group Company Limited, which permits the disposal of up to 49% of the Telecommunications Group's voting interest in HKT. Please refer to the section headed "Part XII — Conditions Precedent for the Proposed Spin-off — Consent from China Unicom" in this letter on page 128 of the circular. In the event that the Over-allotment Option is exercised, a public announcement will be made.

<u>Undertakings to the Stock Exchange pursuant to the Listing Rules</u>

Undertakings by the Trustee-Manager

Pursuant to Rule 10.08 of the Listing Rules, the Trustee-Manager will, if the Proposed Spin-off proceeds, undertake to the Stock Exchange that the Trustee-Manager will not exercise its power to issue any further Share Stapled Units or securities convertible into Share Stapled Units or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Share Stapled Units or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Holder of Share Stapled Units

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Holder of Share Stapled Units will, if the Proposed Spin-off proceeds, undertake to the Stock Exchange, the Trustee-Manager and HKT that except pursuant to any lending of Share Stapled Units by the Controlling Holder of Share Stapled Units pursuant to any Share Stapled Units borrowing agreement which is entered into, the Controlling Holder of Share Stapled Units will not and will procure that the relevant Registered Holder(s) of the Share Stapled Units will not:

(a) in the period commencing on the date by reference to which disclosure of its Share Stapled Unit holding is made in the Prospectus and ending on the date which is six months from the date on which dealings in the Share Stapled Units commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Share Stapled Units in respect of which it is shown by the Prospectus to be the beneficial owner; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Share Stapled Units if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the Controlling Holder of Share Stapled Units.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, the Controlling Holder of Share Stapled Units will, if the Proposed Spin-off proceeds, undertake to the Stock Exchange, the Trustee-Manager and HKT that within the period commencing on the date by reference to which disclosure of its Share Stapled Unit holding in the HKT Trust is made in the Prospectus and ending on the date which is 12 months from the date on which dealings in the Share Stapled Units commence on the Stock Exchange, it will:

(i) when it pledges or charges any Share Stapled Units beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Trustee-Manager and HKT of such pledge or charge together with the number of Share Stapled Units so pledged or charged; and

(ii) when it receives indications, either verbal or written, from the pledgee or chargee of any Share Stapled Units that any of the pledged or charged Share Stapled Units will be disposed of, immediately inform the Trustee-Manager and HKT of such indications.

Undertakings by HKT

HKT will, if the Proposed Spin-off proceeds, also undertake to the Stock Exchange not to issue any further shares or securities convertible into such shares or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

PART XVII
ASSURED ENTITLEMENTS TO THE SHARE STAPLED UNITS

In accordance with the requirements of PN 15 and as contemplated by the Company's announcement dated 2 June 2011, the Board proposes to provide:

(a) the Qualifying Shareholders the right to apply for Share Stapled Units under the Preferential Offering on a preferential basis as to allocation only, with the Assured Entitlement of Qualifying Shareholders to the Share Stapled Units under the Preferential Offering representing approximately 10% of the Share Stapled Units initially offered under the Global Offering. In addition, Share Stapled Units representing up to an additional approximately 20% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders under the Preferential Offering to satisfy applications for excess Share Stapled Units; and

(b) the Distribution Qualifying Shareholders with distributions of Share Stapled Units representing an aggregate of approximately 5% of the number of Share Stapled Units in issue following the completion of the Global Offering and assuming that the issued share capital of PCCW as at the Latest Practicable Date remains unchanged, such distributions to be made to Distribution Qualifying Shareholders in proportion to their respective shareholdings in PCCW held as at 4:30 p.m. on the First Distribution Record Date and the Second Distribution Record Date, as the case may be. Distribution Overseas Shareholders will be entitled to the Distributions in Specie but will not receive Share Stapled Units under the Distributions in Specie. Instead, the Share Stapled Units which they would otherwise have received pursuant to the Distributions in Specie will be sold by the Company on their behalf and they will receive a cash amount equal to the net proceeds of such sale.

The Preferential Offering

Basis of the Assured Entitlement

Subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Share Stapled Units and on the Main Board of the Stock Exchange and the Proposed Spin-off becoming unconditional, the Board expects that the HKT Trust and HKT will initially jointly make available Reserved Share Stapled Units representing approximately 10% of the Share Stapled Units to be initially offered under the Global Offering as an Assured Entitlement for subscription by the Qualifying Shareholders at the Offer Price on a preferential basis as to allocation only pursuant to the Preferential Offering. The Reserved Share Stapled Units are being offered out of the International Offer Share Stapled Units under the International Offering and are not subject to reallocation.

Qualifying Shareholders should note that the Assured Entitlement to Reserved Share Stapled Units may not represent a number of a full board lot of Share Stapled Units. Further, the Reserved Share Stapled Units allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required, and dealings in odd lots of the Share Stapled Units may be at a price below the prevailing market price for full board lots.

Assured Entitlement of Qualifying Shareholders to Reserved Share Stapled Units are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange.

Qualifying Shareholders may apply for a number of Reserved Share Stapled Units which is greater than, less than or equal to their Assured Entitlement under the Preferential Offering. A valid application for a number of Reserved Share Stapled Units which is less than or equal to a Qualifying Shareholder's Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the Prospectus and the **BLUE** Application Form and assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying Shareholder applies for a number of Reserved Share Stapled Units which is greater than the Qualifying Shareholder's Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient Available Reserved Share Stapled Units (as defined below) and Additional Reserved Share Stapled Units (as defined below) as described below.

To the extent that excess applications for the Reserved Share Stapled Units are:

(i) less than the Assured Entitlement not taken up by the Qualifying Shareholders (the "**Available Reserved Share Stapled Units**"), the Available Reserved Share Stapled Units will first be allocated to satisfy such excess applications for the Reserved Share Stapled Units in full and thereafter will be allocated at the discretion of the representatives of the International Underwriters, to the International Offering;

(ii) equal to the Available Reserved Share Stapled Units, the Available Reserved Share Stapled Units will be allocated to satisfy such excess applications for the Reserved Shares Stapled Units in full; or

(iii) more than the Available Reserved Share Stapled Units, the Trustee-Manager and HKT will make available additional Share Stapled Units, representing up to approximately 20% of the Offer Share Stapled Units initially offered under the Global Offering (the "**Additional Reserved Share Stapled Units**") to satisfy applications for excess Reserved Share Stapled Units, such that the maximum size of the Preferential Offering is 30% of the Share Stapled Units initially offered under the Global Offering.

Save for the above, the Preferential Offering will not be subject to the claw back arrangement between the International Offering and the Hong Kong Public Offering.

Beneficial Owners whose Shares are held by a nominee company should note that the Trustee-Manager and HKT will regard the nominee company as a single Shareholder according to the register of members of PCCW. Any Beneficial Owners whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Assured Entitlement. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

Applications by Qualifying Shareholders for Hong Kong Offer Share Stapled Units

In addition to any application for Reserved Share Stapled Units on a **BLUE** Application Form, Qualifying Shareholders in Hong Kong will be entitled to make one application for Hong Kong Offer Share Stapled Units on **WHITE** or **YELLOW** Application Forms or by giving electronic application instructions to HKSCC via CCASS or to the designated **WHITE Form eIPO** Services Provider through the **WHITE Form eIPO** service. Qualifying Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Share Stapled Units made on **WHITE** or **YELLOW** Application Forms or by giving electronic application instructions to HKSCC or to the designated **WHITE Form eIPO** Services Provider through the **WHITE Form eIPO** service under the Hong Kong Public Offering.

Qualifying Shareholders and Non-Qualifying Shareholders

Only Shareholders whose names appeared on the register of members of PCCW on the Record Date and who are not Non-Qualifying Shareholders are entitled to subscribe for the Reserved Share Stapled Units under the Preferential Offering.

Please refer to the section headed "Non-Qualifying Shareholders and Distribution Overseas Shareholders" below for further information on Non-Qualifying Shareholders.

Notwithstanding any other provision in the Prospectus or the **BLUE** Application Forms, the Trustee-Manager and HKT reserve the right to permit any Shareholder to take up his/her/its Assured Entitlement to the Reserved Share Stapled Units if the Trustee-Manager and HKT, in their absolute discretion, are satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions described above.

Distribution of the Prospectus on CD-ROM and the BLUE Application Forms

A **BLUE** Application Form will be despatched to each Qualifying Shareholder with an Assured Entitlement together with an electronic copy of the Prospectus on CD-ROM. The Company has applied for, and the Stock Exchange has granted, a waiver to the Company from strict compliance with the requirements of Rule 2.07A of the Listing Rules so that the Company may despatch to Qualifying Shareholders an electronic copy of the Prospectus on CD-ROM with a printed copy of the **BLUE** Application Form.

Distribution of the Prospectus on CD-ROM and/or the **BLUE** Application Forms into any jurisdiction other than Hong Kong may be restricted by law. Persons into whose possession the CD-ROM and/or the **BLUE** Application Forms come (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restriction. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction. In particular, the CD-ROM should not be distributed, forwarded or transmitted in, into or from any of the Specified Territories with or without the **BLUE** Application Forms, except to Qualifying Shareholders as specified in the Prospectus.

Receipt of the Prospectus on CD-ROM and/or the **BLUE** Application Form does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, the Prospectus on CD-ROM and/or the **BLUE** Application Form must be treated as sent for information only and should not be copied or redistributed. Persons (including, without limitation, agents, custodians, nominees and trustees) who receive a copy of the Prospectus on CD-ROM and/or the **BLUE** Application Forms should not, in connection with the Preferential Offering, distribute or send the same in, into or from, any of the Specified Territories. If the **BLUE** Application Form is received by any person in any such territory, or by his/her/its agent or nominee, he/she/it should not apply for any Reserved Share Stapled Units unless the directors of PCCW and the Trustee-Manager and HKT determine that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, agents, custodians, nominees and trustees) who forwards the Prospectus on CD-ROM and/or the **BLUE** Application Form(s) in, into or from any Specified Territory (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

Application Procedures

The procedures for application under and the terms and conditions of the Preferential Offering will be set out in the Prospectus and the **BLUE** Application Forms, which will be despatched to each Qualifying Shareholder.

Distributions in Specie

A board committee of the Company proposes to declare a conditional special dividend to the Qualifying Distribution Shareholders at the First Distribution Record Date and the Second Distribution Record Date. The conditional special dividend will be satisfied by the Distributions in Specie, being two distributions in specie of Share Stapled Units to Distribution Qualifying Shareholders of an aggregate of Share Stapled Units representing approximately 5% of the Share Stapled Units in issue following the completion of the Global Offering and assuming that the issued share capital of PCCW as as the Latest Practicable Date remains unchanged.

The first distribution in specie (the "**First Distribution**") will be a distribution by PCCW to the First Distribution Qualifying Shareholders of Share Stapled Units representing not more than approximately 2.5% of the Share Stapled Units in issue following the completion of the Global Offering, in proportion to their shareholdings in PCCW as at 4:30 p.m. on the First Distribution Record Date and assuming that the issued share capital of PCCW as at the Latest Practicable Date remains unchanged.

The second distribution in specie (the "**Second Distribution**") will be a distribution by PCCW to the Second Distribution Qualifying Shareholders of Share Stapled Units representing approximately 2.5% of the Share Stapled Units in issue following the completion of the Global Offering, in proportion to their shareholdings in PCCW as at 4:30 p.m. on the Second Distribution Record Date and assuming that the issued share capital of PCCW as at the Latest Practicable Date remains unchanged.

An announcement will be made by PCCW when the total number of Share Stapled Units to be distributed pursuant to the Distributions in Specie and the basis of entitlement of Distribution Qualifying Shareholders to the Share Stapled Units in the Distributions in Specie are determined.

The two distributions in specie with different distribution record dates act as a reward for loyal Shareholders that continue to hold their PCCW Shares through the First Distribution Date and the Second Distribution Date by distributing additional bonus Share Stapled Units to these Shareholders.

The Distributions in Specie are conditional upon the Global Offering becoming unconditional in all respects. No fractions of Share Stapled Units will be distributed under the Distributions in Specie in respect of any holding of Shares of less than such number of Shares to be determined by the Board.

Shareholders should note that the number of Share Stapled Units which they may receive may not be in a multiple of the board lot of Share Stapled Units, and dealings in odd lots of Share Stapled Units may be at or below their prevailing market price.

Subject to the Distributions in Specie becoming unconditional, the Trustee-Manager and HKT expect to despatch certificates in respect of the Share Stapled Units to the First Distribution Qualifying Shareholders who are entitled to receive Share Stapled Units under the First Distribution in Specie on or before the fortieth business day after the First Distribution Record Date and to the Second Distribution Qualifying Shareholders who are entitled to receive Share Stapled Units under the Second Distribution on or before the fortieth business day after the Second Distribution Record Date.

Distribution Overseas Shareholders will be entitled to the Distributions in Specie but will not receive Share Stapled Units under the Distributions in Specie. Instead, the Share Stapled Units which they would otherwise have received pursuant to the Distributions in Specie will be sold by PCCW on their behalf and they will receive a cash amount equal to the net proceeds of such sale. Such Share Stapled Units will be sold at or promptly following the despatch of certificates in respect of the Share Stapled Units to the First Distribution Qualifying Shareholders under the First Distribution or the Second Distribution Qualifying Shareholders under the Second Distribution, as applicable. The proceeds of such sale, net of expenses, will be paid to the First Distribution Overseas Shareholders and Second Distribution Overseas Shareholders, as applicable, in Hong Kong dollars. Such payment is expected to be made to First Distribution Overseas Shareholders on or before the date which is forty-seven business days after the First Distribution Record Date in respect of the First Distribution and to Second Distribution Overseas Shareholders on or before the date which is forty-seven business days after the Second Distribution Record Date in respect of the Second Distribution.

PCCW will send a letter to each CCASS Participant (other than CCASS Investor Participants) notifying such CCASS Participant that, in light of applicable laws and regulations of the Specified Territories, Underlying Overseas Shareholders may not receive the Distributions in Specie. PCCW will instruct such CCASS Participants that hold any Shares on behalf of any Underlying Overseas Shareholders to notify PCCW of the number of Shares held by such Underlying Overseas Shareholders so that PCCW can sell the Share Stapled Units which such Underlying Overseas Shareholders would have received under the Distributions in Specie and pay the net proceeds of such sale to such CCASS Participants for onward payment to such Underlying Overseas Shareholders. None of the Trustee-Manager, HKT, HKT Trust, the Joint Sponsors, any of the Underwriters, any of their respective directors, officers or representatives or any other person involved in the Global Offering takes any responsibility for the sale of such Share Stapled Units or the payment of the net proceeds of the sale of such Share Stapled Units to any Underlying Overseas Shareholders.

Beneficial Owners whose Shares are held by a nominee company should note that PCCW will regard the nominee company as a single Shareholder according to the register of members of PCCW. Any Beneficial Owners whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Distributions in Specie. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the First Distribution Record Date and the Second Distribution Record Date.

Further details of the proposed Distributions in Specie will be disclosed in a further announcement to be made by the Company on or before the date of the Prospectus.

Non-Qualifying Shareholders and Distribution Overseas Shareholders

Non-Qualifying Shareholders and Distribution Overseas Shareholders are those Shareholders with registered addresses in, or who are otherwise known by the Company to be resident in, places outside Hong Kong and in respect of whom the Directors, based on enquiries made by the Directors, consider it necessary or expedient not to offer the right to subscribe for Share Stapled Units under the Preferential Offering and/or not to distribute Share Stapled Units under the Distributions in Specie, as the case may be, in each case, on account either of the legal restrictions under the laws of the relevant place in which the Shareholder is located or the requirements of the relevant regulatory body or stock exchange in that place.

The Company, the Trustee-Manager and HKT have obtained advice from legal advisers qualified to advise in relation to each of the Specified Territories in respect of the Preferential Offering that either:

(i) the Prospectus and/or the related application forms would be required to be registered or filed with or subject to approval by the relevant authorities in those territories; or

(ii) the Company, the Trustee-Manager, HKT or Shareholders would need to take additional steps to comply with the local requirements if the Preferential Offering were extended to the Shareholders in those territories.

Having considered the circumstances, the Directors have formed the view that, other than certain limited exceptions as described below, it is necessary or expedient to restrict the ability of Shareholders in the Specified Territories to take up their rights under the Preferential Offering due to the time and costs involved in the registration of the Prospectus and/or compliance with relevant local legal or regulatory requirements in those territories.

Similarly, the Company, the Trustee-Manager and HKT have obtained advice from legal advisers qualified to advise in relation to each of the Specified Territories in respect of the Distributions in Specie that either:

(i) the documents to be issued in relation to the Distributions in Specie would be required to be registered or filed with or subject to approval by the relevant authorities in those territories; or

(ii) the Company, the Trustee-Manager, HKT or Shareholders would need to take additional steps to comply with the local requirements if the Distributions in Specie were to be made to the Shareholders in those territories by distributing Share Stapled Units.

Having considered the circumstances, the Directors, the Trustee-Manager and HKT have formed the view that, other than subject to certain limited exceptions as described below, it is necessary or expedient to restrict the ability of Shareholders in the Specified Territories in respect of the Distributions in Specie to receive Share Stapled Units under the Distributions in Specie due to the time and costs involved in the registration of the documents to be issued in relation to the Distributions in Specie and/or compliance with relevant local legal or regulatory requirements in those territories. In relation to Distribution Overseas Shareholders in respect of the Distributions in Specie, the Share Stapled Units which they would otherwise have received pursuant to the Distributions in Specie will be sold by the Company on their behalf and the Distribution Overseas Shareholders will receive a cash payment equal to the net proceeds of such sale.

For the purposes of the Preferential Offering, the Non-Qualifying Shareholders are:

(i) Shareholders whose name(s) appeared in the register of members of the Company at 4:30 p.m. on the Record Date and whose address(es) as shown in such register is/are in any of the Specified Territories applicable to the Preferential Offering, except for those Shareholders who satisfy the conditions to participate in the Preferential Offering set out in the section headed "Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering and/or receive Share Stapled Units under the Distributions in Specie" below; and

(ii) any Shareholders or Beneficial Owners at that time who are otherwise known by the Company to be resident in any of the Specified Territories in respect of the Preferential Offering, except for those Shareholders or Beneficial Owners who satisfy the conditions to participate in the Preferential Offering set out in the section headed "Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering and/or receive Share Stapled Units under the Distributions in Specie" below.

For the purposes of the Distributions in Specie, the Distribution Overseas Shareholders are:

(i) Shareholders whose names appeared in the register of members of the Company at 4:30 p.m. on the First Distribution Record Date and the Second Distribution Record Date, as the case may be, and whose addresses as shown in such register is/are in any of the Specified Territories applicable to the Distributions in Specie, except for those Shareholders who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie set out in the section headed "Assured Entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering and/or receive Share Stapled Units under the Distributions in Specie" below; and

(ii) any Shareholders or Beneficial Owners at that time who are otherwise known by the Company to be resident in any of the Specified Territories in respect of the Distributions in Specie, except for those Shareholders or Beneficial Owners who satisfy the conditions to receive Share Stapled Units under the Distributions in Specie set out in the section headed "Assured Entitlements to the Share Stapled Units — Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering and/or receive Share Stapled Units under the Distributions in Specie" below.

Notwithstanding any other provision in this circular, the Prospectus or the application forms in respect of the Preferential Offering or any document to be issued in connection with the Distributions in Specie, the Trustee-Manager and HKT reserve the right to permit any Shareholder and/or Beneficial Owner to take up his/her/its rights to subscribe for Share Stapled Units in the Preferential Offering and/or to receive Share Stapled Units in the Distributions in Specie if the Trustee-Manager and HKT, in their absolute discretion, are satisfied that the transaction in question is exempted from or not subject to the legislation or regulations giving rise to the restrictions in question.

Limited categories of persons in the Specified Territories who may be able to subscribe for Share Stapled Units under the Preferential Offering and/or receive Share Stapled Units under the Distributions in Specie

Preferential Offering

Shareholders or Beneficial Owners in the U.S. whom the Company reasonably believes are QIBs may be able to subscribe for Share Stapled Units under the Preferential Offering by way of a private placement pursuant to an applicable exemption from registration under the U.S. Securities Act, as amended, provided that they provide a signed investor representation letter in the form obtainable from the Company by contacting the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, which form will also contain restrictions and procedures regarding the transfer of Share Stapled Units.

Duly completed and signed investor representation letters should be received by the Registrar by email at the contact details specified below in this section, **by no later than 5:00 p.m. on the date which is six business days prior to the Record Date (Hong Kong time)**.

In each case, the Trustee-Manager and HKT reserve absolute discretion in determining whether to allow such participation as well as the identity of the persons who may be allowed to do so.

A Shareholder or Beneficial Owner who fulfils, to the satisfaction of the Company, the requirements referred to above may obtain a Prospectus and the **BLUE** Application form (when they are available to the public) by contacting the Registrar and must do so by no later than 5:00 p.m. on the date which is the six business days prior to the Record Date (Hong Kong time). Shareholders or Beneficial Owners located in the U.S. who are QIBs should return their duly completed and signed investor representation letters to the Registrar by email at the contact details specified below and they have to be received by the Registrar by no later than 5:00 p.m. on the date which is six business days prior to the Record Date (Hong Kong time), following receipt of which the Registrar will provide the relevant Shareholder with a Prospectus and **BLUE** Application Form (for registered Shareholders), or permit such Beneficial Owner to participate in the Preferential Offering and subscribe for Share Stapled Units (for those Beneficial Owners holding interests in Shares through CCASS).

Distributions in Specie

Shareholders or Beneficial Owners in the U.S. whom the Company believes reasonably are QIBs may be able to receive Share Stapled Units under the Distributions in Specie by way of a private placement pursuant to an applicable exemption from registration under the U.S. Securities Act, as amended, provided that they provide a signed investor representation letter in the form obtainable from the Company by contacting the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, which form will also contain restrictions and procedures regarding the transfer of Share Stapled Units.

Duly completed and signed investor representation letters should be received by the Registrar by email at the contact details specified below in this section, **by no later than 5:00 p.m. on the date which is six business days prior to the First Distribution Record Date (Hong Kong time) for the First Distribution; and by no later than 5:00 p.m. on the date which is six business days prior to the Second Distribution Record Date (Hong Kong time) for the Second Distribution**; failing which the Share Stapled Units which such Shareholders or Beneficial Owners would have otherwise received pursuant to the relevant Distributions in Specie will be sold by PCCW on their behalf, as described in the section above headed "Assured Entitlements to the Share Stapled Units — Distributions in Specie to Distribution Qualifying Shareholders".

In each case, the Trustee-Manager and HKT reserve absolute discretion in determining whether to allow such participation as well as the identity of the persons who may be allowed to do so.

The Registrar contact details for the purposes of obtaining investor representation letters are as follows:

Telephone: +852 2862 8633

Email: pccwqib@computershare.com.hk

The above telephone number and email address will be available during the normal business hours of the Registrar from 9:00 a.m. (Hong Kong time) on the date which is fifteen business days prior to the Record Date, the First Distribution Record Date and the Second Distribution Record Date, respectively, to 5:00 p.m. (Hong Kong time) on the date which is six business days prior to the Record Date, the First Distribution Record Date and the Second Distribution Record Date, respectively.

Closure of register

(a) Preferential Offering

The register of members of the Company will be closed on the Record Date (to be determined and announced at a later stage in accordance with Rule 13.66 of the Listing Rules) for the purpose of determining the entitlements of Qualifying Shareholders to the Preferential Offering. No transfer of Shares may be registered during that period. In order to qualify for the Preferential Offering, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on one business day prior to the Record Date (or such other date as the Board may determine and announce). The last day for dealing in the Shares cum-entitlements to the Preferential Offering is expected to be on the date which is three business days prior to the Record Date.

(b) Distributions in Specie

(i) First Distribution

The register of members of the Company will be closed from the one business day prior to the First Distribution Record Date to the First Distribution Record Date (both dates inclusive) (or such other date(s) as the Board may determine and announce) for the purpose of determining the entitlements of the First Distribution Qualifying Shareholders to the First Distribution. No transfer of Shares may be registered during that period. In order to qualify for the First Distribution, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on the date which is two business days prior to the First Distribution Record Date (or such other date as the Board may determine and announce). The last day for dealing in the Shares cum-entitlements to the First Distribution is expected to be on the date which is four business days prior to the First Distribution Record Date.

(ii) Second Distribution

The register of members of the Company will be closed from the one business day prior to the Second Distribution Record Date to the Second Distribution Record Date (both dates inclusive) (or such other date(s) as the Board may determine and announce) for the purpose of determining the entitlements of the Second Distribution Qualifying Shareholders to the Second Distribution. No transfer of Shares may be registered during that period. In order to qualify for the Second Distribution, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on the date which is two business days prior to the Second Distribution Record Date (or such other date as the Board may determine and announce). The last day for dealing in the Shares cum-entitlements to the Second Distribution is expected to be on the date which is four business days prior to the Second Distribution Record Date.

PART XVIII
2011-2021 OPTION SCHEME AND SHARE STAPLED UNITS AWARD SCHEMES

2011-2021 Option Scheme

It is proposed that the HKT Trust and HKT will adopt the 2011-2021 Option Scheme. The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and HKT to grant options to selected participants as incentives or rewards for their contribution to the growth of the Telecommunications Group and to provide the Telecommunications Group with a more flexible means to reward its employees and directors and other selected participants.

The 2011-2021 Option Scheme constitutes a share option scheme governed by Chapter 17 of the Listing Rules. As the directors of the Trustee-Manager and the directors of HKT are entitled to determine any performance targets and minimum holding period which apply to an option on a case by case basis, and fix the subscription price, it is expected that grantees of an option will have an incentive to contribute to the development of the Telecommunications Group.

Pursuant to Note (1) of Rule 17.03(3) of the Listing Rules, the total number of securities which may be issued upon exercise of all options to be granted under a share option scheme and any other schemes must not in aggregate exceed 10% (“**General Scheme Limit**”) of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the scheme.

Taking into consideration the fact that (i) the 2011-2021 Option Scheme shall not become effective until (and unless there is) the Listing and the 2011-2021 Option Scheme will lapse if Listing does not take place; (ii) the significant difference of the number of issued Share Stapled Units as at the date of EGM and that upon the Listing date, it is impracticable to set the General Scheme Limit of the 2011-2021 Option Scheme as at the date of EGM. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the requirement under Note (1) to Rule 17.03(3) of the Listing Rules that the General Scheme Limit be based on the total number of Share Stapled Units in issue at the time when dealings in the Share Stapled Units first commence on the Stock Exchange.

A summary of the principal terms of the 2011-2021 Option Scheme is set out in Appendix VI to this circular. The adoption of the 2011-2021 Option Scheme is conditional on, among others, the following:

(a) the Shareholders passing an ordinary resolution of Shareholders at the EGM to approve the 2011-2021 Option Scheme;

(b) the Listing Committee of the Stock Exchange granting (i) approval of the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued as mentioned in the Prospectus (including the Share Stapled Units which may fall to be issued pursuant to the exercise of options granted under the 2011-2021 Option Scheme) and (ii) if so required by the Stock Exchange, approval of the 2011-2021 Option Scheme and the grant of options thereunder;

(c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions) and not being terminated in accordance with their respective terms or otherwise; and

(d) commencement of dealings in the Share Stapled Units on the Main Board of the Stock Exchange.

The Directors consider it inappropriate to disclose the value of options which may be granted under the 2011-2021 Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation would have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions, including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted as at the Latest Practicable Date under the 2011-2021 Option Scheme, certain variables are not available for calculating the value of the options thereunder. The Directors and the directors of HKT and the Trustee-Manager believe that any calculation of the value of the options under the 2011-2021 Option Scheme as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

Share Stapled Units Award Schemes

In addition, it is proposed that HKT will adopt the Share Stapled Units Award Schemes.

The two Share Stapled Units Award Schemes will be on similar terms and will be conditionally adopted by HKT, pursuant to resolutions of the boards of directors of HKT, as a potential means to incentivise and reward:

In the case of the HKT Share Stapled Units Purchase Plan:

(a) any full-time or part-time employees of HKT and/or any subsidiary;

(b) any director (including executive, non-executive and independent non-executive director) of HKT and/or any subsidiary; and

(c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any subsidiaries who, at the sole determination of the Board, have contributed or will contribute to HKT and/or any subsidiaries; and

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above (a), (b) and (c) except for any directors of HKT and/or any other connected persons of HKT.

The Share Stapled Units Award Schemes will be administered by the board of directors of HKT and an independent trustee, yet to be appointed (the "**Trustee**"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

A summary of the principal terms of the Share Staple Units Award Schemes is set out in Appendix VI to this circular.

Each of the Share Stapled Units Award Schemes remains conditional on:

(i) the appointment of the Trustee and settling the terms of Share Stapled Units Award Schemes with the Trustee;

(ii) the approval of the Share Stapled Units Award Schemes by the Board;

(iii) the Listing Committee granting (a) approval of the listing of, and permission to deal in, the Share Stapled Units in issue and the Share Stapled Units to be issued as mentioned in this circular; and (b) if so required by the Stock Exchange, approval of the relevant scheme;

(iv) the obligations of the Underwriters under the underwriting agreements becoming unconditional (including, if relevant, following the waiver of any condition(s)) and not being terminated in accordance with its terms or otherwise; and

(v) the commencement of dealings in the Share Stapled Units on the Main Board of the Stock Exchange.

As at the date of this circular, no awards have been made or agreed to be made under either of the HKT Share Stapled Units Purchase Scheme or the HKT Share Stapled Units Subscription Scheme.

PART XIX
LISTING RULES IMPLICATIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off (taking into account any Share Stapled Units which may be issued pursuant to the exercise of the Over-allotment Option but excluding Share Stapled Units which may be issued upon the exercise of options granted under the 2011-2021 Option Scheme) is a deemed disposal for the Company under Rule 14.29 of the Listing Rules. One or more of the percentage ratios in respect of the Proposed Spin-off exceeds 25%, but each of them is less than 75%. The Proposed Spin-off is, therefore, a major transaction for the Company under the Listing Rules and accordingly, is subject to Shareholders' approval. The Proposed Spin-off is also subject to Shareholders' approval under paragraph 3(e)(2) of PN 15 and is subject to the requirements of paragraph 3(e)(4) of PN 15, being requirements to:

(a) establish an independent board committee (consisting only of independent non-executive Directors) to advise Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interest of the Company and its Shareholders as a whole and to advise Shareholders on how to vote, taking into account the recommendations of the independent financial adviser referred to in (b) below; and

(b) appoint an independent financial adviser to make recommendations to the independent board committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote in respect of the Proposed Spin-off.

In addition, the 2011-2021 Option Scheme is subject to the approval of Shareholders, by ordinary resolution of Shareholders, under Chapter 17 of the Listing Rules. The Share Stapled Units Award Schemes are also proposed to be approved by ordinary resolution of shareholders.

PART XX
EXTRAORDINARY GENERAL MEETING

Voting at the EGM

As no Shareholder has a material interest in the Proposed Spin-off different from any other Shareholders, all Shareholders are entitled to vote on the ordinary resolutions to approve and implement the Proposed Spin-off and the Distributions in Specie, and the adoption of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes to be proposed at the EGM.

A notice convening the EGM to be held at 10:30 a.m. on Wednesday, 12 October 2011 at 9th Floor, Telecom House, 3 Gloucester Road, Wan Chai, Hong Kong, is set out on pages N1 to N3 of this circular. At the EGM, Shareholders will be requested to consider and, if thought fit, pass the ordinary resolutions to approve and implement the Proposed Spin-off and the Distributions in Specie, and the adoption of the 2011-2021 Option Scheme and the adoption of the Share Stapled Units Award Schemes. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, all the resolutions put to the vote at the EGM will be taken by way of poll. After the conclusion of the EGM, the poll results will be published on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company.

A proxy form for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

Recommendation

The Directors (other than the independent non-executive Directors, whose recommendation is set out in the Letter from the Independent Board Committee on pages 153 to 154 of this circular) are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the independent non-executive Directors whose recommendation is set out in the Letter from the Independent Board Committee on pages 153 to 154 of this circular) recommend that the Shareholders vote in favour of the ordinary resolution to be proposed in relation to the Proposed Spin-off at the EGM.

The Directors (including the independent non-executive Directors) are of the view that the Distributions in Specie and the proposed adoption of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) also recommend that the Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Distributions in Specie and to adopt the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes.

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the Company's five independent non-executive Directors, namely 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, has been formed to advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and its Shareholders as a whole and to advise Shareholders on how to vote in relation to the ordinary resolution to be proposed to approve the Proposed Spin-off, taking into account the recommendations of the independent financial adviser.

Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote in respect of the Proposed Spin-off at the EGM.

Your attention is drawn to (i) the Letter from the Independent Board Committee set out on pages 153 to 154 of this circular which contains the recommendations of the Independent Board Committee to the Shareholders concerning the Proposed Spin-off; and (ii) the letter from Rothschild to the Independent Board Committee and the Shareholders set out on pages 155 to 180 of this circular containing its advice to the Independent Board Committee and the Shareholders in this regard.

The Independent Board Committee, having taken into account the advice from Rothschild in relation to the Proposed Spin-off, considers that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off.

PART XXI
GENERAL

The Board expects that the Prospectus containing, among other things, details of the Preferential Offering (including the basis of allocation) will be dispatched to Qualifying Shareholders in due course.

To the best of the Directors' knowledge, information and belief having made all reasonably enquiry, the proposed subscribers for Share Stapled Units under the Global Offering (and their respective ultimate beneficial owners), will be third parties independent of PCCW and its connected persons (as defined in the Listing Rules), except that:

(a) all Qualifying Shareholders of PCCW as at 4:30 p.m. on the Record Date (including connected persons of PCCW who are Qualifying Shareholders) will be entitled to participate in the Preferential Offering;

(b) all Distribution Qualifying Shareholders of PCCW as at 4:30 p.m. on the First Distribution Record Date and the Second Distribution Record Date (including connected persons of PCCW who are Distribution Qualifying Shareholders) will be entitled to participate in the Distributions in Specie; and

(c) an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 10.03 of the Listing Rules to permit directors of the Trustee-Manager and HKT (and their associates) who are Shareholders to subscribe for Share Stapled Units under the Preferential Offering.

This circular is being distributed to Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any Share Stapled Units nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

Prior to the publication of this circular, there have been press and media coverage and research analyst reports regarding the HKT Trust, the Telecommunications Group and the Global Offering, which may also have included certain financial projections and other forward-looking statements and information about the HKT Trust and/or HKT and the Telecommunications Group which do not appear in this circular. Published news reports and research analyst reports should not, in any way, be interpreted as profit projections of the Telecommunications Group. The Company, the Trustee-Manager and HKT have not authorised the disclosure of any such information. The Company, the HKT Trust and HKT do not accept any responsibility for any such press and media coverage or research analyst coverage or the accuracy or completeness of any such information. The Company, the Trustee-Manager and HKT make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. If any such information appearing in publications other than this circular or the Prospectus is inconsistent or conflicts with the information contained in this circular or the Prospectus, the Company, the Trustee-Manager and HKT disclaim it. Accordingly, you should only rely on the information included in this circular or the Prospectus to make your investment decision and should not rely on any other information.

Shareholders should note that the Company may or may not proceed with the Proposed Spin-off in accordance with the terms set out above, or at all. The Board wishes to emphasise that the specific terms and timing of the Proposed Spin-off may require certain consents and approvals, including the approval of Shareholders by ordinary resolution. An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Share Stapled Units on the Main Board of the Stock Exchange. Such consents and approvals may or may not be obtained. Shareholders are therefore urged to exercise caution when dealing in the Shares. Further announcement(s) will be made as and when appropriate in respect of any material developments relating to the Proposed Spin-off and/or any material change in the information contained in this circular.

As at the date of this circular, the Board comprises five Executive Directors, namely, Li Tzar Kai, Richard, Alexander Anthony Arena, Peter Anthony Allen, Lee Chi Hong, Robert and Hui Hon Hing, Susanna, six Non-executive Directors, namely, Sir David Ford, KBE, LVO, Lu Yimin, Zuo Xunsheng, Li Fushen, Chung Cho Yee, Mico and Tse Sze Wing, Edmund, GBS and five Independent Non-executive Directors, namely, 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.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board of
PCCW Limited
Li Tzar Kai, Richard
Chairman

PCCW Limited
電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

39th Floor
PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

26 September 2011

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE TELECOMMUNICATIONS BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED IN THE FORM OF A SHARE STAPLED UNITS STRUCTURE AND PROPOSED ADOPTION OF THE 2011-2021 OPTION SCHEME

We have been appointed as members of the Independent Board Committee to advise you in connection with the Proposed Spin-off, details of which are set out in the Letter from the Board in the circular dated 26 September 2011, of which this letter forms part. Terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from Rothschild as set out on pages 155 to 180 of this circular, which contains its advice and recommendation to us as to whether or not the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Shareholders as a whole and Rothschild's recommendation to Shareholders as to how to vote in respect of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the advice and recommendation of, Rothschild as stated in its aforementioned letter of advice, we are of the opinion that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. We therefore recommend Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Professor Chang Hsin-kang, FREng, GBS, JP
Independent Non-executive Director

Dr the Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Independent Non-executive Director

Sir Roger Lobo, CBE, LLD, JP
Independent Non-executive Director

Aman Mehta
Independent Non-executive Director

The Hon Raymond George Hardenbergh Seitz
Independent Non-executive Director

The following is the text of a letter of advice dated 26 September 2011 to the Independent Board Committee and the Shareholders from Rothschild in respect of the Proposed Spin-off prepared for the purpose of incorporation in this circular.

ROTHSCHILD

26 September 2011

To the Independent Board Committee and the Shareholders of PCCW Limited

Dear Sir/Madam,

MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF THE TELECOMMUNICATIONS BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED IN THE FORM OF A SHARE STAPLED UNITS STRUCTURE

We refer to our engagement to advise the Independent Board Committee with respect to the Proposed Spin-off, details of which are contained in the circular issued by PCCW dated 26 September 2011 (the "Circular") of which this letter forms a part. Rothschild has been appointed (which appointment has been approved by the Independent Board Committee) as the independent financial adviser to advise the Independent Board Committee and the Shareholders as to whether or not the terms of the Proposed Spin-off are fair and reasonable and whether or not the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole, and to advise the Shareholders on how they should vote on the Proposed Spin-off at the EGM.

The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Proposed Spin-off (taking into account any Share Stapled Units which may be issued by the HKT Trust and HKT pursuant to the exercise of the Over-allotment Option but excluding Share Stapled Units which may be issued upon the exercise of options granted under the 2011-2021 Option Scheme) is a deemed disposal for the Company under Rule 14.29 of the Listing Rules. As one or more of the percentage ratios (as defined in the Listing Rules) in respect of the Proposed Spin-off exceeds 25%, but each of them is less than 75%, the Proposed Spin-off is a major transaction for the Company under

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the Listing Rules and accordingly, is subject to Shareholders' approval. The Proposed Spin-off is also subject to Shareholders' approval under paragraph 3(e)(2) of PN 15 and other requirements under paragraph 3(e)(4) of PN 15. Since no Shareholder has a material interest in the Proposed Spin-off different from any other Shareholders, all Shareholders are entitled to vote on the ordinary resolution to approve the Proposed Spin-off at the EGM.

In accordance with PN 15, the Board has established the Independent Board Committee comprising all of the independent non-executive Directors, namely 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, for the purpose of advising the Shareholders in respect of the Proposed Spin-off.

In formulating our recommendation, we have relied on the information and facts supplied to us by PCCW (including the Company's other advisers) and have assumed that any information and representations made to us are true, accurate and complete in all respects as at the date hereof and that they may be relied upon. We consider that, in order to provide a reasonable basis for our advice, we have taken reasonable steps and performed sufficient work in compliance with Rule 13.80 of the Listing Rules (including the notes thereto). We have also assumed that all information, representations and opinions contained or referred to in the Circular are accurate and complete in all respects, fair and reasonable and, accordingly, we have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have all declared in a responsibility statement set out in the General Information section in Appendix X to the Circular that they collectively and individually accept full responsibility (includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company) and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of PCCW or any of its subsidiaries, associates or jointly controlled entities.

THE PROPOSED SPIN-OFF

The Proposed Spin-off involves the spin-off and separate listing of the Telecommunications Business on the Main Board of the Stock Exchange, in the form of a Share Stapled Unit Structure. It is proposed that the HKT Trust will be established as a trust under the laws of Hong Kong and its activities will be limited under the Trust Deed to:

(a) investing in HKT (including without limitation any investment in securities and other interests in HKT);

(b) the exercise of the Trustee-Manager's powers, authorities and rights, and the performance of its duties and obligations, under the Trust Deed; and

(c) any thing or activity which is necessary or desirable for or in accordance with the activities referred to in (a) and/or (b) above.

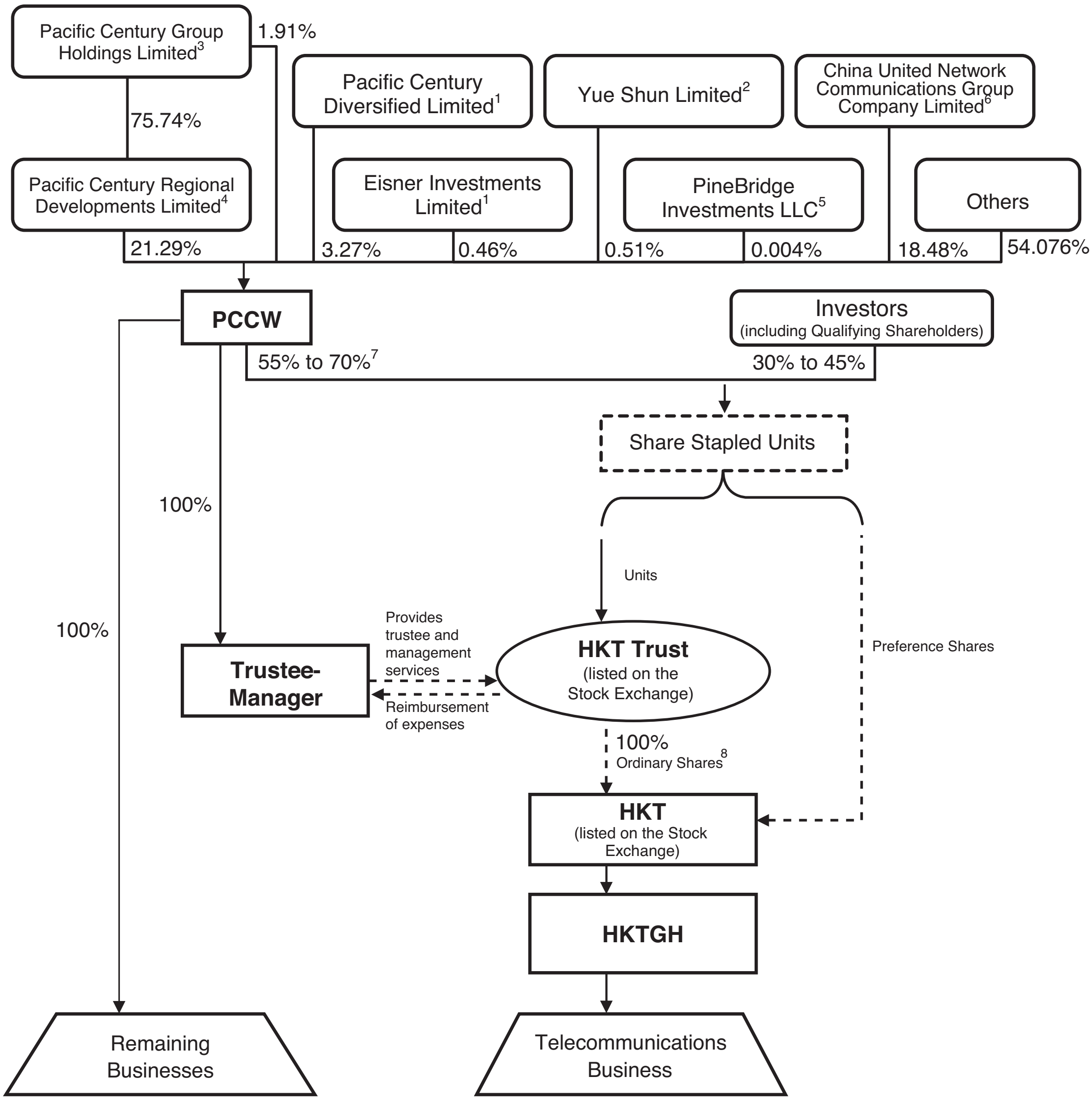
The HKT Trust will be constituted by a Hong Kong law governed trust deed entered into between the Trustee-Manager and HKT. Under the Trust Deed, the Trustee-Manager will be appointed as the trustee and manager of the HKT Trust. The Trustee-Manager will have legal ownership of the assets of the HKT Trust and will declare, under the Trust Deed, that it will hold those assets on trust for the Registered Holders of Units.

The Trust Deed will provide that the Trustee-Manager shall only exercise the voting rights conferred by the Ordinary Shares held by it in respect of a resolution proposed at a combined meeting characterised under the Trust Deed as a meeting of Registered Holders of Share Stapled Units, or at a meeting of HKT Shareholders held seperately but concurrently or consecutively with a meeting of Unitholders in accordance with the directions of the holders of the Units which are Linked to those Ordinary Shares. Those voting directions are given to the Trustee-Manager by the Registered Holders of Units exercising the voting rights conferred by the Units held by them. The Trustee-Manager is required to exercise the voting rights conferred by the Ordinary Shares Linked to those Units in the same way.

The Trustee-Manager is a wholly-owned subsidiary of the Company. The Trust Deed and the articles of association of the Trustee-Manager will provide that for so long as the Trustee-Manager is a subsidiary of PCCW, it must remain a wholly-owned subsidiary of PCCW and that the provision of the Trust Deed cannot be amended. The Trustee-Manager can be removed and replaced by an Ordinary Resolution of Registered Holders of Units. Further information about the HKT Trust and the Trustee-Manager are set out in the paragraphs headed "Part III — Introduction to the proposed listing structure involving the HKT Trust, HKT and the issue of Share Stapled Units" and "Part V — The Trustee-Manager and directors and senior management of the Telecommunications Business" in the "Letter from the Board" in the Circular.

Notwithstanding that a trust structure which comprises a business enterprise is new to the capital markets in Hong Kong, such structure is common in other markets such as Australia and Singapore. A listing of the Telecommunications Business in the form of the Share Stapled Units structure described in the Circular is expected to align its mature and stable cashflow generating characteristic with the appropriate investor base that favours stable distributions and pure-play investments. The listing in the form of a fixed single investment trust with a clearly expressed distribution policy stated in the Trust Deed and in the articles of association of HKT and an explicit focus on distributions will give greater assurance to investors that they will receive distributions from Adjusted Funds Flow after debt repayment, if required, that are higher than the dividends that could be distributed from accounting profit.

The Proposed Spin-off includes a Global Offering of (i) at least 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised and (ii) up to 40% of the Share Stapled Units in issue following the completion of the Global Offering assuming the Over-allotment Option is exercised in full. There will also be Distributions in Specie to Distribution Qualifying Shareholders of an aggregate of approximately 5% of the Share Stapled Units in issue following the completion of the Global Offering. In the case of the Global Offering involving 40% of the Share Stapled Units in issue following the completion of the Global Offering, PCCW would retain approximately 55% ownership interest in the HKT Trust and HKT (being the interest in the HKT Trust and HKT after the exercise of the Over-allotment Option in full and after the Distributions in Specie), and the Trustee-Manager would be wholly-owned by PCCW. Accordingly, under this scenario, PCCW would retain approximately 55% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off. In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 70% ownership interest in the HKT Trust and HKT (being the interest in the HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie), and the Trustee-Manager would be wholly-owned by PCCW. Accordingly, under this scenario, PCCW would retain approximately 70% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off. PCCW would continue to consolidate the financial results of the Telecommunications Business following completion of the Proposed Spin-off. The chart below illustrates a simplified version of the proposed listing structure, following the completion of the Global Offering.



Notes:

1. Pacific Century Diversified Limited and Eisner Investments Limited are companies wholly-owned by Li Tzar Kai, Richard.

2. Li Tzar Kai, Richard is deemed to have interest in PCCW Shares held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries hold more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard is a discretionary beneficiary of certain discretionary trusts which hold units in unit trusts which in turn hold interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard is also interested in one-third of the issued share capital of two companies, which own all the shares of the trustee companies which act as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard is deemed, under the SFO, to have an interest in PCCW Shares held by Yue Shun Limited.

3. Li Tzar Kai, Richard is deemed to have interest in PCCW Shares held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard is the founder of certain trusts which hold 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard is deemed, under the SFO, to have an interest in PCCW Shares held by PCGH.

4. Li Tzar Kai, Richard is deemed to have interest in PCCW Shares held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH has, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.74% interest. Li Tzar Kai, Richard is the founder of certain trusts which hold 100% interests in PCGH. Li Tzar Kai, Richard is also deemed to be interested in 0.91% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard is deemed, under the SFO, to have an interest in PCCW Shares held by PCRD.

5. Li Tzar Kai, Richard is deemed to have interest in PCCW Shares held by PineBridge Investments LLC ("PBI LLC") in the capacity as investment manager. PBI LLC is an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard is deemed, under the SFO, to have an interest in PCCW Shares held by PBI LLC.

6. China United Network Communications Group Company Limited indirectly holds these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.

7. The Over-allotment Option can only be exercised to the extent that PCCW's holding of Share Stapled Units remains at not less than 51% of the Share Stapled Units in issue following the exercise of the Over-allotment Option. This is because under the terms of the consent of China United Network Communications Group Company Limited (which held approximately 18.48% of PCCW as at the Latest Practicable Date), if there is any listing of the Telecommunications Business, the PCCW Group is permitted to dispose of up to 49% of the Group's voting interest in HKT. Please refer to the paragraph headed "Part XII — Conditions Precedent for the Proposed Spin-off — Consent from China Unicom" in the "Letter from the Board" in the Circular.

   In the case of the Global Offering involving 40% of the Share Stapled Units in issue following the completion of the Global Offering, PCCW would retain approximately 55% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT after the exercise of the Over-allotment Option in full and after the Distributions in Specie). Accordingly, under this scenario, PCCW would retain approximately 55% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

   In the case of the Global Offering involving 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering, PCCW would retain approximately 70% of the HKT Trust and HKT (being the interest in the HKT Trust and HKT before any exercise of the Over-allotment Option but after the Distributions in Specie). Accordingly, under this scenario, PCCW would retain approximately 70% ownership interest in, and control of, the Telecommunications Business after completion of the Proposed Spin-off.

8. As the HKT Trust is not a seperate legal entity, all of the HKT Trust Property, being the assets of the HKT Trust, will be held by the Trustee-Manager for the benefit of the Registered Holders of Units. Subject to the exercise of the Exchange Right, all of the issued Ordinary Shares must be registered in the Principal Register of Members of HKT in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust.

Each Share Stapled Unit will consist of three components: (a) a Unit in the HKT Trust; (b) a beneficial interest in a specifically identified Ordinary Share in HKT held by the Trustee-Manager, which is "Linked" to the Unit; and (c) a specifically identified Preference Share in HKT which is "Stapled" to the Unit so that one cannot be traded without the other in accordance with the Trust Deed. If the Company proceeds with the Proposed Spin-off, all the issued Share Stapled Units, and each individual component of the Share Stapled Units, including all the issued Units, Ordinary Shares and Preference Shares will be listed on the Stock Exchange, there will only be a single price quotation on the Stock

Exchange for a Share Stapled Unit. No price quotations will be given for the individual components (Unit, beneficial interest in an Ordinary Share and Preference Share) of a Share Stapled Unit. In other words, both the HKT Trust and HKT will be listed on the Stock Exchange, and the Units and the Ordinary Shares and Preference Shares will not be separately traded.

It is contemplated that the HKT Trust and HKT will jointly issue new Share Stapled Units to investors for cash under the Global Offering. The Global Offering is expected to comprise the Hong Kong Public Offering and the International Offering (including the Preferential Offering). Of the Share Stapled Units to be offered under the Global Offering approximately 90% of the Share Stapled Units initially offered under the Global Offering will be conditionally placed pursuant to the International Offering (of which the Assured Entitlement representing approximately 10% of the Share Stapled Units initially offered under the Global Offering and up to an additional 20% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders to satisfy applications for excess Share Stapled Units pursuant to the Preferential Offering) and the remaining of approximately 10% of the Share Stapled Units initially offered under the Global Offering will initially be offered to the public in Hong Kong under the Hong Kong Public Offering (subject, in each case, to reallocation, the basis of which will be set out in the Prospectus). The HKT Trust and HKT are expected to grant the Over-allotment Option to the International Underwriters, which will be exercisable in whole or in part to require the HKT Trust and HKT to jointly issue additional Share Stapled Units representing not more than 15% of the number of Share Stapled Units initially being offered under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the number of Share Stapled Units being offered in the Global Offering will increase to approximately 40% of the total Share Stapled Units in issue, excluding 5% of the enlarged issued Share Stapled Units to be issued to Distribution Qualifying Shareholders under the Distributions in Specie, following the completion of the Global Offering. Please refer to the paragraph headed "Part XVI — Structure of the Global Offering" in the "Letter from the Board" in the Circular for further details about the Global Offering.

In accordance with the requirements of PN 15 and as contemplated by the Company's announcement dated 2 June 2011, the Board proposes to provide the Qualifying Shareholders with assured entitlements as part of the Proposed Spin-off of the Telecommunications Business, comprising the right to apply for the Share Stapled Units under the Preferential Offering on a preferential basis as to allocation only, and the Distribution Qualifying Shareholders the rights to receive the Share Stapled Units by way of Distributions in Specie. Please refer to the paragraph headed "Part XVII — Assured Entitlements to the Share Stapled Units" in the "Letter from the Board" in the Circular for further details.

For the purposes of the Shareholders' approval required under PN 15 and Chapter 14 of the Listing Rules, Shareholders are requested to approve the Proposed Spin-off provided that the terms of the Global Offering would achieve a minimum market capitalisation of the HKT Trust of not less than HK$28.6 billion (the "Minimum Market Capitalisation"), being a key term of the Proposed Spin-off. If the Minimum Market Capitalisation of the HKT Trust of HK$28.6 billion is not achieved from the Global Offering, the Proposed Spin-off will not proceed. The Directors

will consider various factors affecting the offering size and if a revised valuation is reached that is lower than the Minimum Market Capitalisation stated in the Circular, Shareholders' approval at another general meeting will be required to approve the Proposed Spin-off under PN 15 and Chapter 14 of the Listing Rules. The Directors have emphasised that, even if the Proposed Spin-off is approved by an ordinary resolution of the Shareholders passed at the EGM and the other outstanding conditions are fulfilled, the final decision of the Board as to whether or not to proceed with the Proposed Spin-off will continue to be subject to market conditions and pricing. The Board will only proceed with the Proposed Spin-off if the Board considers that the price for the Share Stapled Units which can be obtained under the Global Offering is such that proceeding with the Proposed Spin-off on those terms would be in the interests of the Company and its Shareholders as a whole. The Preferential Offering will not proceed and the Distributions in Specie will not be made unless the Proposed Spin-off proceeds. The Proposed Spin-off, and hence the Preferential Offering and the Distributions in Specie will proceed subject to market conditions and pricing of the Offering.

Furthermore, the Proposed Spin-off is conditional on the fulfilment of a number of conditions. Please refer to the paragraph headed "Part XII — Conditions precedent for the Proposed Spin-off" in the "Letter from the Board" in the Circular for further information. If any of these and other applicable conditions are not fulfilled or waived, if applicable, prior to the dates and times to be specified, or if the Board decides not to proceed with the Proposed Spin-off, the Proposed Spin-off will not proceed and the Stock Exchange will be notified immediately and an announcement will be published by the Company as soon as practicable thereafter.

Further announcements will be made by the Company as and when appropriate to keep Shareholders informed of material developments in relation to the Proposed Spin-off. **SHAREHOLDERS SHOULD EXERCISE CAUTION WHEN DEALING IN THE SHARES. THERE IS NO ASSURANCE THAT THE PROPOSED SPIN-OFF WILL BE COMPLETED SUCCESSFULLY OR AT ALL.**

APPROACH TO ANALYSIS

Shareholders should note that since the Offer Price has not been determined and it is expected to be determined at a time closer to the Listing Date, the information and calculations appearing in the Circular (and in this letter) relating to the potential financial effects of the Proposed Spin-off and our analyses are based on certain assumptions which may or may not materialise and are included for illustration purposes only. We have used the following assumptions in our analyses in formulating our opinion on the terms of the Proposed Spin-off:

(a) the proposed Spin-off includes a Global Offering of (i) at least 25% of the Share Stapled Units in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised and (ii) up to 40% of the Share Stapled Units in issue following the completion of the Global Offering assuming the Over-allotment Option is exercised in full. It is also assumed that 5% of the Share Stapled Units in issue following the completion of the Global Offering will be distributed to Distribution Qualifying Shareholders by way of the Distributions in Specie; and

(b) the terms of the Global Offering would achieve no less than the Minimum Market Capitalisation. The net proceeds from the dilution of 25% to 36.7% of the Share Stapled Units in issue before any exercise of the Over-allotment Option and the Distributions in Specie from the Global Offering is in the range of approximately HK$6.8 billion to HK$10.0 billion.

SHAREHOLDERS SHOULD NOTE THAT THE ANALYSES SET OUT IN OUR LETTER ARE FOR ILLUSTRATION ONLY AND THE ASSUMPTIONS USED MAY OR MAY NOT MATERIALISE.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons for the Proposed Spin-off:

1. Reasons for and benefits of the Proposed Spin-off

PCCW currently carries on four main lines of business:

(a) The Telecommunications Business which includes (i) the provision of telecommunications services ("TSS") including local telephony services, local data and broadband services, international telecommunications services, sale of customer premises equipment, outsourcing services, consulting services and teleservices businesses, (ii) mobile services under the PCCW Mobile brand ("Mobile"), and (iii) other businesses of the Telecommunications Group, primarily comprising revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC; further details are described in the paragraph headed "Part IV — The Telecommunications Business" in the "Letter from the Board" in the Circular.

(b) The Media Business which is principally engaged in the provision of content and interactive services through multiple distribution channels including now TV as well as the new media and directories businesses (which includes its online content and video-streaming services now.com, MOOV and its Yellow Pages business, yp.com.hk); further details are described in the paragraph headed "Part VIII — The Remaining Businesses — The Media Business" in the "Letter from the Board" in the Circular;

(c) The Solutions Business which is principally engaged in the provision of information technology outsourcing and business process outsourcing services through PCCW Solutions; further details are described in the paragraph headed "Part VIII — The Remaining Businesses — The Solutions Business" in the "Letter from the Board" in the Circular; and

(d) The Property Business conducted by PCPD which carries out investments in, as well as the development and management of infrastructure and properties; further details are described in the paragraph headed "Part VIII — The Remaining Businesses — The Property Business" in the "Letter from the Board" in the Circular.

On 14 March 2011, the Company submitted a formal application to the Stock Exchange for its approval of the Proposed Spin-off pursuant to PN 15. On 2 June 2011, the Stock Exchange approved the Company's proposal under PN 15 and confirmed that the Company may proceed with the Proposed Spin-off subject to the fulfilment by the Company of certain conditions, details of which are set out in the paragraph headed "Part XII — Conditions precedent for the Proposed Spin-off" in the "Letter from the Board" in the Circular. We note that the Board has confirmed that the Stock Exchange's conditions to the Proposed Spin-off under PN 15 have been duly fulfilled but Shareholders should note that the Proposed Spin-off is still subject to certain other conditions yet to be fulfilled or waived prior to the dates and times to be specified.

Immediately after completion of the Proposed Spin-off, the Company will remain as the single largest Holder of Share Stapled Units, and its Shares will continue to be listed on the Stock Exchange. Through the Proposed Spin-off, the Telecommunications Group will become an independently listed group (whilst remaining as a subsidiary of the Company) and provide investors an opportunity to value and invest in the Telecommunications Group as a pure telecommunications products and services company. The Remaining Group will continue its existing businesses which comprise the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses. The separation of the Telecommunications Business and the Remaining Businesses through the Proposed Spin-off is logical as the Media Business and the Solutions Business are growth businesses that require further investments to supplement their growth. They also have different risk profiles compared to the Telecommunications Business, which is mature and characterised by stable cash flow generation.

In our analysis we have taken into account factors including the valuation of the Telecommunications Business, use of proceeds from the Proposed Spin-off, business focus and financial status as a result of the separation of the Telecommunications Business and the Remaining Businesses, effects on financial resources, continued control of the Telecommunications Business, and Shareholder dilution as a result of the Proposed Spin-off.

Fair valuation for the Telecommunications Business

The Directors anticipate that a separate listing of the Telecommunications Business will facilitate a higher value of the Telecommunications Business than that which has been attributed under its current structure within the Company's listing. This, in turn, will increase the value of the Shares to the benefit of all of the Shareholders.

For the purposes of the Shareholders' approval required under PN 15 and Chapter 14 of the Listing Rules, Shareholders are requested to approve the Proposed Spin-off provided that the terms of the Global Offering would achieve the Minimum Market Capitalisation of the HKT Trust of not less than HK$28.6 billion. This Minimum Market Capitalisation is approximately 20.2% higher than the market capitalisation of PCCW of approximately HK$23.8 billion as at the Latest Practicable Date. This suggests that the Telecommunications Business which accounted for approximately 80% of the

Group's revenue for the year ended 31 December 2010, alone would have a higher equity valuation immediately upon completion of the Proposed Spin-off than the equity valuation of the whole of PCCW, including the Telecommunications Business, the Media Business and the Solutions Business at the Latest Practicable Date.

We note from the Valuation Report that the estimated fair market value ranges of the Media Business and the Solutions Business are HK$7,500 million to HK$8,200 million and HK$3,400 million to HK$3,800 million as at 30 June 2011, respectively. As such, we concur with the Director's anticipation that the Proposed Spin-off should, other things being equal, increase the value of the Shares, which is, in turn, considered to be beneficial to all Shareholders.

We have reviewed the trading multiples of the companies comparable to the Company and the Telecommunications Business (the "Comparable Companies"). Since the Telecommunications Business generated around 80% of the Group's total revenue for the year ended 31 December 2010, we assume the Comparable Companies to be the same for both the Company and the Telecommunications Business. As the Telecommunications Business derives revenues and earnings from both the fixed and mobile telecommunications businesses primarily in Hong Kong, the Comparable Companies we have chosen are Asian, integrated telecommunications businesses with a large market capitalisation (defined as greater than HK$10 billion) in a mature geography (defined as having a GDP per capita of at least HK$117,000 (equivalent to US$15,000), a mobile penetration rate of at least 90%, and a broadband penetration rate of at least 50%). We have also included large market capitalisation Hong Kong consumer-focused telecommunications services companies.

In addition, we have reviewed telecommunications companies listed in Hong Kong, in particular the seven members of the Hang Seng Composite Industry Index — Telecommunications ("HSTI"), and selected four integrated telecommunications companies out of the seven HSTI members as Comparable Companies.

The companies we have selected based on the above criteria are China Telecom Corporation Limited ("China Telecom"), China Unicom (Hong Kong) Limited ("China Unicom"), Chunghwa Telecom Co., Ltd. ("Chunghwa Telecom"), Hutchison Telecommunications Hong Kong Holdings Limited ("Hutchison Telecom"), KT Corporation ("KT Corp"), LG Uplus Corp. ("LG Uplus"), SK Telecom Co., Ltd. ("SK Telecom"), SmarTone Telecommunications Holdings Limited ("SmarTone"), StarHub Ltd ("StarHub") and Taiwan Mobile Co., Ltd. ("Taiwan Mobile"). To the best of our knowledge, this list is a fair representation of companies comparable to the Company and the Telecommunications Business.

We have compared the enterprise value ("EV")/"Comparable EBITDA[1]" and the price-earnings ratio ("PER") multiples (being the most commonly used multiples in the telecommunications sector) of

[1] Comparable EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and share of results of associates and jointly controlled companies.

PCCW and the Comparable Companies based on the closing prices as at the Latest Practicable Date with the multiples of the Telecommunications Business implied by the Minimum Market Capitalisation. The financial impact of debt repayment using a portion of the net proceeds from the Proposed Spin-off is not included in our analysis.

Table 1 — The implied multiples of the Telecommunications Business vs trading multiples of PCCW and the Comparable Companies

		Based on share prices as at the Latest Practicable Date		
Company	**Listing**	**Market capitalisation**	**EV/ Comparable EBITDA[2]**	**PER[2]**
		(HK$ billion)	*(Times)*	*(Times)*
China Telecom	Hong Kong	400.6	4.7	20.8
China Unicom	Hong Kong	375.2	6.4	79.8
Chunghwa Telecom	Taiwan	194.1	7.4	15.9
SK Telecom	Korea	79.7	3.3	8.6
Taiwan Mobile	Taiwan	72.0	10.2	20.3
KT Corp	Korea	61.5	3.4	7.9
StarHub	Singapore	29.9	9.1	19.0
LG Uplus	Korea	20.9	3.2	5.5
SmarTone	Hong Kong	14.5	6.3	19.2
Hutchison Telecom	Hong Kong	13.2	7.4	17.5
Simple average (Mean)			**6.1**	**15.0[3]**
Median			**6.4**	**18.3**
PCCW	**Hong Kong**	**23.8**	**7.3**	**12.3**
Telecommunications Business[1]	**Hong Kong**	**28.6**	**8.1**	**30.9**

Sources: Bloomberg and the latest published financial statements of the respective companies

Notes:

1. Implied equity value and enterprise value based on the Minimum Market Capitalisation.

2. Comparable EBITDA and net profit (excluding net profit attributable to minority interest) as per the latest published annual financial statements of the Comparable Companies available on the Latest Practicable Date. The latest published annual net profit of PCCW for the year ended 31 December 2010 includes non-recurring gains of net realised gains on disposal of an associate of HK$1 million, provision for impairment of investments of HK$21 million, and fair value gains on investment properties of HK$1,155 million. The adjusted net profit excluding such non-recurring gains would be HK$1,189 million (excluding tax effects), resulting in a PER of 20.0 times based on share prices as at the Latest Practicable Date. The adjusted PER of PCCW of 20.0 times as at the Latest Practicable Date is higher than the median of 18.3 times of the Comparable Companies, but lower than the PER multiple of the Telecommunications Business implied by the Minimum Market Capitalisation of 30.9 times.

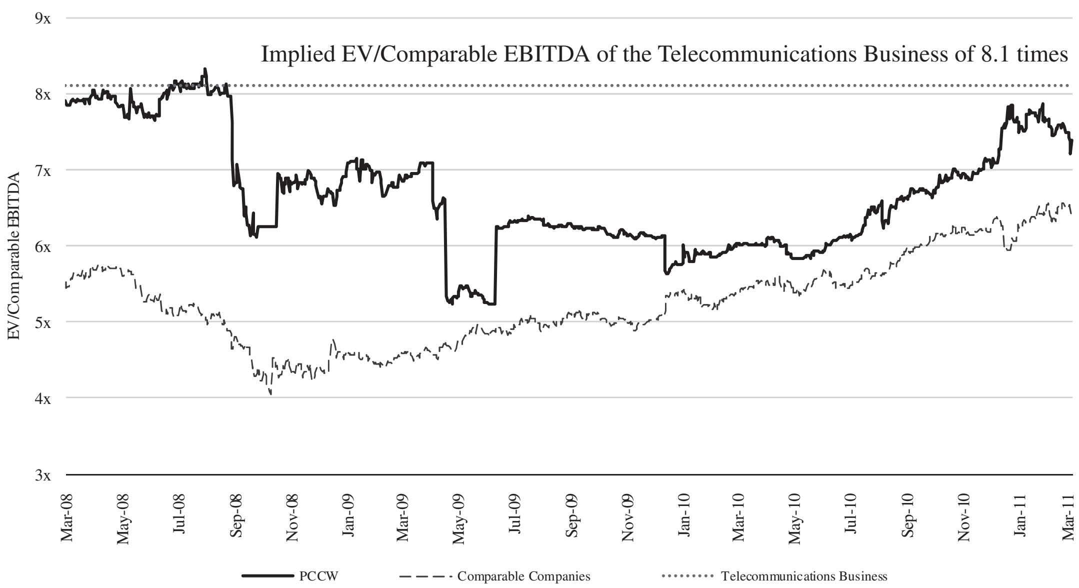
3. China Unicom's PER is excluded from the mean PER as we consider it to be an outlier which may distort the mean.

4. Exchange rates into HK$ as at the Latest Practicable Date were used.

Based on Table 1 above, the EV/Comparable EBITDA multiple of PCCW of 7.3 times as at the Latest Practicable Date is toward the higher end of the range of 3.2 times to 10.2 times of the Comparable Companies and represents a premium of approximately 14.1% over the median multiple of 6.4 times of the Comparable Companies as at the Latest Practicable Date. The PER of PCCW of 12.3 times as at the Latest Practicable Date is lower than the median of 18.3 times of the Comparable Companies, which represents a discount of approximately 32.8%. The EV/Comparable EBITDA and PER multiples of the Telecommunications Business implied by the Minimum Market Capitalisation under the Global Offering are expected to be higher than the average and median EV/Comparable EBITDA and PER multiples of both PCCW and the Comparable Companies. This reinforces the Directors' belief that the Proposed Spin-off would unlock the value of the Telecommunications Business to the benefit of the Shareholders immediately upon completion of the Proposed Spin-off.

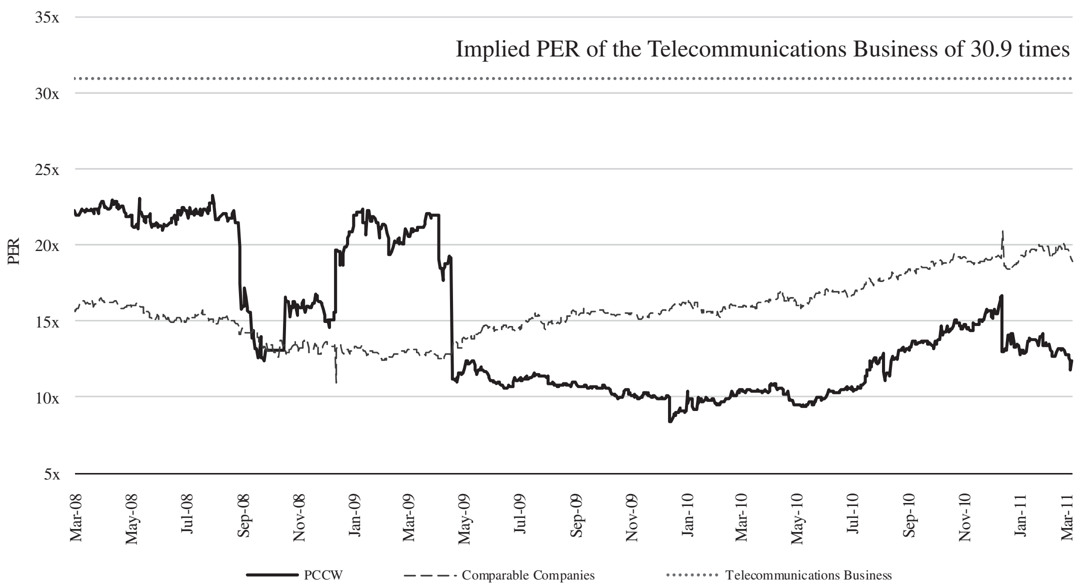
The analyses in Chart 2 and Chart 3 below compare the EV/Comparable EBITDA and PER multiples of the Company and the average EV/Comparable EBITDA and PER multiples of the Comparable Companies to the EV/Comparable EBITDA and PER multiples of the Telecommunications Business implied by the Minimum Market Capitalisation for three years leading up to and including the trading day of 18 March 2011, which was the trading day immediately before the Company first announced its intention for the Proposed Spin-off on 21 March 2011.

Chart 2 — The three year historical EV/Comparable EBITDA of PCCW vs the Comparable Companies vs the implied multiple of the Telecommunications Business



Sources: Bloomberg and the latest published financial statements of the Comparable Companies available on the Latest Practicable Date

Chart 3 — The three year historical PER of PCCW vs the Comparable Companies vs the implied PER of the Telecommunications Business



Sources: Bloomberg and the latest published financial statements of the Comparable Companies available on the Latest Practicable Date

Note: We have excluded China Telecom and SmarTone in the analysis for this Chart 3 as the PER for both companies were exceptionally high for significant periods within the duration of the chart. As such, we believe that market participants would primarily have valued both companies during these periods using other metrics such as EV/EBITDA. It is common during certain periods of high investment, high depreciation or high growth for the market to seek alternative valuation metrics. It is not to say that the PER during this period would be completely ignored, but it would likely be a secondary consideration. As such, we decided to cut off our analysis at a sensibly extreme PER (50 times) so as not to distort the analysis unfairly. We also note that at the end of the chart period, at the beginning of 2011, China Unicom's PER exceeded 50 times, as also shown in Table 1. However, this is only for a short period at the end of the analysis and does not distort the overall conclusion. As such, and considering the relevance of China Unicom in the previous periods of the analysis, we decided to include China Unicom throughout.

Based on the analyses in Chart 2 and Chart 3, the EV/Comparable EBITDA multiple of 8.1 times and PER multiples of 30.9 times of the Telecommunications Business implied by the Minimum Market Capitalisation are mostly higher than the respective historical EV/Comparable EBITDA and PER multiples of the Company over a three year period. These analyses in conjunction with the analysis in Table 1 reinforce the Directors' belief that the Proposed Spin-off would unlock the value of the Telecommunications Business to the benefit of the Shareholders immediately upon completion of the Proposed Spin-off.

Proceeds of the Proposed Spin-off

As noted from the paragraph headed "Part XIII — Estimated net proceeds and intended use of proceeds" in the "Letter from the Board" in the Circular, the net proceeds to be received by HKT is estimated to be in the range of approximately HK$6.8 billion to HK$10.0 billion from the dilution of 25% to up to 36.7% of the Share Stapled Units in issue before any exercise of the Over-allotment Option and Distributions in Specie from the Global Offering based on the Minimum Market Capitalisation.

As described in the paragraph headed "Part XIII — Estimated net proceeds and intended use of proceeds" in the "Letter from the Board" in the Circular, HKT intends to use the net proceeds from the Global Offering as follows:

- if the net proceeds are HK$7.8 billion or less, the entire net proceeds (after deducting proportionate underwriting fees and related expenses) will be retained by HKT and applied towards the repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities described in the paragraph headed "Part III — Pre-IPO Restructuring" in the "Letter from the Board" in the Circular; and

- if the net proceeds exceed HK$7.8 billion (but not otherwise) the entire amount of the net proceeds in excess of HK$7.8 billion would be paid to CAS No. 1, a wholly-owned subsidiary of PCCW, for the settlement and cancellation of the promissory note issued to it under the Pre-IPO Restructuring as partial consideration for the Acquisition.

Based on our discussion with the management of PCCW, in the event that the net proceeds from the Global Offering exceed HK$7.8 billion, the PCCW Group (after the Proposed Spin-off and excluding the Telecommunications Group) plans to apply the funds from the settlement and cancellation of the promissory note issued to CAS No. 1 (due from HKT arising from the Pre-IPO Restructuring exercise) to make additional investments in, or to supplement its growth businesses such as the Media Business and the Solutions Business and also for additional working capital for the Remaining Businesses.

PCCW has advised that, as at the Latest Practicable Date, it is not in discussion or negotiation on any major potential investment that is engaged in the same business as the Media Business or the Solutions Business. Shareholders should note that any investments in these businesses would carry investment risk and it is not certain that investment returns will be positive. However, after review of the Media Business and the Solutions Business, industry growth and profitability, and discussion with the Company's management, we consider that it may be feasible that investments in these business areas may generate attractive returns on capital.

We note that the Telecommunications Group has sufficient financial resources which combined with the net proceeds should be adequate to meet obligations arising from the Pre-IPO Restructuring as well as other near term debt repayment requirements which may reasonably be foreseen as at the Latest Practicable Date.

Focus, clarity of business and financial status

The Proposed Spin-off will allow for a more defined business focus and more efficient resource allocation for the Telecommunications Business. A spin-off and separate listing of the Telecommunications Business would provide investors with greater clarity on the Telecommunications Business, through its separate financial reporting, corporate governance and independent listing status. Separation and clear delineation of the Telecommunications Group and the Remaining Group are further discussed below in the sub-paragraph headed "3. The Remaining Businesses" in this letter.

Increased financial resources for the Telecommunications Group

As mentioned above, part of the net proceeds from the Proposed Spin-off will be made available to the Telecommunications Group to reduce its net indebtedness thus strengthening its balance sheet. Please refer to the sub-paragraph headed "Effects of the Proposed Spin-off on the Group — Effects on indebtedness" below in this letter for our discussion on the changes to the Group's indebtedness as a result of the Proposed Spin-off.

Continued control

Following the Proposed Spin-off, the Company will continue to be the beneficial owner of not less than 55% of the HKT Trust (after completion of the Global Offering and the Distributions in Specie and assuming the Over-allotment Option is exercised in full). In addition, the Company will be the sole shareholder of the Trustee-Manager. Thus, the Company will continue to have control over the Telecommunications Group and the Shareholders will continue to enjoy the benefits from the future development and financial performance of the Telecommunications Business.

No direct dilution on the Shareholder

The Proposed Spin-off will not directly dilute the Shareholders when compared to a fund raising exercise involving the issue of new shares by the Company, because the Company will continue to be the majority owner of the HKT Trust and HKT, and the Shareholders' ownership of the Company will not be reduced.

Following the implementation of the Proposed Spin-off, the Remaining Group will continue to focus on the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses, while the Telecommunications Group will continue to focus on investing in, developing, operating, and managing telecommunications services businesses primarily in Hong Kong and to seek complementary opportunities in overseas markets.

Based on the above, we concur with the Directors that the Proposed Spin-off is in the interest of the Company and the Shareholders taken as a whole and in our view, to be a reasonable attempt to enhance value for all Shareholders by unlocking the value of the Telecommunications Business that has not been recognised fully in the PCCW Share price.

2. Effects of the Proposed Spin-off on the Group

Following the implementation of the Proposed Spin-off, the Company will hold not less than 55% of the Share Stapled Units (immediately after completion of the Global Offering and the Distributions in Specie and assuming the Over-allotment Option is exercised in full) and as such, the assets and liabilities of the Telecommunications Group will continue to be consolidated into the consolidated financial statements of the Company.

(a) Effects on net assets

The unaudited combined net asset value of the Telecommunications Group and the capital and reserves attributable to equity holders at the PCCW Group level (which is presented after the effects of elimination adjustments as more fully described in note 2 of the balance sheet in Appendix IV to the Circular) as at 31 December 2010 was a negative of approximately HK$16,389 million and a negative of approximately HK$16,551 million, respectively.

After the completion of the Proposed Spin-off and after the Distributions in Specie, PCCW is assumed to retain control of, at least a 58.3% interest of the Share Stapled Units in issue before any exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full and after the Distributions in Specie, PCCW will retain control of not less than a 55% interest in the Share Stapled Units in issue after completion of the Proposed Spin-off. It is expected that PCCW will continue to consolidate the Telecommunications Group as long as it retains control of over 50% interest in the Telecommunications Business. Any surplus of the consideration to be received over the corresponding carrying value of the net assets of the Telecommunications Group will be credited directly as a gain to the reserves attributable to the equity holders at PCCW Group level. Such gain as a result of the completion of the Proposed Spin-off would not go through PCCW's consolidated income statement or statement of comprehensive income.

Assuming that the Minimum Market Capitalisation of approximately HK$28.6 billion is achieved and the dilution of interest in HKT Trust and HKT from the Global Offering is 36.7% of the Share Stapled Units in issue (before any exercise of the Over-allotment Option and the Distributions in Specie), the resulting gain to be credited to the reserves attributable to the equity holders at PCCW Group level would be approximately HK$12.5 billion, taking into account the effects of the dilution of interest in the HKT Trust and HKT from the Global Offering of approximately 36.7% of the Share Stapled Units in issue and the Distributions in Specie. This gain to be credited to the reserves attributable to the equity holders at PCCW Group level would increase to approximately HK$14.3 billion if the Over-allotment Option is fully exercised and the net proceeds to be received by HKT would increase by approximately HK$1.6 billion. If the dilution of interest in the HKT Trust and HKT from the Global Offering of approximately 25% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the gain credited to the reserves attributable to equity holders at PCCW Group level would be approximately HK$8.9 billion, taking into account the effects of the dilution of interest in the HKT Trust and HKT from the Global Offering of approximately 25% of the Share Stapled Units in issue and after the Distributions in Specie.

As a result of the Proposed Spin-off, the net proceeds are expected to increase the consolidated net assets of the Group immediately after the Global Offering.

(b) Effects on net profit

The audited consolidated net profit attributable to equity holders of PCCW Group for the year ended 31 December 2010 was HK$1,926 million.

Assuming the dilution of interest in the HKT Trust and HKT resulting from the Global Offering is 40% of the Share Stapled Units in issue after full exercise of the Over-allotment Option and the Distributions in Specie had taken place on 1 January 2010, the consolidated net profit attributable to Shareholders of the PCCW Group for the year ended 31 December 2010 would decrease by approximately HK$812 million (being 45% of the net profit attributable to the equity holders of the Telecommunications Group at the PCCW Group level after Group eliminations in 2010 of HK$1,804 million) to HK$1,114 million.

If the dilution of interest in the HKT Trust and HKT from the Global Offering is reduced from 40% to 25% and assuming such dilution of interest in the HKT Trust and HKT and the Distributions in Specie had taken place on 1 January 2010, the consolidated net profit attributable to Shareholders of the PCCW Group for the year ended 31 December 2010 would decrease by approximately HK$541 million, (being 30% of the net profit attributable to the equity holders of the Telecommunications Group at the PCCW Group level after Group eliminations in 2010 of HK$1,804 million) to HK$1,385 million. Please refer to Appendix IV to the Circular for further details.

(c) Effects on indebtedness

Based on the audited financial information of the Group as disclosed in the Company's 2010 annual report and the unaudited financial information as shown in Appendix I to the Circular, the gross debt of the Group was HK$35,315 million as of 31 December 2010 and HK$36,118 million as of 31 July 2011. Please refer to Appendix I to the Circular for further details.

As a result of the Proposed Spin-off, if the net proceeds is HK$7.8 billion or less, HKT intends to retain the entire net proceeds and apply it towards repayment of the Telecommunications Group's debt, including the mandatory repayment required under its third party bank facilities described in the paragraph headed "Part III — Pre-IPO Restructuring" in the "Letter from the Board" in the Circular. If the net proceeds exceed HK$7.8 billion (but not otherwise), HK$7.8 billion will be retained by HKT and applied towards repayment of the Telecommunications Group's debt, and the entire amount of the net proceeds in excess of HK$7.8 billion would be paid to CAS No. 1, a wholly-owned subsidiary of PCCW, for the settlement and cancellation of the promissory note issued to it under the Pre-IPO Restructuring as partial consideration for the Acquisition.

This would therefore reduce the Telecommunications Group's indebtedness and the Company's consolidated indebtedness significantly immediately after the Global Offering.

3. The Remaining Businesses

After the Proposed Spin-off, in addition to its remaining interest in the Telecommunications Group, the Company will continue its existing businesses which comprise the Media Business, the Solutions Business, the Property Business and the Other PCCW Group Businesses.

The Media Business comprises the Company's pay television service and "New Media and Directories" operations, which include the operation of "now TV", Hong Kong's largest pay television operator in terms of revenue, the online content and video streaming services of now.com.hk, the digital music service of MOOV, and the related advertising and interactive businesses that include YP (Yellow Pages) directories.

The Solutions Business, which is operated through the PCCW Solutions brand, is responsible for a growing number of large-scale IT projects in the public and private sectors. Its key business divisions are outsourcing and managed services, systems solutions development and integration, technical services and infrastructure solutions and business process outsourcing and logistics services. As part of the conditions of the Stock Exchange's approval under PN 15, the Company has provided an undertaking to retain the Solutions Business within the Group for at least three years from the Listing Date to ensure that the Remaining Group has a sufficient business to retain its listing status.

The Property Business is carried out by the Property Group, which is a separately listed company on the Stock Exchange in which PCCW held an indirect interest of approximately 61.53% of the issued share capital as at the Latest Practicable Date. The Property Business is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia Pacific region.

The Other PCCW Group Businesses principally consists of the UKBB's business, which is the only operator in the UK that has spectrum available for the deployment of such 4G LTE services and which has acquired a further 2.3GHz of spectrum covering the UK in the 4GHz, 28GHz and 40GHz bands suitable for fast wireless backhaul and fixed link wireless services.

The Company's strategy is to focus on the growth businesses of the Media Business and the Solutions Business. Through our discussion with the management of PCCW, we note that it intends to capture the value of the growth businesses through increased focus and where possible additional funding as a result of the Proposed Spin-off, and aligning the growth businesses with an investor base that favours high growth businesses. The Company intends the Media Business to become the leading interactive media platform operator, providing compelling content through in-house production and aggregation, delivered through multiple strategies including IPTV and the internet. The Company also intends to expand the Solutions Business geographically by strengthening its presence in the PRC.

The projections for the Media Business and the Solutions Business for the year ending 31 December 2011, as provided by the Company's management and set out in the paragraph headed "Part X — Media and Solutions Businesses independent valuation and management forecast" in the "Letter from the Board" in the Circular, set out the Directors' view of the future performance of the two businesses.

The Media Business

The following table sets out a financial summary of the Media Business before PCCW Group eliminations[1] for the three years ended 31 December 2010, as shown in Appendix III to the Circular.

	For the years ended 31 December		
	2008	**2009**	**2010**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
Turnover	2,239	2,350	2,383
Cost of services	(1,790)	(1,754)	(1,603)
Gross profit	449	596	780
Operating expenses before depreciation and amortisation	(532)	(592)	(548)
Media EBITDA	(83)	4	232
Loss for the year	(357)	(330)	(24)

Source: Appendix III to the Circular

Note:

1. PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation and amortisation charges, arising from 2008 Restructuring

The following sets out the summary of the operating drivers of the Media Business for the three years ended 31 December 2010, as shown in Appendix III to the Circular:

	For the years ended 31 December		
	2008	**2009**	**2010**
now TV installed base ('000)	953	1,001	1,039
now TV installed base ARPU[1] (HK$)	166	170	165
now.com subscribers ('000)	275	266	381
now.com ARPU[1] (HK$)	56	56	46

Source: Appendix III to the Circular

Note:

1. ARPU is calculated by dividing the revenue earned in the year by the average number of installed base or subscribers, as appropriate, during the year.

Turnover represents the subscription revenue for the provision of pay television services and multimedia portal services, and advertising revenue from advertisements placed through the pay television channels, on the multimedia portal, and in the published and online directories and other websites. Turnover of the Media Business was HK$2,383 million for the year ended 31 December 2010, compared to HK$2,350 million for the year ended 31 December 2009, an increase of HK$33 million, or 1.4%. This was mainly due to higher revenues from TV subscriptions and advertising and transactions on a larger installed subscription base partially offset by a slight decline in installed base ARPU. Revenue from New Media, which includes revenue from now.com service subscription and directory business, remained flat at HK$351 million for the year ended 31 December 2010.

The Media Business has successfully increased its total number of subscriptions for the now TV services from approximately 1,001,000 as of 31 December 2009 to approximately 1,039,000 as of 31 December 2010. The total number of subscribers for the now.com services also increased from approximately 266,000 as of 31 December 2009 to approximately 381,000 as of 31 December 2010 because of more subscription options offered. now TV's installed base ARPU and now.com's ARPU decreased from 2009 to 2010 mainly due to pricing initiatives to promote growth in 2010.

The Media Business achieved a reduction in cost of services for the year ended 31 December 2010 mainly due to the non-renewal of the rights to broadcast the English Premier League in July 2010. Operating expenses were also reduced due to cost efficiency attained from scale as well as a reduction in bad debt provision in line with the improved economic conditions in Hong Kong, and the continued implementation of effective credit control measures. Media EBITDA increased by HK$228 million, from HK$4 million for the year ended 31 December 2009 to HK$232 million for the year ended 31 December 2010. Net loss for the year narrowed to HK$24 million for the year ended 31 December 2010, which is an improvement of 92.7% from a net loss of HK$330 million for the year ended 31 December 2009.

The Solutions Business

The following sets out a financial summary of the Solutions Business before PCCW Group eliminations[1] for the three years ended 31 December 2010, as shown in Appendix III to the Circular.

	For the years ended 31 December		
	2008	**2009**	**2010**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
Turnover	1,904	1,792	2,039
Cost of services	(1,299)	(1,257)	(1,432)
Gross profit	605	535	607
Operating expenses before depreciation	(421)	(334)	(323)
Solutions EBITDA	184	201	284
Profit for the year	129	150	241

Source: Appendix III to the Circular

Note:

1. PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation and amortisation charges, arising from 2008 Restructuring.

Turnover of the Solutions Business includes (i) IT system solutions development and integration which included project revenue as well as recurring maintenance revenue post completion of the projects; (ii) outsourcing and management services; (iii) business process outsourcing and logistics; and (iv) technical services and infrastructure solutions.

Turnover of the Solutions Business was HK$2,039 million for the year ended 31 December 2010, compared to HK$1,792 million for the year ended 31 December 2009, an increase of HK$247 million, or 13.8%, mainly due to an increase of HK$170 million in the revenue from outsourcing and managed services provided by the Solutions Business. Operating expenses decreased mainly as a result of cost efficiency improvement in the technology and infrastructure service of HK$15 million. Solutions EBITDA increased by HK$83 million, or 41.3%, from HK$201 million for the year ended 31 December 2009 to HK$284 million for the year ended 31 December 2010, and profit for the year increased by HK$91 million, or 60.7%, from HK$150 million for the year ended 31 December 2009 to HK$241 million for the year ended 31 December 2010.

Clear delineation between the Telecommunications Group and the Remaining Businesses

It is acknowledged that there will be a continuing relationship between the Telecommunications Group and the Remaining Group; for instance, the Media Group will rely on the Telecommunications Group for the provision of network and related services and the Media Group will provide media content as part of a "bundled service" over the platforms offered by the Telecommunications Group, while the Solutions Group will rely on the Telecommunications Group for the provision of certain connectivity services and the Solutions Group will provide customised solutions services such as help desk services, system and database support and IT security services to the Telecommunications Group. The continuing transactions between the Telecommunications Group and the Remaining Group are set out in Appendix VII to the Circular. We note that after the completion of the Proposed Spin-off, the Company will have procedures in place to address the potential conflicts of interests so the Telecommunications Group would function independently of the Remaining Group.

To address the potential conflicts of interests between the Remaining Group and the Telecommunications Group, (i) HKT will enter into the Non-Compete Agreements with the Company; (ii) the Company (on the one hand) and the Trustee-Manager and HKT (on the other hand) will have boards of directors and management teams that will function independently of each other with no common independent non-executive directors between the Company (on the one hand) and the Trustee-Manager and HKT (on the other hand) upon Listing; (iii) the Telecommunications Group will be functionally and financially independent of the Remaining Group; (iv) the Remaining Group and the Telecommunications Group will each have their own separate principal places of business upon Listing; and (v) the Remaining Group and the Telecommunications Group will each have independent administrative capabilities. Further details of the relationship between the Telecommunications Group and the Remaining Group and procedures to be put in place to address potential conflict of interest are set out in the paragraph headed "Part XI — PCCW's relationship with the HKT Trust and HKT after the Proposed Spin-off" in the "Letter from the Board" in the Circular.

The Board has confirmed that the Company has fulfilled the condition of satisfying the Listing Division of the Stock Exchange that it meets the requirements concerning independence of directorship and management under PN 15, as set out in the paragraph headed "Part XII — Conditions precedent for the Proposed Spin-off" in the "Letter from the Board" in the Circular.

4. Future dividend distribution

The Company intends to maintain at least the same level of dividend distribution to the Shareholders as in the financial year ended 31 December 2010 (being HK$1,112 million) for the three years following the Proposed Spin-off. We note that the distributed dividend for 2010 is at a historical three year high (excluding the special dividend paid for the year ended 31 December 2008).

The Trust Deed will require the HKT Trust to distribute 100% of its cash flows from dividends, other distributions and any other amounts received (in each case net of applicable taxes and expenses) by the HKT Trust from the Telecommunications Group, after such cash flows have been applied to pay the operating expenses of the HKT Trust, including the Trustee-Manager's expenses. The Trust Deed and the articles of association of HKT will state the current intention of the directors of HKT that in respect of each full financial year the Telecommunications Group will declare and distribute 100% of the Telecommunications Group's Annual Adjusted Funds Flow to Holders of Share Stapled Units as dividends, after adjusting for potential debt repayment, if required, for each financial year. It should be noted that the Telecommunications Group's Annual Adjusted Funds Flow is an amount derived from the HKT's annual financial results only. As noted from the paragraph headed "Part VI — Distribution policy of the HKT Trust and profit forecast — Statements of distribution" in the "Letter from the Board" in the Circular, the Prospectus will state that the directors of the Trustee-Manager and HKT expect that (in the absence of unforeseen circumstances) the total distributions payable to Holders of Share Stapled Units will be not less than the pro-rata expected distributions for the year ending 31 December 2011. Assuming the Listing Date is prior to 31 December 2011, the pro-rata expected distributions to be paid to Holders of Share Stapled Units is calculated based on the expected Annual Adjusted Funds Flow of HK$2,356 million for the year ending 31 December 2011, multiplied by the number of days from the Listing Date to 31 December 2011 (both dates inclusive) and divided by 365 (being the number of calendar days in the financial year ending 31 December 2011). The Prospectus will also state that the directors of the Trustee-Manager and HKT expect that the total distributions (in the absence of unforeseen circumstances) to Holders of Share Stapled Units will be not less than HK$2,574 million for the financial year ending 31 December 2012.

Based on the historical performances and growth of the Company as mostly reflected in the forecast and projection for the Media Business and the Solutions Business as set out in the paragraph headed "Part X — Media and Solutions Businesses independent valuation and management forecast" in the "Letter from the Board" in the Circular and the Valuation Report, the net proceeds to the Company after reduction in Telecommunications Group's indebtedness, further potential proceeds from the exercise of the Over-allotment Option, and that the Company will receive not less than 55% (and up to 70%) of the dividend distributions from the HKT Trust (considering the expected total distributions per Share Stapled Unit as mentioned above) in which the HKT Trust may declare and distribute to the Registered Holders of Share Stapled Units out of its available funds and not only out of accounting profits, it is feasible that the Company will be able to maintain at least the same level of dividend distribution for the three years following the Proposed Spin-off.

5. Assured Entitlement to the Share Stapled Units

In addition to their indirect interest in the Telecommunications Business through the Company, the Board proposes to enhance the interests of Shareholders by providing assured entitlements to Qualifying Shareholders under the Preferential Offering and to Distribution Qualifying Shareholders under the Distributions in Specie.

The Preferential Offering

Subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Share Stapled Units and on the Main Board of the Stock Exchange and the Proposed Spin-off becoming unconditional, the Board expects that the HKT Trust and HKT will jointly make available Reserved Share Stapled Units representing approximately 10% of the Share Stapled Units initially offered under the Global Offering as an Assured Entitlement (assuming the Over-allotment Option is not exercised) for subscription by the Qualifying Shareholders at the Offer Price on a preferential basis as to allocation only pursuant to the Preferential Offering. In addition, up to an additional approximately 20% of the Share Stapled Units initially offered under the Global Offering will be made available to

Qualifying Shareholders under the Preferential Offering to satisfy applications for excess Share Stapled Units. In making your respective investment decision in terms of whether or not to participate in the Preferential Offering, Qualifying Shareholders should carefully review the Prospectus and your own specific circumstance. Qualifying Shareholders participating in the Preferential Offering may also make an application for the Offer Shares as part of the Hong Kong Public Offer.

Distributions in Specie

A board committee of the Company will propose to declare a conditional special dividend to the Distribution Qualifying Shareholders. It will be satisfied by two distributions in specie of Share Stapled Units, with each distribution in specie representing approximately 2.5% of the Share Stapled Units in issue immediately following the completion of the Global Offering. Therefore, in total, the Share Stapled Units to be issued pursuant to the Distributions in Specie will represent approximately 5% of the enlarged issued Share Stapled Units after completion of the Global Offering (assuming that the Over-allotment Option is exercised in full) and assuming that the issued share capital of PCCW as at the Latest Practicable Date remains unchanged.

In relation to the Distribution Overseas Shareholders in respect of the Distributions in Specie, the Share Stapled Units which they would otherwise have received pursuant to the Distributions in Specie will be sold by the Company on their behalf and the Distribution Overseas Shareholders will receive a cash payment equal to the net proceeds of such sale.

The two distributions in specie with different distribution record dates act as a reward for loyal Shareholders that continue to hold their PCCW Shares through the First Distribution Date and the Second Distribution Date by distributing additional bonus Share Stapled Units to these Shareholders. Please refer to the paragraph headed "Part XVII — Assured Entitlements to the Share Stapled Units" in the "Letter from the Board" in the Circular for further information.

A further announcement regarding the details of the Distributions in Specie will be made by the Company on or before the date of the Prospectus.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our recommendation:

(a) No Shareholder has a material interest in the Proposed Spin-off that is different from other Shareholders. All Shareholders will be entitled to vote on the Proposed Spin-off on equal grounds.

(b) A separate listing of the Telecommunications Business at no less than the Minimum Market Capitalisation is expected to create value for the Shareholders.

(c) The Company is expected to realise a substantial cash consideration from the Proposed Spin-off, enabling the Group to apply such proceeds to reduce its net indebtedness and thereby strengthening its balance sheet.

(d) After the completion of the Proposed Spin-off, the Company is to retain majority interest in the Telecommunications Business of not less than 55% (assuming the Over-allotment Option is exercised in full and after the Distributions in Specie), allowing the Shareholders to continue to benefit from the financial performance and cash flows of the Telecommunications Business.

(e) The financial effects of the Proposed Spin-off, including the effect on net assets and indebtedness are expected to be beneficial to the Shareholders.

(f) There is expected to be a clear delineation between the Remaining Group and the Telecommunications Group, allowing the Remaining Group as well as the Telecommunications Group to create a more defined business focus and efficient resource allocation.

(g) The Company intends to maintain at least the same level of dividend distribution to the Shareholders as in 2010, which is a historical three year high, for the three years following the Proposed Spin-off.

(h) Qualifying Shareholders will be entitled to participate in the Preferential Offering at the Offer Price with an assured entitlement of approximately 10% of the Share Stapled Units initially offered under the Global Offering. In addition, Share Stapled Units representing up to an additional approximately 20% of the Share Stapled Units initially offered under the Global Offering will be made available to Qualifying Shareholders under the Preferential Offering to satisfy applications for excess Share Stapled Units.

(i) Distribution Qualifying Shareholders will be entitled to an aggregate of 5% of the enlarged issued Share Stapled Units immediately after the completion of the Global Offering by way of Distributions in Specie.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Proposed Spin-off to be fair and reasonable so far as the Shareholders are concerned, and the Proposed Spin-off to be in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Shareholders to vote in favour of ordinary resolution numbered 1 to approve the Proposed Spin-off, as detailed in the "Notice of Extraordinary General Meeting" which is set out at the end of the Circular.

Yours very truly,
For and on behalf of
Rothschild (Hong Kong) Limited

Catherine Yien
Director

Stuart Walker
Director

1. INDEBTEDNESS STATEMENT

At the close of business on 31 July 2011, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this document, the PCCW Group had outstanding indebtedness of approximately HK$36,118 million, comprising short term secured bank loan of approximately HK$45 million, short term unsecured guaranteed notes of approximately HK$7,789 million, long term unsecured guaranteed notes of approximately HK$11,684 million, long term secured and unsecured bank loans of approximately HK$14 million and HK$15,554 million, respectively, and other liabilities of approximately HK$1,032 million.

At the close of business on 31 July 2011, the PCCW Group had contingent liabilities of approximately HK$433 million in respect of guarantees for its subsidiaries in the normal course of business and other guarantees of approximately HK$11 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the PCCW Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, material obligations under hire purchase contracts or finance leases, guarantees or other material contingent liabilities as at the close of business on 31 July 2011.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the respective rates of exchange prevailing at the close of business on 31 July 2011.

As at the Latest Practicable Date, the Directors were not aware of any material change in respect of the indebtedness and contingent liabilities of the PCCW Group since 31 July 2011.

2. WORKING CAPITAL

The Directors are of the opinion that based on the expected cash flows, banking facilities available and internal resources of the Group, the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances for at least the next twelve months from the date of this circular.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The PCCW Group recorded a profit attributable to Shareholders of approximately HK$1,926 million, HK$765 million and HK$824 million respectively for the year ended 31 December 2010 and for the six months ended 30 June 2010 and 30 June 2011.

PCCW's financial results in the first half of 2011 reflected strong operating fundamentals across all the core business segments and demonstrated the continued success of its unique quadruple-play strategy. Core EBITDA maintained its growth momentum and reported another 5% growth year-on-year to HK$3,535 million, on the back of solid core revenue growth of 2% year-on-year to HK$10,936 million for the six months ended 30 June 2011.

EBITDA contribution from PCPD was lower at HK$240 million, compared with HK$353 million a year ago, in view of the fewer units recognised during the period, despite higher selling price of Villa Bel-Air houses recognised which lifted PCPD's revenue for the six months ended 30 June 2011 by 17% to HK$1,250 million.

Consolidated revenue for the six months ended 30 June 2011 increased by 3% year-on-year to HK$12,186 million, while consolidated EBITDA edged up by 1% to HK$3,775 million. Despite lower EBITDA contribution from PCPD, the Company reported an increase of 8% in consolidated profit attributable to Shareholders to HK$824 million for the six months ended 30 June 2011, benefiting from the significant 17% surge in earnings for the core business which reflected not only improved operational fundamentals but also lower finance costs during the period. Basic earnings per share increased to 11.33 HK cents.

Outlook

The sustained growth of the Group's broadband business, despite intense market competition, has demonstrated that the Group's unique fixed and wireless broadband proposition is a winning differentiator. As more data-hungry Smartphones and tablets become available in the market to consumers, the Group also looks forward to further growth of its mobile business.

Because of PCCW's reputation as a trustworthy telecom partner, the Group's commercial telecom business is also set to gain further from the sustained improvement of the business environment.

Meanwhile, the Group's global connectivity business is benefiting from PCCW Global's enhanced network coverage and service quality, as well as the increasing demand for international bandwidth.

now TV is continuously enriching its programming either by local production or through acquisition of attractive international content. More new attractions will be rolled out in the coming months to bolster customer in-take, stickiness and ARPU.

The Company enjoys a steady and strong cash flow due to its well-established and successful operations. The Company will continue to enhance our network capability and to introduce products and services that meet the needs of our customers. The Company is confident that its businesses can continue on a growth path in the foreseeable future.

Information about the Telecommunications Group as set out in this Appendix II is extracted from the Prospectus (subject to amendment prior to issue), which is or may be material for Shareholders when deciding whether to vote for or against the Proposed Spin-off. Please refer to the Web Proof Information Pack of the HKT Trust and HKT available at the Stock Exchange's website at www.hkexnews.hk for further information of the Telecommunications Group.

PART I

SELECTED FINANCIAL INFORMATION AND OPERATIONAL DATA

You should read the following selected combined financial information for the periods and as at the dates indicated in conjunction with "Management's discussion and analysis of financial condition and results of operations" and the combined financial information of the Trust Group. The combined financial information is reported in Hong Kong dollars and was prepared and presented in accordance with HKFRS.

The combined financial position, results and cash flows of the Trust Group, under the ownership, management and control of HKTGH, as at and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 are presented in the combined financial information of the Trust Group, which have been prepared by the management of the Telecommunications Group. Following the completion of the Pre-IPO Restructuring, the HKT Trust will hold the Telecommunications Business as a result of its acquisition of the entire share capital of HKT.

The combined financial information of the Trust Group presented in Part I of Appendix II are the results of the Telecommunications Group before PCCW Group eliminations. The combined financial information of the Trust Group as at and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 are extracted from the audited financial statement of the Telecommunications Business.

HKT holds the entire share capital of HKTGH, which was incorporated on 18 January 2008. In the fourth quarter of 2008, HKTGH, through its indirect wholly-owned subsidiaries, completed the acquisition of the Telecommunications Business (the "**2008 Restructuring**") and the combined financial information of the Trust Group for the year ended 31 December 2008 includes the post-acquisition results of the Telecommunications Business. The acquisitions of the Telecommunications Business arising from the 2008 Restructuring were accounted for using the purchase method under HKFRS 3, "Business combinations" (2004) and, accordingly, the results of the acquired businesses were fully consolidated from the date on which the 2008 Restructuring was completed. As a result, the combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business and **is not directly comparable** to the full year results of the Telecommunications Business for the years ended 31 December 2009 and 2010. In addition to the combined financial information of the Trust Group, management of the Telecommunications Group has also prepared the aggregated financial information of the Trust Group for the year ended 31 December 2008, which aggregated the audited historical results for the year ended 31 December 2008, the pre-acquisition results of the accounting acquirees in the 2008 Restructuring and adjustments to annualise depreciation, amortisation and finance costs assuming the 2008 Restructuring had taken place as at 1 January 2008 (the "**2008 Aggregated Financial Information**"). Management of the Telecommunications Group uses the 2008 Aggregated Financial Information as a comparison to the 2009 and 2010 historical combined financial information of the Trust Group. The 2008 Aggregated Financial Information is presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the 2008 Restructuring taken place as at 1 January 2008. Such 2008 Aggregated Financial Information is referred to in certain footnotes to the "Selected financial information" below and in certain paragraphs of the discussion in Part II of Appendix II to this circular "Management's discussion and analysis of financial condition and results of operations".

During the track record period, the HKT Trust did not exist and, therefore, the financial results of the Trust Group are the same as the financial results of the Telecommunications Group. Following the formation of the HKT Trust in connection with the Listing, the financial results of the Trust Group will be the same as the financial results of the Telecommunications Group, after taking into consideration the costs and expenses of the HKT Trust in carrying out its duties under the Trust Deed.

Selected financial information

The following is the combined financial information of the Trust Group for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 and the unaudited financial information of the Trust Group for the six months ended 30 June 2010. The 2008 Restructuring of the Telecommunications Group under HKTGH, a wholly-owned subsidiary of HKT, was not completed until the fourth quarter of 2008 and the combined financial information of the Trust Group for the year ended 31 December 2008 includes only the post-acquisition results of the Telecommunications Business. The acquisitions of the Telecommunications Business arising from the 2008 Restructuring were accounted for using the purchase method under HKFRS 3, "Business combinations" (2004) and, accordingly, the results of the acquired businesses were fully consolidated from the date on which the 2008 Restructuring was completed. As a result, the combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business and **is not directly comparable** to the full year results of the Telecommunications Business for the year ended 31 December 2009. In addition, the unaudited non HKFRS financial information, such as EBITDA and Adjusted Funds Flow, is set forth below in the section titled "Other historical financial and operational information" in this circular.

Combined income statements

	For the year ended 31 December			For the six months ended 30 June	
	2008[1]	**2009**	**2010**	**2010 (unaudited)**	**2011**
	HK$ million				
Turnover	7,201	17,947	18,527	9,206	9,537
Cost of sales	(2,306)	(6,642)	(7,451)	(3,635)	(3,758)
General and administrative expenses	(4,309)	(7,981)	(8,131)	(4,171)	(4,287)
Other gains/(losses), net	63	—	40	—	(28)
Losses on property, plant and equipment	—	(25)	—	—	—
Finance costs, net	(240)	(1,468)	(1,562)	(793)	(733)
Share of results of jointly controlled companies	—	—	(73)	(5)	(5)
Profit before income tax	409	1,831	1,350	602	726
Income tax	(132)	(480)	(378)	(180)	(168)
Profit for the year/period	277	1,351	972	422	558
Attributable to:					
Holders of Share Stapled Units	274	1,316	925	400	537
Non-controlling interests	3	35	47	22	21
	277	1,351	972	422	558

Note:

(1) The combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business as described in the paragraph in Part I of Appendix II to this circular "Selected Financial Information and Operational Data — Selected financial information". Please see the subsection "Management's discussion and analysis of financial information and results of operations — Comparison of the results for the year ended 31 December 2009 and the aggregated results for the year ended 31 December 2008" for more detail.

Combined balance sheets

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	HK$ million			
Non-current assets				
Property, plant and equipment	15,717	15,068	14,322	14,564
Investment properties	6	7	—	—
Interests in leasehold land	389	376	329	323
Goodwill	35,688	35,877	35,892	35,895
Intangible assets	6,789	6,045	5,545	5,158
Interests in jointly controlled companies	—	259	474	461
Available-for-sale financial asset	—	—	48	75
Derivative financial instruments	—	—	152	113
Deferred income tax assets	—	4	3	3
Other non-current assets	371	420	448	481
	58,960	58,056	57,213	57,073
Current assets				
Prepayments, deposits and other current assets	466	1,085	2,045	1,346
Inventories	938	849	832	986
Derivative financial instruments	230	108	17	3
Trade receivables, net	2,076	1,945	2,104	2,202
Tax recoverable	2	—	—	—
Cash and cash equivalents	1,507	2,227	5,456	5,229
	5,219	6,214	10,454	9,766
Current liabilities				
Short-term borrowings	—	46	7,800	7,823
Trade payables	1,369	1,433	1,568	1,433
Accruals and other payables	2,453	2,215	2,019	2,090
Carrier licence fee liabilities	78	87	146	146
Amounts due to related companies	35	38	58	99
Amounts due to fellow subsidiaries and the ultimate holding company	7,240	2,774	4,045	2,697
Advances from customers	1,605	1,521	1,583	1,325
Current income tax liabilities	28	20	14	194
	12,808	8,134	17,233	15,807
Net current liabilities	(7,589)	(1,920)	(6,779)	(6,041)
Total assets less current liabilities	51,371	56,136	50,434	51,032

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	HK$ million			
Non-current liabilities				
Long-term borrowings	31,745	34,656	27,029	27,148
Derivative financial instruments	—	—	102	7
Deferred income tax liabilities	1,283	1,745	2,081	2,045
Deferred income	667	651	728	784
Carrier licence fee liabilities	551	515	924	908
Other long-term liabilities	37	66	57	56
	34,283	37,633	30,921	30,948
Net assets	17,088	18,503	19,513	20,084
Capital and reserves				
Retained profits	612	1,928	2,853	3,382
Other reserves	16,337	16,417	16,498	16,555
Equity attributable to Holders of Share Stapled Units	16,949	18,345	19,351	19,937
Non-controlling interests	139	158	162	147
Total equity	17,088	18,503	19,513	20,084

Combined statements of cash flows

	For the year ended 31 December			For the six months ended 30 June	
	2008[1]	2009	2010	2010 (unaudited)	2011
	HK$ million				
Net cash generated from operating activities	4,223	6,240	6,239	3,099	3,352
Net cash used in investing activities	(14,658)	(9,895)	(2,733)	(988)	(1,336)
Net cash generated from/(used in) financing activities	11,930	4,361	(264)	(2,997)	(2,185)
Net change in cash and cash equivalents	1,495	706	3,242	(886)	(169)
Exchange differences	12	14	(13)	(8)	(58)
Cash and cash equivalents at 1 January	—	1,507	2,227	2,227	5,456
Cash and cash equivalents at 31 December/30 June	1,507	2,227	5,456	1,333	5,229

Note:

(1) The combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business as described in the paragraph in Part I of Appendix II to this circular "Selected Financial Information and Operational Data — Selected financial information". Please see the subsection "Management's discussion and analysis of financial information and results of operations — Cashflow" for more detail.

Other historical financial and operational information

A reconciliation of profit for the year/period to EBITDA is provided as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008[(2)]	**2009**	**2010**	**2010**	**2011**
	HK$ million				
Profit for the year/period	277	1,351	972	422	558
Add back:					
Income tax	132	480	378	180	168
Profit before income tax	409	1,831	1,350	602	726
Add back/(less):					
Loss/(gain) on disposal of property, plant and equipment, net	17	3	(14)	1	(1)
Depreciation and amortisation	2,201	3,936	4,318	2,122	2,132
Other (gains)/losses, net	(63)	—	(40)	—	28
Losses on property, plant and equipment	—	25	—	—	—
Finance costs, net	240	1,468	1,562	793	733
Share of results of jointly controlled companies	—	—	73	5	5
EBITDA[(1)]	**2,804[(4)]**	**7,263**	**7,249**	**3,523**	**3,623**

A reconciliation of EBITDA to Adjusted Funds Flow is provided as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2008[2]	2009	2010	2010	2011
			HK$ million		
EBITDA[1]	**2,804[4]**	**7,263**	**7,249**	**3,523**	**3,623**
Reconciliation of EBITDA to Adjusted Funds Flow					
Less cash outflows in respect of:					
Customer acquisition costs and licence fees	(179)	(907)	(1,058)	(365)	(613)
Capital expenditures	(2,254)	(1,450)	(1,564)	(623)	(721)
Adjusted Funds Flow before tax paid, finance costs, interest (expense)/income and changes in working capital	371	4,906	4,627	2,535	2,289
Adjusted for:					
Tax payment	—	(24)	(43)	(24)	(24)
Finance costs paid	(237)	—	(302)	(227)	—
Interest expense paid	(219)	(1,432)	(1,296)	(661)	(678)
Interest income received	2	7	9	2	18
Changes in working capital	1,417	(1,006)	(976)	(402)	(253)
Adjusted Funds Flow for the year/period[3]	**1,334[4]**	**2,451**	**2,019**	**1,223**	**1,352**

Notes:

(1) EBITDA represents consolidated earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Telecommunications Group's share of results of associates and jointly controlled companies. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance and liquidity, it is not presented as a measure of operating performance in accordance with HKFRS. Furthermore, EBITDA is not a measure of the financial performance leverage or liquidity under HKFRS and should not be considered as representing net cash flows from operating activities or any other performance measures derived in accordance with HKFRS or an alternative to cash flow from operations or a measure of liquidity. The computation of the Telecommunications Group's EBITDA may not be comparable to similarly titled measures of other companies.

The Telecommunications Group's financial performance is measured by the Telecommunications Group using EBITDA in addition to accounting profits or losses. The basis for this approach is that telecommunications assets tend to have lower accounting profits amounts compared to operating cash flows in a financial year or period, or even losses, due to relatively high amount of non-cash depreciation and amortisation expenses associated with telecommunications assets.

(2) Information presented for 2008 is derived from the combined financial information of the Trust Group for the year ended 31 December 2008, which presents partial year results of the Telecommunications Business as described in the selected financial information paragraph in Part I of Appendix II to this circular titled "Selected Financial Information and Operational Data — Selected financial information".

(3) Adjusted Funds Flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The computation of the Telecommunications Group's Adjusted Funds Flow may not be comparable to similarly titled measures of other companies. The Adjusted Funds Flow may be used for debt repayment.

(4) The aggregated EBITDA and Adjusted Funds Flow for the year ended 31 December 2008 is derived from the aggregated financial information of the Telecommunications Group for the year ended 31 December 2008, which aggregated the audited historical results for the year ended 31 December 2008, the pre-acquisition results of the accounting acquirees in the 2008 Restructuring and adjustments to annualise depreciation, amortisation and finance costs assuming the 2008 Restructuring had taken place as at 1 January 2008. Such information is shown for illustrative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the 2008 Restructuring taken place as of such date.

On an aggregated basis, the EBITDA for 2008 was HK$7,357 million, derived from the profit for the year of HK$1,455 million, adding back income tax of HK$538 million, net loss on disposal of property, plant and equipment of HK$16 million, depreciation and amortisation of HK$3,926 million and net finance cost of HK$1,485 million and less net other gains of HK$63 million.

On an aggregated basis, Adjusted Funds Flow for 2008 was HK$1,739 million, derived from EBITDA of HK$7,357 million as stated above, less cash outflows in respect of customer acquisition costs and license fees of HK$1,001 million, capital expenditures of HK$2,886 million and further adjusted by subtracting finance costs paid of HK$237 million, interest expense paid of HK$1,463 million, tax paid of nil, changes in working capital of HK$40 million and adding back interest income received of HK$9 million.

Other operating data[(1)]

	As at / For the year ended 31 December			As at / For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
Telecommunications services					
Local telephony services					
Exchange lines in service ('000)	2,603	2,588	2,590	2,587	2,625
Business lines ('000)	1,195	1,182	1,183	1,180	1,217
Residential lines ('000)	1,408	1,406	1,407	1,407	1,408
Blended ARPU (HK$)	119[(*)]	111	101	103	96
Local data and broadband services					
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,302	1,297	1,367	1,298	1,437
Retail consumer broadband subscribers ('000)	1,126	1,146	1,215	1,148	1,285
Retail business broadband subscribers ('000)	113	114	115	114	116
Retail broadband blended ARPU (HK$)	245[(*)]	249	266	272	260
Traditional data capacity in service (Exit Gbps)	927	837	1,045	953	1,243
International telecommunications services					
Retail IDD minutes (million minutes)	1,785[(*)]	1,455	1,326	674	618
International private leased circuit bandwidth (Exit Mbps)	78,202	82,913	109,864	88,108	148,834
Mobile					
Mobile subscribers ('000)	1,313	1,422	1,484	1,469	1,506
3G post-paid ('000)	414	529	667	606	880
2G post-paid ('000)	440	376	250	319	43
2G prepaid ('000)	459	517	567	544	583
Blended post-paid ARPU (HK$)	151[(*)]	143	141	138	153
3G post-paid ARPU (HK$)	206[(*)]	189	175	175	163
2G post-paid ARPU (HK$)	113[(*)]	89	76	78	101

Notes:

(1) The figures stated are as at year/period end, except for the number of IDD minutes which is the total of the year/period and the blended ARPU figures for local telephony services, local data and broadband services and mobile services, which are annual/six month averages, calculated by dividing the revenue earned in the year/period by the average number of lines in service or subscribers, where appropriate, during the year/period.

(*) On an aggregated basis

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the information in the section headed "Selected financial information and operational data" in this circular and the combined financial information of the Trust Group presenting the combined financial condition, results of operations and cash flows of the Trust Group as at and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 included elsewhere in this circular. Certain paragraphs of the discussion below also refer to the 2008 Aggregated Financial Information of the Trust Group for the year ended 31 December 2008 which have been prepared assuming the 2008 Restructuring had taken place as at 1 January 2008. In addition, the combined financial information of the Trust Group for the six months ended 30 June 2010 has not been audited.

Statements contained in this "Management's discussion and analysis of financial condition and results of operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the directors of the Trustee-Manager and the directors of HKT or any other person, or that these results will be achieved or are likely to be achieved. Recipients of this circular are cautioned not to place undue reliance on these forward-looking statements. Except as otherwise required, the HKT Trust, HKT and the Trustee-Manager undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

OVERVIEW

The Telecommunications Business comprises three business segments: telecommunications services, mobile services and other businesses, as further described below.

Telecommunications services (TSS)

The telecommunications services segment provides four core areas of telecommunications products and services: local telephony services, local data and broadband services, international telecommunications services and other services.

- **Local telephony services:** The Telecommunications Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. The Telecommunications Group has a leadership position in the fixed-line telecommunications market in Hong Kong. The Telecommunications Group's local telephony services had approximately 2.63 million exchange lines in service as at 30 June 2011, and the leading market share of approximately 61.2% based on the number of exchange lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **Local data and broadband services:** The Telecommunications Group's local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The Telecommunications Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications. The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services. As at 31 July 2011, the NETVIGATOR ADSL 1.5M service reached approximately 98% of all households in Hong Kong. There were approximately 1.44 million broadband access lines as at 30 June 2011 while the total contracted bandwidth for local data services was 1,243 Gbps as at 30 June 2011. The Telecommunications Group's broadband service had the leading market share of approximately 65.4% based on the number of broadband access lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **International telecommunications services:** The Telecommunications Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fiber and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Telecommunications Group's network currently provides connectivity in approximately 1,500 cities in 110 countries and serves the enterprise and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The Telecommunications Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totalled 1,326 million minutes for the year ended 31 December 2010 and 618 million minutes for the six months ended 30 June 2011 and IPLC exit bandwidth based on the capacity in service totalled 149 Gbps as at 30 June 2011.

- **Other services:** Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and contact centre services ("**Teleservices**"). In addition, the Telecommunications Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

Mobile services

The Telecommunications Group offers 2G, 3G and CDMA mobile services which are marketed under the 'PCCW mobile' brand. The Telecommunications Group has invested significantly in expanding its 3G network since 2005. In addition, a jointly controlled company of the Telecommunications Group holds a licence from OFTA, which will enable the Telecommunications Group to provide next generation high speed 4G mobile data services in the future. As at 30 June 2011, the Telecommunications Group had approximately 1.51 million subscribers and according to the number of mobile subscribers in Hong Kong provided by OFTA, the Telecommunications Group's mobile services had a market share of approximately 12.1% based on the number of subscribers. The Telecommunications Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

Other businesses

The other businesses of the Telecommunications Group primarily comprise revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

BASIS OF PRESENTATION OF THE AUDITED COMBINED FINANCIAL INFORMATION OF THE TRUST GROUP

The combined financial information of the Trust Group has been prepared by applying the principles of Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA. The combined income statements, statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Trust Group for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 have been prepared using the financial information of the companies engaged in the telecommunications business, under the common control of HKTGH and comprising the Telecommunications Group as if the Trust Group structure had been in existence throughout each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, or since the respective dates of incorporation/establishment of the combining companies, or since the date when the combining companies first came under the control of HKTGH, whichever is a shorter period. The combined balance sheets of the Trust Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the companies comprising the Telecommunications Group at these dates, as if the Trust Group structure had been in existence as at these dates. The net assets and results of the Trust Group were combined using the existing book values from HKTGH's perspective. The combined financial information of the Trust Group may not be indicative of its future performance and does not necessarily reflect what its financial condition and results of operations would have been had it operated as a separate, stand-alone entity during the periods presented, including many changes that will occur in the operations and capitalisation of the HKT Trust as a result of the Pre-IPO Restructuring and the Global Offering.

Companies acquired or disposed of during each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 are included in or excluded from the financial information of the Trust Group from the date of the acquisitions or disposals. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The preparation of the combined financial information often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the combined financial information. The directors of the

Trustee-Manager and the directors of HKT base their estimates and judgements on historical experience and various other assumptions that they believe are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following significant accounting policies, which are important to the financial position and results of operations of the Trust Group, require significant judgements and estimates on the part of management.

Critical accounting policies

Basis of combination

The combined financial information includes the financial information of the Trust Group for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, which includes the HKT Trust, HKT, and all of HKT's direct and indirect subsidiaries comprising the Trust Group and also incorporates the interests in jointly controlled companies under the equity method as if the Trust Group structure had been in existence throughout each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. Results of subsidiary companies and jointly controlled companies acquired or disposed of during the periods are included from their effective dates of acquisition up to the dates of disposal. The Trust Group has adopted purchase accounting to account for the 2008 Restructuring as a reverse acquisition.

Business combinations

Prior to 31 December 2009, acquisitions are accounted for using the purchase method under HKFRS 3, "Business combinations" (2004). Accordingly,

(i) the assets and liabilities of the accounting acquirer are recognised and measured at the acquisition date at their historical carrying amounts; the identifiable assets, liabilities and contingent liabilities of the acquiree that meet the conditions for recognition under HKFRS 3 "Business combinations" (2004) are recognised at their fair values at the acquisition date; and

(ii) the results of the accounting acquiree are fully consolidated from the date on which control is transferred to the Trust Group.

The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Trust Group's share of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Trust Group's share of identifiable net assets of the subsidiaries acquired, the difference (i.e. negative goodwill) is recognised directly in the combined income statements.

From 1 January 2010, the Trust Group adopted HKFRS 3 (revised), "Business combinations". The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Trust Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Trust Group recognises any non-controlling interest (formerly known as minority interests prior to the adoption of HKFRS 3 (revised), "Business combinations") in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly in the combined income statements.

Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled company over the Trust Group's interest in the aggregate net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the combined balance sheets at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("**CGUs**") and is tested annually for impairment. In respect of jointly controlled companies, the carrying amount of goodwill is included in the carrying amount of the interests in jointly controlled companies.

On disposal of a CGU, part of a CGU, or a jointly controlled company during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Intangible assets

Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalised if it is probable that future economic benefits will flow from the customers to the Trust Group and such costs can be measured reliably. Capitalised customer acquisition costs are amortised on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual period, fully amortised customer acquisition costs will be written off. In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortised customer acquisition cost will be written off immediately in the combined income statements.

Trademarks and customer base

Trademarks and customer base that are acquired by the Trust Group are stated in the combined balance sheets at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditures on internally generated goodwill and brands are recognised as expenses in the period in which they are incurred.

Amortisation of intangible assets with finite useful lives is charged to the combined income statements on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortised from the dates they are available for use and their estimated useful lives are as follows:

Trademarks	20 years
Customer base	1 to 10 years

The assets' useful lives and their amortisation method are reviewed annually.

Impairment of assets (other than investments in equity securities and other receivables)

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- goodwill;
- intangible assets; and
- interests in jointly controlled companies.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows primarily independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

Recognition of impairment losses

An impairment loss is recognised in the combined income statements whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the combined income statements in the period in which the reversals are recognised.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The gain or loss on re-measurement to fair value is recognised immediately in the combined income statements, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

Hedging

Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the combined income statements within "Finance costs, net", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk. When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Trust Group revokes designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the combined income statements over the residual period to maturity.

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognised immediately in the combined income statements.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognised in the combined income statements in the same period or periods during which the asset acquired or liability assumed affects the combined income statements (such as when the interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the combined income statements in the same period or periods during which the hedged forecast transaction affects the combined income statements. When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Trust Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the combined income statements.

Revenue recognition

Telecommunications and other services

Telecommunications services revenue based on usage of the Trust Group's network and facilities is recognised when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognised on a straight-line basis over the applicable fixed period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognised over the estimated customer relationship period.

Other service income is recognised when services are rendered to customers.

Sales of goods

Revenue from the sales of goods is recognised when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in the combined income statements in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in the combined income statements as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised on a time-apportioned basis using the effective interest method.

Commission income

Commission income is recognised when entitlement to the income is ascertained.

Dividend income

Dividend income is recognised when the equity holder's right to receive payment is established.

Borrowing costs

Borrowing costs are expensed in the combined income statements in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed. Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing using the effective interest method.

Critical accounting estimates and judgements

Recognition and fair value of identifiable intangible assets through business combination

The acquisition method of accounting is applied to account for acquisitions of businesses. Business combinations of multiple companies or businesses require one of the businesses that existed before the combination be identified as the accounting acquirer on the basis of the evidence available.

Identification of the accounting acquirer requires significant judgement and involves the considerations of the relative size of the combining businesses' revenues and assets and the management structure to determine the appropriate accounting acquirer. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgement. The most significant variables in these valuations are discount rates, terminal values, the number of years on which the cash flow projections are based, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Trust Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Upon an acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenue, margin, cash flow, useful lives and discount rate used.

Impairment of assets (other than investments in equity securities and other receivables)

At each balance sheet date, the Trust Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- goodwill;
- intangible assets; and
- interests in jointly controlled companies.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in the combined income statements whenever the carrying amount of an asset exceeds its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Trust Group is required to use judgement in applying such information to the business.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Trust Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Trust Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Trust Group may perform such assessment utilising internal resources or may engage external advisors to counsel the Trust Group in making this assessment. Regardless of the resources utilised, the Trust Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

Revenue recognition - Telecommunications and other services

Telecommunications service revenue based on usage of the Trust Group's network and facilities is recognised when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognised on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognised over the expected customer relationship period.

The Trust Group is required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

During the year ended 31 December 2009, the Trust Group re-assessed the Trust Group's expected customer relationship period. As a result of this re-assessment, the expected customer relationship period, over which the upfront fees received for installation of equipment and activation of customer service are deferred and recognised, has been shortened. This change in accounting estimate has been accounted for prospectively from 30 June 2009. As a result, the Trust Group's profit for the year ended 31 December 2009 and its net assets as at 31 December 2009 each increased by HK$57 million from what the profit and net assets would have been if such re-assessment had not occurred.

The Trust Group offers certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognised as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognised over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately. Where the Trust Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Trust Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

Current and deferred income tax

The Trust Group makes a provision for current income tax of the Trust Group based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Trust Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Trust Group considers it probable that these disputes or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

Deferred income tax liabilities are provided in full on all taxable temporary differences and deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred income tax assets that need to be recognised, the Trust Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Trust Group's ability to utilise the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of deferred income tax assets and income tax expense would be made.

Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Trust Group has significant property, plant and equipment and intangible assets (other than goodwill). The Trust Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortisation charges for each reporting period. The useful lives of such property, plant and equipment and intangible assets (other than goodwill) are estimated at the time of purchase of assets after considering future technology changes, business developments and the Trust Group's strategies. The Trust Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Trust Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Recognition of intangible asset - Carrier licences

In order to measure intangible assets, Hong Kong Accounting Standards 39 "Financial instruments: Recognition and measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities.

To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Trust Group. Had a different discount rate been used to determine the fair value, the Trust Group's results of operations and financial position could be materially different.

Estimated property holding cost recoverable from the Government

The Telecommunications Group and the Government recently engaged in ongoing discussions in order to determine the amount of rates and the Government rent payable by the Telecommunications Group. Based on these ongoing discussions, management revised its estimate of the rates and the Government rent expenses and recorded a corresponding reduction in operating costs of property, plant and equipment, net. The discussion was finalised in January 2011 whereby the Government revised its assessment for the relevant years and refunded the prior years' excess payments made by the Trust Group.

Recognition of fixed-mobile interconnection charge ("FMIC")

OFTA withdrew its regulatory guidance on FMIC on 27 April 2009 as FMIC should be settled by commercial agreements between fixed and mobile operators without regulatory intervention. The Telecommunications Group continued providing to and receiving from other operators interconnection services and has stopped recognising FMIC revenue from 27 April 2009 but has continued to provide for potential FMIC costs. The Telecommunications Group's FMIC revenue for the years ended 31 December 2008, on an aggregated basis, and 2009 was approximately HK$375 million and HK$153 million, respectively. In 2010, the Telecommunications Group reached agreements with certain operators on the FMIC and stopped providing for FMIC costs.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Telecommunications Group's results of operations are dependent principally on the following factors: the number of lines in service or subscribers, as applicable, for the Telecommunications Group's fixed-line telephony services, broadband data services, mobile telephone and data services, ARPU for each of the Telecommunications Group's services, the cost of acquiring new subscribers, the amount of capital expenditure, regulatory changes in fixed-mobile interconnection framework, and mobile and wireless technologies. The Telecommunications Group's results of operations are also affected by various external factors, including the prevailing economic and financial conditions in Hong Kong and the amount of tax payable.

Factors other than those discussed below could also have a significant impact on the Telecommunications Group's financial condition and results of operations and in the future.

The 2008 Aggregated Financial Information of the Trust Group aggregated the historical results for the year ended 31 December 2008, the pre-acquisition results of the accounting acquirees in the 2008 Restructuring and adjustments to annualise depreciation, amortisation and finance costs assuming the 2008 Restructuring had taken place as at 1 January 2008 and is shown for illustrative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the 2008 Restructuring taken place as of such date.

Number of lines in service and mobile subscribers

The number of lines in service and mobile subscribers of the Telecommunications Group is a key factor affecting its revenues. During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the number of mobile subscribers increased and the number of broadband access lines reduced slightly in 2009 but grew in 2010, while the number of exchange lines in service remained relatively stable. The numbers of exchange lines in service, broadband access lines and mobile subscribers, for the Telecommunications Group's fixed-line telephony, broadband and mobile services for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 are set forth in the table below.

	As at 31 December			As at 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
			(in thousands)		
Exchange lines in service	2,603	2,588	2,590	2,587	2,625
Broadband access lines	1,302	1,297	1,367	1,298	1,437
Mobile subscribers	1,313	1,422	1,484	1,469	1,506
3G post-paid	414	529	667	606	880
2G post-paid	440	376	250	319	43
2G prepaid	459	517	567	544	583

ARPU

With respect to the Telecommunications Group's local telephony services, fixed-line ARPU is under pressure from competition. This pressure is expected to be partially alleviated as a result of more subscriptions for advanced services, such as the PCCW "**eye**" Multimedia Service (currently in its second generation). With respect to broadband services, ARPU increased during 2010, primarily as a result of increased sales of higher bandwidth products to customers, which generally are available at higher prices, partially offset by reduced prices for lower bandwidth products. The decrease in the second half of 2010 and the first half of 2011 was primarily due to the dilution effect from tiered pricing to gain subscribers in certain segments. With respect to mobile services, compared to the respective prior six month period, the blended post-paid ARPU increased in the second half of 2010 and in the first half of 2011 as a result of increased usage of data services and a larger 3G subscriber base, which has a relatively higher ARPU. In addition, in the six months ended 30 June 2011 as compared to the six months ended 30 June 2010, 2G post-paid ARPU increased primarily as a result of the upgrading and/or exiting of certain low ARPU customers upon the migration of 2G subscribers to 3G services, with the remaining 2G post-paid subscribers being those generating a higher ARPU. In this period, 3G post-paid ARPU decreased primarily due to the newly migrated 3G subscribers generating a lower ARPU as compared to existing 3G subscriber base.

For each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, ARPU for fixed-line, broadband, mobile services are set forth in the table below:

	For the year ended 31 December			For the six months ended 30 June	
	2008[2]	2009	2010	2010	2011
			(HK$)		
Fixed-line[1]	119	111	101	103	96
Retail broadband[1]	245	249	266	272	260
Mobile[1]					
Blended post-paid [1]	151	143	141	138	153
3G post-paid [1]	206	189	175	175	163
2G post-paid[1]	113	89	76	78	101

Notes:

(1) The figures stated are annual/six month averages, calculated by dividing the revenue earned in the year/period by the average number of lines in service or subscribers, where appropriate, during the year/period.

(2) On an aggregated basis.

Customer acquisition costs and license fees

Costs incurred to acquire contractual relationships with customers are capitalised if it is probable that future economic benefits will flow from the customers to the Telecommunications Group and such costs can be measured reliably. Capitalised customer acquisition costs are amortised on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual period, fully amortised customer acquisition costs will be written off. In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortised customer acquisition cost will be written off immediately in the combined income statements. For each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, the expenditure on customer acquisition is set forth in the table below.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
				(unaudited)	
Expenditure on customer acquisition (HK$ million)	179	806	916	365	561
As a % of revenue	2.5%	4.5%	4.9%	4.0%	5.9%

On an aggregated basis, for the year ended 31 December 2008, expenditure on customer acquisition was approximately HK$927 million, representing 4.9% of revenue. Expenditure on customer acquisition decreased from 2008 (on an aggregated basis) to 2009 primarily as a result of reducing mobile handset subsidies. Expenditure on customer acquisition increased in the six months ended 30 June 2011 as compared to the six months ended 30 June 2010 as more incentives were offered to customers as part of the promotional campaigns to grow the Telecommunications Group's broadband and mobile customer base. The Telecommunications Group projects the expenditure on customer acquisition to be approximately HK$1,005 million and HK$982 million for 2011 and 2012, respectively. The Telecommunications Group expects the projected increase to be mainly due to more incentives offered to customers, in particular Smartphone customers and tablet subscribers.

The Telecommunications Group also paid carrier licence fees for fixed and mobile carrier licences in order to establish and maintain the telecommunications network and to provide telecommunications services. For each of the years ended 31 December 2008 (on an aggregated basis), 2009 and 2010 and the six months ended 30 June 2010 and 2011, the license fees paid were HK$74 million, HK$101 million, HK$142 million, nil and HK$52 million, respectively. The Telecommunications Group projects the licence fee payment to be approximately HK$154 million and HK$196 million for 2011 and 2012, respectively.

Capital expenditures

The Telecommunications Group has made significant capital expenditures incurred on its network infrastructure and information technology systems to provide the services it offers. The capital expenditures on the acquisition of property, plant and equipment incurred were HK$2,940 million, HK$1,514 million, HK$1,613 million, HK$649 million and HK$734 million for the years ended 31 December 2008 (on an aggregated basis), 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively. The capital expenditures incurred in 2009, 2010 and the first six months of 2010 and 2011 primarily comprised expenditures on the network infrastructure to meet customer demand, and the costs in 2008 (on an aggregated basis) comprised investments and enhancement in upgrading the Telecommunications Group's networks in addition to the expenditures resulting from meeting customer demand. Please see Part I of Appendix II to this circular "Selected financial information and operational data — Other historical financial and operational information" for details of capital expenditures paid for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

For each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, the capital expenditures for the Telecommunications Group are set forth in the table below. On an aggregated basis, for the year ended 31 December 2008, capital expenditure incurred was approximately HK$2,940 million, representing 15.4% of revenue.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010 (unaudited)	2011
Capital expenditures incurred (HK$ million)	2,263	1,514	1,613	649	734
As a % of revenue	31.4%	8.4%	8.7%	7.0%	7.7%

The Telecommunications Group projects the capital expenditures to be approximately HK$1,597 million and HK$1,805 million for 2011 and 2012, respectively.

Regulatory change in fixed-mobile interconnection framework

The Telecommunications Group's ability to provide commercially viable mobile and fixed-line telecommunications services depends, in part, upon the Telecommunications Group's interconnection arrangements with other telecommunications operators. The regulatory guidance by which the FMIC charging mechanism was set in Hong Kong was withdrawn after 27 April 2009. As a result, the Telecommunications Group experienced a significant reduction in revenue from FMIC after 27 April 2009 and unless the current FMIC regime moves in a more positive direction, the Telecommunications Group does not expect to generate significant revenue from FMIC in the future.

Mobile and wireless technologies

The technologies and services of the telecommunications industry have become increasingly diversified and sophisticated. The Telecommunications Group's core mobile network is an IP-based network supported by extensive fiber backhaul providing 2G and 3G capacities. Such network, along with the Telecommunications Group's more than 9,000 Wi-Fi hotspots throughout Hong Kong enables certain mobile customers to switch between 3G and Wi-Fi connections seamlessly. Customers' increasing usage of Smartphones and tablets has led to increased mobile data usage which has resulted in an increase in the Telecommunications Group's mobile revenue.

Economic and financial conditions in Hong Kong

As most of the Telecommunications Group's revenue and expenses are substantially derived from and related to its operations in Hong Kong, the Telecommunications Group's financial condition and results of operations have been, and are expected to continue to be, affected by fluctuations in the Hong Kong economy. Contractions in the Hong Kong economy may cause both business and individual customers to reduce discretionary spending, resulting in a potential decreased usage of and spending in telecommunications services.

Taxation

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits during each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011. Overseas tax has been calculated on the estimated assessable profits for the relevant year at the rates prevailing in the respective jurisdictions.

The Telecommunications Group's effective tax rate is computed as the tax expenses divided by profit before tax. The Telecommunications Group's effective tax rate for the six months ended 30 June 2011 was 23.1% as compared to 29.9% for the six months ended 30 June 2010. The Telecommunications Group's effective tax rate for the year ended 31 December 2010 was 28.0% as compared to 26.2% for the year ended 31 December 2009, and, on an aggregated basis, 27.0% for the year ended 31 December 2008. The rates are higher than the statutory tax rate of 16.5% mainly due to the fact that losses of some companies cannot be offset against profits of other companies for Hong Kong tax purposes.

SIGNIFICANT LINE ITEMS IN THE COMBINED INCOME STATEMENTS

The following are the significant line items in the Trust Group's combined income statements. The 2008 Aggregated Financial Information of the Trust Group aggregated the audited historical results for the year ended 31 December 2008, the pre-acquisition results of the accounting acquirees in the 2008 Restructuring and adjustments to annualise depreciation, amortisation and finance costs assuming the 2008 Restructuring had taken place as at 1 January 2008 and is shown for illustrative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the 2008 Restructuring taken place as of such date.

Turnover

Turnover represents the Telecommunications Group's revenue for the provision of telecommunications services ("TSS"), mobile services and other services. Within the Telecommunications Group's TSS segment, local data and broadband services primarily comprised corporate data connectivity services and network solutions for commercial customers, broadband Internet access services, and other network services to other telecommunications operators; local telephony services comprised fixed-line local telephone services and related value-added services; international telecommunications services mainly comprised IDD services, international private leased circuits and other international data connectivity and network solutions services; and other services primarily comprised sales of network equipment, customer premises equipment ("CPE") and connectivity products, provision of technical and maintenance subcontracting services and contact centre services. The revenue in the mobile segment primarily comprised mobile subscription services for the usage of the network and facilities, and sales of mobile phones and accessories. Other businesses primarily comprised revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC. The following table sets forth the aggregated revenue by segment for the year ended 31 December 2008 and the revenue by segment for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2010 and 2011.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010 (unaudited)	2011
	HK$ million				
TSS					
Local data and broadband services	904	4,943	5,270	2,627	2,660
Local telephony services	754	3,988	3,600	1,921	1,653
International telecommunications services	1,228	3,678	3,714	1,851	2,188
Other services	3,972	3,234	3,639	1,672	1,758
Total TSS	6,858	15,843	16,223	8,071	8,259
Mobile	288	1,670	1,709	838	919
Other businesses	86	631	797	398	479
Eliminations	(31)	(197)	(202)	(101)	(120)
Total	7,201	17,947	18,527	9,206	9,537

On an aggregated basis, for the year ended 31 December 2008, total turnover was HK$19,069 million, which was composed of revenue from TSS of HK$16,981 million (which includes revenue from local data and broadband services of HK$4,895 million, local telephony services of HK$4,564 million, international telecommunications services of HK$3,817 million and other services of HK$3,705 million), revenue from mobile of HK$1,744 million and from other businesses of HK$528 million, offset by inter-segment eliminations of HK$184 million.

The following table sets out information about the geographical location of the Telecommunications Group's revenue from external customers.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010 (unaudited)	2011
	HK$ million				
Hong Kong (place of domicile)	6,579	15,511	15,527	7,783	8,011
The PRC and Taiwan	282	1,215	1,243	591	730
Others	340	1,221	1,757	832	796
Total	7,201	17,947	18,527	9,206	9,537

On an aggregated basis for the year ended 31 December 2008, turnover from Hong Kong was HK$16,853 million, the PRC and Taiwan totalled HK$1,233 million and others was HK$983 million.

Cost of sales

The Telecommunications Group's cost of sales mainly included connectivity costs, costs of goods sold and other costs of services. Connectivity costs mainly comprised costs for local and international connectivity to support our telecommunications services. Costs of goods sold mainly comprised the costs of network equipment and CPE sold. Other costs of services mainly comprised direct costs for the provision of contact centre services, technical and maintenance subcontracting services and direct marketing costs. The following table sets forth the cost of sales by category for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011. On an aggregated basis for the year ended 31 December 2008, the cost of sales by category were connectivity costs of HK$2,906 million, costs of goods sold of HK$2,906 million and other cost of services of HK$1,208 million for a total of HK$7,020 million.

	For the year ended 31 December			For the six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
				(unaudited)	
			HK$ million		
Connectivity costs	1,033	2,923	3,142	1,598	1,493
Costs of goods sold	441	2,400	2,510	1,185	1,283
Other costs of services	832	1,319	1,799	852	982
Total	2,306	6,642	7,451	3,635	3,758

General and administrative expenses

The Telecommunications Group's general and administrative expenses primarily include depreciation, amortisation, staff costs, repair and maintenance and other operating costs. Depreciation is provided on the Telecommunications Group's property, plant and equipment such as exchange equipment, transmission plant, other equipment, and land and buildings. Amortisation is provided on the Telecommunications Group's intangible assets such as capitalised customer base and customer acquisition costs, telecommunications licences and trademarks. Intangible assets of the customer base of the Telecommunications Group arose from the fair value adjustments of the 2008 Restructuring, which is amortised on a straight-line basis over an average period of approximately five years with annual charges of approximately HK$1 billion. Staff costs mainly comprised salaries, bonuses, other benefits and retirement costs under defined contribution schemes. Repair and maintenance is mainly incurred in association with the Telecommunications Group's network plant and equipment. Other operating costs comprise publicity and promotion costs, network and exchange related operating costs, rent, utilities and government charges, bad debts, data processing charges, insurance and professional fees. The following table sets forth the general and administrative expenses by category for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011. On an aggregated basis, for the year ended 31 December 2008, the general and administrative expenses by category were depreciation of HK$2,544 million, amortisation of HK$1,382 million, staff costs of HK$1,506 million, repair and maintenance costs of HK$479 million and other operating costs of HK$2,723 million, for a total of HK$8,634 million.

	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
				(unaudited)	
	HK$ million				
Depreciation	1,967	2,353	2,342	1,188	1,163
Amortisation	234	1,583	1,976	934	969
Staff costs	1,174	1,550	1,589	889	886
Repair and maintenance	118	434	547	267	262
Other operating costs	816	2,061	1,677	893	1,007
Total	4,309	7,981	8,131	4,171	4,287

Finance costs, net

The Telecommunications Group's net finance costs primarily include interest paid or payable on bonds and bank borrowings, net of interest capitalised in property, plant and equipment and interest income earned.

Income tax

The Telecommunications Group's income tax expense relates primarily to current and deferred income taxes on the profit arising from its Hong Kong and overseas operations. Income tax expense for the year ended 31 December 2010 was HK$378 million, which was a 21.3% decrease from the income tax expense of HK$480 million in 2009, mainly due to a decrease in profit before income tax. Income tax expense for the six months ended 30 June 2011 was HK$168 million which was a 6.7% decrease from the income tax expense of HK$180 million for the six months ended 30 June 2010 primarily as a result of the utilisation of previously unrecognised tax losses.

RESULTS OF OPERATIONS

Comparison of the six months ended 30 June 2011 and the six months ended 30 June 2010

Turnover

The Telecommunications Group's turnover was HK$9,537 million in the six months ended 30 June 2011, compared to HK$9,206 million in the six months ended 30 June 2010, an increase of HK$331 million, or 3.6%.

The total revenue generated from TSS was HK$8,259 million in the six months ended 30 June 2011, compared to HK$8,071 million in the six months ended 30 June 2010, an increase of HK$188 million, or 2.3%. The turnover from local data and broadband services increased from HK$2,627 million in the six months ended 30 June 2010 to HK$2,660 million in the six months ended 30 June 2011, an increase of HK$33 million or 1.3%, as a result of the promotion of the Telecommunications Group's fiber broadband service to residential customers since June 2010 which led to an increase in the number of subscribers. The turnover from local telephony services decreased from HK$1,921 million in the six months ended 30 June 2010, to HK$1,653 million in the six months ended 30 June 2011, a decrease of HK$268 million or 14.0%, as ARPU remained under pressure due to fixed-mobile substitution and competition, the effect of which has been particularly acute in the residential market. The turnover from international telecommunications services increased from HK$1,851 million in the six months ended 30 June 2010 to HK$2,188 million in the six months ended 30 June 2011, an increase of HK$337 million, or 18.2% as a result of the increase of wholesale voice and international connectivity services revenue primarily due to the continued high international bandwidth demand. The turnover from other services, which mainly included the overseas teleservices operations (or contact centre services) and the sales and installation of network equipment and CPE, and provision of technical and maintenance subcontracting services, increased from HK$1,672 million in the six months ended 30 June 2010 to HK$1,758 million in the six months ended 30 June 2011, an increase of HK$86 million or 5.1%, due to stronger CPE sales and other larger-scale telecommunications projects that had arisen from an increase in corporate activity.

The total revenue generated from the mobile segment was HK$919 million in the six months ended 30 June 2011, compared to HK$838 million in the six months ended 30 June 2010, an increase of HK$81 million, or 9.7%. The increase was primarily driven by a significant increase in 3G data usage over a larger 3G subscriber base.

The total revenue generated from other businesses was HK$479 million in the six months ended 30 June 2011, compared to HK$398 million in the six months ended 30 June 2010, an increase of HK$81 million, or 20.4%. The revenue from other businesses mainly consisted of revenue from the Telecommunications Group's PRC equity joint venture, ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

For the six months ended 30 June 2011, inter-segment eliminations were HK$120 million as compared to HK$101 million in the six months ended 30 June 2010 for inter-segment services provided.

Cost of sales

Cost of sales was HK$3,758 million in the six months ended 30 June 2011, compared to HK$3,635 million in the six months ended 30 June 2010, an increase of HK$123 million, or 3.4%. The increase in cost of sales was in line with the growth in revenue. Connectivity costs decreased from HK$1,598 million in the six months ended 30 June 2010 to HK$1,493 million in the six months ended 30 June 2011, representing a decrease of HK$105 million, or 6.6%, reflecting savings during the period from the integration of certain assets and businesses. Costs of goods sold increased from HK$1,185 million in the six months ended 30 June 2010 to HK$1,283 million in the six months ended 30 June 2011, an increase of HK$98 million, or 8.3%, primarily attributable to increased CPE sales. Other costs of services increased from HK$852 million in the six months ended 30 June 2010 to HK$982 million in the six months ended 30 June 2011, an increase of HK$130 million, or 15.3%, mainly because of higher direct marketing costs for fixed line and broadband services.

General and administrative expenses

The Telecommunications Group's general and administrative expenses were HK$4,287 million in the six months ended 30 June 2011, compared to HK$4,171 million in the six months ended 30 June 2010, an increase of HK$116 million, or 2.8%. The increase was primarily attributable to the increase in other operating costs. Other operating costs increased by HK$114 million, or 12.8%, from HK$893 million in the six months ended 30 June 2010 to HK$1,007 million in the six months ended 30 June 2011, primarily attributable to larger publicity and promotional spending as the Telecommunications Group marketed its high speed broadband services to the mass market, as well as increased rental expenses for retail shops and roadshow venues for the promotion of mobile, FTTx and other services.

Other gains/losses, net

The Telecommunications Group's net other losses were HK$28 million in the six months ended 30 June 2011, compared to nil in the six months ended 30 June 2010. Such net other losses in the six months ended 30 June 2011 were primarily due to an impairment loss recorded of HK$16 million on an interest in a jointly controlled entity.

Finance costs, net

The Telecommunications Group's net finance costs were HK$733 million in the six months ended 30 June 2011, compared to HK$793 million in the six months ended 30 June 2010, a decrease of HK$60 million, or 7.6%. The decrease in net finance costs was primarily due to a one-time write off of certain unamortised finance fees upon repayment of certain loans in the six months ended 30 June 2010.

Share of results of jointly controlled companies

The Telecommunications Group's share of results of jointly controlled companies was a loss of HK$5 million in both the six months ended 30 June 2011 and the six months ended 30 June 2010.

Profit before income tax

As a result of the foregoing, the Telecommunications Group's profit before income tax increased by HK$124 million, or 20.6%, to HK$726 million in the six months ended 30 June 2011 from HK$602 million in the six months ended 30 June 2010.

Income tax

The Telecommunications Group's income tax was HK$168 million in the six months ended 30 June 2011, compared to HK$180 million in the six months ended 30 June 2010, a decrease of HK$12 million, or 6.7%. This decrease was primarily due to the utilisation of previously unrecognised tax losses.

Profit for the period

As a result of the foregoing, the Telecommunications Group's profit for the period increased by HK$136 million, or 32.2%, to HK$558 million in the six months ended 30 June 2011 from HK$422 million in the six months ended 30 June 2010. The profit attributable to Holders of Share Stapled Units increased by HK$137 million, or 34.3%, to HK$537 million in the six months ended 30 June 2011 from HK$400 million in the six months ended 30 June 2010.

Comparison of the year ended 31 December 2010 and the year ended 31 December 2009

Turnover

The Telecommunications Group's turnover was HK$18,527 million in 2010, compared to HK$17,947 million in 2009, an increase of HK$580 million, or 3.2%.

The total revenue generated from TSS was HK$16,223 million in 2010, compared to HK$15,843 million in 2009, an increase of HK$380 million, or 2.4%. The turnover from local data and broadband services increased from HK$4,943 million in 2009 to HK$5,270 million in 2010, an increase of HK$327 million or 6.6%, as a result of greater demand for data services and a larger customer base for the Telecommunications Group's high speed broadband connectivity services which is consistent with the proliferation of Internet usage in Hong Kong. The turnover from local telephony services decreased from HK$3,988 million in 2009 to HK$3,600 million in 2010, a decrease of HK$388 million or 9.7%, primarily attributable to the decreased turnover due to the withdrawal of the FMIC, fixed-mobile substitution and a reduction in the average price charged to customers for local fixed line as a result of competition. The turnover from international telecommunications services increased from HK$3,678 million in 2009 to HK$3,714 million in 2010, an increase of HK$36 million, or 1.0%. The turnover from other services, which mainly included the overseas teleservices operations (or contact centre services) and the sales and installation of network equipment and CPE, and provision of technical and maintenance subcontracting services, increased from HK$3,234 million in 2009 to HK$3,639 million in 2010, an increase of HK$405 million or 12.5%, reflecting a full year's contribution from the overseas teleservices business acquired in 2009 and stronger CPE sales.

The total revenue generated from the mobile segment was HK$1,709 million in 2010, compared to HK$1,670 million in 2009, an increase of HK$39 million, or 2.3%. The increase was primarily driven by an increase in subscriber base particularly for 3G services and the increased usage of mobile data services proliferated by the rising popularity of Smartphones and other smart devices.

The total revenue generated from other businesses was HK$797 million in 2010, compared to HK$631 million in 2009, an increase of HK$166 million, or 26.3%. The revenue from other businesses mainly consisted of revenue from the Telecommunications Group's PRC equity joint venture, ZhongYing JV which provides network integration and related services to telecommunications operators in the PRC.

For the year ended 31 December 2010, inter-segment eliminations were HK$202 million as compared to HK$197 million in 2009 for inter-segment services provided.

Cost of sales

Cost of sales was HK$7,451 million in 2010, compared to HK$6,642 million in 2009, an increase of HK$809 million, or 12.2%. The increase in cost of sales was primarily due to an increase in other costs of services and connectivity costs. The connectivity costs increased from HK$2,923 million in 2009 to HK$3,142 million in 2010, representing an increase of HK$219 million, or 7.5%, reflecting higher network costs from increased network capacity sold. Other costs of services increased from HK$1,319 million in 2009 to HK$1,799 million in 2010, an increase of HK$480 million, or 36.4%, reflecting a higher cost from the overseas teleservices operations that was acquired in the second half of 2009, which included the full year's cost of the operations.

General and administrative expenses

The Telecommunications Group's general and administrative expenses were HK$8,131 million in 2010, compared to HK$7,981 million in 2009, an increase of HK$150 million, or 1.9%. The increase was primarily attributable to the increase in amortisation, repair and maintenance costs, and staff costs, partially offset by the decrease in other operating costs, while depreciation in 2010 remained fairly consistent with that of 2009. Other operating costs decreased by HK$384 million, or 18.6%, from HK$2,061 million in 2009 to HK$1,677 million in 2010, primarily attributable to a reduction in the Telecommunications Group's cost of operating its exchange buildings and operating leases. Amortisation increased by HK$393 million, or 24.8%, from HK$1,583 million in 2009 to HK$1,976 million in 2010, primarily attributable to an increase in customer acquisition costs in 2010 and higher unamortised customer acquisition costs carried forward from 2009. Repair and maintenance costs increased by HK$113 million, or 26.0%, from HK$434 million in 2009 to HK$547 million in 2010, which was primarily attributable to expenditure of additional resources on network equipments to secure leading edge services, quality and performance. Staff costs increased by HK$39 million, or 2.5%, from HK$1,550 million in 2009 to HK$1,589 million in 2010, which was primarily attributable to the full year's cost of additional headcount associated with the overseas teleservices operations acquired in 2009, partially offset by lower average staff cost.

Other gains, net

The Telecommunications Group's net other gains were HK$40 million in 2010, compared to nil in 2009. Such net other gains in 2010 were primarily due to sale of certain subsidiaries to a fellow subsidiary of the Telecommunications Group.

Losses on property, plant and equipment

The Telecommunications Group's losses on property, plant and equipment was nil in 2010, compared to a loss of HK$25 million in 2009. The loss in 2009 was a result of certain property, plant and equipment becoming obsolete.

Finance costs, net

The Telecommunications Group's net finance costs were HK$1,562 million in 2010, compared to HK$1,468 million in 2009, an increase of HK$94 million, or 6.4%. The increase in net finance costs was primarily due to write off of certain unamortised finance fees upon repayment of certain loans.

Share of results of jointly controlled companies

The Telecommunications Group's share of results of jointly controlled companies was a loss of HK$73 million in 2010, compared to nil in 2009. Effective 1 January 2010, the Telecommunications Group obtained a 50% interest in China Netcom Broadband Corporation Limited ("**CNCBB**"), a joint venture based in the PRC, from a fellow subsidiary. CNCBB incurred a loss in 2010.

Profit before income tax

As a result of the foregoing, the Telecommunications Group's profit before income tax decreased by HK$481 million, or 26.3%, to HK$1,350 million in 2010 from HK$1,831 million in 2009.

Income tax

The Telecommunications Group's income tax was HK$378 million in 2010, compared to HK$480 million in 2009, a decrease of HK$102 million, or 21.3%. This decrease was primarily due to a decrease in profit before income tax.

Profit for the year

As a result of the foregoing, the Telecommunications Group's profit for the year decreased by HK$379 million, or 28.1%, to HK$972 million in 2010 from HK$1,351 million in 2009. The profit attributable to Holders of the Share Stapled Units decreased by HK$391 million, or 29.7%, to HK$925 million in 2010 from HK$1,316 million in 2009.

Comparison of the audited results for the year ended 31 December 2009 and the year ended 31 December 2008 (which reflects the post-acquisition results of the Telecommunications Business)

The 2008 Restructuring of the Telecommunications Group under HKTGH, a wholly-owned subsidiary of HKT, was not completed until the fourth quarter of 2008 and the combined financial information of the Trust Group for the year ended 31 December 2008 includes only the post-acquisition results of the Telecommunications Business. The acquisitions of the Telecommunications Business arising from the 2008 Restructuring were accounted for using the purchase method under HKFRS 3, "Business combinations" (2004) and, accordingly, the results of the acquired businesses were fully consolidated from the date on which the 2008 Restructuring was completed. As a result, the combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business and **is not directly comparable** to the full year results of the Telecommunications Business for the year ended 31 December 2009.

Turnover

The Telecommunications Group's turnover was HK$17,947 million in 2009, compared to HK$7,201 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Cost of sales

Cost of sales was HK$6,642 million in 2009, compared to HK$2,306 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

General and administrative expenses

The Telecommunications Group's general and administrative expenses were HK$7,981 million in 2009, compared to HK$4,309 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Other gains, net

The Telecommunications Group's net other gains were nil in 2009, compared to HK$63 million in 2008. The gain in 2008 was due to the recognition of negative goodwill as income arising from the 2008 Restructuring.

Losses on property, plant and equipment

The Telecommunications Group's losses on property, plant and equipment were HK$25 million in 2009, compared to nil in 2008. The loss in 2009 was a result of certain property, plant and equipment becoming obsolete.

Finance costs, net

The Telecommunications Group's net finance costs were HK$1,468 million in 2009, compared to HK$240 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Profit before income tax

The Telecommunications Group's profit before income tax was HK$1,831 million in 2009, compared to HK$409 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Income tax

The Telecommunications Group's income tax was HK$480 million in 2009, compared to HK$132 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Profit for the year

The Telecommunications Group's profit for the year was HK$1,351 million in 2009, compared to HK$277 million in 2008. The significant increase in 2009 is due to the fact that the audited results for 2008 are only partial year results of the Telecommunications Business.

Comparison of the audited results for the year ended 31 December 2009 and the aggregated results for the year ended 31 December 2008

The 2008 Restructuring of the Telecommunications Group under HKTGH, a wholly-owned subsidiary of HKT formed on 18 January 2008, was not completed until the fourth quarter of 2008. In order to provide a more meaningful point of comparison of the historical results of operations of the Telecommunications Group, in addition to the 2008 audited results, the 2008 Aggregated Financial Information for the year ended 31 December 2008, which aggregated the audited historical results for the year ended 31 December 2008, the pre-acquisition results of the accounting acquirees in the 2008 Restructuring and adjustments to annualise depreciation, amortisation and finance costs assuming the 2008 Restructuring had taken place as at 1 January 2008, has also been included. The 2008 Aggregated Financial Information is not necessarily indicative of results of operations that would have been achieved had the 2008 Restructuring taken place as at 1 January 2008.

Turnover

Turnover in 2009 decreased by HK$1,122 million to HK$17,947 million, or a 5.9% decrease, from the 2008 aggregated turnover of HK$19,069 million primarily attributable to a decrease of HK$1,138 million in revenue from TSS.

The total revenue generated from TSS was HK$15,843 million in 2009, compared to the 2008 aggregated TSS revenue of HK$16,981 million, a decrease of HK$1,138 million, or 6.7%. The turnover from local data and broadband services was HK$4,943 million in 2009 compared to the 2008 aggregated turnover from local data and broadband services of HK$4,895 million, an increase of HK$48 million or 1.0%. The turnover from local telephony services was HK$3,988 million in 2009 compared to the 2008 aggregated turnover from local telephony services of HK$4,564 million, a decrease of HK$576 million or 12.6%, primary due to the substantial reduction of FMIC revenue following the withdrawal of the regulatory guidance on 27 April 2009 according to which FMIC charging mechanism were set in Hong Kong. The turnover from international telecommunication services was HK$3,678 million in 2009, compared to the 2008 aggregated of HK$3,817 million, a decrease of HK$139 million or 3.6%, primary due to a reduction in turnover in IDD services due to the impact from the financial crisis, partially offset by a modest increase in turnover from wholesale voice and international connectivity services. The turnover from other services was HK$3,234 million in 2009 compared to the 2008 aggregated turnover of HK$3,705 million, a decrease of HK$471 million, or 12.7%, as a result of lower CPE sales to corporate customers, which became very cost conscious amid the difficult economic conditions, partially offset by an increase in revenue from the overseas teleservices operations primarily from the acquisition of an overseas call centre operation.

The 2009 turnover from the mobile segment was HK$1,670 million, compared to the 2008 aggregated turnover from the mobile segment of HK$1,744 million, a HK$74 million decrease or 4.2%, mainly due to reduced sale of low margin handsets and accessories, partially offset by a 9.2% growth in mobile service revenue from a larger subscriber base and increased mobile data usage on rising popularity of Smartphones.

Other businesses revenue generated by the Telecommunications Group amounted to HK$631 million in 2009, compared to the aggregated other businesses revenue of HK$528 million in 2008, an increase of HK$103 million, or 19.5%, was mainly due to the increase in revenue from the Telecommunications Group's PRC equity joint venture, ZhongYing JV.

Cost of sales

Cost of sales in 2009 decreased by HK$378 million to HK$6,642 million, or 5.4%, from the 2008 aggregated cost of sales of HK$7,020 million. The decrease was primarily attributable to the decrease in costs of goods sold, partially offset by the increase in other costs of services. The connectivity costs were HK$2,923 million in 2009, which remained fairly stable when compared to the aggregated connectivity costs of HK$2,906 million in 2008. The cost of goods sold was HK$2,400 million in 2009, compared to the aggregated costs of good sold of HK$2,906 million in 2008, a decrease of HK$506 million, or 17.4%, which was in line with the decrease in CPE sales revenue, primarily as a result of the difficult economic conditions in 2009. The other costs of services were HK$1,319 million in 2009, compared to the aggregated other costs of services of HK$1,208 million in 2008, an increase of HK$111 million, or 9.2%, primarily reflecting the additional cost for the overseas teleservices operations acquired by the Telecommunications Group in August 2009.

General and administrative expenses

General and administrative expenses in 2009 decreased by HK$653 million to HK$7,981 million from the 2008 aggregated general and administrative expenses of HK$8,634 million, a 7.6% decrease, which was primarily driven by the decrease in depreciation and other operating costs and partially offset by the increase in amortisation. The depreciation was HK$2,353 million in 2009, compared to the aggregated depreciation of HK$2,544 million in 2008, a decrease of HK$191 million, or 7.5%. Other operating costs were HK$2,061 million in 2009, compared to the aggregated other operating costs of HK$2,723 million in 2008, a decrease of HK$662 million, or 24.3%, primarily due to the effective cost management adopted by the Telecommunications Group in response to the challenging financial environment. The amortisation was HK$1,583 million in 2009, compared to the aggregated amortisation of HK$1,382 million in 2008, an increase of HK$201 million, or 14.5%, mainly attributable to the increase in customer acquisition costs in the same period.

Other gains, net

The Telecommunications Group's net other gains were nil in 2009, compared to net other gains of HK$63 million on an aggregated basis in 2008. The gain in 2008 was due to the recognition of negative goodwill arising from the 2008 Restructuring as income.

Losses on property, plant and equipment

The Telecommunications Group's losses on property, plant and equipment were HK$25 million in 2009, compared to nil in 2008 on an aggregated basis. The loss in 2009 was a result of certain property, plant and equipment becoming obsolete.

Finance costs, net

The Telecommunications Group's net finance costs in 2009 decreased by HK$17 million to HK$1,468 million from the 2008 aggregated net finance costs of HK$1,485 million, a 1.1% decrease, primarily as a result of a decrease in interest rates.

Profit before income tax

The Telecommunications Group's profit before income tax in 2009 decreased by HK$162 million to HK$1,831 million from the 2008 aggregated profit before income tax of HK$1,993 million, a decrease of 8.1%. The decrease was primarily attributable to the withdrawal of the regulatory guidance on FMIC, which resulted in a significant reduction of revenue. Such revenue loss was partially offset by the effect of stringent cost control measures adopted by management during 2009.

Income tax

Income tax in 2009 decreased by HK$58 million to HK$480 million from the 2008 aggregated income tax of HK$538 million, a 10.8% decrease, primarily as a result of a decrease in profit before income tax.

Profit for the year

The Telecommunications Group's profit for the year was HK$1,351 million and the profit attributable to Holders of Share Stapled Units was HK$1,316 million in 2009. As compared to the 2008 aggregated results, the Telecommunications Group's profit for the year and profit attributable to Holders of Share Stapled Units in 2009 decreased by HK$104 million and HK$114 million, respectively, or 7.1% and 8.0%, respectively, primarily as a result of lower profit before income tax.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Telecommunications Group's principal sources of funds have been from cash generated from operations, bank loans and the proceeds of bond offerings, as well as shareholders' loans from PCCW. The Telecommunications Group may use funding from future fund raising transactions, credit facilities and cash flow from operations for the provision of working capital, customer acquisition costs and capital expenditure. Based on the expected net proceeds from the Global Offering, expected operating cash flows and available bank credit facilities (a portion of which is expected to be drawn to finance the repayment at maturity of the US$1,000 million 7.75% guaranteed notes due 2011), the directors of theTrustee-Manager and the directors of HKT do not anticipate any additional funding requirements for the Telecommunications Group in the near future and they are of the opinion that the HKT Trust and the Telecommunications Group have sufficient working capital to meet their working capital requirements, both present and for at least the next 12 months from the date of this circular.

The Telecommunications Group had cash and cash equivalents of HK$1,507 million as at 31 December 2008, HK$2,227 million as at 31 December 2009, HK$5,456 million as at 31 December 2010, HK$1,333 million as at 30 June 2010 and HK$5,229 million as at 30 June 2011.

Cash flow

The following table presents selected cash flow data from the Telecommunications Group's combined statements of cash flows for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, as well as aggregated cash flow information for the year ended 31 December 2008.

	For the year ended 31 December			**For the six months ended 30 June**	
	2008[1][2]	**2009**	**2010**	**2010 (unaudited)**	**2011**
	HK$ million				
Net cash generated from operating activities	4,223	6,240	6,239	3,099	3,352
Net cash used in investing activities	(14,658)	(9,895)	(2,733)	(988)	(1,336)
Net cash generated from/(used in) financing activities	11,930	4,361	(264)	(2,997)	(2,185)
Net change in cash and cash equivalents	1,495	706	3,242	(886)	(169)
Exchange differences	12	14	(13)	(8)	(58)
Cash and cash equivalents at 1 January	—	1,507	2,227	2,227	5,456
Cash and cash equivalents at 31 December/30 June	1,507	2,227	5,456	1,333	5,229

Notes:

(1) The combined financial information of the Trust Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business as described in the paragraph in Part 1 of Appendix II to this circular "Selected Financial Information and Operational Data — Selected financial information".

(2) On an aggregated basis, the net change in cash and cash equivalents in 2008 was HK$1,494 million. With cash and cash equivalents at 1 January 2008 of Nil and exchange difference of HK$13 million for the year, the cash and cash equivalents at 31 December 2008 was HK$1,507 million. The net change in cash and cash equivalents in 2008 comprised net cash generated from operating activities of HK$7,326 million, net cash generated from financing activities of HK$10,686 million, and offset by net cash used in investing activities of HK$16,518 million.

Operating activities

Net cash generated from operating activities was HK$3,352 million in the six months ended 30 June 2011 compared to net cash generated from operating activities of HK$3,099 million in the six months ended 30 June 2010.

The net cash generated from operating activities for the six months ended 30 June 2011 was primarily attributable to profit before income tax of HK$726 million, adjustment for interest expense of HK$682 million, depreciation of property, plant and equipment of HK$1,163 million, amortisation of intangible assets of HK$963 million, and a net increase in working capital of HK$253 million.

The net cash generated from operating activities for the six months ended 30 June 2010 was primarily attributable to profit before income tax of HK$602 million, adjustment for interest expense of HK$638 million, finance charges of HK$156 million, depreciation of property, plant and equipment of HK$1,188 million, amortisation of intangible assets of HK$927 million, and a net increase in working capital of HK$402 million.

Net cash generated from operating activities was HK$6,239 million in 2010, keeping steady with the net cash generated from operating activities of HK$6,240 million in 2009. The net cash generated from operating activities in 2009 decreased by HK$1,086 million from the aggregated net cash generated from operating activities in 2008 of HK$7,326 million.

Net cash generated from operating activities amounted to HK$6,239 million in 2010. The net cash generated from operating activities was primarily attributable to profit before income tax of HK$1,350 million, adjustment for interest expense of HK$1,315 million, depreciation of property, plant and equipment of HK$2,342 million, amortisation of intangible assets and land lease premium of HK$1,976 million and partially offset by an increase in trade receivables of HK$260 million and in prepayments, deposits and other current assets of HK$952 million, and decrease in net amounts due to fellow subsidiaries and the ultimate holding company of HK$65 million.

Net cash generated from operating activities amounted to HK$6,240 million in 2009. The net cash generated from operating activities was primarily attributable to profit before income tax of HK$1,831 million, adjustment for interest expense of HK$1,353 million, depreciation of property, plant and equipment of HK$2,353 million, amortisation of intangible assets and land lease premium of HK$1,583 million and partially offset by an increase in prepayments, deposits and other current assets of HK$610 million and a decrease in trade payables, accruals and other payables of HK$233 million, and decrease in net amounts due to fellow subsidiaries and the ultimate holding company of HK$273 million.

Net cash generated from operating activities amounted to HK$4,223 million in 2008. On an aggregated basis, the net cash generated from operating activities was HK$7,326 million in 2008. The net cash generated from operating activities on an aggregated basis was primarily attributable to profit before income tax of HK$1,993 million, adjustment for interest expense of HK$1,477 million, depreciation of property, plant and equipment of HK$2,544 million, amortisation of intangible assets and land lease premium of HK$1,382 million, decrease in prepayments, deposits and other current assets of HK$383 million, and increase in trade payables, accruals and other payables of HK$423 million and partially offset by an increase in trade receivables of HK$230 million and a decrease in net amounts due to fellow subsidiaries and the ultimate holding company of HK$733 million.

Investing activities

Net cash used in investing activities was HK$1,336 million in the six months ended 30 June 2011, an increase of HK$348 million from the six months ended 30 June 2010. The net cash used in investing activities in the six months ended 30 June 2011 primarily resulted from the purchase of property, plant and equipment of HK$721 million and customer acquisition costs and carrier license payment of HK$613 million. The net cash used in investing activities in the six months ended 30 June 2010 primarily resulted from the purchase of property, plant and equipment of HK$623 million and customer acquisition costs of HK$365 million.

Net cash used in investing activities was HK$2,733 million in 2010, a decrease of HK$7,162 million from 2009. The net cash used in investing activities in 2010 primarily resulted from the purchases of property, plant and equipment of HK$1,564 million and customer acquisition costs and carrier licence payment of HK$1,058 million.

Net cash used in investing activities was HK$9,895 million in 2009, a decrease of HK$6,623 million from the aggregated net cash used in investing activities in 2008 of HK$16,518 million. The net cash used in investing activities in 2009 primarily resulted from the settlement in 2009 of a HK$7,200 million payable for the deferred acquisition costs of businesses comprising the Telecommunications Group related to the 2008 Restructuring, as well as from the purchases of property, plant and equipment of HK$1,450 million and customer acquisition costs and carrier licence payment of HK$907 million.

Net cash used in investing activities amounted to HK$14,658 million in 2008, primarily due to disbursements made to acquire the businesses comprising the Telecommunications Group as part of the 2008 Restructuring. On an aggregated basis, net cash used in investing activities amounted to HK$16,518 million in 2008. The net cash used in investing activities in 2008 on an aggregated basis primarily resulted from the acquisitions of business and subsidiaries of HK$12,656 million, the purchases of property, plant and equipment of HK$2,886 million and customer acquisition costs and carrier licence payment of HK$1,001 million.

Financing activities

Net cash used in financing activities was HK$2,185 million in the six months ended 30 June 2011, a decrease of HK$812 million from HK$2,997 million in the six months ended 30 June 2010. Net cash used in financing activities in the six months ended 30 June 2011 primarily resulted from a net reduction of loans from fellow subsidiaries and the ultimate holding company of HK$1,479 million, interest paid of HK$678 million and dividend paid to non-controlling shareholders of a subsidiary of HK$35 million.

Net cash used in financing activities in the six months ended 30 June 2010 primarily resulted from finance fees paid for new borrowings raised of HK$227 million, repayment of borrowings of HK$12,446 million, interest paid of HK$661 million and was offset by new borrowings raised of HK$9,652 million and loans from fellow subsidiaries and the ultimate holding company of HK$727 million.

Net cash used in financing activities was HK$264 million in 2010, a decrease of HK$4,625 million from HK$4,361 million of net cash generated from financing activities in 2009. Net cash used in financing activities in 2010 primarily resulted from new borrowings of HK$15,557 million and borrowings from fellow subsidiaries and the ultimate holding company of HK$1,133 million, which were offset by repayment of borrowings of HK$15,311 million, interest paid of HK$1,296 million and finance fees associated with new borrowings of HK$302 million.

Net cash generated from financing activities amounted to HK$4,361 million for the year ended 31 December 2009, primarily resulting from new borrowings of HK$7,200 million and borrowings from fellow subsidiaries and the ultimate holding company of HK$3,013 million, which were partially offset by repayment of borrowings of HK$4,401 million and interest paid of HK$1,432 million.

Net cash generated from financing activities amounted to HK$11,930 million for the year ended 31 December 2008, primarily resulted from new borrowings of HK$16,600 million. On an aggregated basis, net cash generated from financing activities amounted to HK$10,686 million in 2008, primarily resulted from new borrowings of HK$16,600 million and was offset by interest payments of HK$1,463 million.

Working capital

The following table sets forth the Telecommunications Group's net current liabilities as at 31 December 2008, 2009 and 2010 and 30 June 2011.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$ million			
Current assets	5,219	6,214	10,454	9,766
Current liabilities	12,808	8,134	17,233	15,807
Net current liabilities	(7,589)	(1,920)	(6,779)	(6,041)

As at 30 June 2011, the Telecommunications Group had net current liabilities of HK$6,041 million, consisting of HK$9,766 million of current assets and HK$15,807 million of current liabilities, which represented a HK$738 million decrease from 31 December 2010. This decrease was mainly the result of a decrease in amounts due to fellow subsidiaries and the ultimate holding company of HK$1,348 million. The current liabilities as at 31 December 2010 and 30 June 2011 include HK$7,772 million and HK$7,782 million, respectively, of short-term borrowings for the US$1,000 million 7.75% guaranteed notes due in November 2011 which the Telecommunications Group intends to repay primarily by drawing down on existing credit facilities.

Trade receivables

Trade receivables primarily relate to the rendering of telecommunications services to customers. Trade receivables decreased from HK$2,076 million as at 31 December 2008 to HK$1,945 million as at 31 December 2009 primarily because of lower revenue earned in the year on the back of the global economic downturn in 2009. Trade receivables increased from HK$1,945 million as at 31 December 2009 to HK$2,104 million as at 31 December 2010 primarily due to increased revenue as demand for certain telecommunications services improved in the year. Trade receivables increased from HK$2,104 million as at 31 December 2010 to HK$2,202 million as at 30 June 2011 also as a result of continued improvement in demand for certain telecommunications services.

The following table sets forth an aging analysis of the Telecommunications Group's trade receivables that were past due but not impaired as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
		HK$ million		
0 - 30 days	358	395	344	227
31 - 60 days	155	164	134	186
61 - 90 days	114	99	114	121
Over 90 days	416	370	483	478
Total past due but not impaired	1,043	1,028	1,075	1,012

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Telecommunications Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Trade payables

Trade payables primarily relate to amounts payable to the Telecommunications Group's suppliers and contractors of equipment and services. Trade payables increased from HK$1,369 million as at 31 December 2008 to HK$1,433 million as at 31 December 2009. Trade payables increased from HK$1,433 million as at 31 December 2009 to HK$1,568 million as at 31 December 2010 primarily due to the increase in cost of sales. Trade payables decreased from HK$1,568 million as at 31 December 2010 to HK$1,433 million as at 30 June 2011 primarily due to higher capital expenditures in the second half of 2010 in line with historical trends. The following table sets forth an aging analysis of the Telecommunications Group's trade payables.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$ million			
0 — 30 days	818	823	836	568
31 — 60 days	84	71	172	89
61 — 90 days	55	39	29	69
91 — 120 days	26	35	14	81
Over 120 days	386	465	517	626
	1,369	1,433	1,568	1,433

CAPITAL EXPENDITURE

Capital expenditure incurred on the acquisition of property, plant and equipment of the Telecommunications Group was HK$2,263 million, HK$1,514 million, HK$1,613 million, HK$649 million and HK$734 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively, and, on an aggregated basis, HK$2,940 million for the year ended 31 December 2008. The capital expenditure in the first six months of 2011 as well as in 2009 and 2010, primarily comprised expenditure on the network infrastructure to meet customer demand, and the costs in 2008 comprised investments and enhancement in upgrading the Telecommunications Group's networks in addition to the expenditure resulting from customer demand. Please see Part I of Appendix II to this circular "Selected financial information and operational data — Other historical financial and operational information" for details of capital expenditures paid for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011.

COMMITMENTS

Capital expenditure commitments

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Telecommunications Group had the following capital expenditure commitments, which were used for the acquisition of property, plant and equipment.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$ million			
Authorised and contracted for	463	304	856	869
Authorised but not contracted for	662	787	963	951
	1,125	1,091	1,819	1,820

Operating leases

The majority of the Telecommunications Group's leases are for retail shops, cell sites and offices. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$ million			
Land and buildings				
Within 1 year	299	449	457	482
After 1 year but within 5 years	523	609	547	639
After 5 years	36	16	7	6
	858	1,074	1,011	1,127
Network capacity and equipment				
Within 1 year	118	157	290	281
After 1 year but within 5 years	94	119	259	266
After 5 years	14	—	62	142
	226	276	611	689

Others

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Telecommunications Group had other outstanding commitments, which primarily related to amounts owing to Reach Ltd., a joint venture 50% indirectly owned by the ultimate holding company, during such periods for outsourcing services, as follows:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$ million			
Operating expenditure commitment	289	272	248	238
Others	9	—	—	—
	298	272	248	238

INDEBTEDNESS

The Telecommunications Group uses proceeds from bond issues and bank loans to fund a portion of its cash requirements for working capital and investment activities.

The following table sets forth the Telecommunications Group's bonds and bank borrowings as at the dates indicated.

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	HK$ million			
Non-current				
US$1,000 million 7.75% guaranteed notes due 2011	7,722	7,736	—	—
US$500 million 6% guaranteed notes due 2013	3,856	3,862	3,879	3,883
US$500 million 5.25% guaranteed notes due 2015	3,840	3,848	3,866	3,870
US$500 million 4.25% guaranteed notes due 2016	—	—	3,773	3,844
Bank borrowings	16,327	19,210	15,511	15,551
	31,745	34,656	27,029	27,148
Current				
Bank borrowings	—	46	28	41
US$1,000 million 7.75% guaranteed notes due 2011	—	—	7,772	7,782
	—	46	7,800	7,823
Total	31,745	34,702	34,829	34,971

Description of material indebtedness

US$1,000 million 7.75% guaranteed notes due 2011 (the "Notes due 2011")

In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of HKTGH upon completion of the 2008 Restructuring, issued US$1,000 million 7.75% guaranteed notes due November 2011, which are listed on the Luxembourg Stock Exchange. The interest rate payable on the Notes due 2011 is subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due 2011 below a pre-agreed level. The interest rate payable on the Notes due 2011 has been adjusted to 8% based on the then current ratings.

In November 2001, the proceeds received from the sale of the Notes due 2011 were lent to HKTC on the same terms, and then to Hong Kong Telecommunications (HKT) Limited on 28 November 2008. The Notes due 2011 are unconditionally and irrevocably guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

US$500 million 6% guaranteed notes due 2013 (the "Notes due 2013")

In July 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of HKTGH upon completion of the 2008 Restructuring, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. In 2003, the proceeds received from the Notes due 2013 were lent to HKTC on the same terms, and then to Hong Kong Telecommunications (HKT) Limited in 2008. The Notes due 2013 are irrevocably and unconditionally guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

US$500 million 5.25% guaranteed notes due 2015 (the "Notes due 2015")

In July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKTGH upon the completion of the 2008 Restructuring, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the SGX-ST. In July 2005, the proceeds received from the Notes due 2015 were lent to HKTC on the same terms, and then to Hong Kong Telecommunications (HKT) Limited in November 2008. The Notes due 2015 are irrevocably and unconditionally guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

US$500 million 4.25% guaranteed notes due 2016 (the "Notes due 2016")

In August 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 4.25% guaranteed notes due 2016, which are listed on the SGX-ST. In August 2010, the proceeds received from the Notes due 2016 were lent to Hong Kong Telecommunications (HKT) Limited on the same terms. The Notes due 2016 are irrevocably and unconditionally guaranteed by Hong Kong Telecommunications (HKT) Limited and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of Hong Kong Telecommunications (HKT) Limited and HKTGH.

Bank facilities

Aggregate bank loan facilities as at 31 December 2008, 2009 and 2010 and 30 June 2011 were approximately HK$24,220 million, HK$24,278 million, HK$26,913 million and HK$26,402 million, respectively, of which the unused facilities amounted to approximately HK$7,620 million, HK$4,827 million, HK$11,091 million and HK$10,584 million, respectively.

Descriptions of certain material revolving credit and loan facilities are as follows:

(i) In September 2008, Hong Kong Telecommunications (HKT) Limited entered into HK$23.8 billion revolving credit and term loan facilities (the "**2008 Facilities**") with a group of banks for general corporate purpose including acquisitions of assets from companies in the PCCW Group as a result of the 2008 Restructuring. The facilities are guaranteed by HKTGH and have three tranches including a 3-year HK$8.2 billion revolving credit facility and two HK$7.8 billion term loan facilities with a 3 and 5-year maturity. In May 2010, the two 3-year tranches were repaid in full and cancelled.

(ii) In May 2010, Hong Kong Telecommunications (HKT) Limited entered into HK$16 billion revolving credit and term loan facilities with a group of banks for debt refinancing and general corporate purposes. The facilities are guaranteed by HKTGH and have three tranches including a 4-year HK$8 billion revolving credit facility, a 4-year HK$3 billion term loan facility and a 6-year HK$5 billion term loan facility. Part of the proceeds has been used to refinance the two 3-year tranches under the 2008 Facilities which were cancelled in May 2010 upon repayment.

(iii) In June 2010, Hong Kong Telecommunications (HKT) Limited entered into various bilateral revolving and term loan facilities with a group of banks to raise an aggregate of HK$3.49 billion for general corporate purposes, including the repayment of existing debt. These facilities are guaranteed by HKTGH.

Aggregate bank facilities in relation to bank guarantee and letter of credit as at 31 December 2008, 2009 and 2010 and 30 June 2011 were HK$2,132 million, HK$3,307 million, HK$1,907 million and HK$2,449 million, respectively, of which the unutilised facilities amounted to HK$474 million, HK$2,121 million, HK$945 million and HK$1,465 million, respectively. All of these bank facilities in relation to bank guarantee and letter of credit are unsecured.

CERTAIN INFORMATION ON COMBINED STATEMENTS OF FINANCIAL POSITION

Amounts due to fellow subsidiaries and the ultimate holding company

As at 31 December 2008, the amounts due to fellow subsidiaries which are not part of the Telecommunications Group, were HK$7,405 million. As at 31 December 2009 and 2010 and 30 June 2011, the amounts due from fellow subsidiaries which are not part of the Telecommunications Group, were HK$681 million, HK$906 million and HK$1,393 million, respectively.

As at 31 December 2009 and 2010 and 30 June 2011, amount due to PCCW, the ultimate holding company, was HK$3,455 million, HK$4,951 million and HK$4,090 million, respectively. As at 31 December 2008, the amount due from the ultimate holding company was HK$165 million. As at 30 June 2011, included in the amount due to the ultimate holding company was a loan of HK$4,000 million which was unsecured, payable on demand and interest bearing at HIBOR.

The net amounts due to fellow subsidiaries and the ultimate holding company were HK$7,240 million, HK$2,774 million, HK$4,045 million and HK$2,697 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

The Telecommunications Group expects to capitalise any such net outstanding amounts due to the fellow subsidiaries and the ultimate holding company at the completion of the Pre-IPO Restructuring.

CONTINGENT LIABILITIES

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	HK$ million			
Performance guarantee	357	348	337	337
Tender guarantee	6	13	11	2
Guarantee in lieu of cash deposit	2	2	2	2
Total	365	363	350	341

The Telecommunications Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained with reasonable certainty as it depends on the likelihood and extent of a breach of the guaranteed performance. Therefore no provision has been made in accordance with HKFRS during each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. The Telecommunications Group has not experienced any significant losses from these performance obligations during any of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. The directors of the Trustee-Manager and the directors of HKT are of the opinion that any resulting liability would not materially affect the financial position of the Telecommunications Group.

OFF-BALANCE SHEET ARRANGEMENTS

The Telecommunications Group had no off-balance sheet arrangement for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

POST-BALANCE SHEET EVENTS

Subsequent to 30 June 2011, an interest in Reach Ltd. is to be transferred as part of the Pre-IPO Restructuring to the Telecommunications Group. Upon completion of the Pre-IPO Restructuring, Reach Ltd. will become a jointly controlled entity of the Trust Group.

FINANCIAL RISK MANAGEMENT

Capital management

The Telecommunications Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Holders of Share Stapled Units, to support the Telecommunications Group's stability and growth; and to earn margins commensurate with the level of business and market risks in the Telecommunications Group's operations. The Telecommunications Group monitors capital by reviewing the level of capital that is at its disposal ("adjusted capital"), taking into consideration its future capital requirements, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

Neither the HKT Trust, HKT nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirements of a subsidiary regulated by the Bermuda Monetary Authority.

Credit risk

The Telecommunications Group's credit risk is primarily attributable to trade receivables, interest receivable, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. The management of Telecommunication Group has policies in place to monitor exposures to these credit risks on an ongoing basis.

The Telecommunications Group normally grants its debtors credit periods ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Telecommunications Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Telecommunications Group does not obtain collateral from customers. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Telecommunications Group did not have a significant exposure to any individual debtors or counterparties.

Amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at 31 December 2008, 2009 and 2010 and 30 June 2011, amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets, were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Telecommunications Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the combined balance sheets. Except for the guarantees given by the Telecommunications Group, it does not provide any other guarantees that would expose the Telecommunications Group to credit risk.

Liquidity risk

The Telecommunications Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management of the Telecommunications Group believes there is no significant liquidity risk as the Telecommunications Group has sufficient committed facilities to fund its operations and debt servicing requirements.

Market risk

Market risk is composed of foreign currency, interest rate and equity price exposure deriving from the Telecommunications Group's operations, investment and funding activities. As a matter of policy, the Telecommunications Group enters into cross currency swap contracts to manage its exposure to market risk directly related to its operations and financing. The Telecommunications Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes. The finance and management committee, a subcommittee of the executive committee of the board of directors of PCCW, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

Foreign currency risk

The Telecommunications Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Telecommunications Group recognised assets and liabilities are denominated in a currency other than the entity's functional currency.

The borrowings of the Telecommunications Group are mainly denominated in either Hong Kong dollars or US dollars. As at 31 December 2008, 2009 and 2010 and 30 June 2011, a majority of the Telecommunications Group's short-term and long-term borrowings denominated in US dollars were swapped into Hong Kong dollars by cross currency swap contracts.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Telecommunications Group adopts the approach to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Interest rate risk

As the Telecommunications Group has no significant interest-bearing assets, the Telecommunications Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Telecommunications Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Telecommunications Group to cash flow interest rate risk and fair value interest rate risk, respectively. In addition, from time to time, the Telecommunications Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at a floating rate.

The Telecommunications Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

Equity price risk

The Telecommunications Group is exposed to equity price changes arising from an equity investment classified as available-for-sale financial asset. The investment is listed on a recognised stock exchange.

SEASONALITY

To date, the Telecommunications Group has not experienced significant seasonality in its operations.

PART III

THE BUSINESS OF THE TELECOMMUNICATIONS GROUP

OVERVIEW

The Share Stapled Units provide investors with an opportunity to invest in the leading integrated telecommunications service provider in Hong Kong. With origins from 1925, the Telecommunications Group's telecommunications businesses have been the leading telecommunications service provider for over 85 years in Hong Kong, providing residents and businesses in Hong Kong with high quality and reliable telecommunications services.

The Telecommunications Group is a leading integrated provider of fixed line, mobile and broadband telecommunications services in Hong Kong, with approximately 61.2% market share by number of exchange lines, approximately 12.1% market share by number of mobile subscribers and approximately 65.4% market share by number of broadband access lines as at 30 June 2011, based on the number of exchange lines, mobile subscribers and broadband access lines in Hong Kong respectively, provided by OFTA, thereby affirming the Telecommunications Group's telecommunications network as the most extensive digital network in Hong Kong. As at 30 June 2011, the Telecommunications Group had in service approximately 2.63 million exchange lines, approximately 1.51 million mobile subscribers and approximately 1.44 million broadband access lines. The Telecommunications Group's broadband service coverage reached approximately 98% of all households in Hong Kong as at 31 July 2011.

As the incumbent leading integrated telecommunications service provider in Hong Kong, the Telecommunications Group continues to stay at the forefront and has become synonymous with innovation and quality, having successfully built its unique "quadruple-play" delivery platform capability through partnership with PCCW's Media Business and strengthened its leadership in a consumer market which is ready to embrace new technologies and content. The quadruple-play delivery platforms provide a one-stop shop that meets customers' telecommunications needs and provides flexibility to customers to customise the package of services they receive according to their personal preferences and schedules. The Telecommunications Group is the only telecommunications operator in Hong Kong to offer this quadruple-play experience to customers.

Hong Kong has one of the most sophisticated telecommunications markets in the world in terms of overall scope, service penetration and customer choice. The Telecommunications Group's extensive telecommunications network and associated infrastructure provide a robust platform to deliver its comprehensive portfolio of products and services to customers. Currently, all of the Telecommunications Group's network transmission links for exchange junctions are digital over fiber-optic cables and all exchange equipment incorporates digital switching and next generation NGN IP-based broadband routing technologies, allowing the broadband network to provide speeds of up to 1,000 Mbps. In addition, the Telecommunications Group has over 9,000 Wi-Fi hotspots spread across Hong Kong (including 100 Mbps fiber hotspots), which make auto-switching between 3G and Wi-Fi networks more seamless and effortless, enabling customers to have greater ease in accessing the Internet at any time and also to enjoy attractive content on their mobile devices made available through the quadruple-play delivery platforms. Going forward, the Telecommunications Group will continue to deploy the next generation 4G technology that will enable the Telecommunications Group to deliver higher-speed mobile data connectivity to its users and capture the strong growth in the mobile data market.

The Telecommunications Group is supported by a management team that has a track record in both the development and delivery of telecommunications services as well as in the execution of its business strategies. With most of the senior management having over 20 years of experience in the telecommunications industry and over 10 years of experience with operating companies within the Telecommunications Group (or predecessor operating companies, including for these purposes, companies acquired by PCCW through its acquisition of HKTL in 2000), the management team has successfully maintained the Telecommunications Group's leading market share position and expanded the Telecommunications Group's offering of products and services in one of Asia's most deregulated telecommunications markets. The synergies created by the management team's experience and technical expertise, coupled with the use of advanced technologies, allows the Telecommunications Group to move quickly to identify, adopt, acquire, develop and exploit emerging technologies, thereby making the Telecommunications Group a preferred partner for other telecommunications companies in Asia and globally.

The key objective of the HKT Trust and HKT is to provide Holders of Share Stapled Units with stable and regular distributions as well as long-term distribution growth.

The Telecommunications Group has strong and stable cash flows and has demonstrated resilience during the global financial crisis in 2009, generating relatively stable EBITDA in each of the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 of approximately HK$2,804 million[1] (or, on an aggregated basis, HK$7,357 million), HK$7,263 million, HK$7,249 million and HK$3,623 million, respectively; while its EBITDA margins in each of the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 were approximately 38.9%[1], (or, on an aggregated basis, 38.6%) 40.5%, 39.1% and 38.0%, respectively. For the year ended 31 December 2010 and six months ended 30 June 2011, the Telecommunications Group had a turnover of approximately HK$18,527 million and HK$9,537 million and Adjusted Funds Flow for the year/period of approximately HK$2,019 million and HK$1,352 million, respectively.

With the Telecommunications Group's long and established track record, high quality customer service, extensive coverage and advanced technology offerings to customers in Hong Kong, the Telecommunications Group is well-positioned to continue to maintain its position as the leading integrated telecommunications service provider in Hong Kong, as demonstrated by its continuous leading position even after the opening up of the local telecommunications market by the Government in 1995 and the resulting intense competition among telecommunication service providers.

INTRODUCTION TO THE TELECOMMUNICATIONS BUSINESS

The Telecommunications Business comprises three business segments: telecommunications services, mobile services and other businesses, as further described below.

Telecommunications services (TSS)

The telecommunications services segment provides four core areas of telecommunications products and services: local telephony services, local data and broadband services, international telecommunications services and other services.

- **Local telephony services:** The Telecommunications Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. The Telecommunications Group has a leadership position in the fixed-line telecommunications market in Hong Kong. The Telecommunications Group's local telephony services had approximately 2.63 million exchange lines in service as at 30 June 2011, and the leading market share of approximately 61.2% based on the number of exchange lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **Local data and broadband services:** The Telecommunications Group's local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The Telecommunications Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications. The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services. As at 31 July 2011, the NETVIGATOR ADSL 1.5M service reached approximately 98% of all households in Hong Kong. There were approximately 1.44 million broadband access lines as at

1 The historical EBITDA of the Telecommunications Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business as described in the section headed "Selected financial information and operational data" in Part I of Appendix II to this circular.

30 June 2011 while the total contracted bandwidth for local data services was 1,243 Gbps as at 30 June 2011. The Telecommunications Group's broadband service had the leading market share of approximately 65.4% based on the number of broadband access lines in Hong Kong as at 30 June 2011, based on information provided by OFTA.

- **International telecommunications services:** The Telecommunications Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fiber and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Telecommunications Group's network currently provides connectivity in approximately 1,500 cities in 110 countries and serves the enterprise and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The Telecommunications Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totalled 1,326 million minutes for the year ended 31 December 2010, and 618 million minutes for the six months ended 30 June 2011 and IPLC exit bandwidth based on the capacity in service totalled 149 Gbps as at 30 June 2011.

- **Other services:** Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and Teleservices. In addition, the Telecommunications Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

Mobile services

The Telecommunications Group offers 2G, 3G and CDMA mobile services which are marketed under the 'PCCW mobile' brand. The Telecommunications Group has invested significantly in expanding its 3G network since 2005. In addition, a jointly controlled company of the Telecommunications Group holds a licence from OFTA, which will enable the Telecommunications Group to provide next generation high speed 4G mobile data services in the future. As at 30 June 2011, the Telecommunications Group had approximately 1.51 million subscribers and according to the number of mobile subscribers in Hong Kong provided by OFTA, the Telecommunications Group's mobile services had a market share of approximately 12.1% based on the number of subscribers. The Telecommunications Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

Other businesses

The other businesses of the Telecommunications Group primarily comprise revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

COMPETITIVE STRENGTHS

The directors of the Trustee-Manager and the directors of HKT believe that the competitive strengths of the Telecommunications Group are as follows:

The leading telecommunications service provider in Hong Kong

The Telecommunications Group provides Holders of Share Stapled Units with an opportunity to invest in the leading telecommunications service provider in Hong Kong with market shares of approximately 61.2% by number of exchange lines and approximately 65.4% by number of broadband access lines respectively as at 30 June 2011, based on information provided by OFTA. The Telecommunications Group's telecommunications network is the most extensive digital network in Hong Kong by total number of exchange lines base. As at 30 June 2011, the Telecommunications Group had in service approximately 2.63 million exchange lines and approximately 1.44 million total broadband access lines.

This leading position is attributed to the Telecommunications Group's long and established track record for high quality customer service, extensive coverage and advanced technology offerings to customers in Hong Kong. Such advanced technology offerings include the PCCW **eye2** which enables users to make video and voice calls as well as choose from more than 100 types of infotainment and interactive services wirelessly around the home through a Wi-Fi enabled portable device. The Telecommunications Group's "NETVIGATOR" branded ADSL 1.5M service reached approximately 98% of all households in Hong Kong as at 31 July 2011.

With its leading position in Hong Kong, the directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group is well-positioned to leverage its scale and deploy new services across Hong Kong quickly, giving customers access to a wide selection of telecommunications and broadband service offerings.

Attractive growth prospects for mobile and broadband services

The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group has long-term growth prospects given the strong growth and the continuous development expected of the mobile telecommunications and broadband market. Consumers today are not only seeking basic connectivity at home or the office for e-mail and Internet surfing, but are also seeking faster Internet access speeds and uninterrupted mobile data connectivity. The shift in Internet usage is brought about by the increased data usage requirements of Internet based services such as music or video streaming as well as websites and online applications that deliver rich high-definition content. Increasing affordability and availability of handheld portable devices, such as Smartphones and tablets and growing consumer confidence in accessing online services via mobile devices have also led to an increase in mobile subscribers and data usage, and increased data traffic being carried over the Telecommunications Group's network. According to OFTA, the total broadband traffic volume in Hong Kong grew approximately 13% per year from 2008 to 2010 and the total mobile data usage grew approximately 273% per year over the same period.

The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group is well-positioned to capture the strong growth in the mobile and broadband data markets by providing increasingly high speed and stable mobile connectivity to meet customer needs. The Telecommunications Group currently offers an extensive selection of speeds and mobility options to its customers. Specifically, it offers ADSL, VDSL, and FTTx technologies to support speeds ranging from 1.5 Mbps to over 1,000 Mbps. In 2010, the Telecommunications Group became the first telecommunications provider in Hong Kong to announce the readiness of a 42M DC-HSPA+fiber mobile broadband network. This advanced technology, called the PCCW NextGen Network, will allow customers to experience faster Internet access through their mobile devices. The Telecommunications Group currently also offers the NETVIGATOR Home Wireless and PCCW Wi-Fi services, as well as NETVIGATOR Pocket Wi-Fi, and the NETVIGATOR Everywhere services that provide download speeds of up to 42 Mbps.

Going forward, the Telecommunications Group will continue to deploy the next generation mobile broadband technology and 4G technology that will enable the Telecommunications Group to deliver higher-speed mobile data connectivity to its users and capture the strong growth in the mobile data market.

The Telecommunications Group expects to continue increasing its mobile and broadband subscriber base through offering these new high-speed and mobile data services and improving ARPUs through further up-selling of higher speed services to existing subscribers.

Comprehensive delivery platforms

The Telecommunications Group offers services that can be delivered and accessed through four complementary delivery platforms: fixed-line, broadband, mobile and IPTV. This unique combination of “quadruple-play” delivery platforms provides a one-stop shop to meet customers’ telecommunications needs, and allows customers the flexibility of customising the package of services they receive according to personal preferences and schedules. The media content delivered by the Telecommunications Group’s delivery platforms is provided by PCCW while the IPTV, being the Internet television services provided by a member of the PCCW Group, is delivered through the Internet and managed broadband Internet access networks owned by the Telecommunications Group. The Telecommunications Group is able to offer “quadruple-play” services by entering into a carriage services agreement as well as a marketing and sales services agreement with a member of the PCCW Group. Such symbiotic relationship between the Telecommunications Group and PCCW allows the Telecommunications Group to capture the synergies of the inter-play between the four services.

The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group’s quadruple-play delivery platforms help increase customer stickiness and effectively enable the Telecommunications Group to retain its subscriber base and be highly resilient to competition. The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group is also less susceptible to pricing pressures across its businesses due to its quadruple-play delivery platforms.

Strong brand recognition and reputation for quality and reliability

The Telecommunications Group's products and services enjoy a reputation for high quality and reliability and a high level of brand recognition among its customers. The Telecommunications Group has won numerous awards and accolades for its high quality products and services. See the paragraph headed "Awards and accolades" in this section for more information on these awards and accolades.

Quality and reliability are especially important to commercial customers who require the Telecommunications Group's services to support their operations and to the Telecommunications Group's extensive and advanced networks, including its broadband network. The Telecommunications Group provides a comprehensive set of high-quality and reliable services to both residential and commercial customers. For the year ended 31 December 2010, the Telecommunications Group recorded a negligible average complaint rate of 0.0005, 0.02 and 0.165 complaints per 100 customers per month in respect of the network performance of its fixed network services, 2G mobile services and 3G mobile services, respectively.

The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group's strong branding allows the Telecommunications Group to retain its subscriber base and provides it with a platform from which to successfully launch new products and services.

Extensive telecommunications network and infrastructure

The Telecommunications Group's extensive telecommunications network and associated infrastructure provide a robust platform from which the Telecommunications Group delivers its comprehensive portfolio of products and services to customers. Based on the demands of its customers, the Telecommunications Group also continually invests in new or emerging technologies and in upgrading its existing technologies to differentiate its services and product offerings from those of its competitors. This allows the Telecommunications Group to provide high quality and extensive network coverage as well as introduce innovative products in its core markets in Hong Kong.

The Telecommunications Group provides access to its broadband network at multiple speeds of 1.5 Mbps to over 1,000 Mbps using multiple technologies such as ADSL, VDSL and PON. The Telecommunications Group has the most extensive fiber network in Hong Kong with approximately 1.5 million km of core fibre optic cable covering 3,442 commercial buildings and 1.9 million homes with FTTB, of which 1.26 million homes are fully provided with FTTH as at 31 July 2011 and services can be provisioned within 4 days. The Telecommunications Group also continues to expand its Wi-Fi "hotspot" coverage throughout Hong Kong. Such coverage now extends to coffee shops, restaurants, payphone kiosks, convenience stores, malls, major MTR stations, the Hong Kong International Airport, Airport Express stations and trains, universities and other institutions of tertiary education. In 2008, the Telecommunications Group became the first Wi-Fi provider in Asia to offer a public service on trains by providing connectivity on 11 Airport Express trains.

The Telecommunications Group's superior mobile network is premised on its wide network coverage (3,897 BTS), abundant spectrum (106 MHz) and extensive fiber backhaul.

The Telecommunications Group's telecommunications network currently includes 2G, 3G and CDMA mobile networks. The Telecommunications Group was the world's first mobile provider to broadcast real-time television over its mobile network, using cell multimedia broadcast technology. In November 2008, the Telecommunications Group delivered Hong Kong's first 3G network deployment based on CDMA 2000 technology, so that visitors from the PRC, Japan, Korea and the U.S. can use their home-based CDMA 2000/CDMA IS-95 mobile devices to roam onto the Telecommunications Group's network. In January 2009, the Telecommunications Group, through a jointly controlled company, succeeded in obtaining a licence from OFTA to operate within the 2500-2600 Mhz spectrum band for the purposes of providing high speed 4G data services. Further, the mobile business is well-positioned to leverage on the Telecommunications Group's extensive high-speed wireless broadband network, such as the 42M DC-HSPA+fiber mobile broadband network to further enhance its mobile offering. As at the Latest Practicable Date, the Telecommunications Group has over 9,000 Wi-Fi hotspots spread across Hong Kong (including 100 Mbps fiber hotspots), which make auto-switching between 3G and Wi-Fi networks more seamless and effortless, enabling customers to have greater ease in accessing the Internet at any time and also to enjoy attractive content on their mobile devices made available through the Telecommunications Group's quadruple-play delivery platforms.

The Telecommunications Group's extensive network and associated infrastructure will continue to enable the Telecommunications Group to introduce high speed data products and services to meet the growing demand from residential, commercial and global customers.

Resilient and strong profitability with strong cash flow generation

The Telecommunications Group is characterised by strong and stable cash flows and has demonstrated its resilience, such as during the global financial crisis in 2009. The Telecommunications Group generated relatively stable EBITDA in each of the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 of approximately HK$2,804 million[1] (or, on an aggregated basis, HK$7,357 million), HK$7,263 million, HK$7,249 million and HK$3,623 million, respectively, while its EBITDA margins in each of the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 were approximately 38.9%[1] (or, on an aggregated basis, 38.6%), 40.5%, 39.1% and 38.0%, respectively. The Telecommunications Group achieved strong profitability and cash flow generation through a combination of its "quadruple-play" delivery platforms, strong brand identities and reputation, extensive and advanced networks, and focus on productivity and cost management.

The Telecommunications Group's strong cash flow position is also supported by the fact that the current capital expenditure requirements in expanding its infrastructure to support additional users is generally driven by demand for its services. In the year ended 31 December 2008, the Telecommunications Group incurred additional capital expenditure in relation to, among other things, expanding and upgrading its mobile, broadband and international connectivity infrastructure with total

[1] The historical EBITDA of the Telecommunications Group for the year ended 31 December 2008 presents partial year results of the Telecommunications Business as described in the section headed "Selected financial information and operational data" in Part I of Appendix II to this circular.

capital expenditure for that year amounting to approximately 15% of turnover on an aggregated basis. In contrast, the Telecommunications Group's capital expenditure in the subsequent years ended 31 December 2009 and 2010 was primarily driven by customer demand, and had comprised less than 10% of turnover for each of these years.

Experienced management team

The Telecommunications Group's management team has a track record in both the development and delivery of telecommunications services, as well as in the execution of its business strategies.

The management team has successfully maintained the Telecommunications Group's market share and expanded its offering of products and services in one of Asia's most deregulated telecommunications market. The directors of the Trustee-Manager and the directors of HKT believe that the synergies created by the management experience and technical expertise of the management team and the Telecommunications Group's advanced technology should enable the Telecommunications Business to move quickly to identify, adopt, acquire, develop and exploit emerging technologies. The directors of the Trustee-Manager and the directors of HKT also believe that the management and operational expertise of the management team will make the Telecommunications Group a preferred partner for other telecommunications companies in Asia and elsewhere.

KEY STRATEGIES

- **Increase demand for the Telecommunications Group's fixed-line, broadband and mobile telecommunications services**

  The Telecommunications Group intends to capitalise on its leading telecommunications network infrastructure and unique combination of "quadruple-play" delivery platforms to provide customers a wide, appealing and innovative range of services, to increase its ARPU and market shares for broadband, fixed-line and mobile services as well as to increase efficiencies in its overall field and operations workforce.

  The Telecommunications Group intends to enhance sales and marketing efforts to retain its subscriber base, promote service plan upgrades and sign up new customers. The Telecommunications Group also intends to provide customers with attractive, high quality, customisable packages and offerings to increase overall demand.

  Customer experience is a focus area for the Telecommunications Group. To enhance customer experience, the Telecommunications Group has established a Customer Experience Executive Committee to focus on ways to enhance customer experience including introducing and adopting customer service-enhancing measures and consumer friendly practices such as simplifying its services contracts. Moving forward, the Telecommunications Group will continue to emphasise addressing customer feedback with an overall objective of enhancing customer experience.

  Building on the success of its transformation strategy implemented since 2003, which transformed the Telecommunications Group from a pure telecommunications service provider to one which provides many forms of content, applications and interactive transactional services, the Telecommunications Group will continue to actively market its innovative and appealing services such as the **eye** service, with the objective of integrating the **eye** service into the daily lives of Hong Kong residents. The Telecommunications Group also plans to upgrade existing NETVIGATOR customers to higher speed services.

Consumers today not only seek basic Internet connectivity, but also seek higher access speeds and uninterrupted mobile data connectivity to enjoy a wide range of Internet-based services. The proliferation of the use of Internet-based services through handheld portable devices has also led to an increase in mobile subscribers and data usage, and increased data traffic carried over the Telecommunications Group's network. As such, the Telecommunications Group will seek to continue to capture the strong growth in the mobile and broadband data markets by providing increasingly high speed and stable mobile connectivity to meet customer needs.

- **Broaden the range of products and services offered**

  The Telecommunications Group plans to continue to innovate and broaden its existing high quality product offering by focusing on data-related products and value-added services with the objective of increasing customer loyalty and stickiness and increasing ARPU.

  The Telecommunications Group intends to expand its data services offerings through providing plans with increased speed and mobility. This includes:

  - expanding the coverage of its FTTB service supporting speeds of 30 Mbps to over 1,000 Mbps across Hong Kong, thus providing customers with multiple technologies and speeds to meet their broadband access needs as well as to facilitate the migration of standard definition television to HD, 3D and ultra high definition television;

  - delivering content to various devices such as tablets and Smartphones, continuing to develop client applications for user interface which provide enhanced navigation, search and recommendation functionality, enhancing functionality of devices such as tablets to be more useful and complementary to the television viewing experience, developing systems to streamline the provisioning, delivery and management of the multimedia services to better serve customers with multi-devices as well as to enhance the operations and management of the services provided by the Telecommunications Group;

  - expanding home networking and digital living for its customers; and

  - extending its wireless offering through the Telecommunications Group's new "Smart 4" services, which offers subscribers four types of Internet access plans featuring PCCW Mobile HSPA SIM, NETVIGATOR Everywhere, NETVIGATOR Pocket Wi-Fi, PCCW Wi-Fi, and NETVIGATOR Home Wireless.

- **Maintain its leading network infrastructure**

The Telecommunications Group will continue to invest and to add value to its broad array of connectivity services, to improve the delivery of its own content and applications and those of its partners and to maintain its leading network infrastructure to provide customers with extensive coverage and a broad range of high-quality telecommunications services. The Telecommunications Group will also continue to adopt a demand-generated investment strategy to develop its networks and systems so as to maintain its premium brand positioning and to maintain pricing. The Telecommunications Group intends to continue to:

○ fully utilise its state-of-the-art IP-based network infrastructure, which was recently upgraded, and the recently integrated 2G and 3G networks;

○ leverage on extensive fixed line infrastructure to reduce overall data loads on the mobile network;

○ expand higher-speed broadband services to more homes and businesses through the rollout of the Telecommunications Group's optical network and existing global backbone;

○ provide multiple access technologies by further increasing the number of Wi-Fi hotspots to make auto-switching between 3G and Wi-Fi networks anywhere in Hong Kong seamless and effortless;

○ roll out the advanced 42M DC-HSPA+fiber mobile broadband network through the PCCW NextGen Network to provide high-speed Internet access through mobile telecommunications devices; and

○ invest in security, performance monitoring and preventative maintenance management network with an aim to achieve world class key performance indicators.

In addition, the Telecommunications Group intends to roll out the necessary infrastructure which will enable it to provide the next generation 4G LTE technology and related product offerings in Hong Kong.

- **Focus on cost control and efficiency measures**

The Telecommunications Group will continue to focus on reducing costs, optimising efficiency and increasing productivity across its businesses. For example, the Telecommunications Group will continue to look for areas where cost efficiencies can be gained, such as through the restructuring of the majority of Reach Ltd.'s operations to increase operational efficiencies and engaging in dialogue with its suppliers to revisit maintenance contracts to reduce costs.

Risk and Capital Management Strategy

- **Optimise the overall capital structure of the Telecommunications Group**

  The Telecommunications Group's strategy involves adopting and maintaining an appropriate mix of debt and equity for the Telecommunications Group to ensure optimal distributions to Holders of Share Stapled Units, while maintaining sufficient flexibility for the Telecommunications Group to implement growth strategies. The Telecommunications Group intends to reduce its existing debt and optimise the Telecommunications Group's capital structure through the repayment of the existing debt with the use of a portion of the proceeds of the Global Offering. Reducing the outstanding borrowings of the Telecommunications Group will lower interest expenses and increase cash flows available for distribution to Holders of Share Stapled Units.

- **Proactively manage overall financing costs**

  As and when appropriate, the directors of the Trustee-Manager and the directors of HKT may consider refinancing the Telecommunications Group's remaining debt to take advantage of more favourable financing terms. In addition, the directors of the Trustee-Manager and the directors of HKT will adopt a proactive interest rate and foreign exchange management policy to manage expenses and adverse fluctuations in foreign exchange and interest rates on debt financing while seeking to ensure that the Telecommunications Group's ongoing cost of debt remains competitive. See also the section headed "Management's discussion and analysis of financial condition and results of operations — Indebtedness" Part II of Appendix II to this circular.

CORE SERVICES

Telecommunications services

Telecommunications services revenues for the year ended 31 December 2010 and the six months ended 30 June 2011 were approximately HK$16,223 million and HK$8,259 million, respectively, which accounted for approximately 87.6% and 86.6% of the Telecommunications Group's turnover. The Telecommunications Group provides four core areas of telecommunications products and services: local telephony services, local data and broadband services, international telecommunications services and other services.

- **Local telephony services**

  The Telecommunications Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. Local telephony services revenues for the year ended 31 December 2010 and the six months ended 30 June 2011 were approximately HK$3,600 million and HK$1,653 million respectively and accounted for approximately 19.4% and 17.3% of the Telecommunications Group's turnover. The Telecommunications Group's total exchange lines in service as at 31 December 2010 and 30 June 2011 remained at approximately 2.59 million and 2.63 million, respectively, despite lower demand for business lines immediately following the economic downturn in 2008/9. This was primarily because the number of residential exchange lines remained at approximately the same level as in 2008 and 2009, as the "PCCW **eye** Multimedia Service" generated strong demand. In June 2009, the Telecommunications Group launched the PCCW **eye2** which enabled users to make video and voice calls as well as choose from more than 100 types of infotainment and interactive services wirelessly around the home through a Wi-Fi enabled portable device. PCCW **eye** Multimedia Services is the de facto fixed-line phone for new line services in Hong Kong. The services related to such devices carry a higher ARPU than traditional residential fixed-line telecommunication services.

According to the number of exchange lines in service in Hong Kong provided by OFTA, the Telecommunications Group's local telephony services had the leading market share of approximately 61.2% as at 30 June 2011.

	As at / For the year ended 31 December			**As at / For the six months ended 30 June**		
	2008	**2009**	**2010**	**2010**	**2011**	**2008-2010 CAGR**
Exchange lines in service ('000)	2,603	2,588	2,590	2,587	2,625	(0.3)%
Business lines	1,195	1,182	1,183	1,180	1,217	(0.5)%
Residential lines	1,408	1,406	1,407	1,407	1,408	(0.0)%
Blended ARPU (HK$)[(1)]	119[(*)]	111	101	103	96	(7.9)%

Notes:

(1) Calculated based on the revenue earned in the relevant year/period divided by the average number of lines in service for the relevant year/period.

(*) On an aggregated basis.

- **Local data and broadband services**

The Telecommunications Group's local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The Telecommunications Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications.

The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services. As at 31 July 2011, the NETVIGATOR ADSL 1.5M service reached approximately 98% of all households in Hong Kong. NETVIGATOR broadband users can also stay connected to the Internet at anytime and anywhere via NETVIGATOR Home Wireless, with over 9,000 Wi-Fi hotspots throughout Hong Kong operated by the Telecommunications Group under the NETVIGATOR Everywhere brand, which is an integrated wireless solution interconnecting Wi-Fi and mobile broadband networks. In addition, to cater for increasing consumer demand in mobile broadband services, in August 2009, the

Telecommunications Group launched NETVIGATOR Pocket Wi-Fi, a mobile broadband service that enables customers to simultaneously connect up to five Wi-Fi-enabled devices with high speed Internet access under a single plan. Local data services revenues were approximately HK$5,270 million and HK$2,660 million, representing approximately 28.4% and 27.9% of the Telecommunications Group's turnover, for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively. Despite the effects of the global financial crisis on the economic environment in Hong Kong, the number of the Telecommunications Group's total broadband access lines in service remained relatively stable at approximately 1.37 million and 1.44 million as at 31 December 2010 and 30 June 2011, respectively, while the total contracted bandwidth for local data services increased to 1,045 Gbps as at 31 December 2010 and 1,243 Gbps as at 30 June 2011, respectively.

According to the number of broadband access lines in Hong Kong provided by OFTA, the Telecommunications Group's broadband service had the leading market share of approximately 65.4% as at 30 June 2011.

	As at / For the year ended 31 December			**As at / For the six months ended 30 June**		
	2008	**2009**	**2010**	**2010**	**2011**	**2008-2010 CAGR**
Broadband access lines ('000)	1,302	1,297	1,367	1,298	1,437	2.5%
Retail consumer broadband subscribers ('000)	1,126	1,146	1,215	1,148	1,285	3.9%
Retail business broadband subscribers ('000)	113	114	115	114	116	0.9%
Retail broadband blended ARPU (HK$)(1)	245(*)	249	266	272	260	4.2%
Traditional data (Exit Gbps)(2)	927	837	1,045	953	1,243	6.2%

Notes:

(1) Calculated based on the revenue earned in the relevant year/period divided by the average number of lines in service or subscribers, where appropriate, for the relevant year/period.

(2) Based on the capacity in service as at the end of the relevant year/period.

(*) On an aggregated basis.

- **International telecommunications services**

The Telecommunications Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fiber and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Telecommunications Group's network currently provides connectivity in approximately 1,500 cities in 110 countries and serves the enterprise and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The Telecommunications Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totalled 1,326 million minutes for the year ended 31 December 2010, and 618 million minutes for the six months ended 30 June 2011 and IPLC exit bandwidth based on the capacity in service totalled 110 Gbps as at 31 December 2010 and 149 Gbps as at 30 June 2011. International telecommunications services revenues were approximately HK$3,714 million and HK$2,188 million which accounted for approximately 20.0% and 22.9% of the Telecommunications Group's turnover for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

According to the number of retail IDD minutes in Hong Kong provided by OFTA, the Telecommunications Group's retail IDD market share in Hong Kong is approximately 17.2% for the year ended 31 December 2010.

	As at / For the year ended 31 December			**As at / For the six months ended 30 June**		
	2008	**2009**	**2010**	**2010**	**2011**	**2008-2010 CAGR**
Retail IDD minutes ('million)	1,785(*)	1,455	1,326	674	618	(13.8)%
IPLC exit bandwidth (Mbps)(1)	78,202	82,913	109,864	88,108	148,834	18.5%

Note:

(1) Based on the capacity in service as at the end of the relevant period.

(*) On an aggregated basis

The restructuring of Reach Ltd., which was completed in February 2011, added to the Telecommunications Group's international telecommunications services infrastructure. Following the restructuring, through the direct ownership of certain infrastructure assets such as fibers on the REACH North Asia Loop submarine cable system, the Telecommunications Group has increased its global network capabilities and coverage.

- **Other services**

Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and Teleservices. In addition, the Telecommunications Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment. For example, since 2008, the Telecommunications Group has continued to assist the Hong Kong banking sector in developing a secure voice recording solution to assist banks in meeting the new Hong Kong regulatory requirement to record investment products sales processes. As at 31 August 2011, over 500 bank branches in Hong Kong have installed the solution, which offers the unique capability of recording and safekeeping fixed-line and mobile communications.

Previously, the Telecommunications Group had provided Teleservices primarily from Hong Kong and the PRC to serve customer support needs. Since 2009, the Telecommunications Group has made two acquisitions in an effort to grow the Teleservices business internationally which resulted in the doubling of its Teleservices capacity. In August 2009, the Telecommunications Group acquired a 70% interest in each of the two contact centre services companies operating a network of six English speaking contact centres in Ohio and Nebraska in the U.S., one Spanish speaking centre in the Republic of Panama, and two centres in Manila, the Philippines, that provide customer support services to companies based in the U.S. In December 2010, the Telecommunications Group acquired an additional 15% interest in the contact centre service company operating the contact centres in Ohio, Nebraska and Panama. As one of the largest 24-hour contact centre operators in Asia, the Telecommunications Group increased the number of contact centre seats by around 2,500 to over 5,500 following these transactions. HKT believes that these acquisitions, with the addition of English and Spanish speaking contact centre services, complement the Telecommunications Group's other core businesses in Hong Kong. They have also facilitated the Telecommunications Group's access to the U.S., the largest market for contact centre services in the world, and potentially open up opportunities for the Telecommunications Group to serve multinational clients' worldwide customer support needs.

Revenues from the other services were approximately HK$3,639 million and HK$1,758 million which accounted for approximately 19.6% and 18.4% of the Telecommunications Group's turnover for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively. The business has benefited from the increased global demand for outsourcing and has expanded both through the increase in its customer base and by acquisitions (such as the acquisition by the Telecommunications Group of two contact centre operations in America and the Philippines).

Mobile

The Telecommunications Group offers 2G, 3G and CDMA mobile services which are marketed under the 'PCCW mobile' brand. The Telecommunications Group has invested significantly in expanding its 3G network since 2005. In addition, a jointly controlled company of the Telecommunications Group holds a licence from OFTA, which will enable the Telecommunications Group to provide next generation high speed 4G mobile data services in the near future.

The increased availability of Smartphones and other wireless devices has had a positive impact on the demand for mobile data service. The Telecommunications Group has actively developed a suite of applications for Smartphones to enhance user experience. The Telecommunications Group provides support for a broad spectrum of Smartphones and has implemented tariff plans to drive continued growth of its 3G customer base. Total subscribers of the Telecommunications Group's mobile services reached approximately 1.48 and 1.51 million as at 31 December 2010 and 30 June 2011, respectively. The 3G subscriber base expanded significantly to approximately 0.7 million and 0.9 million for the same periods. According to the number of mobile subscribers in Hong Kong provided by OFTA, the Telecommunications Group's mobile services had a market share of approximately 12.1% as at 30 June 2011.

The growth in the subscriber base for the Telecommunications Group's 2G and 3G mobile services from 2008 to the first half of 2011 is set out in the table below.

	As at / For the year ended 31 December			As at / For the six months ended 30 June		2008-2010
	2008	2009	2010	2010	2011	CAGR
Mobile subscribers ('000)	1,313	1,422	1,484	1,469	1,506	6.3%
3G post-paid	414	529	667	606	880	26.9%
2G post-paid	440	376	250	319	43	(24.6)%
2G prepaid	459	517	567	544	583	11.1%
Blended post-paid ARPU (HK$)	151(*)	143	141	138	153	(3.4)%
3G post-paid ARPU (HK$)	206(*)	189	175	175	163	(7.8)%
2G post-paid ARPU (HK$)	113(*)	89	76	78	101	(18.0)%

(*) On an aggregated basis.

The Telecommunications Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

Total mobile revenues were approximately HK$1,709 million and HK$919 million for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, which accounted for approximately 9.2% and 9.6% of the Telecommunications Group's turnover.

The Telecommunications Group intends to continue promoting and strengthening its mobile services via its quadruple-play delivery platforms.

Other businesses

Other businesses of the Telecommunications Group primarily comprise revenue of ZhongYing JV, which provides network integration and related services to telecommunications operators in the PRC.

Awards and accolades

The Telecommunications Group has received numerous awards and accolades including the following:

Award	Awardee	Scheme organiser
AV Awards 2010		AV Magazine
• The Best Internet Service Provider	NETVIGATOR	
• The Best Mobile Broadband Operator	NETVIGATOR Everywhere and PCCW mobile	
Best of I.T. Award 2010		PC Market
• My Favourite Local Broadband Service Provider Award	NETVIGATOR	
The Best of the Best Awards 2010		Hi Tech Weekly
• Mobile Internet Service Provider	NETVIGATOR Everywhere	
• Internet Service Provider	NETVIGATOR	
• Mobile Telecom Service Provider	PCCW mobile	
eBrands Awards 2011		eZone magazine
• The Best Mobile Broadband Service	PCCW mobile	
• The Best Residential Broadband Service	NETVIGATOR	
Hong Kong Service Awards 2010		East Week
Prosperous Economy category		
• Internet Service	NETVIGATOR	
• Long Distance Call	IDD 0060	
Sing Tao Excellent Services Brand Award 2010		
• Broadband Network Provider	NETVIGATOR	Sing Tao Daily
Top Service Awards		Next Magazine
• Best Internet Service Provider for 13 Consecutive Years (1999-2011)	NETVIGATOR	
• Mobile Operator (2010)	PCCW mobile	
TOUCH Brands 2010	PCCW mobile NETVIGATOR Everywhere	East Touch
Computerworld Hong Kong Awards 2010	PCCW	Computerworld Hong Kong
• Data and Telecoms Services Provider		
• Managed Security Services		
• Corporate Mobile Services Provider		
The Users' Choice 2009	PCCW Global	World Communication Awards
The Telecoms World Awards Middle East 2009	PCCW Global	Terrapin
• Best Managed Service		
Ming Pao e-Trend Award 2009	Pocket Wi-Fi	Ming Pao

NETWORK AND INFRASTRUCTURE

HKT believes that Hong Kong has one of the most sophisticated telecommunications markets in the world in terms of overall scope, service penetration and customer choice. Due to Hong Kong's high population density and compact nature of its residential areas, almost all the major types of technologies are used in the development of its telecommunications networks, including traditional copper, Digital Subscriber Loop ("xDSL"), fiber-optics, microwave, Wi-Fi and digital cellular mobile communications technologies and distribution techniques. The Telecommunications Group has been at the heart of this development with the deployment of its territory-wide traditional fixed and mobile broadband backbone and ancillary networks capable of delivering high quality voice and data services. The Telecommunications Group's superior mobile network is premised on its wide network coverage (3,897 BTS), abundant spectrum (106 MHz) and extensive fiber backhaul.

The Telecommunications Group completed the digitalisation of its network in 1993. Currently, all of the network transmission links for exchange junctions are digital over fiber-optic cables and all exchange equipment incorporates digital switching and next generation NGN IP-based broadband routing technologies. The digital cellular mobile networks operated by the Telecommunications Group include 2G and 3G technologies and will soon be deploying 4G technology. As a result, the Telecommunications Group's networks are capable of supporting a wide range of circuit and packet switched data services. These services enable a single line to be used for simultaneous voice and data communications and facilitate the provision of various customer services using voice, data, Internet, video television and multimedia services as well as enhanced customer-calling features.

Fixed network

At its core, the Telecommunications Group's fixed network primarily deploys a backbone network of fiber-optic rings interconnecting the telephone exchanges or data centres with customers and third party domestic and international carriers. The primary technologies used are SDH/SONET and ATM carrying circuit-switched and packet-switched IP traffic. The majority of voice calls are carried by digital circuit-switched telephone exchange technologies although as at 31 July 2011, a significant part had been progressively changed over or migrated to next generation IP-based, packet-switched or "softswitched" voice calls.

In providing access to its fixed network, the Telecommunications Group deploys a combination or hybrid of copper-based xDSL technologies, FTTB and FTTH technologies using PON or SDH to reach the customers' premises from the Telecommunications Group's 90 telephone exchanges or data centres. As at 31 July 2011, approximately 97% of the fiber to the exchange was capable of providing FTTB and FTTH services. Wi-Fi technology has also been employed for both public access and customers' residential access to the Telecommunications Group's broadband network.

Broadband availability

As at the 31 July 2011, over 98% of all homes passed by the Telecommunications Group's infrastructure have access to at least 1.5 Mbit/s of broadband service and an increasing majority of Hong Kong homes can have access to at least 100 Mbit/s broadband service within 29 days of placing an order.

As at 31 July 2011, the Telecommunications Group's broadband service coverage is as follows:

	Broadband service speeds (Mbit/s)					
	1.5M	**3M**	**6M**	**8M to 30M**	**100M**	**1000M**
% Homes Passed[(1)]	98%	95%	93%	74%	64%	53%

Note:

(1) "Homes Passed" is defined as buildings with a physical reach inside and with the ability to serve a customer on demand. "% Homes Passed" is defined as sellable buildings with homes passed that are capable of providing passive optical network services within 4 days of order. The Home Pass coverage is estimated based on 2.4 million home passes in Hong Kong.

The Telecommunications Group had 1.27 million working residential broadband lines as at 31 July 2011 and the distribution of DSL and PON access technologies were as follows:

Type	ADSL	ADSL2+	VDSL	PON
Broadband lines in service	493,000	514,000	193,000	72,000
Approximate speed of service	Up to 8Mbps	Up to 18Mbps	Up to 100Mbps	Up to 1Gbps

FTTB and FTTH availability

The Telecommunications Group's roll-out of FTTB and FTTH/ fiber-to-the-office ready buildings are as follows:

1. Commercial buildings

   2,718 commercial buildings (excluding schools, government offices and utilities) in total have been provisioned with 100% fiber-to-the-office capability as at 31 July 2011. Of the 2,718 commercial buildings, all Grade A and Grade B commercial buildings have been provisioned with 100% fiber-to-the-office capability, as major corporate clients tend to reside in these buildings, whereas 947 Grade C and 1,152 industrial buildings had also been provisioned with 100% fiber-to-the-office capability. Many of the Grade A and Grade B buildings are also served by dual fiber feeds from separate telephone exchanges for additional resilience.

2. Residential buildings

   There were approximately 21,000 high and low rise residential buildings (with four or more storeys) in Hong Kong, which represented more than 85% of all homes as at 31 July 2011. HKT has plans to roll-out FTTH to these 21,000 buildings and selected villa/village type buildings. Of these 21,000 buildings and selected villa/village type buildings, 5,542 residential buildings were FTTH ready as at 31 July 2011 (representing approximately 53% of all homes passes in Hong Kong) and HKT has plans to significantly increase the number of FTTH ready residential buildings in the future.

The Telecommunications Group will analyse all addressable buildings and devise rollout plans based on the Telecommunications Group's business requirements.

The Telecommunications Group will adopt different strategies and tactics to deal with different types of buildings. Generally, it involves the following steps:

- Site checking and technical proposal preparation;
- Technical proposal submission to the Incorporated Owners' Committee or Building Management Office of the property for permit application; and
- In-building fiber cables installation.

In most cases, the in-building fiber cables will be installed by the Telecommunications Group's appointed contractors.

Once the residential buildings are FTTB capable and subject to in-building fiber cabling and passive optical splitters deployment, the Telecommunications Group is able to offer FTTH to the customer on the basis of fiber being already available in the building. Once the building is cabled internally it is considered as FTTH ready and "sellable" on a pro-active basis with a commitment to an installation within 4 days.

3. Wholesale users of the telecommunications network services

The Telecommunications Group's major wholesale customers of the telecommunications network services are fixed operators, Internet service providers and mobile network operators who do not have their own fixed backhaul networks either fully or partially. These wholesale customers used 2% of the Telecommunications Group's broadband network as at 31 May 2011.

Cable damage detection system

The Telecommunications Group is one of the few telecommunications companies in the world to deploy a cable damage detection system that extracts and correlates alarms from the network management system to identify which fiber/cable may have been damaged. Due to the frequency of excavation works carried out by utilities companies and contractors, the Telecommunications Group receives, on average, around two cable breakage alarms per week. When an alarm is raised and the faulty cable is found, the Telecommunications Group's external field service staff can attend quickly to stop further damage and prevent customers from further disruption. This proactive approach helps the Telecommunications Group to increase cost savings and maintain a high quality of service and customer experience.

Fiber core length

As at the Latest Practicable Date, the Telecommunications Group's total fiber core length was approximately 1.5 million km. The Telecommunications Group is constantly enhancing the capabilities of its various fixed and mobile network platforms by overlaying new technologies as they become technically and commercially viable in-line with customer demand.

Global IP Backbone

The Telecommunications Group has a global and diverse physical network known as the global IP backbone, which is the routing infrastructure that supports all HKT's IP-based services such as MPLS VPN and HD video conferencing. One of the most popular services provided by the Telecommunications Group is the MPLS VPN service which gives a guaranteed quality virtual private connection between the premises of multinational company customers across the globe. This service is available in over 1,500 cities in 110 countries. In particular, 47 cities across the Americas, Europe and Asia use the Telecommunications Group's own network, respectively.

In addition, the Telecommunications Group's network has many alternative and back-up routes for traffic, which results in minimum disruption during cable breaks in the Taiwan Straits, Asia Pacific and Persian Gulf as a result of natural disasters.

IPTV platform

One of the main service technologies that rides on the fixed broadband network is the Telecommunications Group's IP-based television service or IPTV platform. This technology is deployed to provide secure distribution of licensed television content through the Telecommunications Group's IPTV platform connected to the customers' broadband line at homes, hotels, bars or restaurants. The IPTV platform is based on industry standard components and IP protocols which are operated and managed using the Telecommunications Group's internally-developed software or "middleware".

Mobile networks

The Telecommunications Group's mobile networks deploy 2G and 3G technologies in the 1800MHz and 2100MHz bands and the following table provides the frequency spectrum held under the Telecommunications Group's mobile licences:

Assigned use(1)	Total Bandwidth	Spectrum assigned until
2G	26.4 MHz	29 September 2021
3G	34.6 MHz	21 October 2016
CDMA 2000	15.0 MHz	19 November 2023
4G / BWA (2)	30.0 MHz	30 March 2024
Total bandwidth	**106.0 MHz**	

Notes:

(1) Excludes frequency spectrum assigned on a short-to-medium term basis for point-to-point microwave backhaul links and/or other fixed telecommunications services.

(2) Licence held by a jointly controlled company of the Telecommunications Group.

The Telecommunications Group's mobile business benefits from the Telecommunications Group's extensive fiber based fixed broadband network to provide backhaul from the cellular base stations to the mobile telephone exchanges, as compared to other mobile operators who need to rely on multiple alternative carriers to provide backhaul. Approximately 88% of the Telecommunications Group's own mobile cells sites are connected via fiber. This provides the Telecommunications Group with a competitive advantage over its competitors to be able to integrate fixed and mobile broadband access. The technologies deployed include GSM, W-CDMA, HSPA, CDMA2000, IEEE802.11 Wi-Fi and will soon be deploying LTE at 2600 MHz. As with the fixed broadband network, the mobile network is able to provide a number of data services as well as voice, which include IPTV and music streaming services to the customers' devices or handsets. As at the Latest Practicable Date, the Telecommunications Group had over 9,000 Wi-Fi hotspots spread across Hong Kong (including 100 Mbps fiber hotspots), which make auto-switching between 3G and Wi-Fi networks more seamless and effortless, enabling customers to have greater ease in accessing the Internet at any time and also to enjoy attractive content on their mobile devices made available through the Telecommunications Group's quadruple-play delivery platforms.

New technologies and new services

The Telecommunications Group continually seeks to be at the forefront of telecommunications technology, so that it may continue delivering new and high-quality products and services to its customers.

The Telecommunications Group's Technology, Strategy and Development unit (the "TSD Unit"), is dedicated to researching and analysing new technologies, products and services, and seeking new market opportunities and business models. Research and development activities are carried out on a project-by-project basis and are usually demand driven. Prior to the implementation of any research and development project, the proposal for the project together with the budgeting is assessed and approved by the relevant management team within the Telecommunications Group, and depending on the amounts involved, approved according to the Telecommunications Group's expenditure authorisation policies. The management team then continues to monitor the research and development expenses incurred during the implementation of the research and development projects. New technologies are developed with the Telecommunications Group's in-house engineering division or with third party vendors. Potential new products and services are then tested under trial conditions, and, if suitable, are incubated and developed further before being launched in the market.

The TSD Unit, which works with various business units within the Telecommunications Group, has successfully developed a variety of new products and technologies in the past. For example, the TSD Unit developed with a third party vendor the tablet technologies for **eye2**, which enable users to make video and voice calls as well as to choose from more than 100 types of infotainment and interactive services wirelessly around the home through a Wi-Fi enabled portable device. It has also developed, with a third party vendor, a business telephone system known as the Internet Protocol-Private Branch Exchange ("IP-PBX") designed to deliver voice or video over a data network and inter-operate with the normal public switched telephone network ("PSTN"). The TSD Unit is also involved in the migration of the Telecommunications Group's circuit switched telephone exchanges located in 90 buildings in Hong Kong to IP-based soft-switches to replace its PSTN capability. An overlay has been built to provide broadband based phone services across Hong Kong and over time. It is expected that all line modules will be gradually replaced until all the telephone lines are broadband based.

For the broadband business, the TSD Unit is involved in the strategy to upgrade the broadband network to using fiber optic FTTB/FTTH, ADSL2+ and Very high-speed Digital Subscriber Line 2 ("VDSL2") technologies, which provide customers of the Telecommunications Group with significantly faster download speeds than traditional ADSL connections. In addition, PON was rolled out to home users and businesses where super-fast speeds are required. Internet Protocol-Virtual Private Network ("IPVPN") was launched to provide remote offices or individual users secure access to their respective organisation's network in 1999.

The TSD Unit, working with the Mobile business unit, built into the mobile network the Extensible Authentication Protocol Method for GSM Subscriber Identity Module ("**EAP-SIM**") which enables automatic roaming handover and log-on from mobile networks to Wi-Fi hotspots and vice-versa. The TSD Unit is also involved in developing the strategy and deployment of the next generation BWA technologies, also known as LTE, designed to increase the capacity and speed of the mobile communications network.

The TSD Unit has also formed strategic alliances with various universities and institutions in Hong Kong such as the University of Hong Kong, the Chinese University of Hong Kong and Advanced Science and Technology Research Institute ("ASTRI"). The Telecommunications Group has entered into agreements with such institutions. These agreements are typically outsourced development contracts for a specific product or service development in consideration for an agreed fee, and ownership of developed intellectual property is on a case by case basis. Generally, if a new product or service is being developed, the Telecommunications Group will seek to own the intellectual property. The Telecommunications Group has not applied for patents in relation to such intellectual property. Some members of the TSD Unit sit or have sat on both the Wireless Advisory Board and the Consumer Electronics Advisory Board of ASTRI. The Telecommunications Group and ASTRI have also jointly developed, amongst others:

(a) the ***snaap!*** photo album sharing platform, a cross-platform multimedia service;
(b) 0060 softphone application for personal computers;
(c) iPhone applications for residential consumers; and
(d) collaboration on cloud computing.

SUPPLIERS

The Telecommunications Group's suppliers or vendors primarily consist of equipment and connectivity services providers. For the three years ended 31 December 2010 and the six months ended 30 June 2011, there were approximately 500, 650, 520 and 600 local and international connectivity services providers supplying primarily data and voice transmission services to the Telecommunications Group. As at 30 June 2011, most of these suppliers had over 3 years of business relationships with the Telecommunications Group. The Telecommunications Group will generally enter into contracts with these suppliers with an average duration of approximately 2 years. Quality of service is monitored through general terms and conditions with agreed service level specified in the service contract. Fee payables to these suppliers are generally calculated based on charge per circuit for data transmission or charge per minute for voice transmission. The Telecommunications Group pays its suppliers primarily in US dollars with a credit period of 30 days. Settlements are normally made by telegraphic transfers and cheques. The directors of the Trustee-Manager and the directors of HKT believe that the Telecommunications Group has maintained a good relationship with its suppliers, and do not envisage any major difficulty in sourcing such connectivity services in the future.

For the three years ended 31 December 2010 and the six months ended 30 June 2011, the Telecommunications Group's five largest suppliers in aggregate accounted for approximately 11.3%, 16.8%, 21.3% and 18.4%, respectively, of the Telecommunications Group's total amounts for cost of sales, and general and administrative expenses. The single largest supplier for the same periods accounted for approximately 4.1%, 4.0%, 6.4% and 5.5%, respectively, of the Telecommunications Group's total amounts for cost of sales, and general and administrative expenses. Save as disclosed, none of the Telecommunications Group's suppliers for the same periods accounted for more than 5% of the Telecommunications Group's total amounts for cost of sales, and general and administrative expenses.

CUSTOMERS

The Telecommunications Group's largest customers generally comprise corporate customers who have contracted for multiple products and services. The Telecommunications Group's five largest customers in aggregate accounted for approximately 5.6%, 9.9%, 8.8% and 8.1% of its turnover for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. The Telecommunications Group's single largest customer accounted for approximately 2.2%, 4.0%, 3.5% and 3.5% of its turnover for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

SALES AND MARKETING

The Telecommunications Group's sales and marketing function is carried out by: a Hong Kong consumer sales and marketing group, a Hong Kong commercial sales and marketing group, and a global sales and marketing group. The three groups are respectively dedicated to the local consumer, commercial and global customer groups.

In addition, a team of professional sales consultants use the Telecommunications Group's customer relationship management ("CRM") capabilities system to market the Telecommunications Business services across its different customers groups, and to market new products and services to different customer groups. The CRM system collects information about customer usage patterns, which can be used for market segmentation analysis and to enable the Telecommunications Group to market on a targeted basis. Industry specialisation and individual client focus for larger clients allows for tailored solutions to a client's specialised needs.

CUSTOMER SERVICE

Customer experience is a focus area for the Telecommunications Group and it considers customer service a key to success. The Telecommunications Group seeks to adopt consumer-friendly practices and strives to collect and address customer feedback.

Among measures implemented to enhance the customer experience is the Telecommunications Group's, simplication of its service contracts so that consumers can understand them more easily. Customers are also contacted well in advance to discuss renewal of their contracts in order to provide a better understanding of the services and tailor-made offers available.

Sales practices have also been enhanced to increase customer satisfaction. The first customer service centre was opened at the end of 2010 at Hong Kong Island's commercial and shopping hub Causeway Bay and up to additional 10 customer service centres are expected to open in Hong Kong by the end of 2011. The customer service centres will provide greater convenience and comprehensive one-stop service centres to customers.

By improving overall customer service standards, the Telecommunications Group strives to deliver first-class service quality to provide a positive customer experience. The Telecommunications Group believes that excellent customer service is a foundation on which it can further grow its businesses.

IT SYSTEMS

The Telecommunications Group has made substantial investments in IT systems and infrastructure to enhance customer service, improve operational efficiency and deliver innovative products and services. The systems comprise a mix of off-the-shelf packages supplemented by in-house developed systems.

Billing

The Telecommunications Group's billing systems are structured to be scaleable, configurable and reliable. The recently developed Billing and Order Management system creates a unified order record and management platform, and provides a consolidated profile of a customer across all products. The billing systems, including the Billing and Order Management system, enable the Telecommunications Group to support its business strategy for new products and services. The billing systems are integrated with the Telecommunications Group's customer care systems, inventory systems and general ledger and support various bill media including paper, web, email, mobile wireless application protocol, mobile applications, SMS and fax.

Business continuity and disaster recovery

The Telecommunications Group's business continuity and contingency plans are managed by its emergency response teams. A crisis management team comprising members of the Telecommunications Group's senior management is responsible for managing critical incidents. The various departments have representatives who are responsible for the ongoing maintenance and updating of the Telecommunications Group's business continuity plans which include disaster recovery plans for its networks and IT operations.

The Telecommunications Group's IT disaster recovery systems comprise a complete back-up of its billing and customer care system which incorporates asynchronous database updates. This includes the Telecommunications Group's billing, customer relationship management, mediation and provisioning systems. These disaster recovery systems are physically separated from the production billing and customer care system and are housed in operation centres in different parts of Hong Kong. This provides the Telecommunications Group with the capability to continue bill processing and servicing its customers in the event a disaster occurs to one of its operation centres.

CREDIT AND FRAUD MANAGEMENT

The Telecommunications Group maintains a well-defined credit policy and individual credit evaluations are performed on customers requiring credit over a certain amount. The Telecommunications Group's credit evaluation procedures may include verification checks with credit agencies and government databases. The Telecommunications Group also performs checks against the payment history of customers and an internally maintained list of overdue payments. The Telecommunications Group's payment term generally ranges up to 30 days from the date of issue of the relevant bill, or in accordance with contracted terms, unless a separate agreement for an extension of the credit period specifies otherwise.

For any customer who generally has not paid his overdue accounts, the Telecommunications Group will under normal circumstances send bill payment reminders to notify the customer. If the bill remains unpaid, the services will be terminated and an early termination fee is levied if the relevant contract is subject to a commitment period. The Telecommunications Group may seek the assistance of a debt collection agency to proceed with recovery or take legal proceedings where necessary. For a certain period of time, a customer can seek reconnection by payment of a reconnection charge, after which, a new application will have to be made.

Subscription fraud relating to the Telecommunications Group's mobile services has historically contributed to the bulk of its fraud losses, particularly in the year following the Telecommunications Group's commercial launch. The Telecommunications Group uses a fraud management and detection system to monitor, detect and prevent fraudulent activities by its customers. The Telecommunications Group's fraud management team operates seven days a week and evaluates potentially fraudulent activities such as unusual calling patterns by new customers, high usage to high risk destinations or a change in call patterns by existing customers. Verification calls are made to customers to determine if there has been unauthorised use of the customer's mobile phone.

The Telecommunications Group maintains links with other local and international telecommunication operators to share information about fraud trends and to implement measures to detect and prevent fraud. The Telecommunications Group's fraud losses for each of the past three years ended 31 December 2010 and the six months ended 30 June 2011 represented a small proportion of its losses and were accounted for as bad debts over those periods.

COMPETITION

The implementation of the Government's policy to liberalise the telecommunications industry has resulted in intense competition in the markets for local and international services. Competition from providers of fixed line services and resellers, including those whose operations may be augmented through strategic alliances with global and/or foreign strategic partners, has materially increased in the past several years. The market for local telecommunications services including local fixed-line service, mobile service and broadband is becoming more competitive while the market for IDD services originating from Hong Kong is expected to remain extremely competitive. In addition, mobile telecommunications prices have declined sufficiently so that customers are now more likely to substitute residential local exchange services for mobile telecommunications services. This has affected and continues to affect the Telecommunications Group's position in the telecommunications market in Hong Kong.

The Telecommunications Group is required in certain situations to provide telecommunications services (including interconnection) to service providers that compete directly with its operations. In Hong Kong, the main competitors of the Telecommunications Group are Wharf T&T Limited, i-CABLE Communications Limited, China Mobile (Hong Kong) Limited, Hong Kong Broadband Network Limited, CSL New World Mobility Limited, SmarTone Mobile Communications Limited, Hutchison Global Communications Holdings Limited, Hutchison Telephone Company Limited and New World Telecommunications Limited.

The Telecommunications Group competes effectively in all of its lines of business by providing:

- unique combination of "quadruple-play" delivery platforms through its established telecommunications infrastructure;

- innovative and broad range of product offerings focused on data related products and value-added services for its customers;

- dedicated sales units to address the needs of its global business, Hong Kong corporate and consumer customer market segments; and

- leadership in overall service quality within the telecommunications market.

The Telecommunications Group continues to strive to provide customers with best quality and price competitive offerings and services. It intends to carry on and maintain its transformational strategy in the future and continue to actively market its innovative and appealing services.

EMPLOYEES

The Telecommunications Group's future success will depend, in large part, on its ability to continue to attract, train, retain and motivate highly qualified personnel.

As at 31 August 2011, the Telecommunications Group had 15,626 employees. About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the U.S. and the Philippines. The employees in the Telecommunications Group are employed by a separate service company, HKT Services Limited, which is indirectly wholly-owned by HKT.

The tables below set out the details of the number of employees of the Telecommunications Group as at 31 August 2011:

Business Operation	**31 August 2011**(1)(2)
Customer service and operations	11,453
Engineering	3,101
Other support functions	658
PRC Business	414
Total	**15,626**

Location	**31 August 2011**(1)
Hong Kong	9,304
PRC and Taiwan	3,709
U.S.	1,160
Philippines	1,032
All other countries(3)	421
Total	**15,626**

Notes:

(1) The number of employees included part-time employees (on a full-time equivalent basis), temporary employees (with contracts of less than one year in duration) and full-time employees.

(2) The number of employees included 238 temporary and part-time employees with contracts of less than one year in duration.

(3) All other countries included Brunei, Canada, the Czech Republic, France, Germany, Greece, India, Israel, Japan, Jordan, Korea, Macau, Malaysia, Panama, the Netherlands, Republic of Côte d'lvoire, Republic of Ghana, Republic of Kenya, Romania, Russia, Saudi Arabia, Singapore, Sweden, Thailand, the United Kingdom and the United Arab Emirates.

There are no collective bargaining agreements between the Telecommunications Group and the joint staff councils which represent the employees of the Telecommunications Group in dialogue sessions with management representatives.

The Telecommunications Group has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Telecommunications Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Telecommunications Group as a whole and for each of the individual business units.

INSURANCE

The Telecommunications Group has insurance policies providing coverage for its assets and operations including loss of or damage to its properties and assets, loss of profit and additional costs of working arising from loss or damage to its properties or assets, public liability, contractual liability, employment liability, errors and omissions, amongst others.

The Telecommunications Group believes that its properties are covered with adequate insurance provided through a combination of its own captive insurance company and direct insurance or reinsurance policies with reputable insurance companies and with commercially prudent deductibles and limits on coverage. Notwithstanding the Telecommunications Group's insurance provisions, it could nevertheless experience a material loss as a result of an unforeseeable series of catastrophic events, systemic adverse circumstances, or other adverse occurrences not currently foreseeable and/or not commercially insurable.

PROPERTIES, PLANT AND EQUIPMENT

The Telecommunications Group's material operations are in Hong Kong. The Telecommunications Group's property, plant and equipment primarily consist of transmission plants and exchange equipment (including switches, computer hardware, back-up power, plant, etc.) and connecting lines (including cable ducting, copper and fiber optic cabling and poles).

(a) Telephone exchanges and hilltop exchanges in Hong Kong (the "Telephone Exchanges")

As at 30 June 2011, the Telecommunications Group owned two Telephone Exchanges (being, in total, approximately 186,539 square feet of space) and it had been granted licences by (i) HKTC in respect of 69 Telephone Exchanges in 2008 and (ii) by HKTL in respect of 1 Telephone Exchange in 2008 (each of the licence agreement will be supplemented by a further agreement between the same parties); (the licensed Telephone Exchanges being, in total, approximately 3,957,189 square feet of space). Each of HKTC and HKTL is an indirect wholly-owned subsidiary of PCCW but is not a member of the Telecommunications Group. These Telephone Exchanges have mostly been leased by private treaty grants from the Government to HKTC and HKTL and contain restrictions on their use for specific purposes and on their transfer. The vast majority of these leases expire after 2025. HKTC and HKTL have granted to Hong Kong Telecommunications (HKT) Limited, a company in the Telecommunications Group, the above licences to operate at these properties on a non-exclusive basis. These licences shall continue until termination, which is when the sale of Telephone Exchanges by either HKTC or HKTL, as the case may be, to any third party purchaser occurs or when there is a material breach of any terms and conditions of the licences by Hong Kong Telecommunications (HKT) Limited. Other than the licences under which members of the Media Group and the Solutions Group have been granted limited access rights to certain floor space within the PTG Telephone Exchanges (details of which are set out in Appendix VII to this circular), HKTC and HKTL have confirmed that they do not have any intention of granting licences to other third parties to operate at the Telephone Exchanges. Hong Kong Telecommunications (HKT) Limited had paid a sum of approximately HK$1,898 million and HK$106 million to HKTC and HKTL, respectively, as consideration for these licences at the time of entering into these licences.

(b) Cell sites located in Hong Kong ("Cell Sites")

As a necessary part of the infrastructure for delivering the Telecommunications Group's mobile services, the Telecommunications Group leases and/or licences multiple Cell Sites throughout Hong Kong. The Cell Sites have on them antennae and base station equipment necessary to deliver mobile phone coverage. As at 30 June 2011, the Telecommunications Group leased approximately 1,834 Cell Sites from independent third parties, approximately 4 Cell Sites from Reach Networks Hong Kong Limited ("**Reach Networks**") (a wholly-owned subsidiary of Reach Ltd.) and approximately 77 Cell Sites (typically being space within or on the Telephone Exchanges as referred to in (a) above) were located in the Telecommunications Group's own licensed properties.

(c) Leased interests in Hong Kong retail shops

As at 30 June 2011, the Telecommunications Group leased retail floor space of approximately 41,664 square feet in total at locations throughout Hong Kong in approximately 63 shops from independent third parties.

(d) Hong Kong offices — leasing and licensing arrangements

(i) Licensing agreement (PCCW Tower)

PCCW Services Limited, a company within the Remaining Group, is the tenant in respect of certain space located at PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong which it leases from an independent third party. On 22 June 2010, PCCW Services Limited and HKT Services Limited, a company within the Telecommunications Group entered into an agreement (which will be supplemented by a further agreement between the same parties) pursuant to which HKT Services Limited has been granted a licence to occupy certain floor space (being, in total, approximately 207,710 square feet of space) for office use. The licensing arrangements (in accordance with the head lease) require all licensees to remain subsidiaries and/or related companies (as defined in the head lease) of PCCW. The licence expires on 21 June 2013 and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term until 31 December 2014 (or such other period as is consistent with the term of the head lease from the independent third party and which is otherwise permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires. The directors of the Trustee-Manager and HKT do not anticipate difficulty in renewing such a lease upon its expiration. In the event that the Telecommunications Group fails to obtain such renewal, HKT expects to be able to lease properties from third parties without having any significant impact on operations.

(ii) Tenancy agreement (Telecom House)

On 28 February 2011, Reach Networks (a wholly-owned subsidiary of Reach Ltd.) and PCCW Global Limited ("PCCW Global") (a wholly-owned subsidiary of HKT) entered into a tenancy agreement, pursuant to which, Reach Networks, as landlord, has agreed to lease to PCCW Global, as tenant, certain premises (being, in total, some approximately 40,156 net square feet of space, in the building located at Telecom House, 3 Gloucester Road, Wan Chai, Hong Kong, to be used by PCCW Global and/or the Telecommunications Group. The premises are predominantly used for the storage of telecommunications equipment and in one case, as a car park.

(iii) Tenancy agreement (Hermes House)

On 28 February 2011, Reach Networks (a wholly-owned subsidiary of Reach Ltd.) and PCCW Global (a wholly-owned subsidiary of HKT) entered into a tenancy agreement, pursuant to which, Reach Networks, as landlord, has agreed to lease to PCCW Global, as tenant, certain premises with total floor space of approximately 15,785 net square feet in the building located at Hermes House, 10 Middle Road, Tsim Sha Tsui, Hong Kong, to be used by PCCW Global and/or the Telecommunications Group. The premises are predominantly used for the storage of telecommunications equipment.

(iv) Tenancy agreement (Queen's Road Exchange)

Talent Master Investments Limited ("**Talent Master**") (a wholly-owned subsidiary of PCPD, and a company within the Remaining Group), as landlord, has leased portions of certain floors totalling approximately 20,525 gross square feet of space in the building located at No. 1 Wo Fung Street, Sheung Wan, Hong Kong to HKTC pursuant to a lease dated 10 May 2004, as supplemented and amended subsequently. The premises are currently used by the Telecommunications Group as a telephone exchange. The lease will be novated by HKTC to Hong Kong Telecommunications (HKT) Limited on the basis that Hong Kong Telecommunications (HKT) Limited would be the tenant and would assume all continuing obligations under the tenancy agreement.

(e) Other leased properties in Hong Kong

As at 30 June 2011, the Telecommunications Group leases or licences a number of other properties in Hong Kong, broadly comprised of the following:

(i) approximately 30 properties (being, in total, approximately 58,664 square feet) (other than those referred to in (d) (ii) and (d) (iii) above) are leased or licensed from Reach Networks and predominantly used for the storage and operation of telecommunications equipment;

(ii) approximately 28 properties (being, in total, approximately 146,256 square feet) are leased or licensed by HKTC or HKTL (being companies within the Remaining Group but not the Telecommunications Group) from the Government. Hong Kong Telecommunications (HKT) Limited is in the process of finalising licensed access to these sites, which include telephone exchanges, cable storage chambers, transmission sites and other engineering-related facilities.

(iii) approximately 12 properties (with a total floor space of approximately 35,949 square feet) are leased or licensed by Hong Kong Telecommunications (HKT) Limited (or by HKTC or HKTL, and in respect of which Hong Kong Telecommunications (HKT) Limited is finalising licensed access) from non-government independent third parties. These properties are also used by Hong Kong Telecommunications (HKT) Limited for equipment storage and for ancillary telephone exchange-related functions; and

(iv) approximately 14 properties (being, in total, approximately 100,635 square feet) are leased by PCCW Teleservices (Hong Kong) Limited (or in one case by PCCW-HKT Network Services Limited) from non-government independent third parties for use as call centres, storage space or office space.

(f) Leased properties overseas

As at 30 June 2011, members of the Telecommunications Group lease a large number of properties overseas, including:

(i) regional offices in 11 countries (three offices at various locations in the United States (with total floor space of approximately 24,396 square feet), three offices in various locations in the PRC (with total floor space of approximately 7,266 square feet), two offices in Dubai (approximately 4,112 square feet) and one office each at individual locations in Seoul (approximately 452 square feet), Tokyo (approximately 6,314 square feet), Kuala Lumpur (approximately 129 square feet), Singapore (approximately 2,928 square feet), London (approximately 2,195 square feet), Paris (approximately 1,000 square feet), Frankfurt (approximately 50 square feet) and Athens (approximately 2,153 square feet));

(ii) approximately 10 properties (being, in total, approximately 88,444 square feet of space) in the United States that are used as offices and data centres;

(iii) one office (being, in total, approximately 7,340 square feet of space) in Panama used as an office;

(iv) approximately 6 properties (being, in total, approximately 65,996 square feet of space) in the Philippines that are used as offices, data centres, contact centres and for training and support services;

(v) approximately 5 properties (being, in total, approximately 13,445 square feet of space) in Macau that are used as offices and warehouses;

(vi) approximately 6 properties (being, in total, approximately 6,837 square feet of space) in Macau that are leased for residential use for the benefit of employees;

(vii) approximately 55 properties (being, in total, approximately 387,822 square feet of space) in the PRC that are used as offices, for storage, or in one case, as a call centre; and

(viii) approximately 17 properties (being, in total, approximately 18,765 square feet of space) in the PRC that are leased for residential use for the benefit of employees.

(g) Owned holiday houses

As at the 30 June 2011, the Telecommunications Group owned eleven holiday houses under four leases (with no restriction on alienation) of approximately 22,870 gross square feet of space in total in the New Territories, Hong Kong.

(h) Other properties licensed in Hong Kong

The Telecommunications Group has been granted licence in respect of a training centre and development centre of approximately 69,481 gross square feet and a sports recreational centre of approximately 80,987 gross square feet of space, both in Hong Kong, which are subject to leases to HKTC and licensed from HKTC to Hong Kong Telecommunications (HKT) Limited.

For the year ended 31 December 2010 and the six months ended 30 June 2011, the Telecommunications Group incurred a total of approximately HK$495 million and HK$283 million, respectively, of operating rental expenses in respect of its leased properties, which represented approximately 3.2% and 3.5% of the total of costs of sales and general and administrative expenses of the Telecommunications Group, respectively. As at 31 December 2010 and 30 June 2011, the Telecommunications Group's property interests accounted for approximately 1.3% and 1.3%, respectively, of the total assets of the Telecommunications Group.

As the Telecommunications Group is engaged in the provision of telecommunications services and not engaged in any property investment or development activities and due to, among others, the significant number of properties involved and as at 30 June 2011, no single property interest owned or leased by the Telecommunications Group has a carrying amount of 15% or more of the total assets of the Telecommunications Group and even if all the leased properties were to be valued by the property valuer, none of the leased properties would be appraised with any commercial value, the Trustee-Manager and HKT have applied to:

(i) the SFC for, and the SFC has granted a certificate of exemption pursuant to Section 342A(1) of the Companies Ordinance from certain of the valuation report requirements contained in paragraph 34 of the Third Schedule of the Companies Ordinance; and

(ii) the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with (a) Rules 5.01, 5.06(1) and (2) of, and paragraph 3(a) of Practice Note 16 to the Listing Rules; and (b) Rule 5.06(9) of, and paragraphs 5.1 and 5.2(a) and (b) of Practice Note 12 to, the Listing Rules in respect of the properties leased in the PRC,

on the grounds that (a) the exclusion of all properties from the valuation report would not prejudice the interests of the investing public and including an overview of the Telecommunications Group's property interests as set out above will be sufficient for investors to make an informed investment decision; and (b) full compliance with paragraph 34 of the Third Schedule of the Companies Ordinance and the relevant parts of the Listing Rules, respectively, would be impractical, irrelevant and unduly burdensome.

The Trustee-Manager and HKT further confirm that:

(a) none of the properties of the Telecommunications Group, either individually or collectively, during the three years ended 31 December 2010 and six months ended 30 June 2011 or up to the Latest Practicable Date, has been, is or is expected to make a significant contribution to the Telecommunications Group's overall revenue and operating cost;

(b) none of the properties of the Telecommunications Group individually is material to the Telecommunications Group in terms of total annual rental expense; and

(c) there has been no significant acquisition or disposal from the portfolio of properties of the Telecommunications Group during the three years ended 31 December 2010 and six months ended 30 June 2011 and up to the date of the Prospectus.

INTELLECTUAL PROPERTY

The Telecommunications Group relies on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect its brand name and logos, marketing designs and Internet domain names. Over 120 registered and unregistered trademarks are used and owned by the Telecommunications Group. The Telecommunications Group is not critically dependent upon any third-party patents or licences.

The directors of the Trustee-Manager and the directors of HKT confirm that there is no material violation or infringement of any Intellectual Property Rights owned by the Telecommunications Group or by any third parties.

LEGAL PROCEEDINGS

None of the members of the Telecommunications Group, HKT or the Trustee-Manager is currently involved in any material litigation or arbitration proceedings nor, to the best of the knowledge of the directors of the Trustee-Manager and the directors of HKT, is any material legal or arbitration proceedings currently contemplated or threatened against the members of the Telecommunications Group, HKT or the Trustee-Manager.

Due to the nature of the Telecommunications Business, the Telecommunications Group initiates numerous actions against numerous defendants. In most cases, it seeks damages that are not individually material.

LICENCES

The following table sets out the licences of the members of the Telecommunications Group which have material revenue contributions to the Telecommunications Group's overall revenue for the year ended 31 December 2010 and the six months ended 30 June 2011:

Type of licence	Licence number	Name of the Licensee	Issuing Authority	Expiry date
Unified Carrier Licence	003	Hong Kong Telecommunications (HKT) Limited	OFTA	30 September 2023
Unified Carrier Licence	025	HKTC and Hong Kong Telecommunications (HKT) Limited	OFTA	29 June 2025
Mobile Carrier Licence	099	Hong Kong Telecommunications (HKT) Limited	OFTA	20 November 2023
Satellite Master Antenna Television Licence	136	Hong Kong Telecommunications (HKT) Limited	OFTA	6 October 2011, subject to yearly renewal
Service-Based Operator Licence of Class 3 for External Telecommunications Services Operators and International Value-added Network Services Operators or Internet Service Providers	901	PCCW Global	OFTA	15 November 2011, subject to yearly renewal

A. GROUP RESULTS SUMMARY

Information regarding the Group's results for each of the three financial years ended 31 December 2010 is set out below:

For the year ended 31 December 2010
(HK$ in million)

		Remaining Group					
	Telecommunications Group	PCPD	Media Business	Solutions Business	Other PCCW Group Businesses	Group eliminations	PCCW Group
EBITDA	7,249	300	232	284	(625)	(87)	7,353
Profit/(loss) before income tax	1,350	1,251	(24)	254	(717)	966	3,080
Profit/(loss) after income tax	972	864	(24)	241	(506)	777	2,324

For the year ended 31 December 2009
(HK$ in million)

		Remaining Group					
	Telecommunications Group	PCPD	Media Business	Solutions Business	Other PCCW Group Businesses	Group eliminations	PCCW Group
EBITDA	7,263	825	4	201	(721)	(73)	7,499
Profit/(loss) before income tax	1,831	822	(330)	154	(783)	686	2,380
Profit/(loss) after income tax	1,351	594	(330)	150	(576)	606	1,795

For the year ended 31 December 2008
(HK$ in million)

	Telecommunications Group	Remaining Group: PCPD	Remaining Group: Media Business	Remaining Group: Solutions Business	Remaining Group: Other PCCW Group Businesses	Group eliminations	PCCW Group
EBITDA	7,357	1,268	(83)	184	(721)	(23)	7,982
Profit/(loss) before income tax	1,993	641	(357)	130	(687)	513	2,233
Profit/(loss) after income tax	1,455	513	(357)	129	(731)	513	1,522

The primary difference between EBITDA and profit of "Group eliminations" in each of the year ended 31 December 2008, 2009 and 2010 was due to elimination adjustments to reverse depreciation and amortisation charges recorded in the Telecommunications Group as a result of fair value adjustments recorded in 2008 when the Telecommunications Group completed the 2008 Restructuring, as well as the elimination adjustments of PCPD interest paid to the PCCW Group.

B. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE MEDIA BUSINESS

1. The following table sets forth the results of operations of the Media Business before PCCW Group eliminations[2] for the three years ended 31 December 2008, 2009 and 2010.

	For the year ended 31 December			2010 compared with 2009
	2008	**2009**	**2010**	
	HK$ in million	*HK$ in million*	*HK$ in million*	*Better/ (Worse)*
Turnover	2,239	2,350	2,383	1.4%
Cost of services	(1,790)	(1,754)	(1,603)	8.6%
Gross profit	449	596	780	30.9%
Gross margin	*20.1%*	*25.4%*	*32.7%*	
Operating expenses before depreciation and amortisation	(532)	(592)	(548)	7.4%
EBITDA	(83)	4	232	57 times
EBITDA margin	*n/a*	*0.2%*	*9.7%*	
Loss for the year	(357)	(330)	(24)	92.7%
now TV installed base ('000)	953	1,001	1,039	
now TV installed base ARPU[1] (HK$)	166	170	165	
now.com subscribers ('000)	275	266	381	
now.com ARPU[1] (HK$)	56	56	46	

Note 1: ARPU is calculated by dividing the revenue earned in the year by the average number of installed base or subscribers, as appropriate, during the year.

Note 2: PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation and amortisation charges, arising from 2008 Restructuring.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

2. (a) *Turnover*

Turnover represents the subscription revenue for the provision of pay television services and multimedia portal services, and advertising revenue from advertisements placed through the pay television channels, on the multimedia portal, and in the published and online directories and other websites.

(b) *Cost of services*

Cost of services includes, among others, the cost of acquiring content for both the pay television services and Internet portal services, network costs for the carriage of television and Internet content on its broadband network, the cost of producing and distributing directories, the cost of advertising space on third-party websites, and direct sales and marketing costs.

(c) *Operating expenses before depreciation and amortisation*

Operating expenses include, among others, staff costs, publicity and promotion costs, provision for bad debt, and rent and utility costs.

YEAR ON YEAR COMPARISON OF RESULTS OF OPERATIONS OF THE MEDIA BUSINESS

3. (a) Fiscal year ended 31 December 2010 compared with fiscal year ended 31 December 2009

Turnover

The turnover of the Media Business was HK$2.383 billion in 2010, compared to HK$2.350 billion in 2009, an increase of HK$33 million, or 1.4%. The increase was primarily attributable to higher revenues from now TV subscriptions and advertising and transactions on a larger installed subscription base partially offset by a slight decline in installed base ARPU. Revenue from New Media, which includes revenue from now.com service subscription and directory business remained stable at HK$351 million for 2010.

The Media Business has been successful in attracting significant numbers of new subscriptions to its pay television services. The total number of subscriptions for the now TV services increased from approximately 1,001,000 as of 31 December 2009 to approximately 1,039,000 as of 31 December 2010. The increase was attributable to self-produced and licensed entertainment programs of various genre carried on over 190 channels. The total number of subscribers for the now.com services also increased from approximately 266,000 as of 31 December 2009 to approximately 381,000 as of 31 December 2010 because of more subscription options offered.

ARPU was affected by pricing initiatives to promote growth in the year. With the introduction of lower price tier subscription options, particularly for sports content packages, now TV's installed base ARPU decreased slightly from HK$170 in 2009 to HK$165 in 2010. now.com ARPU reduced from HK$56 in 2009 to HK$46 in 2010 as our lower price offers were well received by its subscribers.

Cost of services

Cost of services was HK$1.603 billion in 2010, compared to HK$1.754 billion in 2009, a decrease of HK$151 million, or 8.6%. The decrease in cost of services was largely due to savings in content costs and content production costs on certain sports channels, particularly from the expiry of the EPL contract in July 2010.

Gross profit

As a result of the foregoing, the gross profit increased by HK$184 million, or 30.9%, to HK$780 million in 2010 from HK$596 million in 2009. Gross margin increased to 32.7% in 2010 from 25.4% in 2009.

Operating Expenses before depreciation and amortisation

Operating expenses before depreciation and amortisation were HK$548 million in 2010, compared to HK$592 million in 2009, a decrease of HK$44 million, or 7.4%. The decrease in operating expenses was primarily due to cost efficiency attained from scale as well as a reduction in bad debt provision in line with the improved economic conditions in Hong Kong and the continued implementation of effective credit control measures.

EBITDA

EBITDA for the Media Business increased by HK$228 million, from HK$4 million in 2009 to HK$232 million in 2010. The EBITDA margin increased from 0.2% in 2009 to 9.7% in 2010.

Loss for the year

As a result of the foregoing, the loss for the year narrowed to HK$24 million in 2010, an improvement of 92.7% from HK$330 million in 2009.

(b) Fiscal year ended 31 December 2009 compared with fiscal year ended 31 December 2008

Turnover

The turnover of the Media Business was HK$2.350 billion in 2009, compared to HK$2.239 billion in 2008, an increase of HK$111 million, or 5.0%. The increase was primarily attributable to higher revenues from now TV subscriptions on an expanding installed subscription base and a higher ARPU. Such increase was partially offset by the decrease in revenue from New Media. Revenue from New Media dropped by HK$58 million or 14.1% from HK$410 million in 2008 to HK$352 million in 2009. The decrease was primarily attributable to lower advertising revenues from printed directories in 2009 compared to 2008.

From 2008 to 2009, the Media Business has a significant growth in the new subscriptions of its pay television services. The total number of subscriptions for the now TV services increased from approximately 953,000 as of 31 December 2008 to approximately 1,001,000 as of 31 December 2009. The increase was attributable to the continued expansion of its self-produced and licensed sports and entertainment programs carried on over 170 channels. The total number of subscribers for the now.com services decreased slightly from approximately 275,000 as of 31 December 2008 to approximately 266,000 as of 31 December 2009 because of the intensified competition in the online entertainment market.

now TV's expansive suite of channels and attractive exclusive content have contributed to the continued growth in its installed base ARPU from HK$166 in 2008 to HK$170 in 2009. now.com ARPU remained stable at HK$56 in 2009 as compared to 2008.

Cost of services

Cost of services was HK$1.754 billion in 2009, compared to HK$1.790 billion in 2008, a decrease of HK$36 million, or 2.0%. The decrease in cost of services was largely due to lower printing and publishing costs for directory business, which was in line with its lower revenues over the same period.

Gross profit

As a result of the foregoing, the gross profit increased by HK$147 million, or 32.7%, to HK$596 million in 2009 from HK$449 million in 2008. The gross margin increased to 25.4% in 2009 from 20.1% in 2008.

Operating Expenses before depreciation and amortisation

Operating expenses before depreciation and amortisation were HK$592 million in 2009, compared to HK$532 million in 2008, an increase of HK$60 million, or 11.3%. The increase in operating expenses was primarily due to an increase in net staff costs to cope with the business expansion as well as in bad debt provision driven by the worsened economic conditions in Hong Kong post 2008 global financial crisis.

EBITDA

EBITDA for the Media Business increased by HK87 million, from negative HK$83 million in 2008 to HK$4 million in 2009. The EBITDA margin increased to 0.2% in 2009 from negative EBITDA in 2008.

Loss for the year

As a result of the foregoing, the loss for the year narrowed to HK$330 million in 2009, an improvement of 7.6% from HK$357 million in 2008.

DISCUSSION OF SELECTED BALANCE SHEET ITEMS OF THE MEDIA BUSINESS

4. The following table sets forth the key balance sheet items of the Media Business before PCCW Group eliminations[(1)] as at 31 December 2008, 2009 and 2010.

	As at 31 December		
	2008	**2009**	**2010**
	HK$ in million	*HK$ in million*	*HK$ in million*
Trade and other receivables	229	269	325
Debtor Turnover Days ("DTD")	16 days	15 days	13 days
Trade and other payables	221	227	238
Creditor Turnover Days ("CTD")	11 days	14 days	14 days
Property, plant and equipment	340	407	504
Goodwill	1,034	1,034	1,034
Intangible assets	509	523	511

Note 1: PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation and amortisation charges, arising from 2008 Restructuring.

5. Net Current Assets

As at 31 December 2010, the Media Business had net current assets of HK$79 million. The current assets of the Media Business mainly comprise trade and other receivables. The current liabilities of the Media Business mainly comprise trade and other payables.

(a) *Trade and other receivables*

The trade and other receivables of the Media Business mainly comprise trade receivables from customers, other receivables, and deposits and prepayments.

The increase in trade and other receivables from HK$229 million in 2008 to HK$269 million in 2009 and then increase to HK$325 million in 2010 was mainly attributable to increase in prepaid content costs in line with the growth of business activities.

The DTD improved slightly from 15 days in 2009 to 13 days in 2010 mainly due to prompt settlement of the account balances. The DTD slightly decreased from 16 days in 2008 to 15 days in 2009.

(b) *Trade and other payables*

The Media Business' trade and other payables mainly comprise trade payables, other payables and accruals.

The increase in trade and other payables of the Media Business from HK$221 million in 2008 to HK$227 million in 2009 and then to HK$238 million in 2010 was mainly due to an increase in accrual of content costs for growth of business activities.

The CTD remained stable for 2009 and 2010 at 14 days. The CTD for 2008 of 11 days was slightly less as compared to 2009.

6. Non-current Assets

The non-current assets of the Media Business mainly include property, plant and equipment, goodwill and intangible assets.

Property, plant and equipment comprises interests in leasehold land, investment properties, production and computer equipment, broadcasting equipment, other plant and equipment, furniture and fittings. The property, plant and equipment of the Media Business increased from HK$340 million in 2008 to HK$407 million in 2009 and such increase was primarily due to purchases of broadcasting, production and computer equipment. The property, plant and equipment of the Media Business increased from HK$407 million in 2009 to HK$504 million in 2010 and such increase was mainly due to the acquisition of production studios in Chai Wan for the Media Business' own production purpose.

The goodwill mainly represents the excess of the cost of a business combination over the fair value of Media Group's net assets upon 2008 Restructuring. No impairment provision was made for the three years ended 31 December 2008, 2009 and 2010.

Intangible assets mainly include trademark, customer base and customer acquisition costs. The balances remained stable for the three years ended 31 December 2008, 2009 and 2010.

C. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE SOLUTIONS BUSINESS

1. The following table sets forth the results of operations of the Solutions Business before PCCW Group eliminations[1] for the three years ended 31 December 2008, 2009 and 2010.

	For the year ended 31 December			2010 compared with 2009
	2008	**2009**	**2010**	
		HK$ million		*Better/ (Worse)*
Turnover	1,904	1,792	2,039	13.8%
Cost of services	(1,299)	(1,257)	(1,432)	(13.9)%
Gross profit	605	535	607	13.5%
Gross margin	*31.8%*	*29.9%*	*29.8%*	
Operating expenses before depreciation	(421)	(334)	(323)	3.3%
EBITDA	184	201	284	41.3%
EBITDA margin	*9.7%*	*11.2%*	*13.9%*	
Profit for the year	129	150	241	60.7%

Note 1: PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation charge, arising from 2008 Restructuring.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

2. (a) *Turnover*

Turnover for the Solutions Business represents the revenue for the provision of solutions services, which broadly consisted of (i) IT system solutions development and integration which included project revenue as well as recurring maintenance revenue post completion of the projects; (ii) outsourcing and management services; (iii) business process outsourcing and logistics; and (iv) technical services and infrastructure solutions.

(b) *Cost of services*

Cost of services includes, among others, the cost of software and hardware equipment, direct labour costs, data centre facilities costs, such as rental and utilities, and materials costs for logistics services.

(c) *Operating expenses before depreciation*

Operating expenses include, among others, administrative, marketing and indirect staff costs, professional and consultancy fees, repairs and maintenance expenses, rent, publicity and promotional costs, systems maintenance expenses and research and development expenses.

YEAR ON YEAR COMPARISON OF RESULTS OF OPERATIONS OF THE SOLUTIONS BUSINESS

3. (a) Fiscal year ended 31 December 2010 compared with fiscal year ended 31 December 2009

Turnover

Turnover of the Solutions Business was HK$2.039 billion in 2010, compared to HK$1.792 billion in 2009, an increase of HK$247 million, or 13.8%. The increase was mainly attributable to an increase of HK$170 million in the revenue from outsourcing and managed services provided by the Solutions Business. A major customised facility dedicated for a globally renowned Internet portal came into service in the year and contributed significantly to revenue growth. Revenue from the technical services and infrastructure solutions increased by HK$46 million mainly due to an increased number of service contracts with various government departments and large gaming companies in Macau. Revenue from solutions development and integration also increased by HK$31 million as a result of various large scale government projects including e-passport, company online registry and cargo management systems. On the China front, IT contracts with China Unicom Limited and China Mobile Limited to upgrade their human resources, procurement and financial systems also contributed to revenue growth in the year.

Cost of services

Cost of services was HK$1.432 billion in 2010, compared to HK$1.257 billion in 2009, an increase of HK$175 million, or 13.9%. The increase is in line with the increased costs for software and hardware equipment and data centre facilities associated with the increase in turnover of the Solutions Business.

Gross profit

As a result of the foregoing, the gross profit increased by HK$72 million, or 13.5%, to HK$607 million in 2010 from HK$535 million in 2009. Gross profit margin remained steady at 30% for both 2010 and 2009.

Operating expenses before depreciation

Operating expenses before depreciation were HK$323 million in 2010, compared to HK$334 million in 2009, a decrease of HK$11 million, or 3.3%. The reduction in operating expenses was a result of cost efficiency improvement in the technology and infrastructure service of HK$15 million. This was partly offset by an increased net staff cost of HK$3 million, or 1.7%, from HK$174 million in 2009 to HK$177 million in 2010 primarily due to increased investment in staff training and development to support new Outsourced Development Centres in Xian and expansion of the operations in Beijing and Guangzhou in 2010.

EBITDA

EBITDA for the Solutions Business increased by HK$83 million, or 41.3%, from HK$201 million in 2009 to HK$284 million in 2010. EBITDA margin improved accordingly from 11.2% in 2009 to 13.9% in 2010.

Profit for the year

As a result of the foregoing, the profit for the year increased significantly by HK$91 million, or 60.7%, to HK$241 million in 2010 from HK$150 million in 2009.

(b) Fiscal year ended 31 December 2009 compared with fiscal year ended 31 December 2008

Turnover

Turnover of the Solutions Business was HK$1.792 billion in 2009, compared to HK$1.904 billion in 2008, a decrease of HK$112 million, or 5.9%. The decrease was mainly attributable to a drop of HK$35 million in the revenue from technical services and infrastructure solutions services in relation to the hotel and casino projects in Macau.

Revenue from IT solutions development and integration also dropped by HK$45 million in 2009 as a result of a decrease in revenue from certain government projects, including e-passport, as well as expiration of 3G billing system integration projects, which were one time implementation projects, in 2009.

For outsourcing and managed services, revenue dropped by HK$15 million in 2009 due to the reduction in services demanded from design and build project and the data platform system integration project.

For business process outsourcing and logistics, revenue dropped by HK$17 million in 2009 due to a decline in customer demand for delivery services, integrated services and direct marketing services.

Cost of services

Cost of services was HK$1.257 billion in 2009, compared to HK$1.299 billion in 2008, a decrease of HK$42 million, or 3.2%. The decrease is in line with the decreased costs for software and hardware equipment and data centre facilities associated with the decrease in turnover of the Solutions Business.

Gross profit

As a result of the foregoing, the gross profit decreased by HK$70 million, or 11.6%, to HK$535 million in 2009 from HK$605 million in 2008.

Operating expenses before depreciation

Operating expenses before depreciation were HK$334 million in 2009, compared to HK$421 million in 2008, a decrease of HK$87 million, or 20.7%. The major reduction in operating expenses was a result of decrease in staff cost of HK$68 million. Other operating expenses, which include expenses related to publicity and promotion, postage and stationery as well as accommodation, also decreased by HK$19 million.

EBITDA

EBITDA for the Solutions Business increased by HK$17 million, or 9.2%, from HK$184 million in 2008 to HK$201 million in 2009. EBITDA margin improved accordingly from 9.7% in 2008 to 11.2% in 2009.

Profit for the year

As a result of the foregoing, the profit for the year increased significantly by HK$21 million, or 16.3%, to HK$150 million in 2009 from HK$129 million in 2008.

DISCUSSION OF SELECTED BALANCE SHEET ITEMS OF THE SOLUTIONS BUSINESS

4. The following table sets forth the key balance sheet items of the Solutions Business before PCCW Group eliminations[(1)] as at 31 December 2008, 2009 and 2010.

	As at 31 December		
	2008	**2009**	**2010**
	HK$ in million	*HK$ in million*	*HK$ in million*
Trade and other receivables	1,115	1,154	1,026
Debtor Turnover Days ("DTD")	*41 days*	*47 days*	*50 days*
Work-in-progress ("WIP")	62	121	104
WIP turnover days	*19 days*	*26 days*	*28 days*
Trade and other payables	672	711	637
Creditor Turnover Days ("CTD")	*81 days*	*84 days*	*64 days*
Property, plant and equipment	281	253	221

Note 1: PCCW Group eliminations mainly represent the reversal of fair value adjustments to certain tangible and intangible assets, and corresponding depreciation charge, arising from 2008 Restructuring.

5. Net Current Assets

As at 31 December 2010, the Solutions Business had net current assets of HK$577 million. The current assets of Solutions Business mainly comprise trade and other receivables and work-in-progress. The current liabilities of Solutions Business mainly comprise trade and other payables.

(a) Trade and other receivables

The trade and other receivables of the Solutions Business mainly comprise trade receivables from customers, other receivables, and deposits and prepayments. The increase in trade and other receivables of the Solutions Business from HK$1,115 million in 2008 to HK$1,154 million in 2009 was primarily due to prepayment for data center hosting and facilities services paid to the suppliers. The trade and other receivables of the Solutions Business decreased from HK$1,154 million in 2009 to HK$1,026 million in 2010 was mainly attributable to recognition of certain prepayment for data center hosting services as cost of services in 2010.

DTD increased from 41 days in 2008 to 47 days in 2009, and to 50 days in 2010 since certain major PRC projects reached billing milestone and invoices were therefore issued to customers near year end. Major customers include various departments in HKSAR, international IT companies, international financial institutions and PRC top tier telecommunication operators.

(b) Work-in-progress

The work-in-progress of the Solutions Business mainly comprises hardware and software inventory and direct staff costs incurred for projects. The increase in work-in-progress of the Solutions Business from HK$62 million in 2008 to HK$121 million in 2009 was mainly attributable to various on-going projects with the Hong Kong Government and operators in the PRC. The decrease in work-in-progress of the Solutions Business from HK$121 million in 2009 to HK$104 million in 2010 was mainly due to delivery of some major government projects in Hong Kong and Macau.

WIP turnover days increased from 19 days in 2008 to 26 days in 2009 and to 28 days in 2010 which was in line with the length of a variety of long-term contracts with Hong Kong Government and PRC projects.

(c) Trade and other payables

The Solutions Business' trade and other payables mainly comprise trade payables, other payables, accruals and receipt in advance from customers. The increase in trade and other payables of the Solutions Business from HK$672 million in 2008 to HK$711 million in 2009 was mainly due to receipt in advance from certain government projects. The decrease in trade and other payables of the Solutions Business from HK$711 million in 2009 to HK$637 million in 2010 was primarily due to settlement of trade payables and income recognition of receipt in advance related to certain projects with the Hong Kong Government and the operators in the PRC.

The CTD increased from 81 days in 2008 to 84 days in 2009 and decreased to 64 days in 2010. The decrease in 2010 was mainly due to settlement of certain data center and government projects completed before year end.

6. Non-current Assets

The non-current assets of the Solutions Business mainly include data center infrastructure and equipment. The movement of property, plant and equipment during the relevant years is mainly represented by addition to data centre infrastructure and equipment such as generators, chillers, cooling towers and transformer offset by the annual depreciation charge.

D. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE OTHER PCCW GROUP BUSINESSES AND GROUP ELIMINATIONS

The Other PCCW Group Businesses and Group eliminations mainly included the following:

(a) the business and operation of UKBB, which is the operator with 4G spectrum in the UK;

(b) the operation of a venture portfolio including investments in listed and unlisted companies and funds;

(c) corporate overhead; and

(d) group eliminations are related to internal charges for telecommunications services consumed, IT support and computer system network charges, customer support services and rental among the Group's business units. The elimination adjustments also include the adjustment to eliminate the depreciation and amortisation charges arising from the fair value adjustments recorded in the HKTGH group when the restructuring of the HKTGH group was completed in 2008.

The net assets of the Other PCCW Group Businesses mainly comprise a venture portfolio and the subsidiary, UKBB. The venture portfolio primarily includes investments in listed and unlisted companies and funds. As at 31 December 2010, the carrying value of the Other PCCW Group Businesses' investments under the venture portfolio was approximately HK$226 million.

UKBB is the operator with 4G spectrum in the UK and its main assets include property, plant and equipment and licenses in relation to its wireless broadband data and mobile network services. As at 31 December 2010, the carrying value of UKBB was approximately HK$397 million.

A. FINANCIAL INFORMATION OF THE REMAINING GROUP

Income statement
For the year ended 31 December 2010

	The Telecommunications Group(1)	PCPD	The Remaining Group (excluding PCPD)(2) and Group eliminations(3)	The PCCW Group
	HK$ in million	*HK$ in million*	*HK$ in million*	*HK$ in million*
Turnover	18,527	1,495	2,940	22,962
Cost of sales	(7,451)	(748)	(2,334)	(10,533)
General and administrative expenses	(8,131)	(490)	(303)	(8,924)
Other gains, net	40	1,152	25	1,217
Finance costs, net	(1,562)	(158)	160	(1,560)
Share of results of associates	—	—	47	47
Share of results of jointly controlled companies	(73)	—	(56)	(129)
Profit before income tax	1,350	1,251	479	3,080
Income tax	(378)	(387)	9	(756)
Profit for the year	972	864	488	2,324
Attributable to:				
Equity holders	925	513	488	1,926
Non-controlling interests	47	351	—	398
	972	864	488	2,324

Notes:

(1): Results of the Telecommunications Group presented above are before Group eliminations.

(2): Comprises the Media Business, the Solutions Business and the Other PCCW Group Businesses.

(3): Group eliminations mainly represent the reversal of depreciation and amortisation charges recorded as a result of fair value adjustments recorded upon 2008 Restructuring. The total impact of Group eliminations on profit attributable to equity holders is a credit of HK$777 million, of which a credit of HK$879 million and a credit of HK$68 million are in relation to the Telecommunications Group and PCPD, respectively. After Group eliminations, the profit attributable to equity holders for the year ended 31 December 2010 are HK$1,804 million and HK$581 million for the Telecommunications Group and PCPD, respectively.

Balance sheet
As at 31 December 2010

	The Telecommunications Group			PCPD			The Remaining Group (excluding PCPD)[1]				The PCCW Group
	Balance at HKT group level	Group eliminations[2]	Balance at PCCW group level	Balance at PCPD group level	Group eliminations[3]	Balance at PCCW group level	Balance at Remaining group level	Group eliminations[2]	Balance at PCCW group level	Intercompany balance eliminations	Total
	HK$ in million	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*
Non-current assets	57,213	(36,248)	20,965	6,426	90	6,516	5,716	(1,446)	4,270	(2,364)	29,387
Current assets	10,454	—	10,454	6,218	—	6,218	6,433	—	6,433	(4,359)	18,746
Total assets	67,667	(36,248)	31,419	12,644	90	12,734	12,149	(1,446)	10,703	(6,723)	48,133
Current liabilities	(17,233)	(281)	(17,514)	(2,814)	—	(2,814)	(1,775)	—	(1,775)	4,359	(17,744)
Non-current liabilities	(30,921)	627	(30,294)	(2,965)	—	(2,965)	(173)	71	(102)	2,364	(30,997)
Total liabilities	(48,154)	346	(47,808)	(5,779)	—	(5,779)	(1,948)	71	(1,877)	6,723	(48,741)
Net assets/(liabilities)	19,513	(35,902)	(16,389)	6,865	90	6,955	10,201	(1,375)	8,826	—	(608)
Non-controlling interests	(162)	—	(162)	(2,493)	—	(2,493)	—	—	—	—	(2,655)
Equity attributable to equity holders	19,351	(35,902)	(16,551)	4,372	90	4,462	10,201	(1,375)	8,826	—	(3,263)

Notes:

(1): Comprises the Media Business, the Solutions Business and the Other PCCW Group Businesses.

(2): In 2008, the PCCW Group reorganised its principal businesses under HKTGH, resulting in fair value adjustments to certain tangible and intangible assets. Such fair value adjustments are eliminated at the PCCW Group level, which explains the majority of the Group eliminations.

(3): Primarily represents the purchase price adjustments on acquisition of PCPD by PCCW.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PCCW GROUP

Unaudited Pro Forma Financial Information of the PCCW Group

The following is the illustrative and unaudited pro forma financial information of the PCCW Group (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma consolidated balance sheets and the unaudited pro forma consolidated income statements of the PCCW Group, which have been prepared to illustrate the effects of the Proposed Spin-off, as if it had been completed on 31 December 2010 for the unaudited pro forma consolidated balance sheets and on 1 January 2010 for the unaudited pro forma consolidated income statements. It is assumed that PCCW's interest in the HKT Trust and HKT will (i) decrease from 100% to 55% following the completion of the Global Offering after the exercise of the Over-allotment Option in full and after the Distribution in Specie; and (ii) decrease from 100% to 70% following the Completion of the Global Offering before any exercise of the Over-allotment Option and after the Distributions in Specie.

This Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and the results of operations of the PCCW Group had the Proposed Spin-off been completed on 31 December 2010 or 1 January 2010 where applicable, or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the PCCW Group as set out in the published annual report of PCCW for the year ended 31 December 2010 and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Balance Sheets of the PCCW Group

i. Assuming PCCW's interest in the HKT Trust and HKT would decrease from 100% to 55% following the completion of the Global Offering after the exercise of the Over-allotment Option in full and after the Distributions in Specie.

	Audited consolidated balance sheet of the PCCW Group as at 31 December 2010	**Pro forma adjustments**			**Unaudited pro forma consolidated balance sheet of the PCCW Group as at 31 December 2010**
	HK$ in million	*HK$ in million*	*HK$ in million*	*HK$ in million*	*HK$ in million*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	
Non-current assets	29,387				29,387
Current assets	18,746	2,200		1,575	22,521
Total assets	48,133				51,908
Current liabilities	(17,744)				(17,744)
Non-current liabilities	(30,997)	7,800			(23,197)
Total liabilities	(48,741)				(40,941)
Net (liabilities)/ assets	(608)				10,967
Equity attributable to equity holders	(3,263)	12,228	303	1,776	11,044
Non-controlling interests	2,655	(2,228)	(303)	(201)	(77)
Total equity	(608)				10,967

ii. Assuming PCCW's interest in the HKT Trust and HKT would decrease from 100% to 70% following the completion of the Global Offering before any exercise of the Over-allotment Option and after the Distributions in Specie.

	Audited consolidated balance sheet of the PCCW Group as at 31 December 2010	**Pro forma adjustments**		**Unaudited pro forma consolidated balance sheet of the PCCW Group as at 31 December 2010**
	HK$ in million	*HK$ in million*	*HK$ in million*	*HK$ in million*
	(note 1)	*(note 5)*	*(note 6)*	
Non-current assets	29,387			29,387
Current assets	18,746			18,746
Total assets	48,133			48,133
Current liabilities	(17,744)			(17,744)
Non-current liabilities	(30,997)	6,800		(24,197)
Total liabilities	(48,741)			(41,941)
Net (liabilities)/ assets	(608)			6,192
Equity attributable to equity holders	(3,263)	8,568	354	5,659
Non-controlling interests	2,655	(1,768)	(354)	533
Total equity	(608)			6,192

Unaudited Pro Forma Consolidated Income Statement of the PCCW Group

i. Assuming PCCW's interest in the HKT Trust and HKT would decrease from 100% to 55% following the completion of the Global Offering after the exercise of the Over-allotment Option in full and after the Distributions in Specie.

	For the year ended 31 December 2010		
	Audited consolidated income statement of the PCCW Group *(HK$ in million)* *(note 1)*	**Pro forma adjustments** *(HK$ in million)* *(note 7)*	**Unaudited pro forma consolidated income statement of the PCCW Group** *(HK$ in million)*
Turnover	22,962		22,962
Cost of sales	(10,533)		(10,533)
General and administrative expenses	(8,924)		(8,924)
Other gains, net	1,217		1,217
Finance costs, net	(1,560)		(1,560)
Share of results of associates	47		47
Share of results of jointly controlled companies	(129)		(129)
Profit before income tax	3,080		3,080
Income tax	(756)		(756)
Profit for the year	2,324		2,324
Attributable to:			
Equity holders	1,926	(812)	1,114
Non-controlling interests	398	812	1,210
	2,324		2,324

ii. Assuming PCCW's interest in the HKT Trust and HKT would decrease from 100% to 70% following the completion of the Global Offering before any exercise of the Over-allotment Option and after the Distributions in Specie.

	For the year ended 31 December 2010		
	Audited consolidated income statement of the PCCW Group	**Pro forma adjustments**	**Unaudited pro forma consolidated income statement of the PCCW Group**
	HK$ in million	*HK$ in million*	*HK$ in million*
	(note 1)	*(note 8)*	
Turnover	22,962		22,962
Cost of sales	(10,533)		(10,533)
General and administrative expenses	(8,924)		(8,924)
Other gains, net	1,217		1,217
Finance costs, net	(1,560)		(1,560)
Share of results of associates	47		47
Share of results of jointly controlled companies	(129)		(129)
Profit before income tax	3,080		3,080
Income tax	(756)		(756)
Profit for the year	2,324		2,324
Attributable to:			
Equity holders	1,926	(541)	1,385
Non-controlling interests	398	541	939
	2,324		2,324

Notes to the Unaudited Pro Forma Financial Information of the PCCW Group

1. The amounts are extracted from the audited consolidated balance sheet of the PCCW Group as at 31 December 2010 and the audited consolidated income statement of the PCCW Group for the year ended 31 December 2010 as set out in the published 2010 annual report of PCCW.

2. The adjustment reflects the effects of the Global Offering of the Share Stapled Units. For the purpose of calculating this adjustment, it is assumed that the HKT Trust will achieve a market capitalisation of HK$28.6 billion. Assuming the dilution of interest in the HKT Trust and HKT is 36.7% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the net proceeds from the Global Offering net of transaction costs directly attributable to the Global Offering will be approximately HK$10.0 billion. It is also assumed that HK$7.8 billion of the net proceeds will be used for repayment of the Telecommunications Group's debt and the remaining net proceeds of HK$2.2 billion will be applied by the Telecommunications Group to settle the promissory note issued to CAS No. 1, a wholly owned subsidiary of the Company after the Pre-IPO Restructuring. The adjustment to non-controlling interest is calculated using adjusted net liabilities of the Telecommunications Group which represents the net liabilities of the Telecommunications Group as at 31 December 2010 of HK$16,551 million adjusted for the capitalisation of outstanding current accounts due to the Remaining Group of HK$2,679 million and the repayment of the Telecommunications Group's debt using HK$7.8 billion of the net proceeds.

3. The adjustment reflects the effects of the distribution of 5% of the HKT Trust's issued Share Stapled Units to Shareholders pursuant to the Distributions in Specie. The adjustment to non-controlling interest is calculated using adjusted net liabilities of the Telecommunications Group which represents the net liabilities of the Telecommunications Group as at 31 December 2010 of HK$16,551 million adjusted for the capitalisation of outstanding current accounts due to the Remaining Group of HK$2,679 million and the repayment of the Telecommunications Group's debt using HK$7.8 billion of the net proceeds.

4. The adjustment reflects the effects of the exercise of the Over-allotment Option in full. It is assumed that the HKT Trust will achieve a market capitalisation of HK$30.2 billion after the exercise of the Over-allotment Option and the net proceeds to be received as a result of the Over-allotment Option being fully exercised will be approximately HK$1,575 million.

5. The adjustment reflects the effects of the Global Offering of the Share Stapled Units before any exercise of the Over-allotment Option. For the purpose of calculating this adjustment, it is assumed that the HKT Trust will achieve a market capitalisation of HK$28.6 billion. Assuming the dilution of interest in the HKT Trust and HKT is 25% of the Share Stapled Units in issue before any exercise of the Over-allotment Option, the proceeds from the Global Offering, net of transaction costs directly attributable to the Global Offering will be approximately HK$6.8 billion. It is also assumed that 100% of the net proceeds will be used for repayment of the Telecommunications Group's debt. The adjustment to non-controlling interest is calculated using adjusted net liabilities of the Telecommunications Group which represents the net liabilities of the Telecommunications Group as at 31 December 2010 of HK$16,551 million adjusted for the capitalisation of outstanding current accounts due to the Remaining Group of HK$2,679 million, the repayment of the Telecommunications Group's debt using 100% of the HK$6.8 billion net proceeds.

6. The adjustment reflects the effects of the distribution of 5% of the HKT Trust's issued Share Stapled Units to Shareholders pursuant to the Distributions in Specie. The adjustment to non-controlling interest is calculated using adjusted net liabilities of the Telecommunications Group which represents the net liabilities of the Telecommunications Group as at 31 December 2010 of HK$16,551 million adjusted for the capitalisation of outstanding current accounts due to the Remaining Group of HK$2,679 million, the repayment of the Telecommunications Group's debt using 100% of the HK$6.8 billion net proceeds.

7. The adjustment reflects the effects of the Proposed Spin-off to the PCCW Group's consolidated income statement assuming that PCCW holds 55% interest in the HKT Trust and HKT throughout the year ended 31 December 2010. The adjustment represents the 45% of profit attributable to the equity holders of the Telecommunications Group at PCCW Group level after Group eliminations in the year ended 31 December 2010 of HK$1,804 million. This adjustment assumes that the dilution of 40% interest in HKT Trust after the Over-allotment Option is fully exercised and the Distributions in Specie had taken place on 1 January 2010.

8. The adjustment reflects the effects of the Proposed Spin-off to the PCCW Group's consolidated income statement assuming that PCCW holds 70% interest in the HKT Trust and HKT throughout the year ended 31 December 2010. The adjustment represents the 30% of profit attributable to the equity holders of the Telecommunications Group at PCCW Group level after Group eliminations in the year ended 31 December 2010 of HK$1,804 million. This adjustment assumes that the dilution of 25% interest in HKT Trust before any exercise of the Over-allotment Option and the Distributions in Specie had taken place on 1 January 2010.

9. For the purpose of preparing the Unaudited Pro Forma Financial Information of the PCCW Group, it is assumed that the PCCW Group will retain not less than 55% of the HKT Trust and will continue to consolidate the HKT Trust following the completion of the Proposed Spin-off in accordance with Hong Kong Accounting Standard 27 (Revised) "Consolidated and separate financial statements".

10. Apart from the above, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the PCCW Group entered into subsequent to 31 December 2010.

The following is the full text of a report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PCCW GROUP
TO THE DIRECTORS OF PCCW LIMITED

We report on the unaudited pro forma financial information set out on pages IV-3 to IV-9 under the heading of "Unaudited Pro Forma Financial Information of the PCCW Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV of the circular dated 26 September 2011 (the "Circular") of PCCW Limited (the "Company"), in connection with the proposed spin-off and separate listing of the Telecommunications Business of the Company (the "Transactions") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transactions might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages IV-3 to IV-9 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing audited consolidated balance sheet of the Company as at 31 December 2010 and the audited consolidated income statement of the Company for the year ended 31 December 2010 as set out in the Unaudited Pro forma Financial Information of the PCCW Group with the audited consolidated financial statements of the Company for the year ended 31 December 2010 as set out in the 2010 annual report of the Company, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group as at 31 December 2010 or any future date, or

— the results of the Group for the year ended 31 December 2010 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 September 2011

The following is the text of the valuation report of the Media Business and the Solutions Business received from Deloitte & Touche Financial Advisory Services Limited for the purpose of incorporation in this circular.

Deloitte.
德勤

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Private and Confidential

26 September 2011

PCCW Limited
39th Floor, PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Re: Reference

Attention: The board of directors of PCCW Limited

Subject: Valuation of the Media Business and Solutions Business

Dear Sirs,

Introduction

Deloitte & Touche Financial Advisory Services Limited ("DTFAS" or "we") understands that PCCW Limited ("PCCW" or the "Company" or "you") applied to The Stock Exchange of Hong Kong Limited ("SEHK") for the spin-off of its telecommunications services business ("Spin-off") and has received formal approval to proceed with the application of the Spin-off, which is subject to shareholders' approval.

You have asked us, as professional business valuers acting independently and objectively, for our estimate of the fair market value (the "Valuation"), as at 30 June 2011 (the "Valuation Date"), of PCCW's media group ("Media Business") and its solutions group ("Solutions Business") (collectively referred to as the "Businesses"). We understand that our Valuation is required to assist in supporting the proposed spin-off of your telecommunications services business and the Valuation will be reproduced in the Company's shareholders' circular for the proposed listing of its telecommunications services business.

Engagement

DTFAS was engaged on 28 June 2011 to provide the Valuation (the "Engagement Agreement"). The terms of the Engagement Agreement provide that DTFAS is to be paid a fee based on time spent at standard hourly billing rates. In addition, DTFAS is to be reimbursed for its reasonable out-of-pocket expenses and be indemnified by PCCW in respect of certain liabilities which may be incurred by DTFAS in connection with the provision of its services hereunder. No part of DTFAS' fee is contingent upon the conclusions reached in this Valuation or upon the successful completion of the Spin-off. The principal valuer and other staff involved in the preparation of the Valuation acted independently and objectively in completing this engagement.

The effective date of the Valuation is 30 June 2011.

Scope of review

In providing our Valuation of the Businesses, we have reviewed and considered the following:

1. The unaudited financial statements of the Businesses for the years ended 31 December 2008 to 2010 and the interim unaudited financial statements of the Businesses as at 30 June 2011;

2. Projected financial information for the Businesses, as prepared by management;

3. Other financial information as provided by management and/or as contained in our files; and

4. A letter of representation obtained from management of the Media Business and Solutions Business wherein they confirmed certain representations and warranties made to us, including a general representation that they have no information or knowledge of any facts or material information not specifically noted in this report which, in their view, would reasonably be expected to affect the valuation conclusions expressed herein.

In addition, we have:

1. discussed with management the current operations and the prospects facing the Businesses in order to enhance our understanding of the Businesses and their identifiable assets;

2. visited the premises located at PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay and Cyberport 2 & 3, Pokfulam;

3. conducted a review of public market data and research reports relating to the Businesses and the industries in which they operate; and

4. conducted inspection of certain contracts of the Businesses.

We have not audited or otherwise verified the information relied upon in preparing the Valuation.

Restrictions, limitations, and major assumptions

In accordance with the Engagement Agreement, this Valuation has been provided for the use of PCCW for the purpose of determining the Valuation of the Solutions Business and Media Business.

DTFAS has relied upon the completeness, accuracy, and fair presentation of all the financial and other information, data, advice, opinions or representations obtained by it from senior management of the Company and its consultants and advisors (collectively, the "Information"). The Valuation is conditional upon the completeness, accuracy, and fair presentation of such Information. Except as expressly described herein, DTFAS has not attempted to verify independently the completeness, accuracy or fair presentation of the Information.

PCCW has represented and warranted to DTFAS that, other than as specifically disclosed to us in writing or as contemplated in published financial statements, all information concerning the Businesses provided to us, directly or indirectly, orally or in writing, by the Businesses and/or its agents and advisors in connection with our engagement hereunder:

1. was in the case of all historical financial information concerning the Businesses, at the date of preparation, presented completely and fairly in all material respects; and

2. was with respect to any portion of the projections: (a) prepared on a basis reasonably consistent with the Company's accounting policies, (b) prepared using reasonable assumptions, and (c) the senior officers of the Businesses have no reason to believe are misleading in any material respect.

No opinion, counsel, or interpretation is intended in matters that require legal or other appropriate professional advice. It is assumed that such opinion, counsel, or interpretations have been or will be obtained from the appropriate professional sources. To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, DTFAS assumes no responsibility thereon, and assumes, in connection with such matters, other than as specifically disclosed to us, that:

1. the title to all such assets, properties, or business interests purportedly owned by the Businesses are good and marketable, and there are no adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all liens, encumbrances or encroachments;

2. there is full compliance with all applicable regulations and laws, as well as the policies of all applicable regulators, and that all required licences, rights, consents, or legislative or administrative authority from any national government, private entity, regulatory agency or organization have been or can be obtained or renewed for the operation of the Businesses; and

3. there are no material legal proceedings regarding the business, assets, or affairs of the Businesses other than as publicly disclosed.

We have relied upon management's representation that all assets and liabilities (actual or contingent) attributed to the Businesses have been fully disclosed to us.

The Valuation is rendered on the basis of securities markets, economic, financial, and general business conditions prevailing as at the Valuation Date and the condition and prospects, financial and otherwise, of the Company and any of its subsidiaries and affiliates as they were reflected in the Information and as they have been represented to DTFAS in discussions with management of the Businesses. In the analyses and in preparing the Valuation, DTFAS made numerous assumptions with respect to industry performance, general business, and economic conditions and other matters, many of which are beyond the control of DTFAS, including inflation and exchange rates.

This Valuation is not to be used for any purpose other than as stated herein, and except as provided in the last sentence of this paragraph, is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined above without the express prior written consent of DTFAS in each specific instance. DTFAS does not assume any responsibility or liability for losses incurred by any party as a result of the circulation, publication, reproduction or use of the Valuation, and a summary thereof, in a form acceptable to DTFAS in the circular, and to the filing thereof, as necessary, by PCCW with the applicable securities commissions or similar regulatory authorities in Hong Kong.

DTFAS accepts no responsibility for matters not covered by this Valuation or omitted due to the limited nature of this Valuation. This Valuation will not be an adequate substitute for a normal scope investigation on which reliance could properly be placed as part of the process in making an investment decision.

The Valuation is given as of 30 June 2011 and DTFAS disclaims any undertaking or obligation to advise any person of any change in any factor matter affecting the valuation, which may come or be brought to DTFAS's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the valuation after the date hereof, DTFAS reserves the right to change, modify or withdraw the Valuation.

DTFAS believes that the Valuation must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the valuation. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

In arriving at our value conclusion, we have relied upon the following additional major assumptions:

1. the Businesses' balance sheet as at the Valuation Date accurately reflects the financial position of the Businesses, including all significant commitments and contingent liabilities;

2. all assets, liabilities, revenues and expenses of the Businesses were recorded, in accordance with generally accepted accounting principles, in their financial statements;

3. the Businesses had no material unusual or non-recurring expense or revenue items during the period reviewed other than as noted herein;

4. there were no significant non-arm's length transactions during the period under review which took place at other than fair market value;

5. the projected financial information represents the Businesses' best estimate of future results as at the Valuation Date;

6. at the Valuation Date, the Businesses had no material contingent liabilities, known environmental issues, unusual contractual obligations, litigation pending or threatened, or substantial commitments other than as disclosed in this report;

7. the fair market value of the assets and liabilities of the Businesses as at the Valuation Date were approximated by their reported book values, except where noted herein;

8. the Businesses had no redundant assets or excessive liabilities as at the Valuation Date, except where noted herein; and

9. there have been no offers, written or verbal, to purchase the shares or any of the assets of the Businesses during the 24 months preceding the Valuation Date, other than those disclosed to us.

Should any of the above major assumptions not be accurate or should any of the information provided to us not be factual or correct, our value conclusion, could be significantly different.

Overview of the Solutions Business

The Solutions Business began operating as a separate business unit in 2000 and is an information technology outsourcing ("ITO") and business process outsourcing ("BPO") service provider in Hong Kong and China. The Solutions Business offers a comprehensive range of customised solutions including data centre services, information technology ("IT") infrastructure outsourcing, systems integration, application development, management and maintenance, technical operations outsourcing and monitoring systems, BPO for customer, and logistics management. The Solutions Business offers services to customers across a wide range of industries including the financial, telecommunications, media, retail, manufacturing, transportation and public sectors.

The Solutions Business operates four key business lines:

Outsourcing and Managed Services ("OMS")

- The OMS business offers a range of managed services and data centre services (under the Powerbase brand) spanning from data centre design and management to cloud computing services.

System Solutions Development and Integration ("SSDI")

- The SSDI business provides an extensive pool of development resources, and outsourcing services to companies across all industries. SSDI services include IT consulting, enterprise resource planning ("ERP") implementation, as well as the development, integration, and management of applications. The Solutions Business operates 5 outsourced development centres ("ODCs") in Beijing, Shanghai, Guangzhou, Xian and Hong Kong with over 1,000 developers.

Technical Services and Infrastructure Solutions ("TSIS")

- The TSIS business segment provides services that combine communications engineering expertise with IT technologies for both the public and commercial sectors. The division has expertise in the deployment of control and monitoring systems, technical operations and round-the-clock operation maintenance.

Business Process Outsourcing and Logistics ("BPOL")

- The BPOL business takes on its clients' non-core business processes, which include transaction processing (i.e. payment collection, order fulfilment), document lifecycle management solutions (i.e. document scanning, e-document management systems), direct marketing solutions (i.e. printing, direct marketing support services), VIP management (i.e. customer database management, loyalty membership management), and Cloud-based point of sales services. BPOL also provides services that cover logistics management and supply chain solutions utilising a variety of Radio-Frequency-Identification ("RFID") technologies.

Solutions Business - historical and forecast results

The following table summarises the reported operating results of the Solutions Business for the fiscal years ended 31 December 2008 to 2010 and the forecast operating results for fiscal year 2011:

Income Statement	**For the year ended 31 December**			
(HK$'m)	**2008**	**2009**	**2010**	**2011**
	Actual	**Actual**	**Actual**	**Forecast**
Total revenues	1,904	1,792	2,039	2,426
Total operating expenses	1,720	1,591	1,755	2,046
EBITDA	184	201	284	380
EBITDA margin	10%	11%	14%	16%

The following summarizes certain noteworthy observations:

Revenues

- Solutions benefited from the general market recovery in 2010 and growth in mainland China. A full spectrum of cloud computing services was launched during the year, spanning across infrastructure, platform, application, content and process.

- Revenues have remained relatively flat from 2008 to 2010. However, management projects an increase of 19% in 2011. The increase is mainly driven by the opening of new data centers in Hong Kong and increased demand in cloud computing services and IT services in all four business segments.

- By 31 December 2010, 68% of projected total revenues for 2011 had already been secured. We understand from Management that contracts have continued to be secured and the year-to-date value of the signed contracts is consistent with Management's expectations.

Total Operating Expenses

- Total operating expenses, which primarily comprise of cost of sales and staff costs, are expected to increase from HKD1,755 million in 2010 to HKD2,046 million in 2011. Cost of sales is expected to remain relatively stable during the forecast period and new staff are expected to be primarily in the PRC where salaries are relatively lower than Hong Kong. As such, growth in operating costs is expected to be relatively lower than the growth in revenue.

EBITDA

- EBITDA increased by 41% to HK$284 million in 2010, due to a 14% increase in revenues while total operating expenses increased by 10%.

- With revenues projected to increase 19% from HK$2,039 million in 2010 to 2,426 million in 2011, with total operating expenses projected to increase by just 17% to HK$2,046 million over the same period, EBITDA is projected to increase to HK$380 million by 2011.

- The EBITDA margin is projected to increase from 14% in 2010 to 16% by 2011 which is consistent with the margins seen of comparable companies.

Solutions Business - historical balance sheet

The following is the historical balance sheet of the Solutions Business as at 30 June 2011:

Balance Sheet

(HK$'m)	**30 June 2011**
Assets	
Current assets	
Cash & cash equivalents	68
Accounts receivable & prepayments	1,034
Intercompany accounts	90
Inventories	98
	1,290
Non-current assets	
Property, plant and equipment	175
Other non-current assets	126
	301
Total assets	1,591
Liabilities	
Current liabilities	
Trade and other payables	594
Current income tax liabilities	12
	606
Non-current liabilities	17
Total liabilities	623
Net assets	968

As at 30 June 2011, we note the following:

- The Solutions Business held cash of HK$68 million.
- The non-cash working capital of HK$616 million primarily relates to accounts receivable, inventories, accounts payable, accruals, advances and current tax liabilities.

- Property, plant, and equipment of HK$175 million mainly consisted of data centre infrastructure and equipment.

- Other non-current assets of HK$126 million mainly represented an advanced payment for rental of a data centre in Hong Kong.

- The Solutions Business was debt-free.

Overview of the Media Business

The Media Business is a fully integrated multi-media and entertainment group in Hong Kong. It is principally engaged in:

- the provision of content and interactive services through multiple distribution channels, including the operation of the largest and most commercially successful pay television service in Hong Kong;

- the production of popular Chinese language programmes (including news, financial news, sports, entertainment programmes, music concerts and events); and

- 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).

now TV

The Media Business operates a subscription television service in Hong Kong under the now TV brand delivering both self-produced and licensed content to its subscribers using advanced IPTV technology. now TV commenced operations in September 2003 with an offering of 23 channels of programming and has increased its content to over 190 standard and high definition local and international programming channels and over 2,000 hours of on-demand content. For the majority of its channels, it is the exclusive provider to Hong Kong viewers. As at the Valuation Date, now TV had over 1 million subscribers representing a penetration rate of approximately 45% of Hong Kong television households. In seven years of operation, it has successfully become the market leader as the largest pay television operator in Hong Kong in terms of revenue (which is 1.5 times that of its closest competitor based on 2010 figures).

now TV licenses its television content from numerous international content partners and provides programming in 15 languages, predominantly Cantonese, Mandarin and English. It also produces Chinese language news, financial news, sports and entertainment programming in addition to music and events production which complements its wide portfolio of licensed international television content. It delivers its television programming and interactive services via multiple platforms such as online and mobile.

New Media and Directories

In addition to now TV, the Media Business also operates the New Media and Directories businesses. New Media's digital music service, MOOV, is Hong Kong's first and largest multi-platform digital streaming music service with a catalogue of over 200,000 local, Asian and international song titles, 100 concerts-on-demand and 1,000 music videos. Meanwhile, its online content service, now.com, is a subscription based video streaming proposition offering over 5,000 streaming videos, including popular local drama series, variety shows, news and online games.

Its directories business operates under the Yellow Pages brand. Yellow Pages has become Hong Kong's leading multimedia advertising solutions platform through its web-based directories service yp.com.hk with over 70% of Yellow Pages' revenue derived from online advertising. Its directories are also offered through a range of other interactive media platforms including mobile and now TV.

Overview of the Media Business' historical and forecast results

The following table summarises the reported operating results of the Media Business for the fiscal years ended 31 December 2008 to 2010 and the forecast operating results for fiscal year 2011:

Income Statement	**For the year ended 31 December**			
(HK$'m)	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Forecast**
Total revenues	2,239	2,350	2,383	2,726
Total operating expenses	2,322	2,346	2,151	2,098
EBITDA	(83)	4	232	628
EBITDA margin	n/a	0%	10%	23%
Now Broadband TV				
Installed base ARPU (HK$)	166	170	165	168
Installed subscriptions ('000)	953	1,001	1,039	1,242

Above are the summarized reported operating results of the Media Business for the fiscal years ended 31 December 2008 to 2010 and the summarised forecast operating results of the Media Business for fiscal year 2011. The following summarises certain noteworthy observations:

Revenues

now TV

- Despite market predictions of a potential loss in subscribers following the termination of the Barclay's Premier League ("BPL") coverage, which is now broadcast on competitor i-Cable, now TV's subscriber base actually grew by 4% during 2010 and has continued to increase by a further 2% during the first quarter of 2011. Management advised that the churn in customers following the loss of the BPL broadcast rights should already be reflected in the current subscriber numbers.

- Although the Average Revenue Per User ("ARPU") decreased slightly in 2010 as a result of the re-pricing of the Mega Sports Pack, Media revenues grew by 2% to HK$2,032 million.

- The forecast increase in Media Business revenues in 2011 is primarily driven by an increase in subscriber numbers from 1,039,000 at 31 December 2010 to a projected 1,242,000 at 31 December 2011, with ARPU increasing only marginally to HK$168 per month in 2011. The increase in ARPU is mainly due to an increase in ARPU for advertising and transactions.

- Management explained that the primary driver of the significant subscriber increase was new content including self-produced interactive programmes, expansion on premium sports content offerings, which are expected to attract a new type of customer and to create up-selling opportunities amongst its existing customers, and a renewed focus on public housing and subsidized housing estates in Hong Kong.

- We would highlight that the projected earnings growth in 2011 is highly dependent on the projected 20% increase in the subscriber base for 2011, which is a much higher growth than what has been achieved in recent years.

New Media and Directories

- The growth in New Media revenues is mainly driven by the projected increases in revenue from the Directories business and now.com service subscription on the back of the expansion in the variety of online multi-media content offerings.

Total Operating Expenses

- Total operating expenses, which primarily comprise of content costs, content production costs and staff costs, are expected to decrease from HK$2,151 million in 2010 to HK$2,098 million in 2011.

- The decrease in operating expenses mainly relates to the BPL contract expired in July 2010, resulting in a full year of BPL costs savings in 2011.

- The subsequent increase in operating expenses primarily relate to increase in content production costs as the Media Business incurs initial investments in scaling up the production of self-produced content and expansion of its interactive service offerings. In addition, staff costs are expected to increase during the forecast period as a result of growth in headcount to cope with the business expansion.

EBITDA

- Having recorded positive EBITDA of HK$4 million for the first time in 2009, Media recorded its first meaningful EBITDA of HK$232 million in 2010, representing an EBITDA margin of 10%.

- The primary reason for the improved operating performance in 2010 was the significant reduction in content cost when the BPL contract expired in July 2010, while revenues actually increased.

- EBITDA is projected to increase to HK$628 million in 2011, mainly due to:

  - an increase in the subscriber base of 203,000, with an ARPU growth from HK$165 in 2010 to HK$168 in 2011; and

  - the full-year impact of the savings in content costs as a result of the non-renewal of the BPL broadcast rights, with content costs expected to decrease by a further HK$236 million.

- Actual EBITDA margin achieved for the 1st half in 2011 has approximately increased 94% from the EBITDA margin in 2010. The EBITDA margin is projected to increase to 23% in 2011,which is towards the low end of the range seen in the comparable companies.

Media Business - historical balance sheet

The following is the historical balance sheet of the Media Business as at 30 June 2011:

Balance Sheet

(HK$'m)	**30 June 2011**
Assets	
Current assets	
Cash & cash equivalents	50
Trade receivables, net	78
Inventories	1
Prepaid expenses	355
	484
Non-current assets	
Property, plant and equipment	376
Investment property	12
Interests in leasehold land	5
Goodwill	162
Intangible assets	167
Interest in jointly controlled company	5
Investment	223
	950
Total assets	1,434
Liabilities	
Current liabilities	
Trade payables	10
Accruals and other payables	262
Intercompany accounts	351
Advances from customers	45
	668
Total liabilities	668
Net assets	766

As at 30 June 2011, we note the following:

- The Media Business held cash of HK$50 million.
- The non-cash working capital of HK$117 million primarily relates to accounts receivable, prepaid expenses, accounts payable, accruals, and advances from customers.
- Property, plant, and equipment of HK$376 million mainly comprised of studio equipment, set-top boxes, and a studio premise in Chai Wan acquired in September 2010.
- Investment property of HK$12 million primarily consisted of a portion of the same studio premise in Chai Wan that has been leased as the space was not required for operations.
- Interests in leasehold land represented the leasehold of the studio premise in Chai Wan.
- Goodwill of HK$162 million related to the acquisition of the Directories business.
- Intangible assets of HK$167 million represented the capitalization of costs related to acquiring and retaining subscribers such as certain promotional and gift items and are being amortised over the contract term.
- Interest in jointly controlled company of HK$5 million represented costs related to a preliminary investment in a movie and music video production company.
- Investment of HK$223 million is related to the cost of acquiring an approximate 5% interest in a PRC company which operates an Internet television service in May 2011.
- Intercompany accounts of HK$351 million represented an intercompany loan to finance the 5% investment as denoted above and other operational funding.

Valuation - definition of value

For the purpose of our Valuation, fair market value is defined by the International Glossary of Business Valuation Terms as the price, expressed in terms of cash equivalents, at which the property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, when neither is under compulsion to buy or to sell and when both having reasonable knowledge of relevant facts.

Fair market value as defined above is a concept of value, which may or may not equal the purchase/sale price in an actual market transaction. Within the market place, there may exist “special purchasers” who may be willing to pay higher prices because of reduced or eliminated competition, ensured source of sales, cost savings arising on business combinations following acquisitions or other synergies which could be enjoyed by the purchaser.

Given the nature and stated purpose of this engagement, we have not exposed the Businesses to the market place to determine whether some special purchasers, for their own reasons, might perceive a value different from that determined by us.

Basis of valuation

There are two basic approaches to determining fair market value:

1. the going-concern approach; and

2. the liquidation approach.

Going-concern approach

The going-concern approach assumes a continuing business enterprise with a potential for economic future earnings. Where a business has commercial value as a going-concern, the generally accepted approaches that are in conformity with the International Valuation Standards to determining fair market value are:

1. the income approach;

2. the market approach; and

3. the asset based approach.

Income approach

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to the subject investors in the security or asset. The most commonly used income approach for the valuation of securities or individual assets is a discounted cash flow analysis. A discounted cash flow analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate. This discount rate should consider the time value of money, inflation and the risk inherent in ownership of the asset or security interest being valued.

Market approach

In application of the market approach, the value of an asset or security is based upon what investors are paying for similar assets or securities in the market place. The market approach includes the development of ratios of market prices to various metrics of the guideline assets or securities, which are then used to develop an estimate of value for the subject asset or security. Consideration is given to adjustments for differences between the subject and guideline assets or securities, as well as the date, source and depth of market data.

Asset based approach

The asset based approach generally uses the current value of a company's tangible net assets as the prime determinant of value. This approach is generally used where a business is not viable as a going concern and is therefore suitable only for liquidation or where the going concern value is closely related to its underlying assets, such as an investment holding company.

Liquidation approach

A liquidation value would be used if the business is not viable as a going-concern or the return on the assets on a going-concern basis is not adequate. This value is the net realizable value on an orderly disposition made in a manner that would minimize the loss and/or taxes thereon.

Valuation approach selected

Based on our review of the business operations of the Solutions Business and Media Business and our discussions with management, we have considered a going-concern approach to valuation to be appropriate. More specifically, we have considered the guideline companies methodology under the market approach to value as the primary approach to be the most appropriate approach in estimating the fair market value of the Solutions Business and Media Business as the guideline companies methodology under the market approach is reflective of market sentiments and expectations of the Businesses as at the Valuation Date.

Guideline companies methodology

The Guideline Public Company method entails a comparison of the subject company to publicly traded companies that operates within the same or similar industries. The comparison is generally based on published data regarding the public companies' stock price and earnings, sales, or revenues, which is expressed as a fraction known as a "multiple." The multiple serves as a valuation benchmark in determining the value of the subject company. The public companies identified for comparison purposes should be similar to the subject company in terms of industry, product lines, market, growth, margins and risk.

Valuation of the Solutions Business - market approach

Multiple selection

In determining the appropriate multiple benchmark for Solutions Business, we have considered the following:

- For a business such as Solutions, where substantial capital investment in network infrastructure and data centres are required, one of the commonly-used earnings multiples is EV/EBITDA.

- The advantage on the use of EV/EBITDA over P/E is that EV/EBITDA is neutral; it is not affected by the tax regime of where the company is domiciled, the capital structure and effects of differing depreciation and amortisation among different companies. The use of EV/EBITDA allows better measurement of value based on operational performance without any distortion.

- The Solutions' business is based on multi-year contracts and revenues are recognised only upon completion of milestones. The revenue recognition policy in this industry introduces volatility to overall earnings while suffering the effects of a constant depreciation and any interest expense. Also, as there are few listed comparable companies in Hong Kong that are operating in the same space as Solutions, the use of the EV/EBITDA multiple is therefore appropriate for comparison of comparable companies across different tax regimes and capital structure by comparing value based on operational profitability.

- Valuation is inherently forward-looking and it is common to use forward earnings multiples to reflect future growth potential of the valuation entity. To apply the market approach, future maintainable earnings must be estimated. Given the significant increase in EBITDA in 2011, the 2010 EBITDA is not indicative of future earnings and we have therefore used a forward EV/EBITDA multiple for the purposes of our analysis.

EBITDA

For the purpose of our analysis, we have relied upon management's forecast 2011 EBITDA of HK$380 million. Based on our discussion with management, there are no unusual or one-off items that need to be normalised for the purposes of our analysis.

The EBITDA is forecast to increase from HK$284 million in 2010 to HK$380 million in 2011 across all the four service offerings within the Solutions Business primarily as a result of the profitability mix of services, replication of already proven solutions, and better margins from repeat business.

Selection of guideline companies

In selecting our list of comparable guideline companies, we considered, amongst others, the following:

- *Geographical segments:* Given the lack of comparable companies listed in Hong Kong and China, our comparable companies have been selected based on service activity rather than geography.

- *Market capitalisation:* The selected set of comparable companies have market capitalisation of US$172 million to US$5,529 million.

- *Business segments*: We have analysed the comparable companies and only selected those that have a significant portion of their operating income from similar business as Solutions Business.

Based on the above criteria, we have selected 13 comparable IT services businesses from a global sample. Please refer to Appendix I for a full description of the comparable companies.

EBITDA multiple

For detailed calculations of the EBITDA multiples of each of the comparable companies, please refer to Appendix II. Based on the guideline companies selected and the forward EBITDA multiple, the comparable companies are concluded to have a 2011 EV/EBITDA multiple range of 9 to 10 times.

Comparable company	Ticker	2011F EV/EBITDA
Equinix, Inc.	EQIX US	9.2x
Savvis, Inc.	SVVS US	10.0x
Rackspace Hosting, Inc.	RAX US	16.4x
Telecity Group PLC	TCY LN	11.1x
WNS Holdings Limited	WNS US	6.9x
Firstsource Solutions Limited	FSOL IN	2.8x
Exlservice Holdings Inc.	EXLS US	10.9x
Camelot Information Systems, Inc.	CIS US	11.0x
iSoftStone Holdings Limited	ISS US	nm
NS Solutions Corporation	2327 JP	5.1x
Atos Origin SA	ATO FP	4.2x
hiSoft Technology International Ltd.	HSFT US	11.1x
VanceInfo Technologies Inc.	VIT US	nm
	Min	2.8x
	Max	16.4x
	Average	9.0x
	Median	10.0x

Valuation conclusion

On the basis of the scope of our review, research, analysis, and experience, the estimated fair market value, as at the Valuation Date, of all of the Solutions Business under the market approach is as follows:

HK$ millions	Low	High
2011 Forward EV/EBITDA multiple	9x	10x
2011 EBITDA	380	380
Enterprise value (rounded)	3,400	3,800

As Solutions Business has no debt balances and an insignificant cash balance, the resulting fair market value of a 100% equity interest in Solutions Business is in the range of approximately HK$3,400 million to HK$3,800 million as at the Valuation Date.

Valuation of the Media Business - market approach

Multiple selection

In determining the appropriate multiple benchmark for Media Business, we have considered the following:

- For a business such as the Media Business, where substantial capital investment in network infrastructure is required, one of the commonly-used earnings multiples is EV to EBITDA.

- The advantage on the use of EV/EBITDA over P/E is that EV/EBITDA is neutral; it is not affected by the tax regime of where the company is domiciled, the capital structure and effects of differing depreciation and amortisation among different companies. The use of EV/EBITDA allows better measurement of value based on operational performance without any distortion.

- The Media Business was still in a marginal operating loss and net loss position in 2010. However the business recorded EBITDA of HK$232 million in 2010 and is projected to rise to HK$628 million in 2011. We therefore consider EV/EBITDA to be the most appropriate multiple for the purposes of our valuation analysis.

- As the Media Business is only projected to become profitable for the first time in 2011 and 2011 net income is not indicative of future maintainable earnings based on the forecast provided, we do not consider it appropriate to use a P/E multiple in this instance.

- Valuation is inherently forward-looking and it is common to use forward earnings multiples to reflect future growth potential of the valuation entity. To apply the market approach, future maintainable earnings must be estimated. Given the significant increase in EBITDA in 2011, the EBITDA in 2010 is not indicative of future Media earnings and we have therefore used a forward EV/EBITDA multiple for the purposes of our analysis.

EBITDA

For the purpose of our analysis, we have relied upon management's forecast 2011 EBITDA of HK$628 million. Based on our discussion with management, there are no unusual or one-off items that need to be normalised for the purposes of our analysis.

The EBITDA is forecast to increase significantly from HK$232 million in 2010 to HK$628 million in 2011. This is mainly driven by a projected increase in the installed subscription base to 1,242,000 from 1,039,000 for the same period, increasing Media revenues by HK$314 million, and the impact of a full-year saving in BPL content costs, which drives a reduction of approximately HK$236 million in content costs. Based on a brief summary of 1st half 2011 results provided by management, EBITDA increased significantly compared to 2010. With the BPL cost savings already confirmed, Media Business needs to grow now TV subscriber numbers significantly in the remainder of 2011 if it is to achieve the forecast EBITDA underpinning our valuation analysis.

Selection of guideline companies

In selecting our list of comparable guideline companies, we considered, amongst others, the following:

- *Geographical segments:* Selected comparable companies are based in Hong Kong and China and are operating in similar economic environment.

- *Market capitalisation:* The selected set of comparable companies have market capitalisation of USD77 million to USD4,217 million.

- *Business segments*: We have analysed the comparable companies and only selected those that have a significant portion of their operating income from similar business as Media Business.

Based on the above criteria, we have selected 10 comparable media firms operating in Hong Kong and China. Given the reasonable sample size of the comparable companies identified, we have not included companies, such as British Sky Broadcasting Group, which may have a very similar product offering, but which operate in very different geographies and often more mature markets with very different demographics and growth prospects. Please refer to Appendix III for a full description of the comparable companies.

EBITDA multiple

For detailed calculations of the EBITDA multiples of each of the comparable companies, please refer to Appendix IV. Based on the guideline companies selected and the forward EBITDA multiple, the comparable companies are concluded to have a 2011 EV/EBITDA multiple range of 12 to 13 times.

Comparable company	Ticker	2011F EV/EBITDA
Focus Media Holding Ltd.	FMCN US	13.5x
Clear Media Ltd.	100 HK	6.2x
Media China Corp Ltd.	419 HK	n/a
Phoenix Satellite Television H	2008 HK	13.3x
Television Broadcasts Ltd.	511 HK	8.1x
I-CABLE Communications Ltd.	1097 HK	n/a
Mei Ah Entertainment Group Ltd.	391 HK	n/a
Shaanxi Broadcast & TV Network Intermediary Co., Ltd.	600831 CH	12.4x
Shenzhen Topway Video Communication Co., Ltd.	002238 CH	15.4x
VisionChina Media Inc	VISN US	nm
	Min	6.2x
	Max	15.4x
	Average	11.5x
	Median	12.9x

Valuation conclusion

On the basis of the scope of our review, research, analysis, and experience, the estimated fair market value, as at the Valuation Date, of all of the Media Business under the market approach is as follows:

HK$ millions	Low	High
2011 Forward EV/EBITDA multiple	12x	13x
2011 EBITDA	628	628
Enterprise value (rounded)	7,500	8,200

As Media Business has an insignificant net debt balance, the resulting fair market value of a 100% equity interest in Media Business is in the range of approximately HK$7,500 million to HK$8,200 million as at the Valuation Date.

Valuation conclusion

Based upon the scope of our review, and our research, analysis and experience, the estimated fair market values, as at the Valuation Date, of the Media Business and the Solutions Business are as follows:

Business Units	Fair Market Value (HK$ millions)
Solutions Business	3,400 - 3,800
Media Business	7,500 - 8,200

Yours faithfully,
Duncan McPherson
Principal
Deloitte &Touche Financial Advisory Services Limited

Appendix I — Solutions Business: Comparable companies description

	Company name	Ticker	Company description
1	Equinix, Inc.	EQIX US	Equinix, Inc. provides core Internet exchange services to networks, Internet infrastructure companies, enterprises, and content providers. The Company operates Internet Business Exchange centers in several countries, where customers can interconnect with the providers that service Internet networks and users for their peering, transit, and traffic exchange requirements.
2	Savvis, Inc.	SVVS US	SAVVIS, Inc. (SAVVIS) provides information technology (IT), services including cloud services, managed hosting, managed security, colocation, professional services, and network services, through its global infrastructure to businesses and government agencies around the world.
3	Rackspace Hosting, Inc.	RAX US	Rackspace Hosting, Inc. delivers websites, web-based IT systems, and provides related services.
4	Telecity Group PLC	TCY LN	Telecity Group PLC designs, builds, and manages technical, web, and Internet infrastructure for corporate clients.
5	WNS Holdings Limited	WNS US	WNS Holdings Limited, doing business as WNS Global Services, provides a range of business process outsourcing services, including finance, accounting, customer relationship management, and business administration services.
6	Firstsource Solutions Limited	FSOL IN	Firstsource Solutions Limited provides business process outsourcing services to companies in the banking, financial services, and insurance industries.
7	Exlservice Holdings Inc.	EXLS US	Exlservice Holdings Inc. provides offshore business process outsourcing solutions, primarily serving the needs of Global 1000 companies in the banking, financial services and insurance area. The service offerings include collections, cash management, loan servicing, research and reconciliation finance and accounting processes, customer support and technical support.
8	Camelot Information Systems, Inc.	CIS US	Camelot Information Systems, Inc., through its subsidiaries, provides enterprise application services and financial industry information technology (IT) services. The Company offers its services to a range of industries, including financial, resources & energy, manufacturing & automobiles, technology, and telecommunication.

	Company name	Ticker	Company description
9	iSoftStone Holdings Limited	ISS US	iSoftStone Holdings Limited is an information technology (IT) service provider in China. The Company focuses on four main industry vehicles including technology; communications; banking, financial services and insurance; and energy, transportation and public sector. iSoftStone Holdings Ltd. provides consulting and solutions, IT services, and business process outsourcing.
10	NS Solutions Corporation	2327 JP	NS Solutions Corporation operates system consulting services and proposal of solutions. The Company also manages operation and maintenance of engineering systems and develops software.
11	Atos Origin SA	ATO FP	Atos Origin SA offers management consulting and outsourcing services, enterprise solutions, and e-commerce solutions. The Company offers supply chain management, data warehousing, enterprise application integration, document management, geomarketing, data mining, e-marketing, and pre-customized computer applications, and manages customers' hardware, software, and networks.
12	hiSoft Technology Internationa	HSFT US	hiSoft Technology International Ltd. Offers information technology, research, development, and business process outsourcing services. The Company provides Chinese software outsourcing, outsourced application maintenance, and enterprise application services. hiSoft Technology International focuses on fortune 500 firms in the software, financial services, pharmaceutical, and more.
13	VanceInfo Technologies Inc	VIT US	VanceInfo Technologies Inc. is an information technology solutions and software development company. The Company's services includes research and development enterprise solutions, application development and maintenance, quality assurance and testing, as well as globalization and localization.

Appendix II — Solutions Business: Comparable companies multiples

(US$'m unless specified otherwise)

	Company Name	Ticker	Share Price (In trading currency)	Market Cap	Enterprise Value (EV)	Sales	EBITDA	EBITDA Margin	Net Income	TTM EV/ EBITDA	2011F EV/ EBITDA
1	Equinix Inc	EQIX US EQUITY	101.02	4,732	6,667	1,434	571	40%	81	11.7x	9.2x
2	SAVVIS Inc	SVVS US EQUITY	39.53	2,275	2,937	973	227	23%	(44)	12.9x	10.0x
3	Rackspace Hosting Inc	RAX US EQUITY	42.74	5,526	5,533	892	270	30%	57	20.5x	16.4x
4	Telecity Group PLC	TCY LN EQUITY	554.00	1,766	1,856	342	151	44%	81	12.3x	11.1x
5	WNS Holdings Ltd	WNS US EQUITY	9.00	400	481	616	63	10%	9	7.6x	6.9x
6	Firstsource Solutions Ltd	FSOL IN EQUITY	17.80	172	434	453	57	13%	26	7.6x	2.8x
7	ExlService Holdings Inc	EXLS US EQUITY	23.10	685	640	296	64	22%	33	10.0x	10.9x
8	Camelot Information Systems In	CIS US EQUITY	14.95	671	552	211	35	17%	20	15.8x	11.0x
9	iSoftstone Holdings Ltd	ISS US EQUITY	15.31	802	689	197	12	6%	(4)	nm	nm
10	NS Solutions Corp	2327 JP EQUITY	1,567.00	1,031	867	1,952	175	9%	84	5.0x	5.1x
11	Atos	ATO FP EQUITY	38.96	3,956	4,152	6,660	518	8%	157	8.0x	4.2x
12	hiSoft Technology Internationa	HSFT US EQUITY	14.65	434	307	177	16	9%	12	19.2x	11.1x
13	VanceInfo Technologies Inc	VIT US EQUITY	23.11	1,030	884	241	38	16%	30	nm	nm

	EBITDA Margin	TTM EV/ EBITDA	2011F EV/ EBITDA
Low	6%	2.8x	2.8x
Average	19%	9.0x	9.0x
Median	16%	10.0x	10.0x
High	44%	16.4x	16.4x

Notes:

n/a - information not available

nm - not meaningful

Appendix III — Media Business: Comparable companies description

	Company name	Ticker	Company description
1	Clear Media Limited	100 HK	Clear Media Limited is an outdoor media company engaged in the display of advertisements on bus shelters, unipoles, and bus bodies.
2	Focus Media Holding Limited	FMCN US	Focus Media Holding Limited operates an out-of-home advertising network in China. The Company uses audiovisual television displays which are placed primarily in high-traffic areas of commercial office buildings such as in lobbies and near elevators, as well as in large retail chain stores and other venues.
3	I-Cable Communications Limited	1097 HK	I-Cable Communications Limited is a pay-TV system operator in Hong Kong. The Company and its subsidiaries serve pay-TV subscribers and dial-up Internet access subscribers. I-Cable also provides television related services and sells and maintains satellite television systems.
4	Media China Corporation Limited	419 HK	Media China Corporation Limited is a total media group and is in the production of television dramas, situation comedies, movies, advertisements as well as talent management related services. The Company is also a content provider for television channels in China.
5	Mei Ah Entertainment Group Limited	391 HK	Mei Ah Entertainment Group Limited is engaged in television operations, film exhibition, film rights licensing and sub-licensing, sale and distribution of films and programs, and processing of audio visual products.
6	Phoenix Satellite Television Holdings Limited	2008 HK	Phoenix Satellite Television Holdings Limited, through its subsidiaries, operates a satellite television broadcasting business primarily in China. The Company's television channels include the Phoenix Chinese Channel and the Phoenix Movies Channel.
7	Shaanxi Broadcast & TV Network Intermediary Co., Ltd	600831 CH	Shaanxi Broadcast & TV Network Intermediary Co., Ltd. operates a cable TV network and acts as an advertising agency for several local TV and satellite channels.
8	Shenzhen Topway Video Communication Co., Ltd	002238 CH	Shenzhen Topway Video Communication Co.,Ltd. builds, manages, and maintains cable TV networks.

	Company name	Ticker	Company description
9	Television Broadcasts Limited	511 HK	Television Broadcasts Limited broadcasts and produces television programs. The Company also licenses and distributes satellite and subscription television programs, and provides services such as animation, videotape rental, film studio leasing, and advertising.
10	VisionChina Media Inc.	VISN US	VisionChina Media Inc operates an out-of-home advertising network. The Company uses real-time mobile digital television broadcasts to deliver content and advertising on mass transportation systems in China based on the number of displays.

Appendix IV: Media Business: Comparable companies multiples

(US$'m unless specified otherwise)

	Company Name	Ticker	Share Price (In trading	Market Cap	Enterprise Value (EV)	Sales	EBITDA	EBITDA Margin	Net Income	TTM EV/ EBITDA	2011F EV/ EBITDA
1	Focus Media Holding Ltd	FMCN US EQUITY	31.10	4,217	3,659	602	192	32%	127	19.0x	13.5x
2	Clear Media Ltd	100 HK EQUITY	4.38	298	219	162	62	38%	23	3.5x	6.2x
3	Media China Corp Ltd	419 HK EQUITY	0.14	77	43	22	(3)	-15%	(62)	Negative	n/a
4	Phoenix Satellite Television H	2008 HK EQUITY	3.07	1,969	1,899	334	112	34%	57	16.9x	13.3x
5	Television Broadcasts Ltd	511 HK EQUITY	51.40	2,893	2,558	602	290	48%	171	8.8x	8.1x
6	I-CABLE Communications Ltd	1097 HK EQUITY	0.74	191	134	258	12	5%	(34)	10.8x	n/a
7	Mei Ah Entertainment Group Ltd	391 HK EQUITY	0.18	132	114	26	11	43%	6	10.4x	n/a
8	Shaanxi Broadcast & TV Network Intermediary Co., Ltd.	600831 CH EQUITY	10.68	931	1,019	186	65	35%	18	15.6x	12.4x
9	Shenzhen Topway Video Communication Co., Ltd.	002238 CH EQUITY	17.91	888	817	117	50	43%	15	16.4x	15.4x
10	VisionChina Media Inc	VISN US EQUITY	2.83	289	269	160	1	1%	(60)	nm	nm

	EBITDA Margin	TTM EV/ EBITDA	2011F EV/ EBITDA
Low	-15%	3.5x	6.2x
Average	26%	12.7x	11.5x
Median	34%	13.2x	12.9x
High	48%	19.0x	15.4x

Notes:

n/a - information not available

nm - not meaningful

Source: Bloomberg

THE 2011-2021 OPTION SCHEME

The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to full-time or part-time employees, directors (including executive, non-executive or independent non-executive) and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier service provider, agent, customer and business partner of HKT and/or any of its subsidiaries (the "**Eligible Participants**") as incentives or rewards for their contribution to the growth of the Telecommunications Group and to provide the Telecommunications Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants. The following is a summary of the principal terms of the 2011-2021 Option Scheme as required under Chapter 17 of the Listing Rules proposed to be approved and adopted by ordinary resolution of the Shareholders at the EGM.

No options will be granted under the 2011-2021 Option Scheme unless the grant of such options is in compliance with all the requirements of the Listing Rules.

1. Terms of the 2011-2021 Option Scheme

(a) Who may join

The boards of directors of the Trustee-Manager and HKT may, at their absolute discretion, offer the Eligible Participants, options to subscribe for such number of Share Stapled Units as the boards of directors of the Trustee-Manager and HKT may determine at a subscription price determined in accordance with paragraph (b) below, and subject to the other terms of the 2011-2021 Option Scheme summarised below.

An offer of grant of an option shall remain open for acceptance by the Eligible Participant concerned for such period as determined by the boards of directors of the Trustee-Manager and HKT, which period shall not be more than 14 days from the date of the offer, provided that no such offer shall be open for acceptance after the tenth anniversary of the Adoption Date or after the 2011-2021 Option Scheme has been terminated in accordance with the provisions thereof. Upon acceptance of the offer, the grantee shall pay HK$1.00 to the HKT by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price under paragraph (b) where paragraphs (c)(v) and (d)(iii) apply.

The Trustee-Manager is not an Eligible Participant under the 2011-2021 Option Scheme.

(b) Price of Share Stapled Units

The subscription price for Share Stapled Units in respect of any particular option granted under the 2011-2021 Option Scheme shall be such price as the boards of directors of the Trustee-Manager and HKT shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share Stapled Unit on the Main Board of the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; (ii) the average closing prices per Share Stapled Unit on the Main Board of the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the aggregate of the nominal values of the Preference Share and Ordinary Share components of a Share Stapled Unit. For the purpose of determining the subscription price for Share Stapled Units under this paragraph (b), where the Share Stapled Units have been listed on the Main Board of the Stock Exchange for less than five (5) business days, the final offer price per Share Stapled Unit (exclusive of brokerage fee, SFC transaction levy and Stock Exchange trading fee) at which Share Stapled Units are to be subscribed or purchased pursuant to the Global Offering shall be taken as the "closing price per Share Stapled Unit" for any business day falling within the period before the Listing Date.

(c) Maximum number of Share Stapled Units

(i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

(ii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011-2021 Option Scheme and any other share option schemes of HKT and the HKT Trust must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

(iii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of HKT and the HKT Trust must not, in aggregate, exceed 10% of the issued Share Stapled Units as at the Listing Date (the "**Scheme Mandate Limit**") unless the approval of Holders of Share Stapled Units has been obtained pursuant to paragraph (iv) below. Any options lapsed in accordance with the terms of the 2011-2021 Option Scheme or any other share option scheme of HKT and the HKT Trust shall not be counted for the purpose of calculating the Scheme Mandate Limit.

(iv) Subject to the further limitation in (i) above, the boards of directors of the Trustee-Manager and HKT may seek approval by Holders of Share Stapled Units in general meeting to renew the Scheme Mandate Limit. However, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of HKT and the HKT Trust in these circumstances must not exceed 10% of the issued Share Stapled Units at the date of approval of the renewed limit (the "**Renewed Scheme Mandate Limit**"), as required by the Listing Rules.

(v) Unless approved by the Holders of Share Stapled Units in the manner set out in this paragraph (v), the total number of Share Stapled Units issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options under the 2011-2021 Option Scheme) in any 12-month period must not exceed 1% of the issued Share Stapled Units. Where any further grant of options to an Eligible Participant would result in the total number of Share Stapled Units issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the issued Share Stapled Units as at the date of such further grant, such further grant must be subject to the separate approval of the Holders of Share Stapled Units at general meeting with such Eligible Participant and his associates abstaining from voting. A circular must be sent to the Holders of Share Stapled Units, disclosing the identity of the Eligible Participant, the number and the terms of the options previously granted and to be granted and containing the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the subscription price for Share Stapled Units) of the options to be granted to such Eligible Participant must be fixed before Holders of Share Stapled Units' approvals and the date of the meeting of the boards of directors of the Trustee-Manager and HKT for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under paragraph (b) above.

(d) Restrictions on grant of options

(i) No offer or the grant of an option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision of the boards of directors of the Trustee-Manager and HKT, until such price sensitive information has been announced in accordance with the relevant requirements of the Listing Rules and, in particular, no Eligible Participant shall be granted an option during the period commencing one month immediately preceding the earlier of:-

(1) the date of meeting of the boards of directors of the Trustee-Manager and HKT (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the annual results, the interim results or the quarterly or any other interim period results of HKT and the HKT Trust (whether or not required under the Listing Rules); and

(2) the deadline for HKT and the HKT Trust to publish announcement of its annual results, interim results or quarterly results under the Listing Rules or any other interim period results (whether or not required under the Listing Rules), and ending on the date of announcement for such results. For the avoidance of doubt, the period in which no options shall be granted mentioned above shall include any period of delay in the publications of a results announcement.

(ii) Any grant of options to a director of the Trustee-Manager and HKT, chief executive or any Holder of Share Stapled Units with an interest in Share Stapled Units constituting not less than

5% of all Share Stapled Units in issue or any of its associates must be approved by all of the independent non-executive directors of the Trustee-Manager and HKT (excluding any independent non-executive director of the Trustee-Manager and HKT who is the grantee of the options).

(iii) Where options are proposed to be granted to any Holder of Share Stapled Units with an interest in Share Stapled Units constituting not less than 5% of all Share Stapled Units in issue or an independent non-executive director of the Trustee-Manager and HKT or any of their respective associates, and the proposed grant of options would result in the total number of Share Stapled Units issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the total issued Share Stapled Units on the date of offer and having an aggregate value, based on the closing price of the Share Stapled Units on the date of each grant, in excess of HK$5 million, such further grant of options must be subject to the approval of Holders of Share Stapled Units taken on a poll in general meeting. In addition, the date of the meeting of the board of directors of the Trustee-Manager and HKT for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under paragraph (b) above. The connected person involved in such proposed grant and all other connected persons of HKT and the HKT Trust must abstain from voting in such general meeting (except that any connected person may vote against the proposed grant provided that his intention to do so has been stated in the Holders of Share Stapled Units' circular respectively). Holders of Share Stapled Units' circular must be prepared and sent by HKT and the Trustee-Manager, containing (1) details of the number and terms (including the subscription price) of the options to be granted to each participant, which must be fixed before the Holders of Share Stapled Units' meeting; (2) a recommendation from the independent non-executive directors of the Trustee-Manager and HKT (excluding a recommendation from the independent non-executive directors of the Trustee-Manager and HKT who are grantees of the options) to the independent Holders of Share Stapled Units as to voting; (3) the information required under Rules 17.02(2)(c) and (d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules; and (4) the information required under Rule 2.17 of the Listing Rules.

(e) Time of and restrictions on exercise of option

An option may be exercised in whole or in part in accordance with the terms of the 2011-2021 Option Scheme at any time during a period to be notified by the boards of directors of the Trustee-Manager and HKT to each grantee, the expiry date of such period not to exceed 10 years from the date of grant of the option.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the 2011-2021 Option Scheme. However, the boards of directors of the Trustee-Manager and HKT may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved before such options can be exercised as the boards of directors of the Trustee-Manager and HKT may determine in their absolute discretion.

(f) Assignment

Options granted under the 2011-2021 Option Scheme must be personal to the grantee, which shall not sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so. Any breach of the foregoing by the grantee shall entitle the Trustee-Manager and HKT to cancel any option granted to such grantee (to the extent not already exercised).

(g) Rights on cessation of employment by death

If the grantee of an option (being an individual) ceases to be an Eligible Participant by reason of death and none of the events set out in paragraph (i) below which would be a ground for the termination of his/her employment, directorship, appointment or engagement arises, his/her personal representative(s) may exercise the option up to the entitlement of the grantee as at the date of death (to the extent which has become exercisable but not already exercised) within a period of twelve (12) months from the date of death (or such longer period as the board of directors of the Trustee-Manager and HKT may determine or, if any of the events referred to in paragraphs (k), (l) and (m) below occurs during such period, his/her personal representative(s) may exercise the option pursuant to paragraphs (k), (l) and (m) below within such period), failing which the option will lapse.

(h) Right on winding up of, or material changes in, the grantee

If a grantee (being a corporation):

(i) commences winding up by whatever means, whether voluntarily or not; or

(ii) suffer a change in its constitution, management, directors, shareholding or beneficial ownership which in the opinion of the boards of directors of the Trustee-Manager and HKT is material, the option (to the extent not already exercised) shall lapse on the date of the commencement of winding up of the grantee or on the date of notification by the Trustee-Manager and HKT that the said change in constitution, management, directors, shareholding or beneficial ownership is material, as the case may be, and not be exercisable unless the boards of directors of the Trustee-Manager and HKT otherwise determine in which event the option (or such remaining part thereof) shall be exercisable within such period as the boards of directors of the Trustee-Manager and HKT may in their absolute discretion determine following the date of such occurrence. A resolution of the boards of directors of the Trustee-Manager and HKT resolving that the grantee's option has lapsed by reason of material change in the constitution, management, directors, shareholding or beneficial ownership as aforesaid shall be final and conclusive.

(i) Rights on dismissal of the grantee

If the grantee of an option ceases to be an Eligible Participant by reason of the termination of his employment, directorship, appointment or engagement on any one or more of the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally, or has breached or failed to comply with any provisions of the relevant service contract, letter of appointment or other contracts or agreements of the grantee with HKT or its relevant subsidiary for the employment, appointment or engagement, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the service contract or letter of appointment or other contract or agreement for employment, appointment or engagement of the grantee with HKT or the relevant subsidiary, his option (to the extent not already exercised) will lapse and not be exercisable on the date of termination of his employment, directorship, appointment or engagement. A resolution of the board of directors of HKT and the Trustee-Manager or the board of directors or governing body of the relevant subsidiary of HKT to the effect that the employment, directorship, appointment or engagement of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (i) shall be conclusive.

(j) Right on cessation of eligibility for other reasons

If the grantee of an option ceases to be an Eligible Participant for any other reason, the grantee may exercise the option up to his entitlement at the date of cessation (to the extent to which it has become exercisable but has not already been exercised) within three (3) months following the date of such cessation (or such longer period as the boards of directors of the Trustee-Manager and HKT may determine or, if any of the events referred to in paragraphs (k), (l) and (m) below occurs during such period, he may exercise the option pursuant to paragraphs (k), (l) and (m) below within such period), failing which the option will lapse. The date of cessation as aforesaid shall be the last working day with HKT or the relevant subsidiary, whether salary or compensation is paid in lieu of notice or not, or the last date of office or appointment as director, or the last date of appointment or engagement as consultant or adviser to HKT or the relevant subsidiary, as the case may be, in the event of which, the date of cessation as determined by a resolution of the boards of directors of the Trustee-Manager and HKT or the board of directors or governing body of the relevant subsidiary shall be conclusive.

(k) Rights on a general offer or a scheme of arrangement (if permitted)

If a general or partial offer, whether by way of take over offer, share repurchase offer, or otherwise in like manner is made to all the Holders of Share Stapled Units, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror or if there is proposed a scheme of arrangement, HKT and the Trustee-Manager shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, with appropriate changes; and assuming that they will become, by the exercise in full of the options granted to them (whether or not they have then become exercisable), Holders of Share Stapled Units. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to the Holders of Share Stapled Units, a grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Trustee-Manager and HKT in exercise of his option at any time up to the close of such offer (or any revised offer) or the record date for entitlements under a scheme of arrangement. Subject to the above, an option (to the extent not already exercised) will lapse automatically on the date on which such offer (or, as the case may be, revised offer) closes or the record date for entitlements under a scheme of arrangement.

(l) Rights on winding up

In the event that a notice is given to the Holders of Share Stapled Units to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up HKT and/or the HKT Trust, HKT and the Trustee-Manager shall on the same date as they dispatch such notice of the proposed general meeting to each Registered Holder of Share Stapled Units, give notice thereof to the grantee (or his personal representatives), who may, by notice in writing to HKT or the Trustee-Manager, as the case may be, (such notice to be received by HKT or the Trustee-Manager, as the case may be, not later than five (5) business days prior to the proposed general meeting) accompanied by a remittance/payment for the full amount of the aggregate subscription price for the Share Stapled Units in respect of which the notice is given, exercise the option (to the extent which it has become exercisable but has not already been exercised) either to its full extent or to the extent specified in such notice and HKT and the Trustee-Manager shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot and issue such number of Share Stapled Units to the grantee which falls to be issued on such exercise, credited as fully paid up and register the grantee as holder thereof. Any options shall, to the extent they have not been so exercised, lapse and determine.

(m) Rights on compromise or arrangement

If, pursuant to the Cayman Companies Law or other applicable law, a compromise or scheme of arrangement between HKT and its members and/or creditors is proposed for the purpose of or in connection with the reconstruction of HKT or its amalgamation with any other company or companies, the Trustee-Manager and/or HKT shall give notice thereof to all grantees (or to their personal representatives) on the same day as notice is given to the members or creditors of HKT summoning a meeting to consider such a compromise or scheme of arrangement. Upon receipt of the notice, the grantee may, during the period commencing on the date of the notice and ending on the earlier of:

(i) the date two calendar months thereafter; and

(ii) the date on which such compromise or arrangement is sanctioned by the court,

exercise his option (to the extent it has become exercisable but has not already been exercised), conditional upon the compromise or arrangement being sanctioned by the court and becoming effective. HKT may require the grantee to transfer or otherwise deal with the Share Stapled Units issued as a result of the exercise of the options in these circumstances so as to place the grantee in the same position as nearly would have been the case had such Share Stapled Units been subject to the compromise or arrangement. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been so exercised, lapse and terminate. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the 2011-2021 Option Scheme) as if such compromise or arrangement had not been proposed by HKT and no claim shall lie against the HKT Trust, the Trustee-Manager, HKT or any of its subsidiaries or any of their respective officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(n) Effects of alterations to share capital

In the event of any capitalisation of profits or reserves, rights issue or other similar offer of securities to Holders of Share Stapled Units, consolidation, subdivision, or reduction of the share capital of HKT or the Units in the HKT Trust in accordance with legal requirements and the requirements of the Stock Exchange (other than an issue of Share Stapled Units as consideration in respect of a transaction to which the HKT Trust, HKT and/or any of its subsidiaries is a party), the number or nominal amount of Share Stapled Units subject to the options granted pursuant to the 2011-2021 Option Scheme so far as unexercised and/or the subscription price or any combination thereof, shall be adjusted in such manner as the auditors for the time being of the HKT Trust and HKT or an independent financial adviser to be appointed by the HKT Trust and HKT for such purpose shall certify in writing to the boards of directors of the Trustee-Manager and HKT to be in their opinion fair and reasonable provided always that:

(i) no such alterations shall be made the effect of which would be to enable any Preference Share or Ordinary Share which is a component of a Share Stapled Unit to be issued at less than its respective nominal value;

(ii) such adjustments shall be made on the basis that the grantee shall have as nearly as possible the same proportion of the issued Share Stapled Units to which the grantee was entitled before such adjustments;

and in each case, any adjustment must be made in compliance with the Listing Rules (including Chapter 17 thereof), the supplemental guidance issued on 5 September 2005 and any further guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, the auditors for the time being of the HKT Trust and HKT or an independent financial adviser must confirm to the directors of the Trustee-Manager and HKT in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules and the relevant guidance or interpretation thereof.

(o) Ranking of Share Stapled Units

The Share Stapled Units to be issued and allotted upon the exercise of options granted under the 2011-2021 Options Scheme will be subject to all the provisions of the Trust Deed and HKT's articles of association for the time being in force and will rank pari passu in all respects with the fully paid Share Stapled Units in issue on the date on which Share Stapled Units are allotted to the grantee (or his personal representative(s)) (the "**Allotment Date**") and accordingly will entitle the holders to participate in all dividends or other distributions declared paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date is before the Allotment Date.

(p) Lapse of option

The right to exercise an option shall lapse automatically (to the extent not already exercised) immediately upon the earliest of:

(i) the expiry of the period referred to in paragraph (e) above;

(ii) the expiry of the periods referred to paragraphs (g), (h), (j), (k), (l) and (m) above;

(iii) subject to paragraph (l) above, the date of the commencement of the winding-up of HKT or the HKT Trust, as the case may be;

(iv) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his employment, directorship, appointment or engagement referred to in paragraph (i) above; and

(v) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option or attempts to do so in breach of the 2011-2021 Option Scheme.

(q) Period of the 2011-2021 Option Scheme

Subject to the fulfillment of the conditions of the 2011-2021 Option Scheme and the earlier termination by an Ordinary Resolution of HKT Trust in general meeting of Registered Holders of Share Stapled Units or resolutions of the boards of directors of the Trustee-Manager and HKT, the 2011-2021 Option Scheme shall be valid and effective for a period of ten (10) years commencing from the adoption date, after which period no further options will be offered or granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2011-2021 Option Scheme.

(r) Alteration to the 2011-2021 Option Scheme and the terms of options granted under the 2011-2021 Option Scheme

All provisions of the 2011-2021 Option Scheme may, subject to the Listing Rules, be altered from time to time in any respect by resolutions of the boards of directors of the Trustee-Manager and HKT save that the following alterations shall require the prior sanction of an Ordinary Resolution of Registered Holders of Units in a general meeting of the Registered Holders of Share Stapled Units (with all grantees, prospective grantees and their associates abstaining from voting and the votes taken by poll):

(i) any alterations of the provisions relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantee or the Eligible Participants;

(ii) any alterations of the terms and conditions of the 2011-2021 Option Scheme which are of a material nature or any change to the terms of options granted under the 2011-2021 Option Scheme (except where the alterations take effect automatically under the existing terms of the 2011-2021 Option Scheme); and

(iii) any change to the authority of the boards of directors of the Trustee-Manager and HKT in relation to any alteration to the terms of the 2011-2021 Option Scheme.

No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Registered Holders of Share Stapled Units under the Trust Deed, for the time being for a variation of the rights attached to the Share Stapled Units. Any amended terms of the 2011-2021 Option Scheme or options shall still comply with the relevant requirements of Chapter 17 of the Listing Rules (subject to such waiver as may be granted by the Stock Exchange from time to time).

In respect of any meeting of the grantees which may be held for this purpose, all the provisions of the constitutional documents for the time being of the HKT Trust and HKT as to general meetings of the Registered Holders of Share Stapled Units shall mutatis mutandis apply as though the options were a class of Share Stapled Units except that:

(i) not less than seven (7) day's notice of such meeting shall be given;

(ii) a quorum at any such meeting shall be two (2) grantees present in person or by proxy and holding options entitling them to the issue of one-tenth in nominal value of all Share Stapled Units which would fall to be issued upon the exercise of all options then outstanding unless there is only one grantee holding all options then outstanding, in which case the quorum shall be one grantee;

(iii) every grantee present in person or by proxy at any such meeting shall be entitled on show of hands to one vote, and on a poll to one vote for each Share Stapled Unit to which he would be entitled upon exercise in full of his options then outstanding;

(iv) any grantee present in person or by proxy may demand a poll; and

(v) if any such meeting is adjourned for want of a quorum, such adjournment shall be to such date and time, not being less than seven (7) or more than fourteen (14) days thereafter, and to such place as may be appointed by the chairman of the meeting. At any adjourned meeting those grantees who are then present in person or by proxy shall form a quorum and at least seven (7) days' notice of any adjourned meeting shall be given in the same manner as for an original meeting and such notice shall state that those grantees who are then present in person or by proxy shall form a quorum.

Where there is any proposed change to the terms of any options granted to a connected person of the HKT Trust and/or HKT who is also a Holder of Share Stapled Units with an interest in Share Stapled Units constituting not less than 5% of all Share Stapled Units in issue or an independent non-executive director of the Trustee-Manager or HKT, or any of their respective associates (except where the change takes effect automatically under the existing terms of the 2011-2021 Option Scheme), then the proposed change must be subject to the approval of the Registered Holders of Share Stapled Units taken on a poll at a general meeting of the Registered Holders of Share Stapled Units and to such other requirements of the Listing Rules. The connected person involved in such proposed change and all other connected persons of the HKT Trust and HKT must abstain from voting in such general meeting (except that any connected person may vote against the proposed change provided that his intention to do so has been stated in the circular). Holders of Share Stapled Units' circulars must be prepared and sent by the Trustee-Manager and HKT explaining the proposed change and disclosing the original terms of the options, and containing a recommendation from the independent non-executive directors of the Trustee-Manager and HKT (excluding independent non-executive directors of the Trustee-Manager and HKT who are the holder of the options the terms of which are to be changed) on whether or not to vote in favour of the proposed change and containing such other information as is required under the Listing Rules.

(s) Administration of the 2011-2021 Option Scheme

The 2011-2021 Option Scheme shall be administered by the boards of directors of the Trustee-Manager and HKT.

Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the boards of directors of the Trustee-Manager and HKT may determine in their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the 2011-2021 Option Scheme.

(t) Termination of the 2011-2021 Option Scheme

The Registered Holders of Share Stapled Units by Ordinary Resolution of Registered Holders of Units, in general meeting of the Registered Holders of Share Stapled Units, or by resolutions passed by the boards of directors of the Trustee-Manager and HKT may at any time terminate the operation of the 2011-2021 Option Scheme and in such event no further options shall be offered but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects in respect of any options granted prior thereto but not yet exercised at the time of termination. Upon such termination, details of the options granted, including options exercised or outstanding shall be disclosed in the circular to Holders of Share Stapled Units seeking approval of the first new scheme to be established after such termination.

(u) Cancellation of Options

Subject to paragraph (f) above, any cancellation of options granted but not exercised shall be approved by the boards of directors of the Trustee-Manager and HKT. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the 2011-2021 Option Scheme and the requirements of the Listing Rules and provided further that new options may be issued to a grantee in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the Scheme Mandate Limit or the Renewed Scheme Mandate Limit.

Any reference to the "boards of directors of the Trustee-Manager and HKT" above shall include duly authorised committees of the boards of directors of the Trustee-Manager and HKT.

2. Present status of the 2011-2021 Option Scheme

The 2011-2021 Option Scheme is conditional on:-

(a) the Listing Committee of the Stock Exchange granting (i) approval of the listing of, and permission to deal in, the Share Stapled Units in issue and to be issued as mentioned in the Prospectus (including the Share Stapled Units which may fall to be issued pursuant to the exercise of options granted under the 2011-2021 Option Scheme) and (ii) if so required by the Stock Exchange, approval of the 2011-2021 Option Scheme and the grant of options thereunder;

(b) the obligations of the Underwriters under the underwriting agreements to be entered into between, among others, the Trustee-Manager and the Underwriters in respect of the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise; and

(c) commencement of dealings in the Share Stapled Units on the Main Board of the Stock Exchange.

As at the date of this circular, no option has been granted or agreed to be granted under the 2011-2021 Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the 2011-2021 Option Scheme and the subsequent granting of options under the 2011-2021 Option Scheme and for the listing of, and permission to deal in, the Share Stapled Units which may fall to be issued pursuant to the exercise of the options to be granted under the 2011-2021 Option Scheme.

SHARE STAPLED UNITS AWARD SCHEMES

HKT proposes to adopt two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme.

The two Share Stapled Units Award Schemes will be on similar terms and will be conditionally adopted by HKT, pursuant to resolutions of the Board, as a potential means to incentivise and reward:

in the case of the HKT Share Stapled Units Purchase Plan:

(a) any full-time or part-time employees of HKT and/or any subsidiary;

(b) any director (including executive, non-executive and independent non-executive director) of HKT and/or any subsidiary; and

(c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any subsidiary who, at the sole determination of the boards of directors of the Trustee-Manager and HKT, have contributed or will contribute to HKT and/or any subsidiary; and

in the case of the HKT Share Stapled Units Subscription Plan:

the same group of potential eligible participants as referred to above except for any directors of HKT and/or any other connected persons of HKT.

The Share Stapled Units Award Schemes will be administrated by the board of directors of HKT and an independent trustee, yet to be appointed (the "**Trustee**"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Awards may be made by the boards of directors of HKT or any duly appointed committee or sub-committee, such as the Remuneration Committee of HKT and, in the case of Share Stapled Units that fail to vest in any selected participant, may be made by the Trustee, having taken into consideration the recommendations of the board of directors of HKT.

The following is a summary of the anticipated principal terms of the Share Stapled Units Award Schemes, which are on similar terms, save as described below. The terms of the Share Stapled Units Award Schemes have yet to be settled with the Trustee and may accordingly vary from the description below.

1 Proposed terms of the Share Stapled Units Award Schemes

(a) Who may join

The eligible participants who may be selected for awards under the respective Share Stapled Units Award Schemes (each a "**Selected Eligible Participant**") are identified in the introduction to these schemes set out above. The reason why directors of HKT or any subsidiary (or any other connected persons) are excluded from participation in the HKT Share Stapled Units Subscription Scheme is to avoid the connected transactions that would otherwise arise on the allotment of new Share Stapled Units to the Trustee to be held on trust for such directors (or other connected persons).

(b) How the awards are made

In the case of the Share Stapled Units Purchase Scheme, the board of directors of HKT may either (i) set aside a sum of money or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The board of directors of HKT must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units, as the case may be, (the "**Referable Amount**") to the Trustee (or as it shall direct) from the Telecommunications Group's resources. Within 15 business days of receiving the Referable Amount, the Trustee will apply the same towards the purchase of the relevant Share Stapled Units on the Stock Exchange. In the case where the Referable Amount is not specifically linked to a pre-determined number of Share Stapled Units, the Trustee will purchase the maximum number of Share Stapled Units possible from the Referable Amount at the time of purchase, taking into account all costs and expenses associated with such a purchase (including but not limited to stamp duty and brokerage charges).

In the case of the Share Stapled Units Subscription Scheme, the board of directors of HKT will determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The board of directors of HKT must then pay (or cause to be paid) an amount (the "**Referable Amount**") sufficient to subscribe that number of Share Stapled Units at the Specified Price. The Referable Amount (together with the amount necessary to cover all related costs and expenses of the Trustee associated with the subscription) shall be paid to the Trustee (or as it shall direct) from the Telecommunications Group's resources. At the same time HKT shall submit, as soon as practicable, an application to the Stock Exchange for the listing of, and permission to deal in, such Share Stapled Units (including the Units, Preference Shares and Ordinary Shares comprised therein). Within 15 business days of receiving the Referable Amount, the Trustee will apply the same towards the subscription of the awarded Share Stapled Units at the Specified Price, provided always that no Share Stapled Units shall be allotted in respect of such subscription unless and until HKT shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Share Stapled Units (including the Units, Preference Shares and Ordinary Shares comprised therein). The allotment to be approved by the board of directors of HKT will be subject to such Stock Exchange approval. For these purposes, the '**Specified Price**' means the price determined by HKT in conjunction with the Trustee-Manager as being the higher of:

(i) the closing price of the Share Stapled Units on the Stock Exchange on the trading day immediately preceding the relevant award date; and

(ii) the average of the closing prices of the Share Stapled Units on the Stock Exchange in the ten (10) trading days immediately prior to the earlier of:

  (1) the date of announcement (if applicable) of the proposed allotment of the relevant Share Stapled Units pursuant to an award under the Scheme;

  (2) the relevant award date; and

  (3) the date on which the allotment price for the relevant Share Stapled Units is otherwise fixed.

It should be noted that, other than satisfying any vesting conditions, the Selected Eligible Participant is not required to provide any consideration in order to acquire the Share Stapled Units awarded to him or her. Rather, it is HKT's responsibility to fund or procure funding of the relevant consideration, subject to due compliance with all relevant laws, rules, and regulations governing the provision of financial assistance by HKT for the acquisition of its own shares.

In the case of both Share Stapled Units Award Schemes, the board of directors of HKT or the Trustee (as the case may be) is entitled to impose any conditions it deems appropriate with respect to the entitlement of a Selected Eligible Participant to the award of Share Stapled Units, including a schedule as to the vesting of the Share Stapled Units, and a requirement that any Selected Eligible Participant who is an employee of or consultant to HKT or any subsidiary remains, at all times after the award date and on the relevant vesting date an employee of or consultant to HKT or any subsidiary.

Where Share Stapled Units which are referable to a Selected Eligible Participant do not vest or are not taken up by the Selected Eligible Participant in accordance with the procedures set out in the relevant scheme rules, the Trustee shall hold those Share Stapled Units and any income deriving therefrom exclusively for the benefit of all or one or more of the eligible participants under the relevant Share Stapled Units Award Scheme as the Trustee, in its absolute discretion, shall appoint, after having taken into consideration the recommendation of the board of directors of HKT.

(c) Maximum number of Share Stapled Units

Under the HKT Share Stapled Units Purchase Scheme, no sum of money shall be set aside and no Share Stapled Units shall be purchased nor any amounts paid to the Trustee for the purpose of making such a purchase, if, as a result of such purchase, the number of Share Stapled Units administered under the scheme would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, provided that Share Stapled Units which have been transferred to Selected Eligible Participants upon vesting shall be left out of account when ascertaining such amount.

Under the HKT Share Stapled Units Subscription Scheme, no sum of money shall be set aside and no Share Stapled Units shall be subscribed pursuant to the Scheme, nor any amounts paid to the Trustee for the purpose of making such a subscription:

(i) if, as a result of such subscription, the number of Share Stapled Units administered under the Scheme would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, provided that Share Stapled Units which have been transferred to Selected Eligible Participants upon vesting shall be left out of account when ascertaining such amount; or

(ii) if, as a result of such subscription, PCCW's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme of the HKT Trust and HKT, and all other rights or entitlements granted by HKT concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or

(iii) if, HKT does not have a relevant general mandate or specific mandate from the holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the Scheme.

(d) Application of the Model Code and the Listing Rules

No payment shall be made to the Trustee and no instructions to acquire or subscribe Share Stapled Units shall be given to the Trustee under the relevant scheme where any member of the board of directors of HKT is in possession of unpublished price sensitive information in relation to HKT or the HKT Trust or where dealings by directors are prohibited under the Model Code for Securities Transactions by Directors of Listed Companies as set out in the appendices to the Listing Rules or any applicable laws or regulation or any internal code of conduct in securities dealings adopted by HKT from time to time.

In respect of the operation of each Share Stapled Units Award Scheme, HKT shall comply with all applicable disclosure regulations including without limitation those imposed by the Listing Rules.

(e) Takeovers

If an offer by way of takeover, merger, scheme of arrangement or otherwise is made to all the holders of Share Stapled Units (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional (i.e. all conditions to which such transaction is subject have been satisfied) prior to the vesting of Share Stapled Units in the Selected Eligible Participant pursuant to either of the Share Stapled Units Award Schemes, then, notwithstanding any timetable for vesting determined by the board of directors of HKT or the Trustee, such Share Stapled Units shall immediately so vest.

(f) Duration and termination

Unless terminated earlier, each of the Share Stapled Units Award Schemes shall be valid and effective for a term of 10 years commencing from the date of adoption.

In the case of either of the Share Stapled Units Award Schemes, the board of directors of HKT may by resolution terminate the operation of the scheme at any time provided that such termination shall not affect any subsisting rights of any Selected Eligible Participant hereunder and provided further that if, at the date of such termination, the Trustee holds Share Stapled Units which it has not designated in favour of any particular Eligible Participant(s), then the Trustee shall within 21 business days of receiving notice of such termination, sell such Share Stapled Units and remit the proceeds of sale (after making appropriate deductions in respect of stamp duty and other costs, liabilities and expenses) to HKT.

(g) Alterations

Either of the Share Stapled Units Award Schemes may be altered in any respect by a resolution of the board of directors of HKT provided that no such alteration shall operate to affect adversely any subsisting rights of any Selected Eligible Participant under the relevant scheme except with:

(i) the consent in writing of Selected Eligible Participants on whose behalf an aggregate number of Share Stapled Units are held by the Trustee on the date on which such consent is obtained amounting to three-fourths in nominal value of all Share Stapled Units so held by the Trustee on that date under the relevant scheme; or

(ii) the sanction of a special resolution passed at a meeting of the Selected Eligible Participants to whom awards have been made under the relevant scheme.

To any such meeting of Selected Eligible Participants referred to above, the provisions of the Trust Deed and the articles of association of HKT as to general meetings of the HKT Trust and HKT shall mutatis mutandis apply as though the Share Stapled Units then held by the Trustee on behalf of Selected Eligible Participants were a separate class of Share Stapled Units except that:

(i) not less than 5 days' notice of such meeting shall be given;

(ii) a quorum at any such meeting shall be two Selected Eligible Participants present in person or by proxy and on whose behalf an aggregate number of Share Stapled Units are held by the Trustee amounting to three-fourths in nominal value of all Share Stapled Units so held by the Trustee on that date;

(iii) every Selected Eligible Participant present in person or by proxy at any of such meeting shall be entitled on a show of hands to one vote, and on a poll, to one vote for each Share Stapled Unit then held on his behalf by the Trustee (but for the avoidance of doubt excluding for this purpose any such Share Stapled Units in respect of which that date is a Vesting Date);

(iv) any Selected Eligible Participant present in person or by proxy may demand a poll; and

(v) if any such meeting is adjourned for want of a quorum, such adjournment shall be to such date and time, not being less than 7 or more than 14 days thereafter, and to such place as may be appointed by the chairman of the meeting. At any adjourned meeting those Selected Eligible Participants who are then present in person or by proxy shall form a quorum and at least 7 days' notice of any adjourned meeting shall be given in the same manner as for an original meeting and such notice shall state that those Selected Eligible Participants who are then present in person or by proxy shall form a quorum.

(h) Rights pending vesting

A Selected Eligible Participant is afforded the right to receive dividend(s) that are declared in respect of the Share Stapled Units awarded to him the record date for which dividend(s) falls on or after the relevant Vesting Date. Prior to that, all dividends received on such Share Stapled Units are held by the Trustee on trust for all or such one or more of the Selected Eligible Participants as the board of directors of HKT may decide, subject to the following point. The Trustee has the discretion to apply the income of the trust fund, which would include dividends received, towards the acquisition or subscription of Share Stapled Units under the relevant scheme, to be held on trust for Selected Eligible Participant(s) chosen by the board of directors of HKT (whereupon the amount to be paid by HKT to the Trustee in respect of such Selected Eligible Participant(s) would be reduced accordingly). In any event, dividends paid on Share Stapled Units pending vesting are not treated as HKT assets.

Pending vesting of the relevant Share Stapled Units in favour a Selected Eligible Participant, all voting rights attaching to those Share Stapled Units (or the Ordinary Shares or Preference Share comprised thereon) are exercisable at the complete discretion of the Trustee.

2 Present status of the Share Stapled Units Award Schemes

Each of the Share Stapled Units Award Schemes remains conditional on: -

(i) the appointment of the Trustee and settling the terms of Share Stapled Units Award Schemes with the Trustee;

(ii) the approval of the Share Stapled Units Award Schemes by the boards of directors of HKT and the Trustee-Manager;

(iii) the Listing Committee granting (a) approval of the listing of, and permission to deal in, the Share Stapled Units in issue and the Share Stapled Units to be issued as mentioned in this circular; and (b) if so required by the Stock Exchange, approval of the relevant scheme;

(iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver of any condition(s)) and not being terminated in accordance with its terms or otherwise; and

(v) the commencement of dealings in the Share Stapled Units on the Main Board of the Stock Exchange.

As at the date of this circular, no awards have been made or agreed to be made under either of the Share Stapled Units Award Schemes.

A. OVERVIEW

Prior to the Listing Date, members of the Telecommunications Group have entered and will enter into various continuing transactions with various members of the Remaining Group. The details of those transactions are set out in the following sections of this Appendix VII. Those transactions are continuing connected transactions for the Telecommunications Group and will be described as such in the Prospectus. The transactions are not connected transactions for PCCW, because HKT is a consolidated subsidiary of PCCW, the HKT Trust is majority owned and controlled by PCCW and no connected person of PCCW holds 10% or more of the Share Stapled Units.

The following table briefly summarises the nature of the continuing transactions (excluding for these purposes continuing transactions which are connected transactions for the HKT Trust and HKT under the Listing Rules but which are exempt from shareholders' approval and disclosure and also excluding transactions involving the on-going provision of financial assistance; which are described in sections D and F, respectively, below) together with the historical value of the transactions and the proposed annual caps to be imposed on the Telecommunications Group for the current and the next two financial years.

All the caps below to be imposed on the Telecommunications Group are indicative for shareholders' information only at this stage and subject to approval by the Stock Exchange in the context of the Listing. The caps are therefore subject to change. The definitive caps will be set out in the Prospectus in the section headed "Connected Transactions".

Transaction nature	**Historical amounts**		**Proposed Annual Cap**	
	Year ended 31 December	**HK$ million**	**Year ended 31 December**	**HK$ million**
Services and floor space supplied by the Telecommunications Group to the Media Group	2008	108.2	2011	386.5
	2009	314.2	2012	502.6
	2010	331.8	2013	560.3
Services supplied by the Media Group to the Telecommunications Group	2008	64.5	2011	878.9
	2009	441.0	2012	1,008.3
	2010	679.5	2013	1,069.1
Services and floor space supplied by the Telecommunications Group to the Solutions Group	2008	9.5	2011	58.9
	2009	51.8	2012	104.5
	2010	49.1	2013	154.4

Transaction nature	Historical amounts		Proposed Annual Cap	
	Year ended 31 December	HK$ million	Year ended 31 December	HK$ million
Services supplied by the Solutions Group to the Telecommunications Group	2008	145.7	2011	684.7
	2009	621.0	2012	826.2
	2010	555.6	2013	920.0
The provision of corporate shared services	2008	16.6	2011	156.9
	2009	170.3	2012	164.0
	2010	150.2	2013	171.4
The provision of marketing and promotion services	2008	—	2011	48.5
	2009	45.8	2012	50.4
	2010	46.4	2013	52.4
Licensing agreement (PCCW Tower)	2008	10.2	2011	103.9
	2009	98.2	2012	128.5
	2010	103.9	2013	128.5

B. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Telecommunications Group has not entered into any continuing connected transactions which would ordinarily be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

C. CONTINUING CONNECTED TRANSACTIONS FOR THE HKT TRUST AND HKT WHICH ARE EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

The Telecommunications Group will enter into the following continuing connected transactions which would ordinarily be exempt from the independent shareholders' approval requirement but would be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

Services and floor space supplied by the Telecommunications Group to the Media Group

(1) The provision of carriage services

Principal terms

Hong Kong Telecommunications (HKT) Limited, a member of the Telecommunications Group, and PCCW Media Limited, a member of the Media Group, have agreed to enter into a carriage services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited will provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television service to its customers.

The agreement will have an initial term from 1 January 2011 to 31 December 2013 and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires.

The agreement will provide for certain service specifications (including 1.1 million lines and bandwidth capability) denoting an agreed capacity which, if operated within, does not require the Media Group to pay additional fees on top of the annual service fee, initially set at HK$138.2 million. The annual service fee will be determined on the basis of marginal cost charging. Under this mechanism, the incremental costs (i.e. incremental to the 'sunk' historic cost of the Telecommunications Group's existing network) of the various services needed to deliver the overall carriage service will be determined, in some cases, on the basis of comparing transaction charges with those of broadly comparable independent companies and, in other cases, on a cost-plus methodology. From these various components, an annual service fee will be calculated and agreed.

The agreement will provide that the Media Group is entitled to enjoy the benefit of unilateral enhancements to the network, as made by the Telecommunications Group, without additional charge for so long as the Media Group keeps below the maximum agreed capacity. However, any additional capacity enhancements requested by the Media Group, as might arise out of a proposed annual review process, would result in an increase in the annual service fee. The amount of the fee increase would depend upon the relevant aspect of the carriage service requiring to be enhanced. Thus, an increase in line or channel transmission capacity would require the Media Group to contribute to the additional expenditure required; whereas a requested increase in field services would be calculated on an additional cost-plus basis.

In a similar vein, the agreement will provide that the Media Group will be entitled, out of the annual review process, to call for a capacity reduction. However no reduction is allowed for lines and/or channel transmission capacity. In this context, the annual service fee would be reduced to the extent that the relevant component of the service necessary to deliver the reduction was, in essence, a 'manpower' issue or one otherwise specifically identifiable to the Media Group's reduced needs (e.g. as to the budgeting of access into and exit from the Telecommunications Group network, so called server end links/local connectivity links). However, to the extent that the Media Group were to underutilise its agreed number of lines or channel capacity, the related element of the annual service fee would not be reduced.

Historical transaction record

The agreement will reflect the basis upon which the Media Group has been charged for the provision of carriage services over the past two financial years, namely the marginal cost mechanism as mentioned above. The fees paid by the Media Group to the Telecommunications Group were HK$131.2 million and HK$135.9 million for the years ended 31 December 2009 and 31 December 2010, respectively.

Prior to 1 January 2009, the basis upon which the Media Group paid for carriage services was different and not directly comparable. Back then, the carriage services fee paid by the Media Group was based on OFTA-published tariff rates with a volume discount. The related fee received by the Telecommunications Group in 2008 following completion of the 2008 Restructuring was HK$78.0 million.

Annual caps

The parties have agreed the following annual caps in respect of the aggregate value of the services to be provided by Hong Kong Telecommunications (HKT) Limited to the Media Group under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	172.7
2012	256.5
2013	296.7

The caps have been determined based on the estimated incremental costs (including the labour costs, the supply of telecommunications lines and exchange spaces) of the provision of relevant carriage services, and also reflects the expected increase in usage demand from the Media Group.

Reasons for the increase in the proposed annual caps

For the provision of carriage services the annual service fee is calculated based on the number of IP multicast ("**IPMC**") enabled broadband access lines installed at a fixed rate per month for a maximum agreed capacity of up to 1.1 million lines. For the year ended 31 December 2010, the number of IPMC enabled broadband access lines installed was 0.92 million lines, charged at an average monthly rate of approximately HK$12.5 per line. In cases where the capacity installed exceeds the maximum agreed capacity, the Media Group is required to pay additional fees to reimburse Hong Kong Telecommunications (HKT) Limited for any incremental capital expenditure required to build the additional lines requested at a pre-agreed required rate of return on investment plus a fixed annual maintenance charge, which is estimated to be approximately HK$40 per month for each access line that exceeds the maximum agreed capacity of 1.1 million lines. The average monthly rate will increase by 4.5%, 4.0% and 4.0% in 2011, 2012 and 2013, respectively, in accordance with the Consumer Price Index ("CPI") annual growth factors forecasted by Bloomberg as of June 2011. HKT expects that there will be a 10%, 5% and 5% annual increase in the number of IPMC enabled broadband access lines in 2011, 2012 and 2013 respectively in anticipation of the growth in usage demand from the Media Group. From 2012, in addition to the increase in access lines, network capacity will be made available to Media Group as well at a charge of HK$86.0 million per annum. This is based on a 20% return on investment and 20% annual maintenance cost on the investment of approximately HK$360 million.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The carriage services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped value of the annual services to be provided to the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(2) The provision of marketing and sales services

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into a marketing and sales services agreement, pursuant to which, Hong Kong Telecommunications (HKT) Limited will market and sell Media Group products and services through the Telecommunications Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service.

Although the Media Group has its own dedicated sales team, the marketing and sale of the Media Group's products and services by the Telecommunications Group's sales team and the provision of a unified call-centre support service, are seen by both parties as important in providing a one-stop shop to both group's customers (taking into account the reciprocal arrangement referred to in paragraph (6) below).

The sales commission (i.e. the commission that the Telecommunications Group earns from the successful sale of the Media Group's products or services) will be at a market rate, based on attaining certain service levels and sales targets, will be agreed annually in advance, and is capable of being benchmarked against the commissions offered by external sales agents. In addition to sales commission, call centre inbound and outbound telephone sales calls and customer and technical service calls made by the Telecommunications Group, will be charged on a cost plus basis.

There will be a reciprocal marketing and sales services agreement, on like terms, governing sales by the Media Group's dedicated sales staff of the Telecommunications Group's products and services. The Media Group earns a percentage share of revenues, based on market rates, arising from the cross-sale, by its front-line (i.e. on the street) sales team, of the Telecommunications Group's products and services, subject to the same market rate credits and rebates on attaining or failing to obtain agreed targets or service levels.

The agreement will have an initial term from 1 January 2011 to 31 December 2013 and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires.

Historical transaction record

The fees (inclusive of sales commissions) paid by the Media Group to the Telecommunications Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$ 25.5 million, HK$144.8 million and HK$160.0 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid by the Media Group after its formation out of the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the revenues to be derived from (and therefore, in effect, a cap on the value of) the marketing and sales services to be provided to the Media Group under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	170.6
2012	193.2
2013	206.6

The caps have been determined on the following bases:

(a) the historical figures for running these services for the Media Group;

(b) the estimated level of services required by the Media Group; and

(c) the proposed sales and marketing plan.

Reasons for the increase in the proposed annual caps

The Telecommunications Group provides marketing and sales services to the Media Group through its direct marketing staff, front-line (i.e. on the street) sales teams, shops and a unified call-centre support service:

(a) Direct marketing and front-line sales team services are charged based on the number of sales orders achieved with certain pre-agreed price plan level, at a market rate per order which is benchmarked against the commissions offered by external sales agents. For the year ended 31 December 2010, the average number of monthly sales orders meeting the pre-agreed price plan was approximately 2,600 orders, charged at an average commission rate of approximately HK$870.0 per order. As the Media Group has established its own dedicated sales force since late 2010, HKT expects there will be a reduced reliance on Hong Kong Telecommunications (HKT) Limited's direct sales team which will lead to an approximately 40% reduction in the number of sales orders sold through by Hong Kong Telecommunications (HKT) Limited's direct sales team in 2011. The number of sales orders is expected to increase by 10% and 5% annually in 2012 and 2013 respectively. The average commission per order will be adjusted by the CPI annual growth factor forecasted by Bloomberg.

(b) Retail shops sales team services are charged on a revenue-sharing basis, based on the total contract revenues cross-sold by the shop sales team during the year. For the year ended 31 December 2010, total contract revenues cross-sold was approximately HK$260.0 million, charged at an average commission rate of approximately 12%. Total contract revenues cross-sold is expected to increase by 10%, 10% and 5% annually in 2011, 2012 and 2013 respectively. The average commission rate will be adjusted by the CPI annual growth factor forecasted by Bloomberg.

(c) The unified call-centre support service is charged at a range of monthly rates which varies depending on the percentage of service levels attained as governed by the service level contract entered into between the Telecommunications Group and the Media Group. For the year ended 31 December 2010, the average monthly service levels attained was approximately 80% based on pre-agreed service level targets, charged at an average monthly rate of approximately HK$8.4 million. HKT expects service levels to increase to 90%, 100% and 100% of the pre-agreed service level targets in 2011, 2012 and 2013 respectively. The average monthly rate will be further adjusted by 4.5%, 4.0% and 4.0% in 2011, 2012 and 2013, respectively, in accordance with the CPI annual growth factors forecasted by Bloomberg as of June 2011.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The marketing and sales services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped revenues for the annual services to be provided to the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(3) The provision of internal (specialist telecom) services

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into an internal (specialist telecom) services agreement, pursuant to which, Hong Kong Telecommunications (HKT) Limited will procure that relevant members of the Telecommunications Group provide to the Media Group a range of specialised support services that are integral to the operation of the Media Business.

In summary these services principally comprise:

- the provision of IPLC;
- maintenance services in respect of the Media Group's PABX (telephone) and other technological office systems;
- the provision of 'office use' business, mobile, data and fax lines;
- the provision of 'office use' broadband lines; and
- the provision of application development for the Media Group's set-top boxes.

The charges for these services will be at market rate. The term of the agreement will be for three years, effective from 1 January 2011 to 31 December 2013. The services are provided by the Telecommunications Group in the ordinary course of its business given that it is a leading provider of such services in Hong Kong.

Historical transaction record

The fees paid by the Media Group to the Telecommunications Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$2.3 million, HK$19.3 million and HK$17.1 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid by the Media Group after its formation out of the 2008 Restructuring.

Annual caps

The parties have agreed to the following annual caps in respect of the revenues to be derived from (and therefore, in effect, a cap on the value of) the services to be provided to the Media Group under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	26.0
2012	29.9
2013	33.3

The caps have been determined on the following bases:

(a) the historical figures for running these services for the Media Group;

(b) the estimated level of services required by the Media Group; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The provision of internal (specialist telecom) services are generally charged based on the actual service usage (e.g. number of IPLC rented from the Telecommunications Group, number of broadband lines used, number of technological office systems in place), charged at market rates. HKT expects the usage level to remain constant over the next three years ending 31 December 2013, except for the provision of IPLC where an expected four, five and six additional circuits will be rented from the Telecommunications Group in 2011, 2012 and 2013 respectively driven by the increase in demand from the Media Group. The monthly rate will be approximately HK$66,200 per additional circuit in 2011 and will be further adjusted annually by 4.0% in both 2012 and 2013, in accordance with the CPI annual growth factors forecasted by Bloomberg as of June 2011.

HKT also expects the costs in association with the provision of application development for the Media Group's set-top boxes to grow from HK$7.0 million in the year ended 31 December 2010 to HK$9.7 million, HK$11.1 million and HK$12.7 million in 2011, 2012 and 2013, respectively.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The internal (specialist telecom) services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped revenues for the annual services to be provided to the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(4) Licensed access to floor space

Principal terms

Pursuant to a licence to be entered into prior to the Listing Date, members of the Media Group will be afforded certain limited access rights to floor space at a number of the PTG Telephone Exchanges. The licence will be for a fixed term expiring on 31 December 2013, although can be terminated earlier by either party on written notice and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires. The licence fees will be paid to Hong Kong Telecommunications (HKT) Limited pursuant to the arrangements described in paragraph (21) below.

Historical transaction record

The aggregate annual licence and related fees paid by the Media Group to Hong Kong Telecommunications (HKT) Limited during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$2.4 million, HK$18.9 million and HK$18.8 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid in the last two months of the year, following the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the licence and related fees payable by the Media Group to Hong Kong Telecommunications (HKT) Limited under the agreement:

Year ending 31 December	Annual cap (HK$ million)
2011	17.2
2012	23.0
2013	23.7

The caps reflect the actual licence fees payable and estimates of related expenses.

Reasons for the increase in the proposed annual caps

The license and related fees are charged based on the area occupied by the Media Group at various PTG Telephone Exchanges, at a monthly rate per square foot which can be benchmarked against market rates. For the year ended 31 December 2010, the total area occupied by the Media Group was approximately 93,000 square feet, charged at an average monthly rate of approximately HK$16.0 per square foot. HKT expects that the floor space occupied by the Media Group will reduce to approximately 75,000 square feet but with the average monthly rate increasing to approximately HK$19.1 per square foot due to a different mix of occupied area in 2011. In 2012, HKT expects that the floor space occupied by the Media Group to increase by 70% to cope with the planned business expansion with the average monthly rate slightly reduced to HK$18.3 per square foot due to the relatively lower unit price of the new area. No further changes in floor space occupancy are expected for other years and the average monthly rate in 2013 will be increased by 4.0%, in accordance with the CPI annual growth factor forecasted by Bloomberg as of June 2011.

Application of the Listing Rules

As the Media Group is within the Remaining Group, the licence constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped amounts payable by the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

Aggregation of services or fees in respect of paragraphs (1) to (4) above:

On an aggregated annual basis for 2011, the capped amounts in respect of the services provided or fees payable described in paragraphs (1) to (4) above result in percentage ratios (other than the profits ratio) of less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Accordingly, even on an aggregated basis for 2011, the transactions described above would be exempt from the independent shareholders' approval requirement of the Listing Rules.

Services supplied by the Media Group to the Telecommunications Group

(5) Service packaging arrangements

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into a service packaging agreement. The agreement will comprise two aspects:

- a mutual commitment to package the Telecommunications Group's products and services and the Media Group's products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and

- a commitment by the Media Group to provide customers of the Telecommunications Group with certain content services and products, the composition of which is agreed between the parties from time to time ("**Service Premiums**").

The agreement will be for a three-year term effective from 1 January 2011 to 31 December 2013.

Hong Kong Telecommunications (HKT) Limited will be required, depending upon the Service Premiums sought, to pay to the Media Group (or procure payment of) an agreed lump sum or a minimum guaranteed amount and/or a per subscriber fee, in each case, capable of being benchmarked against the monthly rate which the Media Group charges its own retail subscribers to view the 'now TV' services, including set-top-box rental plus channel subscription fees, and is open for review annually.

Historical transaction record

The fees paid to the Media Group for the Service Premiums during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$27.8 million, HK$239.1 million and HK$355.2 million respectively. The 2008 figure is comparatively low given that it reflects amounts paid to the Media Group after its formation out of the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the fees payable by the Telecommunications Group to PCCW Media Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	483.8
2012	553.3
2013	591.7

The caps have been determined on the following bases:

(a) the historical figures for running these services by the Media Group;

(b) the estimated level of services required; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The Service Premiums charged by the Media Group to the Telecommunications Group are based on the number of subscribers subject to the packaged service arrangements and charged at a monthly rate. The monthly rate can be benchmarked against the monthly rate that the Media Group charges its own retail subscribers to view the 'now TV' services, including set-top-box rental plus channel subscription fees, and is open for review annually. For the year ended 31 December 2010, the average number of subscribers subject to the packaged service arrangements was approximately 330,000 subscribers, charged at a monthly rate of approximately HK$90.0. HKT expects that the average number of subscribers subject to the packaged service arrangements will increase by approximately 35%, 15% and 7% annually in 2011, 2012 and 2013 respectively. The significant increase in the number of subscribers subject to the packaged service arrangements is driven by the expected surge in demand for bundled package services along with effective joint marketing efforts. The monthly rate is expected to remain constant, in line with the current marketing plan of the Media Group to maintain the same charge to retail subscribers for the corresponding 'now TV' services over the next three years.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The service packaging agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped value of the fees payable to the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(6) The provision of marketing and sales services

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into a marketing and sales services agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media Limited will agree to procure that relevant members of the Media Group will market the products and services of the Telecommunications Group.

The agreement will have an initial term from 1 January 2011 to 31 December 2013 and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires. The Media Group will be entitled to a percentage share of revenues, based on market rates from the cross-sale by its front-line (i.e. on the street) sales team of telecommunications products and services, again subject to the same market rate credits and rebates on attaining or failing to obtain agreed targets or service levels.

Historical transaction record

Starting from 2010, the fees (inclusive of sales commissions) paid to the Media Group by the Telecommunications Group for the provision of these services was HK$3.1 million. No fees were paid by the Telecommunications Group in 2008 or 2009 (or indeed for most of 2010), on the basis that, prior to the last quarter of 2010, all sales staff were employed by the Telecommunications Group. In the latter part of 2010, it was considered appropriate for the Media Group to have its own dedicated sales force. With different sales teams in each group, both cross-selling the other's products and services, the Telecommuications Group was required to start paying fees to the Media Group in relation to sales of the Telecommunications Group's products and services.

Annual caps

The parties have agreed the following annual caps in respect of the fees (inclusive of all sales commissions) payable by the Telecommunications Group to PCCW Media Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	13.8
2012	17.3
2013	18.1

The caps have been determined on the following bases:

(a) the historical figures for running these services by the Media Group;

(b) the estimated level of services required; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The provision of marketing and sales services by the Media Group to the Telecommunications Group is charged on a revenue-sharing basis, based on the total contract revenues cross-sold by the Media Group dedicated sales team during the year. For the year ended 31 December 2010, monthly total contract revenues cross-sold was approximately HK$6.5 million, charged at an average commission rate of approximately 12%. Monthly total contract revenues cross-sold is expected to increase by 48%, 25% and 5% annually in 2011, 2012 and 2013 respectively. Since the Media Group's dedicated sales team was only formed in the latter part of 2010, the charge in 2010 only reflected a partial year impact, and hence the significant expected growth in 2011. The average commission rate will be adjusted by the CPI annual growth factor forecasted by Bloomberg.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The marketing and sales services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

In fact, each of the percentage ratios (other than the profits ratio) for the capped value of the fees payable to the Media Group is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, making it, in isolation, a transaction exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. However, on the basis of aggregating its annual value together with the other transactions referred to in paragraphs (5) to (9) inclusive, HKT has treated this transaction as being one that would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(7) Content provision arrangements

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into a content services agreement, pursuant to which PCCW Media Limited will have a first right of supply and will supply, procure supply or provide content management and production support services to the Telecommunications Group for distribution through its **eye** and mobile platforms.

The Media Group will supply or procure the supply of various categories of content, and will provide related content management and production support services to the Telecommunications Group for distribution through the **eye** platform and the mobile platform, so that the Telecommunications Group can offer the same to its customers. The content comprises:

- self-produced content by the Media Group;
- third party produced content for which the Media Group has multiplatform distribution rights;
- third party produced content for which the Media Group applies for specific distribution rights for the **eye** and/or mobile platforms ('dedicated content');

- 'MOOV' music and music video content services for distribution on the **eye** and/or mobile platforms.

The agreement will be for a term of three years effective from 1 January 2011 to 31 December 2013. The Telecommunications Group will be charged for the content at market rates, save for the dedicated content (being content that Hong Kong Telecommunications (HKT) Limited or the relevant members of the Telecommunications Group has requested the Media Group to source for Hong Kong Telecommunications (HKT) Limited's or the relevant members of the Telecommunications Group's specific use, for example, recipes or other specific content for the **eye** platform) for which it is expected to be charged 'at cost' and is expected to be charged for content management and production support services (as are needed to ensure that the content can be viewed on the **eye** and, or mobile platforms) on a cost plus basis.

Historical transaction record

The fees paid to the Media Group for these services during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$35.3 million, HK$199.1 million and HK$319.5 million respectively. The 2008 figure is comparatively low given that it reflects amounts paid to the Media Group after its formation out of the 2008 Restructuring. The year on year increase demonstrated from 2009 to 2010 was reflective of increasing customer demand for content delivered via mobile devices and the **eye** product.

Annual caps

The parties have agreed the following annual caps in respect of the fees payable by the Telecommunications Group to PCCW Media Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	378.4
2012	434.8
2013	456.3

The caps will be determined on the following bases:

(a) the historical figures for running these services by the Media Group;

(b) the estimated level of services required; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The Media Group supplies various categories of content to the Telecommunications Group for distribution through the **eye** platform and the mobile platform, and recharges the Telecommunications Group based on the actual content and content production costs incurred for the content supplied, at a cost-sharing ratio with reference to the proportion of the number of subscribers with content-viewing rights on the **eye** platform and the mobile platform over total Media Group's subscriber base. For the year ended 31 December 2010, total content and content production costs incurred for the content supplied to the two platforms of the Telecommunications Group amounted to approximately HK$946.0 million, of which approximately a third was charged to the Telecommunications Group. HKT expects that there will be an approximately 25% savings in the content and content production costs to be incurred for the content supplied to the two platforms in 2011 mainly due to the expiry of the English Premier League contract in the second half of 2010. It is projected that the content and content production costs to be incurred for the content supplied to the two platforms will increase by 20% and 5% annually in 2012 and 2013 respectively, with the large increase in 2012 attributed to the anticipated acquisition of the broadcasting rights for certain popular sports content in that year. HKT expects approximately 53%, 51% and 51% of the total content and content production costs incurred for the content supplied to the two platforms of the Telecommunications Group will be borne by the Telecommunications Group in 2011, 2012 and 2013, respectively, as a result of the expected growth in subscribers with content-viewing rights on both the **eye** platform and the mobile platform.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The content services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped value of the fees payable to the Media Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(8) Directories publishing arrangements

Principal terms

PCCW Media Limited and Hong Kong Telecommunications (HKT) Limited have agreed to enter into a directories publishing agreement for a three-year term effective from 1 January 2011 to 31 December 2013.

As an overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format.

The Media Group will charge the Telecommunications Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories.

Historical transaction record

The fees paid to the Media Group for these services during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$1.4 million, HK$2.0 million and HK$0.9 million respectively.

Annual caps

The parties have agreed the following annual caps in respect of the fees payable by the Telecommunications Group to PCCW Media Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	2.0
2012	2.0
2013	2.1

The caps have been determined on the following bases:

(a) the historical figures for running these services by the Media Group;

(b) the estimated level of services required; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

For the year ended 31 December 2010, approximately 112,000 copies of directories were printed and delivered to 50 public locations for the Telecommunications Group at a total cost of approximately HK$0.9 million. HKT expects that the number of directories printed will double in 2011 due to the printing of additional copies for new residential estates and buildings, and will remain relatively constant in 2012 and 2013. The printing and delivery costs will be adjusted by 4.5%, 4.0% and 4.0% in 2011, 2012 and 2013, respectively, in accordance with the CPI annual growth factor forecasted by Bloomberg as of June 2011.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The directories publishing agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

In fact, each of the percentage ratios (other than the profits ratio) for the capped value of the fees payable to the Media Group is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, making it, in isolation, a transaction exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. However, on the basis of aggregating its annual value together with the other transactions referred to in paragraphs (5) to (9) inclusive, HKT has treated this transaction as being one that would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(9) Pay TV set-top-box access agreement

Principal terms

Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited have agreed to enter into an agreement pursuant to which the Telecommunications Group will pay the Media Group a monthly charge for the provision of 'user access' to certain services that are capable of being provided via the Media Group's set-top-boxes to customers subscribing for such services from the Telecommunications Group. For example, the Telecommunications Group's customers can subscribe for a photo storage and access service (***snaap!***) or a home monitoring service (Easy-Watch). The Media Group will charge a market rate for such user-access rights. The agreement will be for a three-year term effective from 1 January 2011 to 31 December 2013.

Historical transaction record

The fees paid to the Media Group for these services during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were nil, HK$0.8 million and HK$0.8 million respectively, reflecting the fact that these have been comparatively new services offered by the Telecommunications Group.

Annual caps

The parties have agreed the following annual caps in respect of the fees payable by the Telecommunications Group to PCCW Media Limited under the agreement:

Year ending 31 December	Annual cap (HK$ million)
2011	0.9
2012	0.9
2013	0.9

The caps have been determined on the following bases:

(a) the historical figures for running these services by the Media Group;

(b) the estimated level of services required; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The monthly charge charged by the Media Group can be benchmarked against market rates for the 'user-access' rights. For the year ended 31 December 2010, a fixed monthly charge of approximately HK$70,000 was charged to the Telecommunications Group. HKT expects that the usage level will remain constant over the next three years ending 31 December 2013. The monthly fixed charge will be adjusted by 4.5%, 4.0% and 4.0% in 2011, 2012 and 2013, respectively, in accordance with the CPI annual growth factor forecasted by Bloomberg as of June 2011.

Application of the Listing Rules

As PCCW Media Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

In fact, each of the percentage ratios (other than the profits ratio) for the capped value of the fees payable to the Media Group is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, making it, in isolation, a transaction exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules. However, on the basis of aggregating its annual value together with the other transactions referred to in paragraphs (5) to (9) inclusive above, HKT has treated this transaction as being one that would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

Aggregation of services in respect of paragraphs (5) to (9) above:

On an aggregated annual basis for 2011, the capped amounts payable to the Media Group for the various services described in paragraphs (5) to (9) inclusive above result in percentage ratios (other than the profits ratio) of less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Accordingly, even on an aggregated basis for 2011, the transactions referred to above would be exempt from the independent shareholders' approval requirement of the Listing Rules.

Services and floor space supplied by the Telecommunications Group to the Solutions Group

(10) Provision of managed services and other telecommunications related services

Principal terms

Part of the business of the Solutions Group is to provide a range of managed services and data centre services for its clients.

On 23 December 2008, Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited entered into a managed wavelength service agreement, which will be supplemented by a supplemental agreement to be entered into between the same parties (together, the "managed services agreement"). Pursuant to the managed services agreement, Hong Kong Telecommunications (HKT) Limited will agree to provide certain connectivity services to PCCW Solutions Limited, linking a data centre site in Hong Kong operated by the Solutions Group and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels. Hong Kong Telecommunications (HKT) Limited will provide the various services on normal commercial terms.

The managed services agreement will run for an initial term that expires on 31 December 2013 (although PCCW Solutions Limited will have a right to terminate the agreement at any time on 30 days' prior written notice).

Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited have agreed to enter into a telecommunications and other miscellaneous services agreement (the "telecommunications services agreement"). Pursuant to the telecommunications services agreement, Hong Kong Telecommunications (HKT) Limited and its specified affiliates in the Telecommunications Group will provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms. The telecommunications services agreement will be for a three-year term expiring on 31 December 2013.

Historical transaction record

The fees paid by the Solutions Group to the Telecommunications Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$6.0 million, HK$40.2 million and HK$38.3 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid to the Telecommunications Group in the last two months of the year, following the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the revenues to be derived from (and therefore, in effect, a cap on the value of) the services to be provided to the Solutions Group under the agreements:

Year ending 31 December	**Annual cap (HK$ million)**
2011	44.4
2012	81.1
2013	119.9

The caps will be determined on the following bases:

(a) the historical figures for running these services;

(b) the estimated level of services required, which shows a substantial increase as compared to the historical amounts due to an expansion of new data centres in the coming three years which will increase connectivity and equipment and facilities charges; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

Services provided by the Telecommunications Group include two major types of services: (i) Connectivity and other Telecom Services; and (ii) Equipment & Facilities Leasing Charges:

(i) The Telecommunications Group being the backbone of the Solutions Group provides services that include telephone services (fixed line and mobile services), connectivity services including broadband, datapak, IPLC, ATM and network services, to support the Solutions Group's daily operations and to ensure the smooth running of the business for its clients by linking data centre sites in Hong Kong. The Telecommunications Group provided various services to the Solutions Group on normal commercial terms. For the year ended 31 December 2010, connectivity services contributed approximately HK$29.1 million, representing approximately 76% of the total provision of managed services and other telecommunications related services, which was generated by the approximately 194,000 square feet of data centre space. For 2011 to 2013, the key growth driver is the Solutions Group's increased demand for connectivity services as a result of the data centre expansion plan which will increase data centre space by approximately 194,000 square feet to capture the demand for high-power density and Tier-3+ data centres from global financial service institutions, multi-national corporations and IT companies. The additional connectivity services are charged at an average monthly rate of HK$16, HK$17 and HK$18 per square foot in 2011, 2012 and 2013, respectively, representing an annual adjustment of 4.0% in 2012 and 2013, in accordance with the CPI annual growth factors forecasted by Bloomberg as of June 2011.

(ii) The Telecommunications Group is to provide fully equipped premises to the Solutions Group for its data centre business needs. These premises are exchange buildings which are converted and built to specifically fulfill data centre specifications by installing equipment and facilities such as generators, chillers, cooling towers, transformers and other power equipments up to the required loading requirements and standards. These equipped premises are leased to the Solutions Group for its data centre business from 2011 onwards. For 2011 to 2013, the key growth driver is the Solutions Group's data centre expansion plan in which the Solutions Group intends to acquire approximately 249,000 square feet of usable areas space at an average monthly rate of approximately HK$28 per square foot during 2011 to 2013.

Application of the Listing Rules

As PCCW Solutions Limited is an indirect wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of HKT. The managed services agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped revenues for the annual services to be provided to the Solutions Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(11) Licensed access to floor space

Principal terms

Pursuant to a licence to be entered into prior to the Listing Date, members of the Solutions Group will be afforded certain limited access rights to floor space at a number of the PTG Telephone Exchanges. The licence will be for a fixed term expiring on 31 December 2013, although can be terminated earlier by either party on written notice and shall, subject to compliance with the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term of three years (or such other period permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires. The licence fees will be paid to Hong Kong Telecommunications (HKT) Limited pursuant to the arrangements described in paragraph (21) below.

Historical transaction record

The aggregate annual licence and related fees paid by the Solutions Group to Hong Kong Telecommunications (HKT) Limited during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$2.5 million, HK$10.6 million and HK$9.8 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid in the last two months of the year, following the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the licence and related fees payable by the Solutions Group to Hong Kong Telecommunications (HKT) Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	13.0
2012	20.9
2013	30.6

The caps reflect the actual licence fees payable and estimates of related expenses.

Reasons for the increase in the proposed annual caps

There are premises provided by the Telecommunications Group to the Solutions Group for use as data centres, offices and warehouses. These premises are mainly exchange buildings situated in Hong Kong Island, Kowloon and the New Territories with total area of approximately 80,000 square feet. At present, around one-third of the premises are used as data centres by the Solutions Group to serve its clients. The charging will be based on current market price and adjusted by the CPI annual growth factor.

The overall data centre occupancy rate has always been high, and is already over 85% for the past couple of years. Under the data centre expansion plan, the Solutions Group will acquire approximately 249,000 square feet of usable areas space at an average monthly rate of approximately HK$10 per square foot in the next three years which will double the existing available data centre space. The charging basis for these new premises by the Telecommunications Group to the Solutions Group will be based on current market price which include, but are not limited to, basic rent, rate and management fees.

Application of the Listing Rules

As the Solutions Group is within the Remaining Group, the licence constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped amounts payable by the Solutions Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

Aggregation of services or fees paid in respect of paragraphs (10) to (11) above:

On an aggregated annual basis for 2011, the capped amounts payable as described in paragraphs (10) to (11) above result in percentage ratios (other than the profits ratio) of less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Accordingly, even on an aggregated basis for 2011, the transactions described above would be exempt from the independent shareholders' approval requirement of the Listing Rules.

Services supplied by the Solutions Group to the Telecommunications Group

(12) Solutions services

The Solutions Group will provide the following customised solutions to the Telecommunications Group pursuant to the following agreements:

(a) ***Outsourcing and Managed Services ("OMS")***

PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited have agreed to enter into a bureau services agreement pursuant to which PCCW Solutions Limited will provide certain bureau services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates. These services include help desk services, problem management, change management, system and database support, IT security services, data centre services, backup management, service level management, disaster recovery and technical platform services.

The agreement will be on normal commercial terms and runs for an initial term that expires on 31 December 2013.

(b) ***Systems Solutions Development and Integration ("SSDI")***

PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited have agreed to enter into two agreements pursuant to which PCCW Solutions Limited will provide the following services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates:

- certain application management services (such as application support and maintenance, production acceptance testing and application release management); and

- certain system development services (such as IT system design, development and implementation).

Each of these agreements will be on normal commercial terms and will run for an initial term that expires on 31 December 2013.

(c) ***BPO and Logistics ("BPOL")***

Pursuant to nine agreements to be entered into prior to the Listing Date and summarised below, Power Logistics Limited, a company in the Solutions Group, will provide a range of different business processing, order fulfilment and logistical services to the Telecommunications Group.

The agreements will, in all cases, be on normal commercial terms and each will expire on 31 December 2013.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited, among other things, will: (a) manage a warehouse for mobile products; (b) provide stock management services; (c) pack and deliver mobile products; and (d) collect customer payments.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide logistics function, courier or delivery, storage and installation services for computer equipment to specified locations in Hong Kong.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide certain transportation services in Hong Kong.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

Power Logistics Limited will provide certain printing and lettershopping services for PCCW mobile prepaid SIM cards and plastic recharge vouchers.

- Agreement to be entered into between Power Logistics Limited and HKT Services Limited:

  Power Logistics Limited will provide certain back-up tape delivery services.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide certain service-premium delivery services.

- Agreement to be entered into by Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide certain logistic services.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide a service for the mass distribution of printed telephone directories.

- Agreement to be entered into between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited will provide certain document imaging and data entry services.

Historical transaction record

The fees paid by the Telecommunications Group to the Solutions Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$105.2 million, HK$545.6 million and HK$493.1 million respectively. The figure for 2008 reflects amounts paid to the Solutions Group in the last two months of the year, following its creation pursuant to the 2008 Restructuring. As such, the trend over the track record period has been one of reducing overall amounts paid to the Solutions Group. In part, this was due to the fact that the 2008 and 2009 payments for SSDI work were comparatively high, and project-specific (relating to the creation of a billing system for the Telecommunications Group's 3G mobile service).

Annual caps

The parties have agreed the following annual caps in respect of the fees for the services to be provided by the Solutions Group under the above agreements:

Year ending 31 December	Annual cap (HK$ million)
2011	655.6
2012	775.8
2013	842.7

The caps have been determined on the following bases:

(a) the historical figures for running these services by the Solutions Group;

(b) the estimated level of services required which shows a substantial increase as compared to the historical amounts due to an expansion of new data centres in the coming three years; and

(c) the staff and resources requirement for the services.

Reasons for the increase in the proposed annual caps

The charging basis will be based on the actual usage of the services, such as the number of application and support servers installed and the number of support staff required during the construction process and maintenance period, as well as the current market price and adjusted by the CPI annual growth factor.

The other growth drivers from 2011 to 2013 are mainly due to designing and building existing exchange buildings to data centres. The services provided by the Solutions Group include project planning, monitoring, infrastructure design, supply of materials, equipment installation and supervision of testing and commissioning, and conducting of integrated system tests etc.

The total data area space for the new data centre site is approximately 194,000 square feet in the exchange buildings. The charging basis will be based on current market price and will be adjusted by 4.5%, 4.0% and 4.0% in 2011, 2012 and 2013, respectively, in accordance with the CPI annual growth factors forecasted by Bloomberg as of June 2011.

The breakdown of the annual caps for each of the agreements set out above are as follows:

	For the year ending 31 December		
Agreement/service description	**2011** *(HK$ million)*	**2012** *(HK$ million)*	**2013** *(HK$ million)*
Bureau services agreement	422.3	532.1	588.0
OMS Total	422.3	532.1	588.0
Application management services	67.0	70.0	73.2
System development services	43.1	45.0	47.0
SSDI Total	110.1	115.0	120.2
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mobile products	8.2	8.5	8.9
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for computer equipment	2.3	2.4	2.5
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding transportation services	2.3	2.4	2.6
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding printing and lettershopping services	1.6	1.7	1.7
Agreement between Power Logistics Limited and HKT Services Limited regarding back-up tape delivery services	0.0	0.0	0.0
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for service-premium delivery services	0.0	0.0	0.0
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for logistic services	108.7	113.6	118.7
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mass distribution of printed telephone directories	0.0	0.0	0.0
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding imaging and data entry services	0.1	0.1	0.1

	For the year ending 31 December		
Agreement/service description	**2011** *(HK$ million)*	**2012** *(HK$ million)*	**2013** *(HK$ million)*
BPOL Total	123.2	128.7	134.5
Solutions Group Total	655.6	775.8	842.7

Application of the Listing Rules

As the Solutions Group is within the Remaining Group, the above agreements constitute continuing connected transactions for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped value of the consideration payable to the Solutions Group is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(13) Sub-contracting agreement

Principal terms

PCCW (Macau), Limitada ("**PCCW Macau**"), a company within the Telecommunications Group, and PCCW-HKT Technical Services Limited ("**TSL**"), a company within the Remaining Group, have agreed to enter into a sub-contracting agreement. PCCW Macau will contract with various third parties for the provision of solutions services with various operators in Macau such as IT related systems within casinos. Rather than performing the work itself, PCCW Macau will sub-contract the work to TSL. Accordingly, the work will be carried out by TSL and all fees received in respect of the work will be passed by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees. The agreement will be for a three-year term expiring on 31 December 2013.

Historical transaction record

The gross fees paid by third parties to PCCW Macau during the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$40.5 million, HK$75.4 million and HK$62.5 million respectively. The 2008 figure, for just two months of the year (following the 2008 Restructuring), is comparatively high and reflected a high level of casino-related project work undertaken during the year. These gross receipts were passed on to TSL, as sub-contractor, net of nominal sub-contracting fees, retained by PCCW Macau, of approximately HK$1 million per annum.

(a) Contracted Service Cost from PCCW Macau to TSL

Annual Caps

Year ending 31 December	Annual cap (HK$ million)
2011	29.1
2012	50.4
2013	77.3

(b) Sub-contracting fees from TSL to PCCW Macau

Annual Caps

Year ending 31 December	Annual cap (HK$ million)
2011	1.5
2012	2.5
2013	3.9

Reasons for the increase in the proposed annual caps

Going forward, PCCW Macau anticipates earning gross fees of approximately HK$29.1 million, HK$50.4 million and HK$77.3 million for the years ending 31 December 2011, 31 December 2012 and 31 December 2013, respectively, which amounts have been set as the annual caps on the service costs payable to TSL, as referred to above. This is based on existing contracts entered into by PCCW Macau and its expectation for pipeline projects. The pipeline expectation is due to the growth in the Projection and Display System and the Extra Low Voltage System (ELV System) for Macau hotels and casinos expansion. These fees will be passed on to TSL, as sub-contractor, net of sub-contracting fees earned by PCCW Macau, estimated at an average rate of 5% of the gross fees, equating to estimated annual amounts paid by TSL to PCCW Macau for the right to perform the sub-contracted work, to be treated as the annual caps on the sub-contracting fees payable to PCCW Macau as referred to above.

Application of the Listing Rules

As TSL is within the Remaining Group, the sub-contracting agreement constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the aggregate net sums which PCCW Macau anticipates being required to pay to TSL is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules. In any event, the sub-contracting fees payable by TSL to PCCW Macau for the right to perform the sub-contracted work would be de minimis and would constitute an exempt continuing connected transaction.

Aggregation of services in respect of paragraphs (12) to (13) above:

On an aggregated annual basis for 2011, the capped amounts payable as described in paragraphs (12) to (13) above result in percentage ratios (other than the profits ratio) of less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Accordingly, even on an aggregated basis for 2011, the transactions described above would be exempt from the independent shareholders' approval requirement of the Listing Rules.

Other non-exempt continuing connected transactions

(14) The provision of corporate shared services

Principal terms

HKT Services Limited, a company within the Telecommunications Group, and PCCW Services Limited, a company within the Remaining Group, have agreed to enter into a corporate shared services agreement, pursuant to which the Telecommunications Group will provide the Remaining Group a range of corporate support services that are integral to the operation of both groups, including managerial support.

In summary, these comprise services such as:

- corporate communications and human resources;
- security, fraud management and risk management support;
- treasury and taxation;
- accounting, finance and internal audit support;
- regulatory affairs;
- customer accounts management services (billing management, credit management and cash management), customer complaints handling support and procurement; and
- technology strategy and development support.

It is expected that the charges for these services will be at cost. The term of the agreement will be for three years, effective from 1 January 2011 to 31 December 2013.

Historical transaction record

The fees paid, in aggregate, to the Telecommunications Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$16.6 million, HK$170.3 million and HK$150.2 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid to the Telecommunications Group in the last two months of the year, following the 2008 Restructuring, and that there was an increase in fees in 2009.

Annual caps

The parties have agreed the following annual caps in respect of the fees payable, in aggregate, to the Telecommunications Group under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	156.9
2012	164.0
2013	171.4

The caps have been determined on the following bases:

(a) the historical figures for running these services for the Remaining Group;

(b) the estimated level of services required for the Remaining Group; and

(c) the staff and resources requirement for the services.

Application of the Listing Rules

As PCCW Services Limited is a company within the Remaining Group, the corporate shared services agreement constitutes a continuing connected transaction for HKT in accordance with the Listing Rules. Unlike the agreement referred to in paragraph (20) below, this agreement relates to the services provided by managerial and professional staff, hence not being treated as an agreement exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(2) of the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped fees is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(15) The provision of marketing and promotion services

Principal terms

Hong Kong Telecommunications (HKT) Limited and HKTL have agreed to enter into a marketing and promotion services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited will provide publicity, promotion and branding services to HKTL, including producing 'i.Shop', a magazine produced each month to advertise the products and services of the PCCW Group, and other promotional activities. It is expected that the services will be charged on a cost basis. The term of the agreement will be for three years, effective from 1 January 2011 to 31 December 2013.

Historical transaction record

The fees paid by HKTL to the Telecommunications Group for the provision of these services for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were nil, HK$45.8 million and HK$46.4 million respectively.

Annual caps

The parties have agreed the following annual caps in respect of fees payable by HKTL to Hong Kong Telecommunications (HKT) Limited under the agreement:

Year ending 31 December	**Annual cap (HK$ million)**
2011	48.5
2012	50.4
2013	52.4

The caps have been determined on the following bases:

(a) the historical figures for running these services for the Remaining Group;

(b) the estimated level of services required by the Remaining Group; and

(c) the proposed marketing and promotion plan.

The marketing and promotion costs will be adjusted by the CPI annual growth factor forecasted by Bloomberg.

Application of the Listing Rules

As HKTL is a company within the Remaining Group, the marketing and promotion services agreement constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual services to be provided to HKTL is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

(16) Licensing agreement (PCCW Tower)

PCCW Services Limited, a company within the Remaining Group, is the tenant in respect of certain space located at PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated 31 October 2008. The lease expires on 31 December 2014. Under and subject to the terms of the lease, PCCW Services Limited is afforded the right to share the premises with its related companies, which include members of the Telecommunications Group. On 22 June 2010, PCCW Services Limited and HKT Services Limited, a company in the Telecommunications Group, entered into an agreement (which will be supplemented by a further agreement to be entered into between the same parties) pursuant to which HKT Services Limited has been granted a licence to occupy certain floor space for office use for an aggregate amount (inclusive of licence fees, rates, management fees and other charges) estimated at HK$8.7 million per month, equating to HK$103.9 million per annum. The licence will expire on 21 June 2013 and shall, subject to compliance of the relevant requirements applicable to connected transactions under the Listing Rules by HKT, automatically renew for a term until 31 December 2014 (or such other period as is consistent with the term of the head lease from the independent third party and which is otherwise permitted under the Listing Rules) after expiry of the initial term. HKT will comply with the applicable Listing Rules when the initial term of the agreement expires.

Historical transaction record

The aggregate annual rental and other fees payable under the licence for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 were HK$10.2 million, HK$98.2 million and HK$103.9 million respectively. The 2008 figure is comparatively low given that it reflects the amounts paid in the last two months of the year, following the 2008 Restructuring.

Annual caps

The parties have agreed the following annual caps in respect of the aggregate amount (inclusive of licence fees, rates, management fees and other charges) payable:

Year ending 31 December	Annual cap (HK$ million)
2011	103.9
2012	128.5
2013	128.5

The caps reflect the actual annual licence fee payable and estimates of related expenses such as rates, management fees and other charges.

Application of the Listing Rules

As PCCW Services Limited is a company within the Remaining Group, the licence agreement constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the capped value of the aggregate annual amount paid is less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, these transactions would, upon Listing, and in the absence of the grant of the waiver by the Stock Exchange, as referred to below, be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules.

D. EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Telecommunications Group will enter into the following continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(17) Expenses payable to the Trustee-Manager

Under the Trust Deed and subject to the relevant laws and regulations, the Trustee-Manager is entitled to apply, or to be reimbursed from, the trust property (at such times and over such periods as the Trustee-Manager may determine in any particular case) for all liabilities, fees, costs, charges and expenses that may be properly suffered or incurred by the Trustee-Manager in the performance of its obligations or the exercise of its powers under the Trust Deed, or otherwise arising out of or in connection with the Trust Deed, including but not limited to the amounts specified in the Trust Deed.

The expenses will be paid from the Adjusted Funds Flow of the Telecommunications Group received by the HKT Trust and accordingly constitute a form of continuing connected transaction for the HKT Trust and HKT given that the Trustee-Manager is an associate of the Controlling Holder of Share Stapled Units. As the duration of the Trust Deed is 80 years less one day, the reimbursement arrangements are deliberately structured to continue for such term (albeit that the Trustee-Manager is capable of being removed by an Ordinary Resolution of Registered Holders of Units).

As the HKT Trust has been specifically formed for the purposes of the Listing, there are no historical amounts that have been paid by the Telecommunications Group to the Trustee-Manager. It is expected that the amount payable to the Trustee-Manager pursuant to the reimbursement arrangements is in the order of HK$1.0 million, which is determined based on the estimated administration costs incurred by the Trustee-Manager, such as audit, company secretarial registration fees and so on.

As the Trustee-Manager is a wholly-owned subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is a connected person of the HKT Trust and HKT. Payments to the Trustee-Manager pursuant to the reimbursement arrangements constitute a form of continuing connected transaction for the HKT Trust and HKT (but not for the Company).

As each of the percentage ratios (other than the profits ratio) for the annual fees payable to the Trustee-Manager is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, the reimbursement arrangements under the Trust Deed would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(18) Provision of concessionary fixed telephone lines

As a staff perk available to all long term PCCW Group employees, the Telecommunications Group provides them with concessionary fixed telephone lines. It is expected that the concession will be paid for at market rates by the relevant business unit within the PCCW Group for whom the employee works.

Companies within the Remaining Group paid in the order of HK$1.6 million to the Telecommunications Group during the year ended 31 December 2010 for the provision of this benefit to long term employees of the Remaining Group and it is estimated that they will pay a similar amount during the current financial year. In any event, as the value of the service provided by the Telecommunications Group represents an annual amount that results in each of the percentage ratios (other than the profits ratio) testing at less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, the provision of concessionary fixed telephone lines to employees of the Remaining Group would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(19) The recharge of insurance premiums

The PCCW Group operates a captive insurance scheme through PCCW Risk Finance Limited, a company within the Telecommunications Group. Premiums for insured risks such as those arising from the ownership and operation of premises, public and product liabilities, losses from crime, professional indemnities and media broadcast liabilities are charged by PCCW Risk Finance Limited to companies in the PCCW Group. Depending on the risks being insured, the parameters used for determining the amount of insurance premium chargeable to a company in the PCCW Group are its revenues, the value of its fixed assets, headcount and levels of insured activity. For the year ended 31 December 2010, PCCW Risk Finance Limited recorded an income from insurance premiums receivable from companies of the PCCW Group of approximately HK$24.5 million and approximately HK$9.6 million was receivable from companies of the Remaining Group.

For the years ended 31 December 2008, 31 December 2009 and 31 December 2010, PCCW Risk Finance Limited recorded an income from insurance premiums receivable from companies of the PCCW Group of approximately HK$4.4 million, HK$25.6 million and HK$24.5 million, respectively, with approximately HK$1.3 million, HK$9.2 million and HK$9.6 million being received from companies of the Remaining Group.

The recharging of insurance premiums by PCCW Risk Finance Limited to companies within the Remaining Group constitutes a connected transaction, and one that continues on an annual basis given the recurring operation of the PCCW Group's captive insurance scheme.

By value, the recharging of the capped annual insurance premiums by PCCW Risk Finance Limited to companies in the Remaining Group represents less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010 making the arrangement one that would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(20) Administrative support agreement

HKT Services Limited and PCCW Services Limited have agreed to enter into an administrative support agreement pursuant to which HKT will provide, through service companies within the Telecommunications Group including HKT Services Limited, Hong Kong Telecommunications (HKT) Limited and HKT Secretaries Limited, certain administrative clerical support as and when requested by the Remaining Group to supplement the Remaining Group's own independent administrative teams. This will provide the Remaining Group access to additional administrative support in the following areas:

- legal and corporate secretariat support, corporate communications and human resources;

- security, fraud management and risk management support;

- treasury and taxation;
- regulatory affairs;
- accounting, finance and internal audit support;
- customer accounts management services (billing management, credit management and cash management), customer complaints handling support and procurement; and
- technology strategy and development support.

The services will be shared on a cost basis and allocated to the Remaining Group according to time spent by relevant personnel on the businesses of the Remaining Group and related share of administration system costs.

The agreement is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(2) of the Listing Rules.

(21) Private treaty grants

The Telecommunications Group uses the PTG Telephone Exchanges held by HKTC and, in one case, by HKTL. HKTC and HKTL are both companies in the Remaining Group. In the context of the 2008 Restructuring, and to the maximum extent permitted by the terms of those private treaty grants, HKTC and HKTL granted, pursuant to two licence agreements both dated 28 November 2008 (with the HKTC licence agreement being supplemented by a further agreement to be entered into between the same parties), to Hong Kong Telecommunications (HKT) Limited respective licences to install, store, operate and maintain equipment, machinery, chattels and installations at the PTG Telephone Exchanges and respective rights of pre-emption to purchase the PTG Telephone Exchanges for a nominal consideration if HKTC and HKTL, as the case may be, is successful in obtaining the relevant government consent. The validity and legality of those two licence agreements would not be affected by the Proposed Spin-Off and separate listing of the Telecommunications Group. HKTC or HKTL, as the case may be, continues to meet and defray all costs, expenses and outgoings of the PTG Telephone Exchanges (including but not limited to rates and Government rent) but Hong Kong Telecommunications (HKT) Limited is responsible for re-imbursing HKTC or HKTL, as the case may be, the outgoings on a periodic basis. HKTC or HKTL, as the case may be, is required to pay the amount of any income or profit received or to be received by HKTC or HKTL, as the case may be, to Hong Kong Telecommunications (HKT) Limited in respect of the PTG Telephone Exchanges. Moreover, in the event of a disposal of any of the PTG Telephone Exchanges to a third party, HKTC or HKTL, as the case may be, would pay the entire net proceeds from the disposal to Hong Kong Telecommunications (HKT) Limited. Thus, as regards independent third parties, there is a pass-through to Hong Kong Telecommunications (HKT) Limited of all costs and proceeds, in respect of the PTG Telephone Exchanges. In respect of some (but not all) of the PTG Telephone

Exchanges, such licences will exist in conjunction with additional licences to be entered into by HKTC and members of the Solutions Group and the Media Group, granting them limited access rights to certain floor space within those PTG Telephone Exchanges. In this regard, the licence fees to be paid by the Solutions Group and the Media Group will be passed on by HKTC to Hong Kong Telecommunications (HKT) Limited. In effect, therefore, these licensing arrangements will be akin to direct arrangements between Hong Kong Telecommunications (HKT) Limited and the Media Group and the Solutions Group respectively. For the purposes of Chapter 14A of the Listing Rules, the licensing of access rights to these particular floor spaces to the Media Group and the Solutions Group will be treated as separate continuing connected transactions between Hong Kong Telecommunications (HKT) Limited and the Media Group (paragraph (4) above) and between Hong Kong Telecommunications (HKT) Limited and the Solutions Group (paragraph (11) above).

In a similar vein to the PTG Telephone Exchanges, the Telecommunications Group uses other properties let or licensed by the Government to HKTC or, as the case may be, HKTL, to which Hong Kong Telecommunications (HKT) Limited will have licensed access rights pursuant to licences to be entered into between the parties and which will be used as telephone exchanges, cable storage chambers, transmission sites and other engineering-related facilities.

Again, HKTC or HKTL, as the case may be, continues to meet and defray all costs, expenses and outgoings, payable under the leases or licences (including but not limited to rates and Government rent) but Hong Kong Telecommunications (HKT) Limited is responsible for re-imbursing HKTC or HKTL, as the case may be, on a dollar-for-dollar basis. Thus, there is a pass-through to Hong Kong Telecommunications (HKT) Limited of all costs in respect of the leases or licences.

(22) Other telephone exchange licensing arrangements

The Telecommunications Group uses certain properties let or licensed by independent third parties, including the Airport Authority, The Chinese University of Hong Kong and The Hong Kong Housing Authority, to HKTC and, in some cases, to HKTL. The properties, which are for the most part let or licensed on a rent-free basis, are used by the Telecommunications Group as telephone exchanges and Hong Kong Telecommunications (HKT) Limited will be afforded licensed access rights.

HKTC or HKTL, as the case may be, will continue to meet and defray all costs, expenses and outgoings payable under the leases or licences (including but not limited to Government rent and rates) but Hong Kong Telecommunications (HKT) Limited will be responsible for re-imbursing HKTC or HKTL, as the case may be, on a dollar-for-dollar basis. Thus, there will be a pass-through to Hong Kong Telecommunications (HKT) Limited of all costs in respect of the leases or licences.

Right of first refusal concerning redevelopment of telephone exchanges

In the context of the listing of PCPD in 2004, PCCW gave to PCPD, in an agreement between the parties dated 5 March 2004, a right of first refusal pursuant to which, in circumstances where HKTC, HKTL, Hong Kong Telecommunications (HKT) Limited (or indeed any subsidiary of PCCW owning a premises used primarily as a telephone exchange) obtains rights to redevelop any telephone exchange (other than the Queen's Road Exchange referred to in paragraph (23)(i) below, which is already owned by PCPD), PCCW agreed to procure that PCPD would be afforded the right to participate in each joint venture established to effect the re-development of the relevant exchange (on terms no less favourable than the relevant exchange owning company would be prepared to enter into with an independent third party).

Accordingly, this right of first refusal would have an impact upon Hong Kong Telecommunications (HKT) Limited were Hong Kong Telecommunications (HKT) Limited ever minded to redevelop any of the telephone exchanges owned by Hong Kong Telecommunications (HKT) Limited and to secure the necessary approvals to do so, including as regards any of the PTG Telephone Exchanges to the extent that Hong Kong Telecommunications (HKT) Limited was ever able to exercise its right to purchase the PTG Telephone Exchanges. Hong Kong Telecommunications (HKT) Limited would be required to afford PCPD a 45-day right of first refusal, within which it could elect to participate in the redevelopment of any such telephone exchange on arm's length commercial terms. Any agreement reached concerning the redevelopment of any telephone exchange would, for so long as PCPD remains a subsidiary of PCCW, constitute a connected transaction for HKT and would be subject to the Listing Rules applicable at the relevant time.

(23) Other property leasing and licensing arrangements

(i) **Tenancy agreement (Queen's Road Exchange)**

Talent Master Investments Limited (a wholly-owned subsidiary of PCPD, and a company within the Remaining Group), as landlord, has leased portions of certain floors of the building located at No. 1 Wo Fung Street, Sheung Wan, Hong Kong to HKTC pursuant to a lease dated 10 May 2004, as supplemented and amended subsequently. It is expected that the lease will be novated by HKTC to Hong Kong Telecommunications (HKT) Limited on the basis that Hong Kong Telecommunications (HKT) Limited would be the tenant and would assume all continuing obligations under the tenancy agreement.

Hong Kong Telecommunications (HKT) Limited will be required to pay a monthly sum, inclusive of rent and management fees, of approximately HK$0.1 million, equating to approximately HK$1.3 million per annum. The lease will be for a long term expiring 24 June 2842. It will, however, be terminable on 6 months' notice by the tenant, and 60 months' notice by the landlord.

As Talent Master Investments Limited is a subsidiary of PCCW, the Controlling Holder of Share Stapled Units, it is an associate of HKT and is therefore a connected person of HKT. The tenancy agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual amounts payable by Hong Kong Telecommunications (HKT) Limited is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon listing, be exempt from the reporting, annual review, announcements and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(ii) **Tenancy agreement (On Lok Exchange)**

It is expected that Hong Kong Telecommunications (HKT) Limited, as landlord, will licence certain floors of the building located at 21 Lok Yip Road, On Lok Tsuen, Fanling, New Territories, Hong Kong to PCCW Solutions Limited, as tenant, pursuant to a licence agreement, to be used as data centres.

Under the licence agreement, in aggregate, PCCW Solutions Limited will be required to pay a monthly sum, inclusive of rent and management fees, of approximately HK$0.5 million, equating to approximately HK$6.4 million per annum to Hong Kong Telecommunications (HKT) Limited.

As PCCW Solutions Limited is within the Remaining Group, the licence agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual amounts payable by PCCW Solutions Limited is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon listing, be exempt from the reporting, annual review, announcements and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(iii) **Licensing agreement (Kam Shan Radio Site)**

On 19 July 2010, Hong Kong Telecommunications (HKT) Limited and the Government entered into a licence agreement pursuant to which, the Government, as licensor, has granted a non-exclusive licence to Hong Kong Telecommunications (HKT) Limited, as licensee, to use certain portions of the 1st floor and the roof of the Kam Shan Radio Site, Golden Hill, as a digital microwave reception station. The licence is for an initial term of three years commencing on 3 September 2008 and thereafter will be a quarterly periodical licence. Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited will enter into a licence agreement pursuant to which PCCW Media Limited will be granted a licence to use the aforementioned portions of the Kam Shan Radio Site for an aggregate amount (inclusive of licence fees, rates, management fees and other charges) estimated at HK$0.09 million per month, equating to HK$1.1 million per annum.

As PCCW Media Limited is within the Remaining Group, the licence agreement therefore constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than profits ratio) for the estimated annual amount payable by PCCW Media Limited is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(iv) **Macau tenancy agreements**

PCCW Macau, a company within the Telecommunications Group, leased 3 premises located in Macau from independent third parties, for warehouse and office use. It is expected that an agreement will be entered into pursuant to which the Solutions Group will be granted a licence to occupy the above premises. The aggregate monthly sum payable by the Solutions Group to PCCW Macau under the licence agreement, inclusive of rent and management fees, will be approximately HK$0.05 million, equating to approximately HK$0.6 million per annum.

As the Solutions Group is within the Remaining Group, the licence constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual amounts payable by the Solutions Group is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon listing, be exempt from the reporting, annual review, announcements and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(v) **Lease and licence agreements with PCPD**

It is expected that 電訊盈科科技(北京)有限公司 (PCCW Technology (Beijing) Limited), a company within the Telecommunications Group, will lease or licence 5 premises in Beijing, PRC from 北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co. Ltd.) ("BJJW"), a wholly-owned subsidiary of PCPD and a company within the Remaining Group. The aggregate monthly sum payable by the Telecommunications Group, inclusive of rent, management and other fees, will be approximately HK$382,162, equating to approximately HK$4.6 million per annum.

As BJJW is within the Remaining Group, the above agreements constitute continuing connected transactions for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual amounts payable by the Telecommunications Group is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, these transactions would, upon listing, be exempt from the reporting, annual review, announcements and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(24) Intellectual property rights licensing arrangements

Pursuant to a licence agreement to be entered into by PCCW Enterprises Limited, a company within the Remaining Group, and PCCW-HKT DataCom Services Limited, a company within the Telecommunications Group, members of the Telecommunications Group will be licensed, on a non-exclusive basis, by PCCW Enterprises Limited, to use certain intellectual property including trademarks (including the PCCW logo) and domain names which are used by both the PCCW Group and the Telecommunications Group. The annual licence fees payable will be nominal. The term of the agreement will be three years expiring on 31 December 2013.

Pursuant to a licence agreement to be entered into by PCCW Enterprises Limited and PCCW-HKT DataCom Services Limited, members of the Remaining Group will be licensed, on a non-exclusive basis, by PCCW-HKT DataCom Services Limited, to use certain intellectual property including trademarks and domain names. The annual licence fees payable will be nominal. The term of the agreement will be three years expiring on 31 December 2013.

Both licence agreements will be terminable upon certain specified events, including the happening of the following events in respect of the licensee: consent to or the filing of a voluntary petition for winding up; the appointment of a receiver; the making of an order, judgment or decree by any court of competent jurisdiction on the application of a creditor adjudication that party as bankrupt or insolvent; or failure to perform or observe any of its obligations under the agreement. The licensor may terminate the agreement if the licensee uses the intellectual property other than in the manner and in accordance with the agreement.

Provisions for safeguarding the Telecommunications Group's use of the intellectual property after listing in both licence agreements will include the licensor warranting that it will continue to have the right to use and to license the use of the intellectual property; that it is not aware that the intellectual property or the use of any of them has been proved to have infringed the rights of any third party; and that any registrations effected by it of the intellectual property are valid and that it will use all reasonable efforts to maintain those registrations.

(25) The provision of mobile telecommunications services

PCCW Mobile HK Limited, a company within the Telecommunications Group and PCCW Services Limited, a company within the Remaining Group have agreed to enter into a mobile telecommunications services agreement, pursuant to which PCCW Mobile HK Limited will provide mobile telecommunications services to PCCW Services Limited. It is expected that the services will be charged at market rates.

The mobile telecommunications services agreement constitutes a continuing connected transaction for HKT in accordance with the Listing Rules.

As each of the percentage ratios (other than the profits ratio) for the annual amounts payable is less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, this transaction would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

(26) Information technology and telecommunications equipment and services

The Telecommunications Group has agreed to provide PCPD (a company within the Remaining Group) and its subsidiaries (the "**PCPD Group**") equipment and services relating to information technology and telecommunications, including but not limited to fixed-line telephones and related services; mobile telephones and related services; integrated telecommunications equipment and related services; system hosting services and operation support services.

The PCPD Group paid in the order of HK$4.0 million to the Telecommunications Group during the year ended 31 December 2010 for the provision of information technology and telecommunications equipment and services. As the value of the equipment and services provided by the Telecommunications Group represents an annual amount that results in each of the percentage ratios (other than the profits ratio) testing at less than 0.1% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, the provision of such equipment and services to the PCPD Group would, upon Listing, be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

E. RECATEGORISING THE SAME CONTINUING CONNECTED TRANSACTIONS BY TYPE OF SERVICE PERFORMED

The information on the continuing connected transactions set out in sections A to D above has been categorised according to the providers of the relevant service (e.g. the Telecommunications Group to the Media Group, the Media Group to the Telecommunications Group etc.), and thereafter sub-categorised according to the service or transaction, as the directors of HKT and the Trustee-Manager believe that this is the clearest way of presenting information on the on-going transactions between the Telecommunications Group and its connected persons.

The directors of HKT and the Trustee-Manager understand that normal practice is for issuers to categorise the information by reference to the aggregation of like services provided (e.g. provision of telecommunications services, provision of marketing services etc.) and, as appropriate, to sub-categorise it according to provider or recipient. HKT felt that such an approach was not necessarily the best approach for the arrangements with its connected persons, for example, because telecommunications services supplied by Hong Kong Telecommunications (HKT) Limited to PCCW Media Limited to support delivery of the now TV network are not necessarily comparable with managed data centre services provided by Hong Kong Telecommunications (HKT) Limited to PCCW Solutions Limited; or because certain agreements for comparable services (e.g. property leasing or licensing arrangements with different parties) might be for different terms.

With a view to facilitating the reader's understanding of the continuing connected transactions, the following table re-classifies the same information set out in sections A to D above along service-based lines (with cross-references to the relevant paragraphs in the previous sections).

The table below demonstrates that the aggregation of the transactions along service-based lines (rather than by provider or recipient) would, by reference to the annual caps for the year ending 31 December 2011, still result in percentage ratios of less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010. Accordingly, the transactions described in this way would still be exempted from the independent shareholders' approval requirement of the Listing Rules.

Category	Parties involved	Item no. in this circular	Description of transaction	Proposed annual cap for the year ending 31 December 2011 (HK$ million)	As a percentage of total revenues for the year ended 31 December 2010
A. Services and floor space supplied by the Telecommunications Group to the Remaining Group:					
Carriage, connectivity and telecom related services	Supplied by the Telecommunications Group to the Media Group	(1)	Provision of carriage services	172.7	0.9%
	Supplied by the Telecommunications Group to the Media Group	(3)	Provision of internal (specialist telecom) services	26.0	0.1%

Category	Parties involved	Item no. in this circular	Description of transaction	Proposed annual cap for the year ending 31 December 2011 (HK$ million)	As a percentage of total revenues for the year ended 31 December 2010
	Supplied by the Telecommunications Group to the Solutions Group	(10)	Provision of managed services and other telecommunications related services	44.4	0.2%
	Supplied by the Telecommunications Group to the Solutions Group	(13)	Sub-contracting fee	1.5	0.0%
	Supplied by the Telecommunications Group to the Remaining Group	(18)	Provision of concessionary fixed telephone lines	1.6	0.0%
	Supplied by the Telecommunications Group to the Remaining Group	(25)	Provision of mobile telecommunications services	2.0	0.0%
	Supplied by the Telecommunications Group to the PCPD Group	(26)	Information technology and telecommunications equipment and services	8.9	0.0%
			Aggregation of items (1), (3), (10), (13), (18), (25) and (26)	257.1	1.4%
Marketing, sales and promotion related services	Supplied by the Telecommunications Group to the Media Group	(2)	Provision of marketing and sales services	170.6	0.9%
	Supplied by the Telecommunications Group to the Remaining Group	(15)	Provision of marketing and promotion services	48.5	0.3%
			Aggregation of items (2) and (15)	219.1	1.2%
Leasing, licensing and private treaty grants related	Supplied by the Telecommunications Group to the Media Group	(4)	Licensed access to floor space	17.2	0.1%
	Supplied by the Telecommunications Group to the Solutions Group	(11)	Licensed access to floor space	13.0	0.1%

Category	Parties involved	Item no. in this circular	Description of transaction	Proposed annual cap for the year ending 31 December 2011 (HK$ million)	As a percentage of total revenues for the year ended 31 December 2010
	Supplied by the Telecommunications Group to the Solutions Group	(23)(ii)	Tenancy agreement (On Lok Exchange)	6.4	0.0%
	Supplied by the Telecommunications Group to the Media Group	(23)(iii)	Licensing agreement (Kam Shan Radio Site)	1.1	0.0%
	Supplied by the Telecommunications Group to the Solutions Group	(23)(iv)	Macau tenancy agreements	0.6	0.0%
			Aggregation of items (4), (11), (23)(ii), (23)(iii) and (23)(iv)	38.3	0.2%
Corporate and administrative support	Supplied by the Telecommunications Group to the Remaining Group	(14)	Provision of corporate shared services	156.9	0.8%
	Supplied by the Telecommunications Group to the Remaining Group	(20)	Administrative support agreement	N/A (qualifies for complete exemption under Listing Rule 14A.33(2))	N/A
			Aggregation of items (14) and (20)	156.9	0.8%
Recharge of insurance premiums	Supplied by the Telecommunications Group to the Remaining Group	(19)	The recharge of insurance premiums	10.1	0.1%

Category	Parties involved	Item no. in this circular	Description of transaction	Proposed annual cap for the year ending 31 December 2011 (HK$ million)	As a percentage of total revenues for the year ended 31 December 2010
B. Services and floor space supplied by the Remaining Group to the Telecommunications Group:					
Service packaging, marketing, sales and promotion related services	Supplied by the Media Group to the Telecommunications Group	(5)	Service packaging arrangements	483.8	2.6%
	Supplied by the Media Group to the Telecommunications Group	(6)	The provision of marketing and sales services	13.8	0.1%
			Aggregation of items (5) and (6)	497.6	2.7%
Content provision	Supplied by the Media Group to the Telecommunications Group	(7)	Content provision arrangements	378.4	2.0%
Directories publishing	Supplied by the Media Group to the Telecommunications Group	(8)	Directories publishing arrangements	2.0	0.0%
Set-top-box access	Supplied by the Media Group to the Telecommunications Group	(9)	Pay TV set-top-box access agreement	0.9	0.0%
Solutions related services	Supplied by the Solutions Group to the Telecommunications Group	(12)	Solutions services	655.6	3.5%
	Supplied by the Solutions Group to the Telecommunications Group	(13)	Sub-contracting agreement	29.1	0.2%
			Aggregation of items (12) and (13)	684.7	3.7%

Category	Parties involved	Item no. in this circular	Description of transaction	Proposed annual cap for the year ending 31 December 2011 (HK$ million)	As a percentage of total revenues for the year ended 31 December 2010
Leasing, licensing, private treaty grants and telephone exchange related	Supplied by the Remaining Group to the Telecommunications Group	(16)	Licensing agreement (PCCW Tower)	103.9	0.6%
	Supplied by the Remaining Group to the Telecommunications Group	(21)	Private treaty grants	—	0.0%
	Supplied by the Remaining Group to the Telecommunications Group	(22)	Other telephone exchange licensing arrangements	—	0.0%
	Supplied by the Remaining Group to the Telecommunications Group	(23)(i)	Tenancy agreement (Queen's Road Exchange)	1.3	0.0%
	Supplied by the Remaining Group to the Telecommunications Group	(23)(v)	Lease and licence agreements with PCPD	4.6	0.0%
			Aggregation of items (16), (21), (22), (23)(i) and (23)(v)	109.8	0.6%
Intellectual property rights licensing	Supplied by the Remaining Group to the Telecommunications Group (and vice versa)	(24)	Intellectual property rights licensing arrangements	—	0.0%
C. Others:					
Trustee-Manager expenses	Expenses paid to the Trustee-Manager	(17)	Expenses payable to the Trustee-Manager	1.0	0.0%

F. FINANCIAL ASSISTANCE

The PCCW Group provides certain financial assistance to the Telecommunications Group and vice versa, as described below:

Financial assistance by the PCCW Group for the benefit of the Telecommunications Group

(27) Note guarantees

HKTC, a company within the Remaining Group, continues to stand as a co-guarantor in respect of three series of notes issued by companies within the Telecommunications Group, as follows:-

(i) In November 2001, PCCW-HKT Capital Limited, a company within the Telecommunications Group, issued US$1,000 million 7.75% guaranteed notes due 2011 which are listed on the Luxembourg Stock Exchange. The interest rate payable on this series of notes is subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the notes below a pre-agreed level. The interest rate payable on the notes has been adjusted to 8% based on the current ratings. The notes were unconditionally and irrevocably guaranteed by HKTC and, since completion of the 2008 Restructuring, by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH (on a joint and several basis).

(ii) In July 2003, PCCW-HKT Capital No.2 Limited, a company within the Telecommunications Group, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The notes were unconditionally and irrevocably guaranteed by HKTC and, since completion of the 2008 Restructuring, by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH (on a joint and several basis).

(iii) In July 2005, PCCW-HKT Capital No.3 Limited, a company within the Telecommunications Group, issued US$500 million 5.25% guaranteed notes due 2015 which are listed on the Singapore Exchange Securities Trading Limited. The notes were unconditionally and irrevocably guaranteed by HKTC and, since completion of the 2008 Restructuring, by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH (on a joint and several basis).

The guarantee obligations of HKTC in respect of each of the above series of notes constitutes financial assistance provided by a connected person for the benefit of HKT on normal commercial terms (or better). On the basis that no security over its assets has been afforded by any member of the Telecommunications Group to HKTC in respect of these guarantees, the principal assistance is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

(28) Corporate guarantees in support of the obligations of the Telecommunications Group

In support of certain performance obligations of companies within the Telecommunications Group, HKTL and, in one case, HKTC has entered into certain guarantees in favour of independent third parties with whom companies within the Telecommunications Group has contracted for the supply of certain services or purchase of certain equipment. Brief details of these contracts and the related corporate guarantees are as follows:

	Contract date	Contract particulars	Expiry date	Guarantor	Estimated contingent liability under the guarantee *(HK$'000)*
1.	11 March 2008	PCCW Global Limited, PCCW Global (HK) Limited and PCCW Global, Inc. purchasing equipment	19 March 2013	HKTL	15,600
2.	26 November 2008	Hong Kong Telecommunications (HKT) Limited providing installation and maintenance of telecommunications networks services for third generation mobilization systems	30 April 2014	HKTC	8,000
3.	31 January 2009	PCCW-HKT Network Services Limited providing maintenance services for certain systems	31 January 2015	HKTL	25,995
Aggregate estimated contingent liability					49,595

So far as practicable, HKT will seek to work with PCCW and the relevant parties to seek to novate the relevant guarantee obligations to other entities within the Telecommunications Group. Moreover, on an ongoing basis following Listing, HKT does not intend that any member of the Remaining Group will issue any corporate guarantees for any members of the Telecommunications Group.

The corporate guarantees provided by HKTL and HKTC constitute financial assistance provided by a connected person for the benefit of HKT on normal commercial terms (or better). On the basis that no security over its assets has been afforded by any member of the Telecommunications Group to HKTL or HKTC in respect of these corporate guarantees, the principal assistance is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

To protect the Remaining Group from any liability in respect of these corporate guarantees, HKT will enter into a back-to-back deed of indemnity in favour of PCCW for itself and on behalf of members of the PCCW Group pursuant to which the Telecommunications Group irrevocably agrees to act, so far as it can, as primary obligor, or otherwise indemnify PCCW and/or relevant member of the PCCW Group, on demand, against all losses, claims, damages, costs and liabilities which any of them may sustain in connection with any of the corporate guarantees referred to above.

Financial assistance by the Telecommunications Group for the benefit of the PCCW Group

(29) Use of bank facilities

Members of the Solutions Group have, historically, been able to benefit from certain banking facilities (for bank guarantees, performance bonds and letters of credit) entered into by members of the Telecommunications Group. As at the Latest Practicable Date, performance bonds in the aggregate amount of approximately HK$167.0 million had been issued by the relevant banks to customers of the Solutions Group in respect of work being undertaken by the Solutions Group for those customers. Were the performance bonds to be called upon and were the Solutions Group not to reimburse the bank(s) in full, the Telecommunications Group would be obliged to reimburse the bank(s) as to any balance owing.

In preparation for Listing, the Solutions Group will cease to be afforded the benefits of these banking facilities as regards any new bank guarantees, performance bonds or letters of credit and hence no further financial assistance will be given by the Telecommunications Group to the Solutions Group under the Telecommunications Group's banking facilities.

As each of the percentage ratios (other than the profits ratio) applicable to the HK$167.0 million worth of aggregate financial assistance provided by the Telecommunications Group for the benefit of the Solutions Group represents less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, these arrangements, had they been entered into on Listing, would have been subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules by virtue of Rule 14A.66(2) of the Listing Rules. To protect the Telecommunications Group from any liability in respect of these facilities, PCCW will enter into a back-to-back deed of indemnity in favour of the Telecommunications Group for itself and on behalf of members of the Telecommunications Group, as referred to in paragraph (30) below.

(30) Corporate guarantees in support of the obligations of PCCW Solutions Limited

In support of certain performance obligations of PCCW Solutions Limited, a company within the Remaining Group, HKTGH and, in some cases, Hong Kong Telecommunications (HKT) Limited has entered into certain guarantees in favour of the independent third parties with whom PCCW Solutions Limited has contracted for the supply of certain services or lease or licence of certain equipment or software. Brief details of these contracts and the related corporate guarantees are as follows:

Contract date	Contract particulars	Expiry date	Guarantor	Estimated contingent liability under the guarantee *(HK$'000)*
1. 27 April 2009	PCCW Solutions Limited providing consultancy services	31 December 2011	HKTGH	800
2. 22 May 2009	PCCW Solutions Limited providing an integrated solutions services	31 December 2012	HKTGH	300
3. 14 July 2009	PCCW Solutions Limited providing an integrated solutions services	31 December 2015	HKTGH	3,000
4. 31 August 2009	PCCW Solutions Limited leasing equipment	1 November 2014	HKTGH	16,000

	Contract date	Contract particulars	Expiry date	Guarantor	Estimated contingent liability under the guarantee *(HK$'000)*
5.	27 February 2009	PCCW Solutions Limited leasing equipment	30 September 2017	Hong Kong Telecommunications (HKT) Limited	158,200
6.	13 August 2009	PCCW Solutions Limited licensing workstation software	31 December 2011	Hong Kong Telecommunications (HKT) Limited	15,600 (being the equivalent of the US$2 million guaranteed sum)
	Aggregate estimated contingent liability				193,900

So far as practicable, HKT will seek to work with PCCW and the relevant parties to seek to novate the relevant guarantee obligations to other entities within the Solutions Group or the Remaining Group. Moreover, on an ongoing basis following Listing, HKT does not intend that any member of the Telecommunications Group will issue any corporate guarantees for any members of the Solutions Group or the Remaining Group.

As each of the percentage ratios (other than the profits ratio) applicable to the estimated aggregate contingent liability of HKTGH and Hong Kong Telecommunications (HKT) Limited in respect of all of the guarantees referred to above issued for the benefit of the Solutions Group, in the amount of approximately HK$193.9 million represents less than 5% by reference to the Telecommunications Group's financial results for the year ended 31 December 2010, these guarantee arrangements, had they been entered into on Listing, would have been subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement of the Listing Rules by virtue of Rule 14A.66(2) of the Listing Rules.

To protect the Telecommunications Group from any liability in respect of these corporate guarantees (and the bank facilities referred to in paragraph (29) above), PCCW will enter into a back-to-back deed of indemnity in favour of HKT for itself and on behalf of members of the Telecommunications Group pursuant to which PCCW irrevocably agrees to act, so far as it can, as primary obligor, or otherwise indemnify HKT and/or relevant member of the Telecommunications Group, on demand, against all losses, claims, damages, costs and liabilities which any of them may sustain in connection with any of the bank facilities or corporate guarantees referred to above.

G. WAIVERS

Upon Listing, the transactions described in paragraphs (1) to (16) above will constitute continuing connected transactions for HKT under Rule 14A.34 of the Listing Rules. The applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the proposed annual caps each year are in each case (or on an aggregated basis for 2011, as described above) less than 5%. As such, the non-exempt continuing connected transactions in paragraphs (1) to (16) above would normally require to be announced and reported on but would be exempt from the independent shareholders' approval.

HKT and the Trustee-Manager have applied for a waiver from strict compliance with the announcement requirement of the Listing Rules in respect of each of the above transactions.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

REPORT FROM REPORTING ACCOUNTANT IN RELATION TO THE PROFIT FORECAST AND THE PROFIT PROJECTION OF THE TELECOMMUNICATIONS GROUP

TO THE BOARD OF DIRECTORS OF PCCW LIMITED

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast EBITDA[1] and the forecast consolidated net profit attributable to the Holders of Share Stapled Units of HKT Trust for the year ending 31 December 2011 (the "Profit Forecast") and the projected EBITDA[1] and the projected consolidated net profit attributable to the Holders of Share Stapled Units of HKT Trust for the year ending 31 December 2012 (the "Profit Projection") as set out in the paragraphs headed "Profit forecast for the financial year ending 31 December 2011" and "Profit projection for the financial year ending 31 December 2012", respectively, in Part VI Distribution Policy of the HKT Trust and Profit Forecast in the letter from the Board of the circular of PCCW Limited (the "Company") dated 26 September 2011 (the "Circular") in connection with the proposed spin-off and separate listing of the telecommunications business of the Company.

Profit forecast for the financial year ending 31 December 2011

We conducted our work in accordance with Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Profit Forecast, for which the directors of the Company (the "Directors") are solely responsible, has been prepared by them based on the combined results of HKT Trust for the six months ended 30 June 2011 and a forecast of the consolidated results of HKT Trust for the remaining six months ending 31 December 2011 on the basis that the current trust and group structure had been in existence throughout the whole financial year ending 31 December 2011.

[1] For purposes of this report, EBITDA is defined as consolidated earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Group's share of results of associates and jointly controlled companies.

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In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out on pages 72 to 78 of the Circular, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company as set out in Note 2 of the audited consolidated financial statements of the Company for the year ended 31 December 2010.

Profit projection for the financial year ending 31 December 2012

The Directors are responsible for the preparation and presentation of the Profit Projection in accordance with the bases and assumptions made by the Directors as set out on pages 72 to 78 of the Circular and on a basis consistent with the accounting policies adopted by the Company as set out in Note 2 of the audited consolidated financial statements of the Company for the year ended 31 December 2010. This responsibility includes carrying out appropriate procedures relevant to the preparation of the Profit Projection and applying an appropriate basis of preparation and accounting policies; and making estimates that are reasonable in the circumstances.

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), on the calculations of and accounting policies adopted in arriving at the Profit Projection based on our work performed. We are not reporting on the appropriateness or validity of the bases and assumptions on which the Profit Projection is based.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance as to whether the Profit Projection, so far as the accounting policies and calculations are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out on pages 72 to 78 of the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company as set out in Note 2 of the audited consolidated financial statements of the Company for the year ended 31 December 2010. We reviewed the arithmetical calculations and the compilation of the Profit Projection in accordance with the bases and assumptions made by the Directors as set out on pages 72 to 78 of the Circular and on a basis consistent with the accounting policies adopted by the Company as set out in Note 2 of the audited consolidated financial statements of the Company for the year ended 31 December 2010.

The Profit Projection depends on future events and on a number of assumptions which cannot be confirmed or verified in the same way as past results and not all of which may remain valid throughout, the forecast and projection period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Based on the foregoing, in our opinion, the Profit Projection, so far as the calculations and accounting policies are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out on pages 72 to 78 of the Circular, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company as set out in Note 2 of the audited consolidated financial statements of the Company for the year ended 31 December 2010.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 September 2011

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

REPORT FROM REPORTING ACCOUNTANT ON FORECAST EARNINGS IN CONNECTION WITH THE BUSINESS VALUATION OF MEDIA BUSINESS AND SOLUTIONS BUSINESS OF PCCW LIMITED

TO THE BOARD OF DIRECTORS OF PCCW LIMITED

We have been engaged to report on the calculations and accounting policies adopted in arriving at the forecast earnings on which the business valuation (the "Valuation") dated 26 September 2011 prepared by Deloitte & Touche Financial Advisory Services Limited in respect of the appraisal of the fair value of the Media Business and Solutions Business of PCCW Limited (the "Company") is based. The Valuation is set out in Appendix V of the circular of the Company dated 26 September 2011 (the "Circular") in connection with the proposed spin-off and separate listing of the telecommunications business of the Company. The forecast earnings adopted in the Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Responsibility for the Forecast Earnings

The directors of the Company are responsible for the preparation of the forecast earnings in accordance with the bases and assumptions determined by the directors and as set on pages 103 to 105 of the Circular and on a basis consistent with the accounting policies of the Company for the year ended 31 December 2010. This responsibility includes carrying out appropriate procedures relevant to the preparation of the forecast earnings for the Valuation and applying an appropriate basis of preparation and making estimates that are reasonable in the circumstances.

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Reporting Accountant's Responsibility

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, on the calculations and accounting policies adopted in arriving at the forecast earnings on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the forecast earnings are based and our work does not constitute any valuation of the Media Business and Solutions Business.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the forecast earnings, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions as set out on pages 103 to 105 of the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company. We reviewed the arithmetical calculations and the compilation of the forecast earnings in accordance with the bases and assumptions and the accounting policies adopted in arriving at the forecast earnings.

The forecast earnings depends on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, the forecast earnings, so far as the calculations and accounting policies are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by directors of the Company as set out on pages 103 to 105 of the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company for the year ended 31 December 2010.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 September 2011

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. PARTICULARS OF DIRECTORS

Name	Position/Title	Address
LI Tzar Kai, Richard	*Chairman and executive Director*	39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Alexander Anthony ARENA	*Group Managing Director and executive Director*	
Peter Anthony ALLEN	*Executive Director*	
LEE Chi Hong, Robert	*Executive Director*	
HUI Hon Hing, Susanna	*Executive Director*	
Sir David FORD, KBE, LVO	*Non-executive Director*	
LU Yimin	*Non-executive Director*	
ZUO Xunsheng	*Deputy Chairman and Non-executive Director*	
LI Fushen	*Non-executive Director*	
CHUNG Cho Yee, Mico	*Non-executive Director*	
TSE Sze Wing, Edmund, GBS	*Non-executive Director*	
Professor CHANG Hsin-kang, FREng, GBS, JP	*Independent Non-executive Director*	
Dr the Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP	*Independent Non-executive Director*	
Sir Roger LOBO, CBE, LLD, JP	*Independent Non-executive Director*	
Aman MEHTA	*Independent Non-executive Director*	
The Hon Raymond George Hardenbergh SEITZ	*Independent Non-executive Director*	

Executive Directors

LI Tzar Kai, Richard was appointed as an executive Director and the Chairman of the Company in August 1999. He is Chairman of the Company's Executive Committee and a member of Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, an executive director and the Chairman of PCPD, Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, and Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr. Li is a non-executive director of The Bank of East Asia, Limited. He is also a representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission.

Alexander Anthony ARENA was appointed as an executive Director of the Company in August 1999. He is the Group Managing Director of the Company, Deputy Chairman of the Company's Executive Committee and a member of the Regulatory Compliance Committee of the Board. He is also an executive director and Deputy Chairman of PCPD and a member of PCPD's Executive Committee. He was the Group Chief Financial Officer of the Company from June 2002 to April 2007. Mr. Arena is also a director of Pacific Century Regional Developments Limited, where his role is non-executive in nature.

Prior to joining the Pacific Century Group in 1998, Mr. Arena was a Special Policy Adviser to the Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at OFTA, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr. Arena was appointed by the Government to plan a reform program for the liberalisation of Hong Kong's telecommunications sector. Prior to his appointment to the Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr. Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practising radio/ communications engineer to a public policy maker, his experience spans such diverse areas as commercialisation of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr. Arena completed a bachelor's degree in electrical engineering from the University of New South Wales, Australia in November 1972 and graduated on 16 April 1973. He completed an MBA at the University of Melbourne, Australia in November 1977 and graduated on 8 March 1978. He has been a Fellow of the Hong Kong Institution of Engineers since 27 March 2001.

Peter Anthony ALLEN was appointed as an executive Director of the Company in August 1999. He is the Director of Corporate Development of the Group, Group Managing Director of Pacific Century Regional Developments Limited and an executive director and Chief Financial Officer of the Pacific Century Group.

Prior to joining the Pacific Century Group, Mr. Allen joined KPMG in September 1976 before taking up an appointment at Occidental International Oil Incorporated in February 1980. In February 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In August 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr. Allen joined Boustead Singapore Limited as the Group Operations Controller in January 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a director and Chief Operating Officer in July 1995. He joined the Pacific Century Group in October 1997.

Mr. Allen was educated in England and graduated from the University of Sussex with a degree in economics in July 1976. He is and has been a Member of the Institute of Chartered Accountants in England and Wales since November 1979, a Fellow of the Institute of Chartered Accountants in England and Wales since January 1990, a Fellow Member of CPA Australia since January 2010, a Member of the Institute of Certified Public Accountants of Singapore since October 1991 and a Fellow of the Institute of Certified Public Accountants of Singapore since August 2004.

LEE Chi Hong, Robert was appointed as an executive Director of the Company in September 2002. He is a member of the Company's Executive Committee. He is also an executive director and Chief Executive Officer of PCPD and a member of PCPD's Executive Committee.

Mr. Lee was previously an executive director of Sino Land Company Limited ("**Sino Land**"), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr. Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr. Lee became a Notary Public in Hong Kong in 1991.

Mr. Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

He graduated from Cornell University in the United States in 1975 with a bachelor's degree in political science.

HUI Hon Hing, Susanna was appointed as an executive Director of the Company in May 2010. She is a member of the Company's Executive Committee. Ms. Hui has also been the Chief Financial Officer of PCPD since July 2009. She has been the Group Chief Financial Officer of the Group since April 2007. Prior to her appointment as the Group Chief Financial Officer of the Group, she was the Director of Group Finance of the Group from September 2006 to April 2007 with responsibility for the telecommunications services sector and regulatory accounting. Ms. Hui holds directorships in various PCCW Group companies.

Prior to joining HKTL (which was subsequently acquired by the Company) in September 1999, Ms. Hui was the chief financial officer of Lai Sun Hotels International Limited.

Ms. Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours in November 1986. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants since September 1997 and the American Institute of Certified Public Accountants since March 1996.

Non-executive Directors

Sir David FORD, KBE, LVO, was appointed as a non-executive Director of the Company in June 2002. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

LU Yimin became a non-executive Director of the Company in May 2008. He is a member of the Nomination Committee and Regulatory Compliance Committee of the Board.

Mr. Lu is an executive director and President of China Unicom (Hong Kong) Limited ("**Unicom HK**"). He is Vice Chairman and President of China United Network Communications Group Company Limited. He is also a director and President of China United Network Communications Limited and a director and President of China United Network Communications Corporation Limited.

Mr. Lu joined China Network Communications Group Corporation ("**CNC**") in December 2007, serving as senior management. Prior to joining CNC, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the deputy director and the director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr. Lu is a professor level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in July 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States in June 2001.

ZUO Xunsheng became a Deputy Chairman and non-executive Director of the Company in July 2007. He is a member of the Remuneration Committee and Executive Committee of the Board.

Mr. Zuo was an executive director of Unicom HK from October 2008 and was also a Senior Vice President from February 2009 to March 2011. He was Vice Chairman and Vice President of China United Network Communications Group Company Limited. He was also a director of China United Network Communications Limited and a director and Senior Vice President of China United Network Communications Corporation Limited.

Mr. Zuo joined CNC as Vice President in April 2002, and has served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited ("**CNC HK**") since July 2004, Chief Operating Officer of CNC HK since December 2005, an executive director and Chief Executive Officer of CNC HK since May 2006 and Chairman of CNC HK since May 2008.

Mr. Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr. Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as Director of the former Posts and Telecommunications Bureau of Shandong Province. He was President of the former Shandong Telecommunications Company from May 2000 to April 2002. Mr. Zuo is well experienced in telecommunications operations and has rich management experience.

LI Fushen became a non-executive Director of the Company in July 2007.

Mr. Li is an executive director and Chief Financial Officer of Unicom HK. He is Vice President of China United Network Communications Group Company Limited. He is also a director of China United Network Communications Limited and a director and Senior Vice President of China United Network Communications Corporation Limited.

He served as a Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an executive director of CNC HK since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of CNC. From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr. Li graduated from the Australian National University with a master's degree in management in July 2004, and from the Jilin Engineering Institute with a degree in engineering management in July 1988. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

CHUNG Cho Yee, Mico is a non-executive Director of the Company. He was an executive Director of the Company from November 1996 with responsibility for merger and acquisition activities and was re-designated to a non-executive Director of the Company in May 2010. He joined the Pacific Century Group in March 1999.

Mr. Chung graduated from University College, University of London in the United Kingdom, with a law degree in August 1983.

Mr. Chung is currently the Chairman and an executive director of CSI Properties Limited which he joined in 2004. He is also an independent non-executive director of HKC (Holdings) Limited. He was an independent non-executive director of CIAM Group Limited between 9 March 2001 and 31 May 2008.

TSE Sze Wing, Edmund, GBS, is a non-executive Director of the Company. He was an independent non-executive Director of the Company from September 2009 and was re-designated to a non-executive Director of the Company in March 2011.

Mr. Tse is the Non-Executive Chairman and a non-executive director of AIA Group Limited. He is also the Chairman of The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr. Tse was director of American International Group, Inc. ("**AIG**") and from 2001 until June 2009, he was Senior Vice Chairman — Life Insurance of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of American International Assurance Company, Limited. Mr. Tse has held various senior positions and directorships in other AIG companies. Mr. Tse is a non-executive director of PICC Property and Casualty Company Limited. Mr. Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited which is an asset management company owned indirectly by Mr. Li Tzar Kai, Richard, the Chairman of the Company.

Mr. Tse was awarded the Gold Bauhinia Star (GBS) by the Government in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr. Tse graduated with a Bachelor of Arts degree in Mathematics from The University of Hong Kong ("**HKU**") in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr. Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr. Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr. Tse serves many community and professional organizations as well as educational institutions. He is also a director and President of AIA Foundation, which supports charitable causes in Hong Kong.

Independent Non-executive Directors

Professor CHANG Hsin-kang, FREng, GBS, JP, was appointed as an independent non-executive Director of the Company in October 2000. He is a member of the Audit Committee and the Regulatory Compliance Committee of the Board.

Professor Chang became a Tsinghua University (Honorary Professor and) Wei Lun Senior Visiting Scholar in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was the Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang serves as a member of the National Committee of the Chinese People's Political Consultative Conference. He is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Lègion d'Honneur as well as Commandeur dans l'Ordre des Palmes Acadèmiques of France. He was appointed Justice of the Peace in July 1999 and awarded the Gold Bauhinia Star by the Government in July 2002.

He obtained his bachelor's degree in civil engineering from the National Taiwan University in June 1962, a master's degree in structural engineering from Stanford University in the United States in June 1964 and a doctorate in fluid mechanics and biomedical engineering from Northwestern University in the United States in June 1969.

Professor Chang is an independent non-executive director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Limited.

Dr the Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP, was appointed as an independent non-executive Director of the Company in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed HKTL and served as a director from November 1987 to August 2000. He is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee of the Board.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a director of China Overseas Land & Investment Limited, COSCO Pacific Limited, CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.), Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Vitasoy International Holdings Limited and AFFIN Holdings Berhad. He was a director of China Merchants China Direct Investments Limited.

Sir David is a member of the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. Sir David is also a member of the Banking Advisory Committee, a member of the Council of the Treasury Markets Association and a member of the international advisory board of Crédit Agricole S.A.

Sir Roger LOBO, CBE, LLD, JP, was appointed as an independent non-executive Director of the Company in August 1999. He is the Chairman of the Regulatory Compliance Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board.

He is also a director of several organizations, including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd., Kjeldsen & Co. (HK) Ltd., Pictet (Asia) Limited and Melco International Development Limited.

Sir Roger's extensive record of public service includes membership of the Hong Kong Housing Authority, the Urban Council, the Executive Council and serving as a senior member of the Legislative

Council. Sir Roger served as Commissioner of the Civil Aid Service, Chairman of the Hong Kong Broadcasting Authority, Chairman of the Advisory Committee on Post-retirement Employment and also served as Advisory Committee Chairman, Complaints Committee Member and Corruption Prevention Advisory Committee Member of Independent Commission Against Corruption.

He currently serves as Chairman (Board of Trustees) of the Vision 2047 Foundation, Vice Patron of the Community Chest of Hong Kong, the Society of Rehabilitation and Crime Prevention, Hong Kong and as Advisory Board Member of the Hong Kong Aids Foundation.

Sir Roger has received several awards and honors from the British Crown and the Vatican.

Aman MEHTA became an independent non-executive Director of the Company in February 2004 and is Chairman of the Audit Committee and the Nomination Committee of the Board.

He joined the Board following a distinguished career in the international banking community. Mr. Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") until December 2003, when he retired.

Born in India in 1946, Mr. Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager — Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager — International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr. Mehta was reappointed General Manager — International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr. Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an independent non-executive director of Vedanta Resources Plc. in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India) Ltd. and Wockhardt Limited in Mumbai, India; Max India Limited, and Cairn India Limited in New Delhi, India. He is also an independent director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr. Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial Inc. in the United States.

The Hon Raymond George Hardenbergh SEITZ is an independent non-executive Director of the Company. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He was a non-executive Director of the Company from October 2000 and was re-designated as an independent non-executive Director in February 2005.

Mr. Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador to Great Britain from 1991 to 1994. Prior to that, Mr. Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989. He was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in Shares and underlying Shares

(A) Interests in the Company

	Number of Shares						
Name of Director/chief executive	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Shares held under equity derivatives	Total	Approximate percentage of issued share capital
Li Tzar Kai, Richard	—	—	271,666,824 *(Note 1(a))*	1,724,036,335 *(Note 1(b))*	—	1,995,703,159	27.44%
Alexander Anthony Arena *(Note 3)*	760,000	—	—	—	6,400,200 *(Note 2)*	7,160,200	0.10%
Peter Anthony Allen	253,200	—	—	—	2,000,000 *(Note 4)*	2,253,200	0.03%
Lee Chi Hong, Robert	992,600 *(Note 5(a))*	511 *(Note 5(b))*	—	—	5,000,000 *(Note 4)*	5,993,111	0.08%
Sir David Ford	—	—	—	—	1,000,000 *(Note 4)*	1,000,000	0.01%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 6)*	—	—	5,695,200 *(Note 4)*	6,889,915	0.09%
Tse Sze Wing, Edmund	—	140,000 *(Note 7(a))*	200,000 *(Note 7(b))*	—	—	340,000	0.005%
Professor Chang Hsin-kang	64,000	—	—	—	—	64,000	0.001%
Dr the Hon Sir David Li Kwok Po	1,000,000	—	—	—	—	1,000,000	0.01%

Notes:

1. (a) Of these Shares, Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, held 237,919,824 Shares and Eisner Investments Limited held 33,747,000 Shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited and Eisner Investments Limited.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 Shares held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("**HWL**"). Cheung Kong (Holdings) Limited ("**Cheung Kong**") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 Shares held by Yue Shun Limited;

   (ii) a deemed interest in 138,817,177 Shares held by Pacific Century Group Holdings Limited ("**PCGH**"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 138,817,177 Shares held by PCGH;

   (iii) a deemed interest in 1,548,211,301 Shares held by PCRD, a company in which PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.74% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,548,211,301 Shares held by PCRD; and

   (iv) a deemed interest in 281,000 Shares held by PineBridge Investments LLC ("**PBI LLC**") in the capacity as investment manager. PBI LLC was an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 281,000 Shares held by PBI LLC.

2. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying Shares held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 6,400,000 underlying Shares in respect of share options granted by the Company to Alexander Anthony Arena as beneficial owner pursuant to a share option scheme of the Company adopted on 20 September 1994, termination of which was approved by the shareholders of the Company at its annual general meeting held on 19 May 2004 ("**1994 PCCW Scheme**"), the details of which are set out in paragraph 3(i)(C) below.

3. As disclosed previously in the annual reports and interim reports of the Company, a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the Remuneration Committee prior to its finalisation. The Committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW.

4. These interests represented the interests in underlying Shares in respect of share options granted by the Company to these Directors as beneficial owners pursuant to the 1994 PCCW Scheme, the details of which are set out in paragraph 3(i)(C) below.

5. (a) These Shares were held jointly by Lee Chi Hong, Robert and his spouse.

   (b) These Shares were held by the spouse of Lee Chi Hong, Robert.

6. These Shares were held by the spouse of Chung Cho Yee, Mico.

7. (a) These Shares were held by the spouse of Tse Sze Wing, Edmund.

   (b) These Shares were held by Genpoint Investments Limited, which was 100% owned by Tse Sze Wing, Edmund.

(B) Interests in associated corporations of PCCW

(a) PCCW-HKT Capital No.2 Limited

PineBridge Investments Asia Limited ("**PBIA**") in the capacity of investment manager held US$10,000,000 of 6% guaranteed notes due 2013 (the "**Notes**") issued by PCCW-HKT Capital No.2 Limited, an associated corporation of PCCW. PBIA was an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$10,000,000 of the Notes held by PBIA.

(b) PCPD

The table below sets out the long position in the shares and underlying shares of PCPD held by the Director:

	Number of ordinary shares of PCPD				Number of underlying shares of PCPD held under equity derivatives		Approximate percentage of issued share capital of PCPD
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**		**Total**	
Chung Cho Yee, Mico	—	—	—	—	5,000,000	5,000,000	0.21%

The above interests represented the interests in underlying shares in respect of share options granted by PCPD to the Director as beneficial owner pursuant to a share option scheme of PCPD adopted on 17 March 2003, the termination of which was approved by the shareholders of PCPD at its annual general meeting held on 13 May 2005 ("**2003 PCPD Scheme**"). Details of the share options outstanding under the 2003 PCPD Scheme are as follows:

Name of Director	**Date of grant** *(Note)*	**Vesting period** *(Note)*	**Exercisable period** *(Note)*	**Exercise price** *HK$*	**Number of options outstanding**
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000

Note: All dates are shown month/day/year.

(C) Directors' rights to acquire Shares

As at the Latest Practicable Date, the Directors' interests in share options of PCCW which remain outstanding under the 1994 PCCW Scheme are summarised below:

Name of Director/ chief executive	**Date of grant** *(Note)*	**Vesting period** *(Note)*	**Exercisable period** *(Note)*	**Exercise price** *HK$*	**Number of options outstanding**
Alexander Anthony Arena	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	6,400,000
Peter Anthony Allen	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	2,000,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,000,000
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	1,000,000
Chung Cho Yee, Mico	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,695,200

Note: All dates are shown month/day/year.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of PCCW or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules nor did they have any such interests or short positions which were required to be entered into the register required to be kept under Section 352 of the SFO.

(ii) Interests and short positions of substantial Shareholders and other persons required to be disclosed under the SFO

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of PCCW, the following persons (other than any Directors or chief executives of PCCW) were substantial Shareholders of PCCW (as defined in the Listing Rules) and had interests or short positions in the Shares and underlying Shares which fall to be disclosed to PCCW under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered into the register required to be kept under Section 336 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of PCCW or any other member of the Group:

(A) Interests of substantial Shareholders

Name of Shareholder	*Note*	**Number of Shares/ underlying Shares held**	**Approximate percentage of issued share capital**
PCRD		1,548,211,301	21.29%
PCGH	*1*	1,687,028,478	23.20%
Star Ocean Ultimate Limited	*2*	1,687,028,478	23.20%
The Ocean Trust	*2*	1,687,028,478	23.20%
The Starlite Trust	*2*	1,687,028,478	23.20%
OS Holdings Limited	*2*	1,687,028,478	23.20%
Ocean Star Management Limited	*2*	1,687,028,478	23.20%
The Ocean Unit Trust	*2*	1,687,028,478	23.20%
The Starlite Unit Trust	*2*	1,687,028,478	23.20%
China United Network Communications Group Company Limited (“**Unicom**”)	*3*	1,343,571,766	18.48%

Notes:

1. These interests represented (i) PCGH's beneficial interests in 138,817,177 Shares; and (ii) PCGH's interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.74% of PCRD) in 1,548,211,301 Shares held by PCRD.

2. On 18 April 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.

3. Unicom indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.

(B) Interests of other persons required to be disclosed under the SFO

As at the Latest Practicable Date, the following person (not being the Director or chief executive or substantial Shareholder (as disclosed in paragraph 3(ii)(A) above) of PCCW) had interests or short positions in the Shares and underlying Shares of PCCW as recorded in the register required to be kept under Section 336 of the SFO:

Name		**Number of Shares/ underlying Shares held**	**Approximate percentage of issued share capital**
Ocean Star Investment Management Limited	*Note*	1,687,028,478	23.20%

Note: Ocean Star Investment Management Limited was deemed interested under the SFO in the Shares by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the notes of paragraph 3(ii)(A) above).

(C) Interests in other members of the Group

Name of non wholly-owned subsidiaries of PCCW	**Name of registered substantial shareholder(s)**	**Number of shares held by substantial shareholder(s)**	**Holding percentage**
Unihub China Information Technology Company Limited	China Huaxin Post and Telecommunications Economy Development Centre	N/A	50%
Pacific CyberTrans (Holdings) Co. Ltd.	Huajian Digital Technology Co. Ltd.	4,900 ordinary shares	49%

Name of non wholly-owned subsidiaries of PCCW	Name of registered substantial shareholder(s)	Number of shares held by substantial shareholder(s)	Holding percentage
JRM (BVI) Company Limited	El Grande Holdings Limited	240 ordinary shares	20%
	China Management Service Limited	120 ordinary shares 999,880 preferred shares	10% 12.20%
PCCW (Macau), Limitada	Mappa - Macau Projects and Promotions Agency Limited	1 ordinary share (issued at MOP$500,000)	25%
Unihub Global Network Technology (China) Limited	I-Strength Developments Limited	2,357 ordinary shares	23.57%
Hoover Express Limited	Luen Yum Development Company Limited	2,000 ordinary shares	20%
Stable King Development Company Limited	Luen Yum Development Company Limited	20 ordinary shares	20%
Ocean Fine Pte Limited	Ocean Fine Industrial Development Limited	15 ordinary shares	15%
Unicom Yellow Pages Information Co., Ltd.	聯通興業科貿有限公司	N/A	20%
PCCW Teleservices (US), Inc.	Andrew C. Jacobs and Catherine M. Jacobs *(Note)*	175.35 common shares *(Note)*	15% *(Note)*
PCCW Teleservices (Philippines) Inc.	IPVG Corp.	857,143 common stock	30%
Pacific Century Premium Developments Limited	Elliott Capital Advisors, L.P.	555,292,500 ordinary shares	23.06%

Name of non wholly-owned subsidiaries of PCCW	Name of registered substantial shareholder(s)	Number of shares held by substantial shareholder(s)	Holding percentage
Phang-nga Leisure Limited	Prasert Consultant 11 Limited	61,000 ordinary shares	30.50%
	Jeerapan First Holding Limited	61,000 ordinary shares	30.50%
Phang-nga Paradise Limited	Prasert Consultant 11 Limited	61,000 ordinary shares	30.50%
	Jeerapan First Holding Limited	61,000 ordinary shares	30.50%

Note: Andrew C. Jacobs and Catherine M. Jacobs respectively hold 114.51 and 60.84 common shares representing approximately 9.80% and 5.20% of the total issued share capital of PCCW Teleservices (US), Inc.

Save as disclosed above, the Directors and chief executives of PCCW are not aware that there is any other person (other than any Directors or chief executives of PCCW) who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to PCCW under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered into the register required to be kept under Section 336 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of PCCW or any other member of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2010 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, the following are the interests of the Directors in businesses apart from the Group's business, which compete or are likely to compete, either directly or indirectly, with the Group's business:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "**Cheung Kong Group**")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong *(Note 1)*
	HWL and its subsidiaries (the "**Hutchison Group**")	Ports and related services; property and hotels; retail; energy, infrastructure, investments and others; and telecommunications	Certain personal and deemed interests in HWL *(Note 2)*
Lu Yimin	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("**Unicom A-Share**") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK

Name of Director	Name of company	Nature of business	Nature of interests
	China United Network Communications Corporation Limited ("**CUCL**") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of CUCL
Li Fushen	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Chief Financial Officer of Unicom HK
	CUCL and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and Senior Vice President of CUCL
Chung Cho Yee, Mico *(Note 3)*	CSI Properties Limited ("**CSI**") and its subsidiaries	Property investment and securities investment	Chairman and Executive Director and beneficial owner of 34.68% of CSI

In addition, Li Tzar Kai, Richard, Peter Anthony Allen and Lee Chi Hong, Robert are directors of certain private companies (the "**Private Companies**"), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard, Alexander Anthony Arena and Peter Anthony Allen are directors of PCRD. PCRD is an investment holding company of, among others, interests in the Company and property and infrastructure investment in the Asia Pacific region.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the paragraph 3 above.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Furthermore, the Group holds minority equity interests in a number of Internet-related companies in which the Group is entitled to appoint, and has appointed, one or more directors to the board of these companies to represent the interests of the Group. Some or all of these companies may compete directly or indirectly, with certain aspects of the Group's business.

Other than as disclosed above, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.

2. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until 16 August 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as HKTL) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.

3. Chung Cho Yee, Mico holds direct personal interest in some private companies, which engage in property investment or development in Hong Kong.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

8. PROCEDURE FOR DEMANDING A POLL

In accordance with article 73 of the Company's articles of association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(a) by the Chairman; or

(b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) by any member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting of the Company must be taken by way of poll. In accordance with article 74 of the Company's articles of association, if a poll is demanded as aforesaid, it shall be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman directs. The Chairman of the meeting will therefore demand a poll for every resolution put to the vote of the EGM in accordance with the Company's articles of association. The results of the poll will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.pccw.com).

9. EXPERT AND CONSENT

(i) The following is the qualification of the experts who have given opinions or advice contained in this circular:

Name	Qualification
Rothschild (Hong Kong) Limited	Licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Deloitte & Touche Financial Advisory Services Limited	Independent Professional Business Valuers

(ii) As at the Latest Practicable Date, each of Rothschild (Hong Kong) Limited, PricewaterhouseCoopers and Deloitte & Touche Financial Advisory Services Limited had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) As at the Latest Practicable Date, each of Rothschild (Hong Kong) Limited, PricewaterhouseCoopers and Deloitte & Touche Financial Advisory Services Limited did not have any direct or indirect interest in any assets which had been since 31 December 2010 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

(iv) Each of Rothschild (Hong Kong) Limited, PricewaterhouseCoopers and Deloitte & Touche Financial Advisory Services Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/reports and reference to its name in the form and context in which they appear respectively.

(v) PricewaterhouseCoopers made its expert statement in the form of letters/reports referred to in Appendices IV, VIII and IX of this circular.

(vi) Deloitte & Touche Financial Advisory Services Limited made its statement in the form of valuation report referred to in Appendix V of this circular.

10. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular and are or may be material:

(1) a call option agreement dated 10 August 2009 between (1) Andrew C. Jacobs, Catherine M. Jacobs, Roger E. Jacobs and John A. Jacobs; and (2) IP BPO Holdings Pte. Ltd. (as supplemented by a letter dated 23 December 2010) wherein those individuals jointly granted to IP BPO Holdings Pte. Ltd. an option to purchase 15% of the issued share capital of PCCW Teleservices (US), Inc. (formerly known as Interactive Teleservices Corporation) at nominal consideration, which option may be exercised between 1 July 2010 and 31 August 2013;

(2) a call option agreement dated 13 August 2009 between IPVG Corp. and IP BPO Holdings Pte. Ltd. (as supplemented by a letter dated 30 June 2011) wherein IPVG Corp. granted to IP BPO Holdings Pte. Ltd. an option to purchase 30% of the issued share capital of PCCW Teleservices (Philippines) Inc. (formerly known as BPO Teleservices Inc.) at nominal consideration, which option may be exercised between 1 July 2010 and 29 February 2012;

(3) a supplemental agreement to shareholders agreement dated 17 November 2009 entered into among PCCW Properties Limited, Ocean Fine Industrial Development Limited, Ocean Fine International Group Limited and Mr Li Ciyan, pursuant to which certain terms of the shareholders agreement dated 9 September 1996 in relation to Ocean Fine Pte Limited (a joint venture established in Singapore in which PCCW Properties Limited is holding 85% interest) were amended;

(4) a share purchase agreement dated 14 May 2010 entered into among UKBB as purchaser and Timothy Close, Nicholas Shaw-Hardie, Andrew Somerville, Adrian Wheeler and Alison Procter as sellers, pursuant to which UKBB agreed to purchase 64.9% of the issued share capital of UKB Solutions Limited (formerly known as 802 Global Limited) and the entire 100% issued share capital of 802 Limited (formerly known as 802 Global Limited) from the sellers at an aggregate maximum consideration of Pound Sterling 4,500,000 (of which with a maximum of Pound Sterling 3,600,000 is subject to future profits of UKB Solutions Limited and 802 Limited for the period from 1 May 2010 to 31 December 2014);

(5) a share purchase agreement dated 14 May 2010 entered into between UKBB as purchaser and Jacdaw Investments Limited as seller, pursuant to which UKBB agreed to purchase 35.1% of the issued share capital of UKB Solutions Limited (formerly known as 802 Global Limited) from Jacdaw Investments Limited at a consideration of Pound Sterling 2,100,000;

(6) an agreement dated 17 June 2010 for the transfer of spectrum licences entered into among UKBB as purchaser, Freedom4 Limited, Freedom4 Access Limited, Faultbasic Limited, Daisy Group plc and Vialtus Limited, pursuant to which UKBB agreed to purchase a total of six (6) spectrum licences from Freedom4 Access Limited, Faultbasic Limited and Vialtus Limited respectively at an aggregate consideration of Pound Sterling 12,500,000. Daisy Group plc acted as the guarantor in this transaction;

(7) a subscription agreement dated 19 August 2010 entered into between (i) PCCW-HKT Capital No.4 Limited as the issuer (ii) HKTGH and Hong Kong Telecommunications (HKT) Limited as the guarantors and (iii) The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc and Standard Chartered Bank as the joint lead managers in relation to the issue and subscription of US$500,000,000 4.25% guaranteed notes due 2016;

(8) a placing agreement dated 23 August 2010 entered into among the Company, The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley & Co. International plc, pursuant to which the Company appointed The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley & Co. International plc as its placing agents in connection with the placing of 500 million new PCCW Shares at the placing price of HK$2.60 each;

(9) a trust deed dated 24 August 2010 entered into between (i) PCCW-HKT Capital No.4 Limited as issuer (ii) HKTGH and Hong Kong Telecommunications (HKT) Limited as guarantors and (iii) The Hongkong and Shanghai Banking Corporation Limited as trustee in relation to the issue and subscription of US$500,000,000 4.25% guaranteed notes due 2016;

(10) an agreement for sale and purchase and an assignment both dated 30 September 2010 entered into between Hong Kong Telecommunications (HKT) Limited as vendor and Halima Limited as purchaser, pursuant to which Hong Kong Telecommunications (HKT) Limited transferred all those Units Nos.1 to 15 (inclusive), together with such other ancillary facilities on the 19th floor of Paramount Building and all those parking space nos. 10 and L6 on the 1st floor of Paramount Building on Chai Wan Inland Lot No. 134, Hong Kong to Halima Limited at a consideration of HK$44,100,000;

(11) an investment agreement dated 4 November 2010 entered into among PCCW Holding Company (Beijing) Limited (being a member of the Telecommunications Group), Mr Gan Haochuan and 東莞市捷通電訊有限公司 (Dongguan City Jietong Telecommuncations Company Limited) (as amended and supplemented by a supplemental agreement dated 2 September 2011 entered into by the same parties and 東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited)), pursuant to which the parties agreed to certain major terms and conditions under which PCCW Holding Company (Beijing) Limited shall purchase 35% interest in 東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited) at a consideration of RMB15,000,000;

(12) a share sale and purchase agreement dated 29 November 2010 entered into between Ambrosia Pacific Limited as seller and HKT Media International (Cayman Islands) Limited (being a member of the Remaining Group) as buyer, pursuant to which HKT Media International (Cayman Islands) Limited agreed to buy the entire issued share capital of PC Music Holdings Limited at nominal consideration;

(13) a sale and purchase agreement dated 3 December 2010 in relation to the transfer of a spectrum licence entered into between UKBB as purchaser and Red-M Wireless Limited as seller, pursuant to which UKBB agreed to purchase a spectrum licence from Red-M Wireless Limited at a consideration of Pound Sterling 85,000;

(14) a stock purchase agreement dated 21 December 2010 entered into among IP BPO Holdings Pte. Ltd. as purchaser and Andrew C. Jacobs, Roger E. Jacobs, Catherine M. Jacobs and John A. Jacobs as vendors in relation to the sale by those individuals of 15% of the issued share capital of PCCW Teleservices (US), Inc. (formerly known as Interactive Teleservices Corporation) at a consideration of US$3,921,716;

(15) a completion agreement dated 25 January 2011, as amended by an amendment and restatement agreement dated 28 February 2011 entered into among Telstra Corporation Limited, Telstra Holdings Pty. Ltd., Telstra Holdings (Bermuda) No 1 Limited, Telstra Singapore Pte. Ltd., Telstra International Limited, Telstra Limited, Telstra Inc., Telstra Japan KK, Telstra New Zealand Holdings Ltd., the Company, Pacific Century Cable Holdings Limited, PCCW Global (Singapore) Pte. Ltd., HKT Global (Singapore) Pte. Ltd., PCCW Global Limited, PCCW Global Pte. Ltd. (Japan Branch), PCCW Global (Japan) K.K., PCCW Global (UK) Limited, PCCW Global, Inc., PCCW Global (HK) Limited, PCCW Global Korea Limited, Reach Ltd., Reach Finance Limited, Reach Global Networks Limited, Reach Networks Hong Kong Limited, Reach Global Services Limited, Splendid Mind Enterprises Limited, Fortune Harvests Investment Limited, Reach Global Holdings Limited, Reach Services Australia Pty Limited, Reach Networks Australia Pty Limited, Reach International Holdings Limited, Reach Services Asia Limited, Reach Networks KK, Reach Cable Networks Limited, Reach Network Services Korea Ltd., Reach Internet Services Limited, Reach Networks (Taiwan) Limited 國際環球通訊網絡股份有限公司, Reach Holdings (Taiwan) Co., Ltd. 國際環球通訊投資股份有限公司, Reach Services Taiwan Limited 國際環球訊息股份有限公司, Reach Europe Ltd., Reach Services (USA) Inc., Reach International Telecom (Singapore) Pte. Limited, Reach Internet Services Pte. Ltd., Reach Network Services NZ Limited and Reach Asia Limited in relation to the allocation and transfer of certain assets held by members of Reach Ltd. and its related entities to members of the PCCW Group or members of Telstra Corporation Limited and its related entities;

(16) a HK asset transfer agreement (RGSL to PCCW) dated 25 January 2011 entered into among Reach Global Services Limited, Splendid Mind Enterprises Limited and Reach Ltd., pursuant to which Reach Global Services Limited agreed to sell certain plant and equipment, property leases, owned transmission, leased transmission, customer contracts and records to Splendid Mind Enterprises Limited for an initial consideration of US$1,882,749, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(17) a HK asset transfer agreement (Reach to PCCW) dated 25 January 2011 entered into among Reach Networks Hong Kong Limited, Reach Cable Networks Limited, Reach Services Asia Limited, Splendid Mind Enterprises Limited and Reach Ltd., pursuant to which Reach Networks Hong Kong Limited, Reach Cable Networks Limited and Reach Services Asia Limited agreed to sell certain plant and equipment, property leases, owned transmission, leased transmission, customer contracts and records to Splendid Mind Enterprises Limited for an initial consideration of US$18,384,257, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(18) a U.S. asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach Services (USA) Inc., PCCW Global, Inc. and Reach Ltd., pursuant to which Reach Services (USA) Inc. agreed to sell certain plant and equipment, leased transmission, property leases, customer contracts and records to PCCW Global, Inc. for an initial consideration of US$98,849, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(19) a Taiwan asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach Networks (Taiwan) Ltd. 國際環球通訊網絡股份有限公司, Reach Services Taiwan Limited 國際環球訊息股份有限公司 and Reach Ltd., pursuant to which Reach Networks (Taiwan) Ltd. 國際環球通訊網絡股份有限公司 agreed to sell certain plant and equipment, property leases, customer contracts and records to Reach Services Taiwan Limited 國際環球訊息股份有限公司 for an initial consideration of US$6,027,790, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(20) a Singapore asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach International Telecom (Singapore) Pte. Ltd., Reach Internet Services Pte. Ltd., HKT Global (Singapore) Pte. Ltd. and Reach Ltd., pursuant to which Reach International Telecom (Singapore) Pte. Ltd. and Reach Internet Services Pte. Ltd. agreed to sell certain plant and equipment, owned transmission, leased transmission, customer contracts and records to HKT Global (Singapore) Pte. Ltd. for an initial consideration of US$2,881,997, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(21) a Japan asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach Networks KK, PCCW Global Pte. Ltd. (Japan Branch) and Reach Ltd., as amended by a novation and amendment agreement dated 28 February 2011 entered into among the same parties and PCCW Global (Japan) K.K. and pursuant to which Reach Networks KK agreed to sell certain

plant and equipment, customer contracts and records to PCCW Global (Japan) K.K. for an initial consideration of US$4,680,524, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction. PCCW Global (Japan) K.K. agreed to assume all obligations and liabilities of PCCW Global Pte. Ltd. (Japan Branch) under the said Japan asset transfer agreement;

(22) an Australia asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach Networks Australia Pty. Ltd., PCCW Global (HK) Limited and Reach Ltd., pursuant to which Reach Networks Australia Pty. Ltd. agreed to sell certain plant and equipment, customer contracts and records to PCCW Global (HK) Limited for an initial consideration of US$207,108, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(23) an UK asset transfer agreement (PCCW) dated 25 January 2011 entered into among Reach Europe Ltd., PCCW Global (UK) Limited and Reach Ltd., pursuant to which Reach Europe Ltd. agreed to sell certain plant and equipment, leased transmission, customer contracts and records to PCCW Global (UK) Limited for an initial consideration of US$309,351, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(24) a Taiwan share transfer agreement (Reach Services Taiwan to PCCW) dated 25 January 2011 entered into between Reach Holdings (Taiwan) Co., Ltd. 國際環球通訊投資股份有限公司, Reach Services Taiwan Limited 國際環球訊息股份有限公司, PCCW Global Limited and Reach Ltd., pursuant to which Reach Holdings (Taiwan) Co., Ltd. 國際環球通訊投資股份有限公司 agreed to sell the entire share capital of Reach Services Taiwan Limited 國際環球訊息股份有限公司 to PCCW Global Limited for an initial consideration of US$100,000, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(25) a HK share transfer agreement (Reach NewCo (BVI) to PCCW) dated 25 January 2011 entered into among Reach Global Services Limited, Fortune Harvests Investment Limited, PCCW Global (HK) Limited, Reach Networks Hong Kong Limited and Reach Ltd., pursuant to which (i) Reach Global Services Limited agreed to sell the entire share capital of Fortune Harvests Investment Limited to PCCW Global (HK) Limited; and (ii) Reach Networks Hong Kong Limited agreed to assign all debts of Fortune Harvests Investment Limited and Splendid Mind Enterprises Limited to PCCW Global (HK) Limited, for an initial consideration of US$20,267,006, which was subject to adjustment in accordance with the agreed principles between the relevant parties. Reach Ltd. acted as the guarantor in this transaction;

(26) a RNAL transfer agreement dated 25 January 2011 entered into among Reach Ltd., Reach Cable Networks Limited, Reach Networks KK, Reach Global Networks Limited, PCCW Global (Singapore) Pte. Ltd., the Company and Telstra Corporation Limited, pursuant to which, amongst others, Reach Ltd. agreed to transfer its exclusive ownership interest in the fibre pair one on the cable system referred to as the FLAG North Asia Loop System to PCCW Global (Singapore) Pte. Ltd. for a consideration of US$50,000,000;

(27) a letter of settlement of PCCW prior claims dated 25 January 2011 entered into among the Company, Telstra Corporation Limited and Reach Ltd., pursuant to which, among others, Reach Networks Hong Kong Limited agreed to issue a credit note with the aggregate face value equal to US$63,000,000 to PCCW Global Limited and the Company agreed to fully utilise the said credit note for the acquisition of assets or shares by the Company and its related entities under the RNAL Transfer Agreement (as described in paragraph (26) above) and the Asset and Share Acquisition Agreements (each as defined in the completion agreement referred to in paragraph (15) above);

(28) an amended and restated Reach shareholders agreement dated 25 January 2011 entered into among Telstra Corporation Limited, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No 1 Limited, the Company, Pacific Century Cable Holdings Limited and Reach Ltd. whereby the parties agreed to regulate the management of Reach Ltd. and the related operational issues on the terms set out therein;

(29) an asset transfer agreement - retained assets (PCCW) dated 28 February 2011 entered into among Fortune Harvests Investment Limited, Reach Services Taiwan Limited 國際環球訊息股份有限公司 and Reach Ltd., pursuant to which Fortune Harvests Investment Limited and Reach Services Taiwan Limited 國際環球訊息股份有限公司 agreed to sell the Retained Assets (as defined in the completion agreement referred to in paragraph (15) above) to Reach Ltd. for nominal consideration;

(30) four share transfer agreements all dated 9 May 2011 entered into by PCCW Media Limited as purchaser and each of (i) Ceyuan Ventures I., L.P. and Ceyuan Ventures Advisors Fund, LLC; (ii) Ever Record Limited; (iii) Auspice Capital Limited; and (iv) Qiming Venture Partners, L.P., each as seller respectively, pursuant to which PCCW Media Limited agreed to purchase in aggregate 1,000,000 series A preferred shares, 500,000 class A non-voting ordinary shares, 500,000 ordinary shares and 386,744 series B preferred shares of par value of US$1/6,000 each in the share capital of PPStream Inc. at a total consideration of US$28,640,928;

(31) a membership interest purchase agreement dated 31 May 2011 entered into between PCCW Teleservices (US), Inc. as seller and Roger E. Jacobs as purchaser, pursuant to which PCCW Teleservices (US), Inc. agreed to sell its entire issued and outstanding membership interests in Airfluent Partners, LLC to Roger E. Jacobs at a consideration of US$20,715;

(32) a share sale and purchase agreement dated 14 July 2011 entered into between PCCW Media Limited as seller and Vision Knight Capital (China) Fund I, L.P. as purchaser, pursuant to which PCCW Media Limited agreed to sell 333,000 series A preferred shares of par value of US$1/6,000 each in the share capital of PPStream Inc. to Vision Knight Capital (China) Fund I, L.P. at a consideration of US$3,996,000;

(33) a shareholders agreement dated 13 August 2011 entered into among PCCW Media Limited and 3 other parties in relation to the establishment of a joint venture in Hong Kong, pursuant to which PCCW Media Limited shall contribute HK$10,000 to the joint venture;

(34) a share transfer agreement dated 2 September 2011 entered into between PCCW Holding Company (Beijing) Limited as purchaser and M & L Associates Limited as seller, pursuant to

which PCCW Holding Company (Beijing) Limited agreed to purchase 35% interest in 東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited) from M & L Associates Limited at a consideration of RMB15,000,000;

(35) a joint venture contract dated 7 September 2011 between PCCW Media Limited and another party in relation to the establishment of a joint venture in the PRC, pursuant to which PCCW Media Limited shall contribute an amount equivalent to approximately HK$29,900,000 to the registered capital of the joint venture; and

(36) a deed of consent dated 19 September 2011 entered into among Telstra Corporation Limited, Telstra Holdings (Bermuda) No 1 Limited, Telstra Holdings Pty Limited, the Company, Pacific Century Cable Holdings Limited, Reach Ltd. and HKT to amend, vary, novate or supplement the Reach shareholders agreement dated 13 October 2000, as amended and restated by the amended and restated Reach shareholders agreement referred to in paragraph (28) above.

11. MISCELLANEOUS

(i) The registered office of PCCW is situated at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(ii) The company secretary of the Company is Philana Wai Yin Poon, B. Comm., J.D.

(iii) In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong during normal business hours on any week day (except public holidays) up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the material contracts as referred to in the section headed "Material Contracts" in this Appendix;

(iii) the Letter from the Independent Board Committee, the text of which is set out on pages 153 to 154 of this circular;

(iv) the Letter from Rothschild, the independent financial adviser, the text of which is set out on pages 155 to 180 of this circular;

(v) the valuation report dated 26 September 2011 in relation to the Media Business and Solutions Business prepared by Deloitte & Touche Financial Advisory Services Limited, the text of which is set out in Appendix V of this circular;

(vi) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the PCCW Group, the text of which is set out in Appendix IV of this circular;

(vii) the report from PricewaterhouseCoopers in relation to the Profit Forecast and the Profit Projection of the Telecommunications Group, the text of which is set out in Appendix VIII of this circular;

(viii) the report from PricewaterhouseCoopers on forecast earnings on which the business valuation of Media Business and Solutions Business of the Company is based, the text of which is set out in Appendix IX of this circular;

(ix) the Company's Annual Reports (including audited accounts of the Group) for the two financial years ended 31 December 2009 and 2010 and the Company's Interim Report (including unaudited interim accounts of the Group) for the six months period ended 30 June 2011;

(x) the proposed form of the 2011-2021 Option Scheme rules;

(xi) the proposed forms of the respective rules and trust deeds relating to each of the Share Stapled Units Award Schemes; and

(xii) this circular.

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

NOTICE IS HEREBY GIVEN (the "**Notice**") that an extraordinary general meeting (the "**Meeting**") of PCCW Limited (the "**Company**") will be held at 10:30 a.m., on Wednesday, 12 October 2011 at 9th Floor, Telecom House, 3 Gloucester Road, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**:

(a) the Proposed Spin-off (as defined below) and the Distributions in Specie (as defined below) and all documents, agreements and other actions necessary or, in the opinion of the board of directors of the Company, desirable to be issued, entered into or taken in connection with the Proposed Spin-off and/or the Distributions in Specie and/or for the purpose of giving effect to, or otherwise in connection with, either of them, be and are hereby approved; and

(b) the board of directors of the Company be and is hereby authorised on behalf of the Company to approve and implement the Proposed Spin-off and the Distributions in Specie and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable (including, without limiting the generality of the foregoing, (i) approving the execution and delivery of any instruments and agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Proposed Spin-off and/or the Distributions in Specie; and (ii) the exercise of any and all powers of the Company and the doing of any and all acts as the board of directors of the Company may consider necessary, desirable or expedient to give effect to, or otherwise in connection with, the Proposed Spin-off and/or the Distributions in Specie).

For the purposes of this ordinary resolution:

(i) "**Proposed Spin-off**" means the spin-off and separate listing of the Telecommunications Business (as defined in the Circular referred to below) on the Main Board of The Stock Exchange of Hong Kong Limited in the form of a Share Stapled Units structure and including the Global Offering (as defined in the Circular), as described in the Company's circular dated 26 September 2011 of which this Notice is part (the "**Circular**"), which complies with the requirement that the final subscription price of each Share Stapled Unit offered for subscription in connection with the Proposed Spin-off must imply a minimum market capitalisation for 100% of the HKT Trust and HKT Limited, in aggregate, of not less than HK$28.6 billion.

(ii) "**Distributions in Specie**" has the meaning given to that expression in the Circular.

(2) "**THAT** the Share Stapled Units option scheme to be adopted by the HKT Trust and HKT Limited (the "**2011-2021 Option Scheme**"), a copy of which is produced to the Meeting marked "A" and for the purpose of identification signed by the Chairman of the Meeting, which is summarised in Appendix VI to the Company's circular dated 26 September 2011, of which this Notice is part, be and is hereby approved for adoption as the 2011-2021 Option Scheme of the HKT Trust and HKT Limited and the board of directors of the Company be and is hereby authorised to approve any amendments to the rules of the 2011-2021 Option Scheme to be made prior to the adoption of the 2011-2021 Option Scheme, provided that any such amendments are acceptable to, or not objected to by, The Stock Exchange of Hong Kong Limited; and the board of directors of the Company be and is hereby also authorised to do all such acts and things on behalf of the Company, and to approve the Company entering into all such transactions and arrangements, as, in each case, the board of directors of the Company considers to be necessary or desirable in order to give effect to the 2011-2021 Option Scheme."

(3) "**THAT** the Share Stapled Units Award Schemes to be adopted by HKT Limited, copies of which are produced to the Meeting marked "B" and for the purpose of identification signed by the Chairman of the Meeting, which are summarised in Appendix VI to the Company's circular dated 26 September 2011, of which this Notice is part, be and are hereby approved for adoption by HKT Limited and the board of directors of the Company be and is hereby authorised to approve any amendments to the rules of the Share Stapled Units Award Schemes to be made prior to the adoption of the Share Stapled Units Award Schemes, provided that any such amendments are acceptable to, or not objected to by, The Stock Exchange of Hong Kong Limited; and the board of directors of the Company be and is hereby also authorised to do all such acts and things on behalf of the Company, and to approve the Company entering into all such transactions and arrangements, as, in each case, the board of directors of the Company considers to be necessary or desirable in order to give effect to the Share Stapled Units Award Schemes."

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

Hong Kong, 26 September 2011

Registered Office:
39th Floor
PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Notes:

1. A form of proxy for use at the Meeting is enclosed with the Company's circular dated 26 September 2011, of which this Notice is part and which is referred to in each of the ordinary resolutions set out above.

2. Any member of the Company entitled to attend and vote at the Meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.

3. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders is present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Investor Communications Centre, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

5. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the proxy form, it will be deemed to have been revoked.