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PCCW Limited

電訊盈科有限公司

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

**CONTINUING CONNECTED TRANSACTIONS
WITH THE UNICOM GROUP**

The Unicom Group is a connected person of the Company under the Listing Rules and transactions between the Group and the Unicom Group constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

The Group has, from time to time, entered into transactions with the Unicom Group relating to the acquisition and provision of certain information technology services and products. It is anticipated that the Group will continue to enter into these transactions with the Unicom Group from time to time. These transactions constitute continuing connected transactions for the Company under Listing Rule 14A.31. The annual caps in respect of each category of transactions described in the Previous Announcement will expire on 31 December 2017. The Directors propose to set new Annual Caps for each category of continuing connected transactions for the three financial years ending 31 December 2018, 2019 and 2020.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Annual Caps for each category of the continuing connected transactions exceed 0.1% but are less than 5%, the transactions are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waivers have been sought from and granted by the Stock Exchange from strict compliance with the requirements of Listing Rules 14A.34 and 14A.52 subject to the conditions set out in this announcement.

BACKGROUND

Reference is made to the Previous Announcement in relation to the continuing connected transactions with the Unicom Group. In view of the expiration of the annual caps on 31 December 2017 in respect of each category of transactions described in the Previous Announcement, the Directors propose to set new Annual Caps for each category of transactions for the three financial years ending 31 December 2018, 2019 and 2020.

CONTINUING CONNECTED TRANSACTIONS WITH THE UNICOM GROUP

China Unicom BVI, a wholly-owned subsidiary of Unicom, is a substantial shareholder and a connected person (as defined in the Listing Rules) of the Company. China Unicom BVI directly holds approximately 18.46% of the total number of shares of PCCW in issue as at the date of this announcement. Therefore, the Unicom Group is a connected person of the Company under the Listing Rules and transactions between the Group and the Unicom Group constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

The Group has, from time to time, entered into transactions with the Unicom Group relating to the acquisition and provision of certain information technology services and products. It is anticipated that the Group will continue to enter into these transactions with the Unicom Group from time to time. These transactions constitute continuing connected transactions for the Company under Listing Rule 14A.31 and are classified into the following categories based on the nature of the transactions:

1. Provision of data services by the Group to the Unicom Group;
2. Provision of data services by the Unicom Group to the Group; and
3. Provision of systems integration services by the Group to the Unicom Group.

DESCRIPTION OF THE NATURE OF THE AGREEMENTS CONSTITUTING THE CONTINUING CONNECTED TRANSACTIONS

The nature of the agreements constituting the continuing connected transactions, and in particular the bases of calculating the payments to be made under those agreements, are described below, in accordance with the categories of transactions specified above.

Provision of data services by the Group to the Unicom Group

The provision of data services by the Group to the Unicom Group refers to the provision of dedicated networks and network facilities, in the form of private leased lines, Internet Protocol platforms and/or data center services, for mainly data and voice communication, both locally and internationally. These dedicated networks and network facilities are used by the Unicom Group to facilitate the provision of its telecommunications and information technology services to its own customers.

The data services provided by the Group to the Unicom Group are generally provided on the basis of the Group's standard network services application form, which is effectively equivalent to a purchase order. The network services application form incorporates the general terms and conditions of service of the relevant members of the Group, which are available on the Group's websites. The minimum commitment period for the provision of the data services is stated in the network services application form. The charges for these data services may include a one-off charge per circuit and a monthly rental charge. The monthly rental charge may comprise the fixed recurring charge and the variable charge which is determined based on the volume of data usage by the Unicom Group, as more particularly specified in each individual service application form.

In addition, a number of agreements have been entered into other than on the basis of the Group's standard network services application form. These agreements may incorporate the standard terms and conditions of the relevant members of the Group or otherwise on similar terms.

As a general principle, the prices and terms of the agreements for provision of such data services by the Group to the Unicom Group shall be determined in the ordinary course of business on normal commercial terms. Reference is made by the Group to the expected costs to be incurred, volume and duration of the services required, and the then prevailing market conditions. In any event the prices and terms shall not be more favourable than those provided to the independent third party customers of the Group.

Internal control procedures are in place to compare the prices and terms of the data services to be provided to the Unicom Group with those offered to the independent third party customers by then, before the Group enters into the corresponding agreements. Taking into account the nature and scope of the data services to be provided by the Group to the Unicom Group, the Group also compares the expected profit margins from such data services to be provided to the Unicom Group with the range of profit margins of comparable services between the Group and independent third party customers.

The Group maintains records from open market tenders about charges by other operators offering similar services as a reference. All sales leads are reviewed in order to generate a pricing and solution proposal, after taking into account factors like technical requirements, availability of suppliers for the proposed solution and related costs according to predefined internal procedures. These procedures, including comparison of the prices and terms of the data services to be provided with those currently charged by other operators offering similar services before entering into the service agreement, apply to all customers in order to ensure competitiveness in the market.

Provision of data services by the Unicom Group to the Group

The provision of data services by the Unicom Group to the Group refers to the provision of dedicated networks and network facilities, in the form of private leased lines, Internet Protocol platforms and/or data center services, by the Unicom Group to the Group. The dedicated networks and network facilities are mainly used for data and voice communication, both locally and internationally. The Group uses these dedicated networks and network facilities in the provision of telecommunications and information technology services to its own customers.

The terms of the agreements relating to the provision of such data services by the Unicom Group to the Group provide for one or more of the following bases of calculation of the payments to be made:

- (a) Payments determined by reference to prices specified in guidance issued by the PRC Government, or in the absence of the PRC Government guidance prices, by reference to the market price of the same or similar data services;
- (b) Agreed unit prices, determined by reference to comparable market prices, the committed contract duration and/or the committed volumes. In this regard, customers committing to a longer contract period or greater volume may enjoy a lower price; and/or

- (c) Agreed pricing for individual services on a case by case basis, by reference to current market offers and comparable market prices for similar services provided on substantially the same terms and conditions.

Each of the bases of calculation described in (a), (b) and (c) above is comparable to those obtained from independent third parties. These transactions are monitored by the Group's relevant procurement and internal control procedures and policies, which would include, where applicable, obtaining quotations and/or inviting tenders from multiple suppliers in the market. Except for services where there are only limited suppliers in the market, quotations from at least two suppliers are required for purchases of or above HK\$50,000. The criteria based on which the Group assess the merits of the multiple suppliers, including the Unicom Group, are the same. The relevant procurement and internal control procedures and policies also help to ensure that the pricing of the data services to be provided by the Unicom Group to the Group would not be higher than the pricing of the same or similar services which the Group would otherwise be able to obtain from independent third party suppliers.

Provision of systems integration services by the Group to the Unicom Group

The provision of systems integration services by the Group to the Unicom Group refers to the provision of services and/or hardware and/or software required to set up a computer system, network system or information technology infrastructure according to the user's requirements. Such systems integration services provided under the agreements include system design, project management, system implementation, managed services, consultancy, hardware, hosting, software development, testing and maintenance. Many of such systems integration services agreements were entered into following a competitive tender process initiated by the Unicom Group and, accordingly, were entered into on terms and conditions specified by the relevant member of the Unicom Group as part of the tender procedures. This is expected to remain the case for systems integration services agreements to be entered into between 2018 and 2020. The remaining contracts were entered into on an individual basis through direct negotiations with the Unicom Group and this is also expected to remain the case for systems integration services agreements to be entered into between 2018 and 2020.

Project pricing depends on project nature and scope. As a general principle, the prices and terms of the agreements for provision of such systems integration services by the Group to the Unicom Group shall be determined in the ordinary course of business on normal commercial terms. Reference is made by the Group to the expected costs to be incurred, complexity of the services required, and the then prevailing market conditions. In any event the prices and terms shall not be more favourable than those provided to independent third party customers of the Group.

The values of respective systems integration projects are determined by the number of man-hour involved and the unit price per man-hour being charged. The Group maintains records of latest unit price per man-hour that the Group has charged to its customers, as well as the price that other market participants have offered during latest open tenders in the market, on different types of projects. Internal control procedures are in place to compare the unit price per man-hour with these records so as to ensure that the prices and terms shall not be more favourable than those provided to independent third party customers in the same industry and region before the approval of the agreements by management. Taking into account the nature and scope of the systems integration services to be provided by the Group to the Unicom Group, the Group also compares the expected profit margins from such services with the range of profit margins of comparable services between the Group and independent third party customers.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in providing services in the areas of integrated telecommunications, broadband solutions, connectivity, narrowband and interactive broadband (Internet services), interactive multimedia and pay-TV services, information technology solutions and services and infrastructures. It is considered that the provision of data services to and/or from the Unicom Group and the provision of systems integration services to the Unicom Group are consistent with the commercial objectives of the Group and fall within the core business of the Group. It is anticipated that the entering into of the transactions with the Unicom Group will further strengthen the Group's position as a provider of the information technology services in the PRC.

HISTORICAL TRANSACTION AMOUNTS AND ANNUAL CAPS

Set forth below are the approximate historical aggregate values for each of the two financial years ended 31 December 2015 and 2016 and the period between 1 January 2017 and 30 September 2017, the existing annual caps for the year ending 31 December 2017 in relation to each of the three categories of continuing connected transactions between the Group and the Unicom Group, and the Annual Caps for the next three financial years ending 31 December 2018 to 2020:

(A) Approximate historical transaction amounts and existing annual caps

<u>Category</u>	<u>Aggregate values</u> For the financial year ended 31 December 2015 (HK\$ million)	<u>Aggregate values</u> For the financial year ended 31 December 2016 (HK\$ million)	<u>Aggregate values</u> For the period from 1 January 2017 to 30 September 2017 (HK\$ million)	<u>Annual caps</u> For the financial year ending 31 December 2017 (HK\$ million)
1. Provision of data services by the Group to the Unicom Group	128.52	139.11	100.06	600
2. Provision of data services by the Unicom Group to the Group	203.90	131.61	83.92	700
3. Provision of systems integration services by the Group to the Unicom Group	20.92	5.98	20.26	500

(B) Annual Caps

Given the anticipated recurring nature of the continuing connected transactions, the Directors therefore propose to set new Annual Caps for each category of the above transactions. The Annual Caps of each category of transactions for the three financial years ending 31 December 2018 to 2020 are as follows:

<u>Category</u>	<u>Annual Caps</u> <u>for the financial year ending 31 December</u>		
	2018 <i>(HK\$ million)</i>	2019 <i>(HK\$ million)</i>	2020 <i>(HK\$ million)</i>
1. Provision of data services by the Group to the Unicom Group	500	500	500
2. Provision of data services by the Unicom Group to the Group	800	800	850
3. Provision of systems integration services by the Group to the Unicom Group	300	400	450

The Annual Caps for each of the categories 1 and 2 above have been determined by reference to: (a) the relevant historical figures and various contracts entered into before/during 2017 which will continue to be in force in 2018, 2019 and/or 2020, and contracts under negotiation which are intended to be entered into during 2018 to 2020, in respect of both of which, save for those transactions mentioned below, are for a duration not exceeding three years; (b) the estimated growth and development of the business of the Group in light of the economic growth in the PRC; (c) the estimated market pricing of that category of transactions; (d) the existing scale and operation of the Group's business in the PRC; and (e) the anticipated increase in volume of transactions with the Unicom Group.

The Annual Caps for category 3 above have been determined by reference to: (a) the relevant historical figures; (b) the estimated growth and development of the business of the Group in light of the economic growth in the PRC; (c) the estimated market pricing of that category of transactions; and (d) the existing scale and operation of the Group's business in the PRC.

The Group and the Unicom Group have established solid business relationships which allow them to develop further business opportunities in the PRC. In particular, for categories 1 and 2 above, growth prospects are anticipated due to anticipated network expansion of the Group, increased demand for data services by both the Group and the Unicom Group, expected growth in the value of the transactions between both groups and anticipated development and expansion of new services and products of both groups in light of rapidly evolving developments in the technology and telecommunications sectors. Therefore, the Group intends to continue to work closely on a commercial arm's length basis with the Unicom Group on these new opportunities.

The terms and conditions of each transaction under each category of continuing connected transactions will be on a commercial arm's length basis, and on terms no less favourable to the Group than terms available to or from independent third parties. In general, the duration or term of each transaction, other than those transactions mentioned below, will not exceed three years.

The Directors (including the independent non-executive Directors but excluding the Directors who abstained from voting) consider that the continuing connected transactions as described above will be entered into in the ordinary and usual course of business of the Group, on normal commercial terms after arm's length negotiations, which will be fair and reasonable and in the interests of the Company and its shareholders as a whole.

Mr Lu Yimin, Mr Li Fushen and Mr Shao Guanglu, being the non-executive Directors who hold positions with the Unicom Group, have abstained from voting on the Board resolutions approving these continuing connected transactions and the Annual Caps.

DURATION OF THE PROVISION OF DATA SERVICES RELATING TO IRU CONTRACTS

The Group may from time to time enter into capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity within the economic life of the bandwidth capacity ("**IRU Contracts**") available on both groups' networks to and/or from the Unicom Group. These IRU Contracts are categorized under the aforesaid data services categories and are part of the normal commercial activities of the Group.

Pursuant to Listing Rule 14A.52, Investec has been appointed as the IFA of the Company to advise on the duration of the IRU Contracts to be entered into by the Group and the Unicom Group and vice versa for a period exceeding three years and up to 15 years, as well as to explain why a period longer than three years is required and to confirm whether this is normal business practice for the provision or purchase of bandwidth capacity contracts in the form of indefeasible rights of use ("**IRU**") to be of such duration. Investec is of the opinion that (i) the duration of the IRU Contracts being longer than three years and for up to 15 years is essential to safeguard the interests of the Company and its shareholders; and (ii) it is a normal business practice for contracts of this type to be of such duration.

In formulating its opinion, Investec has taken into consideration the following principal factors:

- (i) The Group is principally engaged in (a) the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales; (b) the provision of interactive pay-TV services, Internet portal digital media entertainment platform in Hong Kong and other parts of the world; (c) investments in, and development of, systems integration, network engineering, and technology-related businesses; and (d) development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited, the Company also operates a domestic free television service in Hong Kong.
- (ii) As part of its global connectivity business, the Group enters into the provision or purchase of data capacity in the form of IRU Contracts with other telecommunications providers or enterprises from time to time. The provision or purchase of data capacity in the form of IRU Contracts to be made between the Group and the Unicom Group is consistent with the commercial objectives of the Group and falls within the core business of the Group.

- (iii) The Group and the Unicom Group have established solid business relationships which allow them to develop further business opportunities in the PRC. Therefore, the Group intends to continue to work closely on a commercial arm's length basis with the Unicom Group on these business opportunities. It is anticipated that the entering into of the IRU Contracts with the Unicom Group will further strengthen the Group's position as a provider of information technology services in the PRC.
- (iv) To leverage on the international bandwidth capacity and network coverage of both groups, the provision or purchase of data capacity in the form of IRU Contracts between the Group and the Unicom Group is essential to complement the services provided by both groups, to ensure stable, uninterrupted and reliable services provided by both groups and to facilitate the supply of data capacity to satisfy customers' needs. In summary, Investec believes that this may enhance the business and performance of the Group by facilitating the Group to achieve its commercial objectives, which in turn, is in the interests of the Company and its shareholders as a whole.
- (v) Investec understands from the management of the relevant Group company that the terms and conditions of the IRU Contracts are on a commercial arm's length basis, no less favourable to the Group than that obtainable from or offered to independent third parties.
- (vi) In addition, Investec has reviewed over 30 contracts and order forms relating to IRU and contracts relating to the grant of rights to use bandwidth capacity (collectively referred to as the "**Capacity Contracts**") entered into between the Group and over 20 different counterparties which are telecommunications providers and enterprises in other parts of the world (which are independent third parties and are not connected persons of the Company) (as defined in the Listing Rules) during the years 2009 to 2016. Majority of the Capacity Contracts have duration of 15 years and the remaining ones have duration ranging from 5 to 14 years. Investec has also discussed with the management of the relevant Group company and understands that the duration of the Capacity Contracts exceeding three years and for up to 15 years has been and is currently a normal business practice for telecommunications providers and enterprises. Investec understands that the principal purpose of having to enter into these Capacity Contracts with such a long duration is essentially the same as described in paragraph (iv) above, that is to ensure stable, uninterrupted and reliable services provided by both groups and to facilitate the sales of their respective data services to satisfy customers' needs as well as to maintain customer loyalty in the highly competitive telecommunications industry.
- (vii) The Group, by entering into the IRU Contracts with the Unicom Group for a duration exceeding three years and up to 15 years in order to fulfill the customers' orders for the Group and/or the Unicom Group, will significantly reduce the risk of interruptions in the supply of capacity and/or fluctuations in costs and pricing.
- (viii) Investec understands from the management of the relevant Group company that it is not aware of any circumstances that may lead to a change in the current market practice over the next three years in relation to the duration of IRU Contracts exceeding three years and for up to 15 years.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS OF LISTING RULES 14A.34 AND 14A.52

Waivers have been sought from and granted by the Stock Exchange from strict compliance with the requirements of having written agreements for the continuing connected transactions under Listing Rule 14A.34 and an independent financial adviser opinion each time in relation to the execution of IRU Contract with the Unicom Group with a duration exceeding three years under Listing Rule 14A.52 during the three financial years ending 31 December 2020 on the basis and subject to the conditions set out below:

- (i) the Group has not, at the outset, entered into a written agreement with the Unicom Group covering all future continuing connected transactions. It is common market practice in the telecommunications and information technology sectors for service providers to enter into agreements as and when particular services or products are requested by the customers based on technology and prices prevailing at that time. In addition, the Unicom Group is an exceptionally large corporate group of telecommunications service providers in the PRC comprising numerous provincial member units across the PRC. Each of these provincial member units operates its business independently from the other member units and may be subject to different provincial legal and business requirements. Agreements for each category of these continuing connected transactions are and will be entered into between various members of the Group and the Unicom Group. With regards to the aforesaid, it will be extremely difficult, if not impossible, for the Company to enter into a master agreement with the Unicom Group for the three different categories of continuing connected transactions for the three financial years ending 31 December 2018, 2019 and 2020 and to include details of all the terms and conditions of agreements with the Unicom Group in such an agreement; and
- (ii) it is a normal business practice for telecommunications providers and enterprises to enter into the IRU Contracts with a duration exceeding three years and up to 15 years.

The Company will continue to monitor all transactions between the Group and the Unicom Group and if there are any transactions with terms which are materially different from those which are disclosed in this announcement, or if the aggregate values of the transactions exceed the Annual Caps, the Company will re-comply with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Additionally, the Company will obtain a fresh independent financial adviser opinion if and when the Group enters into any IRU Contract with the Unicom Group with a duration exceeding three years if (a) the duration of the IRU Contracts; or (b) the normal business practice for the IRU Contracts at that time is different from the duration and/or the normal business practice covered by Investec's opinion as described above.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Annual Caps for each category of the continuing connected transactions exceed 0.1% but are less than 5%, the transactions are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the transactions will be disclosed in the Company's next annual report in accordance with Listing Rules 14A.49 and 14A.71.

GENERAL

The principal activity of the Company is investment holding, and the principal activities of the Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales; the provision of interactive pay-TV services, Internet portal digital media entertainment platform in Hong Kong and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited, PCCW also operates a domestic free television service in Hong Kong.

Unicom, a state-owned enterprise established under the laws of the PRC, is principally engaged in telecommunications business and other related businesses in the PRC.

DEFINITIONS

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

“ Annual Caps ”	the annual caps for each category of continuing connected transactions for the three financial years ending 31 December 2018 to 2020 as set out in this announcement
“ associate(s) ”	has the meaning ascribed to it in the Listing Rules
“ Board ”	the board of Directors
“ China Unicom BVI ”	China Unicom Group Corporation (BVI) Limited, a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of Unicom and is a substantial shareholder of the Company
“ Company ” or “ PCCW ”	PCCW Limited, a company incorporated in Hong Kong with limited liability and having its shares listed on the main board of the Stock Exchange (stock code: 0008) and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States (ticker: PCCWY)
“ Directors ”	directors of the Company
“ Group ”	the Company and its subsidiaries, and including the PCPD Group and the HKT Group
“ HK\$ ”	Hong Kong dollars, the lawful currency of Hong Kong

“HKT”	HKT Limited, a company incorporated in the Cayman Islands with limited liability and having its share stapled units, jointly issued with the HKT Trust, listed on the main board of the Stock Exchange (stock code: 6823)
“HKT Group”	HKT and its subsidiaries
“HKT Trust”	a trust constituted on 7 November 2011 under the laws of Hong Kong and managed by HKT Management Limited and having its share stapled units, jointly issued with HKT, listed on the main board of the Stock Exchange (stock code: 6823)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA”	independent financial adviser
“Investec”	Investec Capital Asia Limited, a corporation licensed under the Securities and Futures Ordinance to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PCPD”	Pacific Century Premium Developments Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 0432)
“PCPD Group”	PCPD and its subsidiaries
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan, China for the purpose of this announcement
“Previous Announcement”	the announcement of the Company dated 10 December 2014
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unicom”	中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited [#]), a state-owned enterprise established under the laws of the PRC
“Unicom Group”	Unicom, its subsidiaries and associates

For identification only.

By order of the Board of
PCCW Limited
Bernadette M. Lomas
Group General Counsel and Company Secretary

Hong Kong, 14 December 2017

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

Executive Directors

Li Tzar Kai, Richard (Chairman); Srinivas Bangalore Gangaiah (aka BG Srinivas) (Group Managing Director); Hui Hon Hing, Susanna (Group Chief Financial Officer) and Lee Chi Hong, Robert

Non-Executive Directors

Tse Sze Wing, Edmund, GBS; Lu Yimin (Deputy Chairman); Li Fushen; Shao Guanglu and Wei Zhe, David

Independent Non-Executive Directors

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP; Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert, David Christopher Chance and David Lawrence Herzog