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HKT

HKT Trust

(a trust constituted on 7 November 2011 under the laws of Hong Kong and managed by HKT Management Limited)

and

HKT Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6823)



PCCW Limited

電訊盈科有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

JOINT ANNOUNCEMENT

**MAJOR TRANSACTION
IN RELATION TO
THE ACQUISITION OF THE
ENTIRE ISSUED SHARE CAPITAL
OF
CSL NEW WORLD
MOBILITY LIMITED**

**MAJOR TRANSACTION
FOR PCCW LIMITED**

INTRODUCTION

This announcement is made pursuant to Chapter 14 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance.

PROPOSED ACQUISITION OF CSLNW

On 20 December 2013 (before trading hours), HKT entered into the Share Purchase Agreement with CSLNW, Telstra Bermuda, Telstra, Upper Start and New World, pursuant to which the Vendors have conditionally agreed to sell, and HKT has conditionally agreed to purchase, the entire issued share capital of CSLNW in consideration for a purchase price of US\$2,425,000,000 (equivalent to approximately HK\$18,866,500,000), subject to certain adjustments as described in this announcement.

INFORMATION ON CSLNW

CSLNW is an investment holding company incorporated in Bermuda which is engaged, through its subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products, to customers in Hong Kong under three mobile brands: “1010”, “one2free” and “New World Mobility”.

LISTING RULES IMPLICATIONS

The HKT Trust and HKT

As one or more of the applicable percentage ratios in relation to the HKT Trust and HKT in respect of the Proposed Acquisition is greater than 25% and less than 100%, as calculated under Rule 14.07 of the Listing Rules, the Proposed Acquisition is a major transaction for the HKT Trust and HKT under the Listing Rules. Completion of the Proposed Acquisition is, therefore, conditional on approval by holders of Share Stapled Units.

PCCW has provided a written undertaking to Telstra, New World, the HKT Trust and HKT in relation to the approval of the Proposed Acquisition as a major transaction for the HKT Trust and HKT under the Listing Rules. The undertaking provides that, subject to the PCCW Shareholders passing an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules, PCCW’s wholly owned subsidiary, CAS, shall approve the Proposed Acquisition as a major transaction for the HKT Trust and HKT in accordance with Rule 14.44 of the Listing Rules. The undertaking provides that such approval shall be given immediately following the PCCW Shareholders having passed an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules. As at the date of this announcement, CAS holds Share Stapled Units representing approximately 63.07% of the Share Stapled Units in the HKT Trust and HKT in issue.

Accordingly, subject to the PCCW Shareholders present and voting (whether in person or by proxy) at the shareholders’ meeting to be convened by PCCW (as described below) passing an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules, the Proposed Acquisition will be approved as a major transaction for the HKT Trust and HKT under the Listing Rules by way of the written approval of CAS as holder of more than 50% in nominal value of the Share Stapled Units in issue, as permitted by Rule 14.44 of the Listing Rules. No meeting of holders of Share Stapled Units will be convened by the Trustee-Manager and HKT to approve the Proposed Acquisition. It is anticipated that a circular containing further information relating to the Proposed Acquisition and other information required by the Listing Rules will be despatched to holders of Share Stapled Units on or before 15 January 2014.

PCCW

As one or more of the applicable percentage ratios in relation to PCCW in respect of the Proposed Acquisition is greater than 25% and less than 100%, as calculated under Rule 14.07 of the Listing Rules, and HKT is a subsidiary of PCCW, the Proposed Acquisition is also a major transaction for PCCW under the Listing Rules. The Proposed Acquisition is, therefore, conditional on approval by PCCW Shareholders.

A meeting of PCCW Shareholders will be convened to consider and, if thought fit, pass an ordinary resolution by a simple majority of votes of PCCW Shareholders present and voting (whether in person or by proxy) at the shareholders' meeting to be convened by PCCW to approve the Proposed Acquisition. It is anticipated that a circular containing, among other things, further information in relation to the Proposed Acquisition, a notice convening a meeting of PCCW Shareholders and other information required by the Listing Rules will be despatched to the PCCW Shareholders on or before 15 January 2014.

Pacific Century Regional Developments Limited, which, as at the date of this announcement, holds 1,548,211,301 shares in PCCW representing approximately 21.29% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Regional Developments Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

中國聯合網絡通信集團有限公司(China United Network Communications Group Company Limited[#]) has provided a written undertaking to Telstra, New World and PCCW to ensure that all the 1,343,571,766 shares in PCCW (representing approximately 18.48% of the issued share capital of PCCW) held by its wholly owned subsidiary, China Unicom Group Corporation (BVI) Limited, are voted in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Pacific Century Group Holdings Limited, which, as at the date of this announcement, holds 154,785,177 shares in PCCW representing approximately 2.13% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Group Holdings Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Pacific Century Diversified Limited, which, as at the date of this announcement, holds 237,919,824 shares in PCCW representing approximately 3.27% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Diversified Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Eisner Investments Limited, which, as at the date of this announcement, holds 33,747,000 shares in PCCW representing approximately 0.46% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Eisner Investments Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Holders of Share Stapled Units, PCCW Shareholders and potential investors should note that Completion of the Proposed Acquisition is subject to a number of conditions. There is no assurance that the Proposed Acquisition will be completed. Holders of Share Stapled Units, PCCW Shareholders and potential investors should, accordingly, exercise caution

[#] *For identification only*

when dealing in the Share Stapled Units of the HKT Trust and HKT and the shares of PCCW.

INTRODUCTION

This announcement is made pursuant to Chapter 14 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance.

The boards of directors of HKT, the Trustee-Manager and PCCW jointly announce that on 20 December 2013 (before trading hours), HKT entered into the Share Purchase Agreement with CSLNW, Telstra Bermuda, Telstra, Upper Start and New World, pursuant to which the Vendors have conditionally agreed to sell, and HKT has conditionally agreed to purchase, the entire issued share capital of CSLNW in consideration for a purchase price of US\$2,425,000,000 (equivalent to approximately HK\$18,866,500,000), subject to certain adjustments as described in the section headed “The Principal Terms of the Share Purchase Agreement” below.

THE PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

Date

20 December 2013

Parties

- (1) HKT, as purchaser
- (2) CSLNW
- (3) Telstra Bermuda, as a Vendor
- (4) Telstra, as guarantor for Telstra Bermuda
- (5) Upper Start, as a Vendor
- (6) New World, as guarantor for Upper Start

The Share Purchase Agreement expressly permits HKT to designate its wholly owned subsidiary, HKTGH, as the purchaser and transferee of the Sale Shares on Completion. If HKTGH is designated as the purchaser and transferee of the Sale Shares, the Share Purchase Agreement also permits the assignment of HKT’s rights under the Share Purchase Agreement (including rights to enforce the representations, warranties and indemnities contained in the Share Purchase Agreement) to HKTGH. HKT would remain liable to ensure the performance of the purchaser’s obligations under the Share Purchase Agreement.

To the best knowledge, information and belief of the directors of the Trustee-Manager and HKT having made all reasonable enquiries, Telstra Bermuda, Telstra, Upper Start, New World and their respective ultimate beneficial owners are third parties independent of the HKT Trust and HKT and are not their connected persons as defined under the Listing Rules.

To the best knowledge, information and belief of the directors of PCCW having made all reasonable enquiries, Telstra Bermuda, Telstra, Upper Start, New World and their respective ultimate beneficial owners are third parties independent of PCCW and are not its connected persons as defined under the Listing Rules.

A wholly owned subsidiary of Telstra holds 50% of Reach Ltd., a company in which HKT has an indirect 50% interest and which is accounted for as a joint venture (not a subsidiary) of HKT. PCCW has an approximate indirect 31.54% interest (through HKT) in Reach Ltd. which is accounted for as a joint venture (not a subsidiary) of PCCW.

Shares to be acquired

Pursuant to the Share Purchase Agreement, HKT will acquire the entire issued share capital of CSLNW. HKT will purchase shares representing approximately 76.4% of the issued share capital of CSLNW from Telstra Bermuda (a wholly owned subsidiary of Telstra) and shares representing approximately 23.6% of the issued share capital of CSLNW from Upper Start (a wholly owned subsidiary of New World). Further information regarding the CSLNW Group is set out in the section headed “Information on the CSLNW Group” below.

Purchase price

The base purchase price for the Sale Shares is:

- (a) US\$2,425,000,000 (equivalent to approximately HK\$18,866,500,000) comprising:
 - (i) an amount of US\$1,852,700,000 (equivalent to approximately HK\$14,414,006,000) payable to Telstra Bermuda for the Telstra Sale Shares;
 - (ii) an amount of US\$572,300,000 (equivalent to approximately HK\$4,452,494,000) payable to Upper Start for the NW Sale Shares; and
- (b) the Estimated Net Cash Amount payable to the Vendors, in their respective pro rata proportions.

The entire amount of the base purchase price is payable in cash by HKT at Completion. The base purchase price is subject to adjustments after Completion with reference to the Adjustment Accounts as described below.

The base purchase price was determined after arm’s length negotiations between HKT and the Vendors and with reference to, among other things, (i) HKT’s view of the value of the assets and business of CSLNW; and (ii) the factors set out in the section headed “Reasons for and Benefits of the Proposed Acquisition” below.

Post Completion adjustments to the base purchase price

Following Completion, CSLNW will prepare Adjustment Accounts and related schedules, by reference to which certain adjustments will be made to the base purchase price in respect of the following items, as at the Adjustment Date, in relation to the CSLNW Group:

- (a) working capital surplus or deficit;
- (b) any surplus or deficit under the CSLNW Group’s defined benefits pension scheme;
- (c) outstanding tax liabilities;
- (d) outstanding commitments for certain specified capital expenditure amounts;
- (e) liabilities in connection with the transfer of certain employees;
- (f) outstanding indebtedness;

- (g) surplus or deficit of cash and cash equivalents;
- (h) less any Estimated Net Cash Amount paid at Completion.

The Adjustment Accounts are required to be prepared within 60 days after the Completion Date, following which they are required to be audited. The adjustment amount, reflecting the adjustments to be made as described in (a) to (h) above, may be a positive number (which would require a payment of the adjustment amount to be made by HKT to the Vendors) or a negative number (which would require a payment of the adjustment amount to be made by the Vendors to HKT). The Share Purchase Agreement provides for payment of the adjustment amount within 14 days after the Adjustment Accounts are finalised.

The Share Purchase Agreement provides for certain amounts in respect of aged roaming receivables to be paid into an escrow account when the adjustment payment is made. Amounts will be released from escrow in accordance with the provisions of the Share Purchase Agreement relating to the satisfaction of the outstanding receivables and operation of the escrow account.

Conditions precedent

Completion of the Proposed Acquisition is conditional upon the satisfaction of the following conditions precedent:

- (a) the approval of the Proposed Acquisition by an ordinary resolution of holders of Share Stapled Units, or by a written approval signed by a holder, or closely allied group of holders, of Share Stapled Units holding a majority of the Share Stapled Units in issue;
- (b) the approval of the Proposed Acquisition by an ordinary resolution of PCCW Shareholders;
- (c) the consent of the Communications Authority (pursuant to Section 7P of the Telecommunications Ordinance) to the change in relation to a carrier licensee arising (in relation to each material statutory license in respect of which such consent is required under the Telecommunications Ordinance) as a result of the sale and purchase of the Sale Shares under the Share Purchase Agreement being obtained and, if such consent is subject to conditions or proposed directions, the compliance with such conditions or proposed directions would not be reasonably expected to have a material adverse effect, amounting in aggregate to US\$181,875,000 (equivalent to approximately HK\$1,414,987,500) (representing 7.5% of the base purchase price) or more, on the prospects, profitability or operation of the combined mobile telecommunications businesses of the Enlarged Group.

The conditions precedent cannot be waived. If the conditions precedent are not satisfied by 30 June 2014, subject to certain exceptions the purchaser or either Vendor may terminate the Share Purchase Agreement.

CSLNW Group companies hold telecommunications licenses issued under the Telecommunications Ordinance. Completion of the Proposed Acquisition would constitute a “*change in relation to a carrier licensee*” requiring the consent of the Communications Authority under Section 7P of the Telecommunications Ordinance. That Section requires that where, on receiving an application for consent under Section 7P, the Communications Authority:

- (a) forms an opinion that the proposed change would not have, or not be likely to have, the effect of substantially lessening competition in a telecommunications market, the Communications Authority shall give consent; or
- (b) forms an opinion that the proposed change would have, or be likely to have, the effect of substantially lessening competition in the telecommunications market, the Communications Authority may decide to (1) refuse to give consent, or (2) give consent subject to a direction that the license holder take the action that the Communications Authority considers necessary to eliminate or avoid any such effect, or (3) give consent without issuing such a direction if the Communications Authority is satisfied that the proposed change would have, or be likely to have, a benefit to the public and that the benefit would outweigh any detriment to the public that would be, or would likely to be, constituted by any such effect.

Before forming an opinion, the Communications Authority is required to give all other carrier licensees, and any interested person, a reasonable opportunity to make representations.

HKT has made an application to the Communications Authority under Section 7P(6) of the Telecommunications Ordinance, for consent to the change in carrier licensee which would result from Completion of the Proposed Acquisition. While HKT believes that no significant competition concerns arise in relation to the Proposed Acquisition, HKT has stated in its application that HKT would make the following commitments if desired by the Communications Authority:

- (a) HKT would continue to provide wholesale services now provided by CSL Limited (an indirect wholly owned subsidiary of CSLNW and the relevant carrier licensee entity) and HKT (e.g. mobile virtual network operator (MVNO), resale and network sharing arrangements);
- (b) HKT would not seek to renew 2 x 15 MHz of 3G spectrum when the HKT and CSL Limited licenses for that spectrum expire in 2016; and
- (c) HKT would fulfil all of CSL Limited's license and customer contract obligations.

As to (b) above, the Enlarged Group has offered to return to the Government an additional 2 x 5 MHz of 3G spectrum, which is over and above the 2 x 10MHz that the Government proposes to take back from HKT and CSL Limited, when the spectrum licenses expire in 2016. HKT also has offered not to participate in the bidding for 3G spectrum to be returned by itself or other 3G operators.

The imposition of those conditions or proposed directions would be disregarded for the purpose of assessing whether compliance with conditions or proposed directions imposed by the Communications Authority would reasonably be expected to have a material adverse effect on the Enlarged Group for the purposes of satisfying the Communications Authority condition(s) or proposed direction(s) .

Published guidance in relation to the operation of Section 7P of the Telecommunications Ordinance contemplates a final decision by the Communications Authority within 3 months.

Break fee

If the Share Purchase Agreement is terminated due to a failure to satisfy either or both of conditions precedent (a) or (b) as described above, then HKT must pay to the Vendors, in their respective pro rata proportions, a break fee of US\$75,000,000 (equivalent to approximately HK\$583,500,000) within 10 business days of that termination.

If the Share Purchase Agreement is terminated due to a failure to satisfy condition precedent (c) as described above as a result of:

- (i) the consent of the Communications Authority being subject to conditions or proposed directions compliance with which would be reasonably expected to have a material adverse effect on the prospects, profitability or operation of the combined mobile telecommunications business of the Enlarged Group which would be reasonably expected to reduce the value of that combined business by not less than US\$181,875,000 (equivalent to approximately HK\$1,414,987,500) and not more than US\$242,500,000 (equivalent to approximately HK\$1,886,650,000), then HKT must pay to the Vendors, in their respective pro rata proportions, a break fee of US\$37,500,000 (equivalent to approximately HK\$291,750,000); or
- (ii) either (1) the Communications Authority advising that it will not grant its consent, irrespective of any conditions which may be offered or with any directions; or (2) the consent of the Communications Authority being subject to conditions or proposed directions compliance with which would be reasonably expected to have a material adverse effect on the prospects, profitability or operation of the combined mobile telecommunications business of the Enlarged Group which would be reasonably expected to reduce the value of that combined business by more than US\$242,500,000 (equivalent to approximately HK\$1,886,650,000), then HKT must pay to the Vendors, in their respective pro rata proportions, a break fee of US\$10,000,000 (equivalent to approximately HK\$77,800,000).

In either case, the break fee would be payable within 10 business days of termination of the Share Purchase Agreement.

Only one break fee (if any) can be payable. If a break fee is payable in respect of conditions precedent (a) or (b), no break fee will be payable in respect of condition precedent (c). Similarly, the break fees in respect of condition precedent (c) as described in paragraphs (i) and (ii) above are alternatives, only one of which can apply (if at all).

Guarantees

Telstra guarantees to HKT the due and punctual performance by Telstra Bermuda of its obligations under the Share Purchase Agreement. New World guarantees to HKT the due and punctual performance by Upper Start of its obligations under the Share Purchase Agreement.

Completion

Subject to the satisfaction of the conditions precedent referred to above, Completion will take place on a date to be specified by HKT which is not earlier than the second business day, and not

later than 15 business days, following the satisfaction of the last of the conditions precedent to be satisfied. Completion is expected to take place in the first quarter of 2014.

Non-Competition

Telstra and Telstra Bermuda have undertaken to HKT and CSLNW, subject to certain exceptions and any other exceptions which may be agreed on a case by case basis, that Telstra and Telstra Bermuda will not (and Telstra will procure that its subsidiaries do not) during the period of 3 years from Completion, engage or be in any capacity directly or indirectly involved in mobile wireless core operations (as defined in the Share Purchase Agreement) including certain types of WiFi operations (as specified in the Share Purchase Agreement) in Hong Kong.

Similarly, New World and Upper Start have undertaken to HKT and CSLNW, subject to certain exceptions and any other exceptions which may be agreed on a case by case basis, that New World and Upper Start will not (and New World will procure that its subsidiaries do not) during the period of 3 years from Completion, engage or be in any capacity directly or indirectly involved in mobile wireless core operations (as defined in the Share Purchase Agreement) or certain types of WiFi operations (as specified in the Share Purchase Agreement) in Hong Kong.

FINANCING

HKT intends to fund the base purchase price and any additional amounts which may result from the adjustments by amounts to be drawn down under a commercial banking facility of up to US\$2,500,000,000 (equivalent to approximately HK\$19,450,000,000) in aggregate, arranged for the purpose of the Proposed Acquisition and in respect of which a commitment has already been obtained.

The principal terms of the facility commitment are as follows:

Parties

- (1) HKTGH (or HKT, if HKT does not assign its rights under the Share Purchase Agreement to HKTGH as referred to above in the section headed “The Principal Terms of the Share Purchase Agreement – Parties”), as borrower
- (2) Hong Kong Telecommunications (HKT) Limited (a wholly owned subsidiary of HKT) and HKTGH, as guarantors for HKT if HKT is the borrower; or Hong Kong Telecommunications (HKT) Limited, as guarantor for HKTGH if HKTGH is the borrower
- (3) Standard Chartered Bank (Hong Kong) Limited and other banks (if applicable), as lender(s)

Facility

Loan amount: US\$2,500,000,000 (equivalent to approximately HK\$19,450,000,000)

Tenor: 18 months from the date of signing of the loan agreement

Repayment: Repayment of the entire principal loan amount is due at maturity, subject to mandatory prepayment triggered by certain events as specified in the loan agreement

Security: The facility will be secured by a charge over the Sale Shares and (if applicable) material assets of the CSLNW Group

Interest Rate: Broadly in line with the interest rate payable on the existing bank loan facilities of Hong Kong Telecommunications (HKT) Limited

The Proposed Acquisition will not result in a change of the distribution policy set out in clause 14.1(e) of the Trust Deed and article 24.8 of the HKT Articles. The costs of servicing the Proposed Acquisition loan facility are permitted deductions for the purpose of calculating the “Adjusted Funds Flow” of the HKT Trust and HKT under the Trust Deed and the HKT Articles.

The disbursement of funds under this facility is conditional on satisfactory completion of the loan documentation and satisfaction of the conditions precedent to Completion. Funds to be drawn down under the facility may only be applied towards financing the purchase price and any additional amounts for the Proposed Acquisition and related fees and expenses.

HKT intends to refinance the Proposed Acquisition loan facility with longer term financing at an appropriate time and subject to market conditions. The longer term financing could involve longer term debt financing, equity financing (which may take the form of a rights issue) or a combination.

POST COMPLETION REORGANISATION

Following Completion, HKT intends to reorganise the business of the CSLNW Group by combining and integrating it with HKT’s existing mobile telecommunications business in order to unlock and make optimal use of available operational synergies and efficiencies.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The directors of the Trustee-Manager and HKT believe that the Proposed Acquisition and the terms of the Share Purchase Agreement are fair and reasonable and are in the interests of the HKT Trust and HKT and the holders of Share Stapled Units as a whole, and the directors of PCCW believe that the Proposed Acquisition and the terms of the Share Purchase Agreement are fair and reasonable and are in the interests of PCCW and the PCCW Shareholders as a whole, in each case, for the following reasons:

The Proposed Acquisition is in line with HKT’s objectives of investing in businesses which provide holders of Share Stapled Units with stable and regular distributions as well as long-term distribution growth. The mature and stable cash-flow profile of CSLNW would strengthen HKT’s mobile services platform and enhance the long-term distribution potential of HKT.

PCCW would benefit from the combined mobile service platform of the Enlarged Group and the enhanced distribution potential of HKT. The Proposed Acquisition is in line with the strategy of PCCW to bolster the telecommunications business and continue to meet the needs of the Hong Kong public and local and international businesses with a wide range of telecommunications services.

Specifically, the directors expect to realise the following key benefits through the combination of HKT and CSLNW into one single mobile platform:

- (a) ***Enhancement of mobile services income stream through increased scale:*** HKT (under the “PCCW-HKT mobile” brand) and the CSLNW Group (under the “1010”, “one2free” and “New World Mobility” brands) are currently two of the five network-based providers of mobile telecommunications services in Hong Kong. Although the provision of mobile services has been one of HKT’s key focus areas since its re-entry into the mobile market in 2005, HKT is currently the smallest player in the market by number of customers. The Proposed Acquisition would significantly expand HKT’s customer base and enable HKT to more efficiently compete in the mobile market.

HKT is currently an industry leader in the fixed line and broadband sectors and the Proposed Acquisition would help to deliver on HKT’s stated strategy of improving its position as the premium telecommunications service provider in Hong Kong. PCCW and HKT Group’s ability to reach an enlarged and complementary customer base is expected to drive revenue and higher average revenue per user (“ARPU”) growth through cross-selling of services targeted at each customer segment.

The expanded customer base would also open opportunity for the PCCW Group to innovate and produce commercially viable new content, e.g. multi-media offerings, to the combined customer base via HKT’s mobile communications and customers’ own smart devices. This would provide an opportunity for HKT to further cross-sell telecommunications services and reduce customer churn rate.

- (b) ***Enlargement of service capacity and improvement of indoor signal coverage and customer experience:*** HKT has been operating its existing services with some difficulty as it does not hold usable spectrum in the sub-1 GHz bands. Following the Proposed Acquisition, the Enlarged Group would have sufficient usable bandwidth across 850 MHz, 900 MHz, 1.8 GHz, 2.1 GHz and 2.6 GHz. The enlarged bandwidth capacity and comprehensive spectrum would give the Enlarged Group more flexibility to redesign and optimise its network and improve performance and utilisation, as a result of which overall customer experience is expected to improve. The customers of the Enlarged Group would be able to enjoy better voice service quality, fewer call drop-outs, faster data transmission as well as lower latency when streaming.

As mentioned above, HKT has stated in its application to the Communications Authority under Section 7P of the Telecommunications Ordinance that it would not seek to renew 2 x 15 MHz of 3G spectrum when the CSL Limited and HKT licenses for that spectrum expire in 2016. After returning the 3G spectrum, the Enlarged Group would benefit from respective leasing and renewal costs savings, and at the same time continue to possess adequate spectrum resources and provide uninterrupted operations.

- (c) ***Strengthening of roaming business:*** the Proposed Acquisition would increase HKT’s aggregate roaming traffic as well as provide access to the CSLNW Group’s roaming partnerships in addition to HKT’s existing partnerships, which is expected to provide the Enlarged Group with increased buying power and leverage in obtaining more attractive roaming rates, increased choice of roaming partners and generally improved roaming services for its customers going forward.

(d) **Opportunity to realise operational synergies:** the Proposed Acquisition is expected to be synergistic in terms of both revenue generation and cost savings. To date, HKT has identified the following potential synergies:

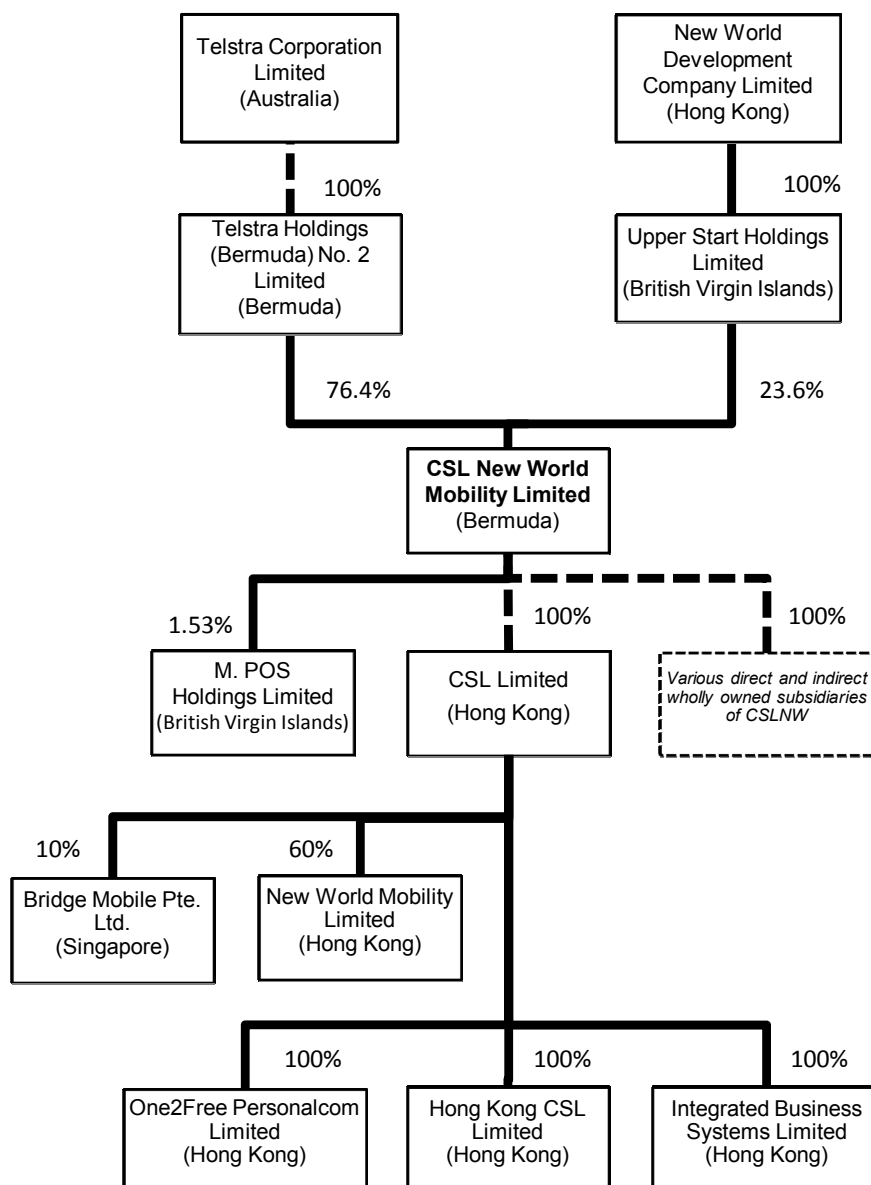
- **Cost synergies:** cost synergies can be potentially achieved by combining and rationalising various aspects of the Enlarged Group. Based on the preliminary integration study conducted for the Proposed Acquisition, it is estimated that the operating cost savings for the Enlarged Group would be mainly driven by the following factors:
 - i. *Cell-sites rationalisation:* combining the networks would result in duplicative base stations that can be removed to realise cost savings and environmental benefits, whilst at the same time substantially improving the combined network in terms of coverage and capacity for the reasons set out in paragraph (b) above.
 - ii. *Backhaul transmission rationalisation:* savings are also expected in the provision of optical fibre backhaul connectivity to the combined radio base station network by leveraging HKT's existing proprietary infrastructure as CSLNW Group's current contracts with third-party backhaul transmission providers would gradually be replaced.
 - iii. *Sharing of spectrum and network infrastructure:* the Proposed Acquisition would help minimise future spectrum and network expenditure since HKT and CSLNW Group have mostly completed their bandwidth acquisitions and LTE investments. Moreover, the Proposed Acquisition would help the Enlarged Group achieve lower capital expenditure on base station build-out and maintenance cost through general economies of scale.
 - iv. *Improved bargaining power in procurement:* given the improved size of the Enlarged Group, HKT would be in a better position to negotiate contracts with network equipment and handset vendors which is expected to drive down capital expenditure, customer acquisition and handset subsidy costs.
 - v. *Content cost reduction:* the Enlarged Group would also benefit from lower acquisition costs for proprietary content, value-added services and applications from its providers. This would provide higher operating efficiency as the increase in scale would drive average cost down.
 - vi. *Retail and distribution channels optimisation:* both CSLNW Group and HKT currently have extensive distribution outreach in Hong Kong. The Enlarged Group will conduct a thorough review of distribution strategy after the Proposed Acquisition and identify opportunities to optimise the combined retail channel.
 - vii. *Efficient administrative resources allocation:* further savings can potentially be achieved by rationalising and combining administrative and corporate functions of HKT and CSLNW Group.

- **Revenue synergies:** following the Proposed Acquisition, the Enlarged Group would be able to implement several strategies and initiatives to improve its brand awareness and potentially achieve higher growth in revenue, including but not limited to:
 - i. *Strengthening of multi-brand strategy:* acquiring CSLNW Group’s business platform would allow the Enlarged Group to provide tailored pricing plans targeted at various customer segments with different data and voice requirements.
 - ii. *Attractive handset and subsidy offerings:* the Enlarged Group would be able to leverage its customer base and provide more device choices, offer exclusive handsets or launch sought-after handsets in a timely manner. Relatedly, the Enlarged Group is expected to be in a better position to introduce plans with attractive handset subsidies to further grow its post-paid subscription base.
 - iii. *Cross-selling of proprietary services and applications:* proprietary services would be available to users from both networks, such as Near Field Communications (“NFC”) payments services with Octopus and various banks, “Roamsave” applications as well as access to HKT’s extensive WiFi network.
- (e) ***Historical familiarity with CSLNW Group’s business to facilitate business integration:*** Hong Kong CSL Limited (the vehicle through which the business of the CSLNW Group was then conducted) was part of the PCCW Group prior to its sale to Telstra in 2001/2002. As such, HKT still maintains a good understanding of CSLNW Group’s business and culture. Some of the staff in HKT’s network team previously worked at CSLNW Group and are therefore familiar with both its network infrastructure and operations. As evidenced by the successful acquisition of Sunday Communications Limited in 2005, the HKT management team has a solid track-record in building its operations both organically and inorganically which is expected to minimise integration risk associated with the Proposed Acquisition.

INFORMATION ON THE CSLNW GROUP

CSLNW is an investment holding company incorporated in Bermuda which is engaged, through its subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products, to customers in Hong Kong under three mobile brands: “1010”, “one2free” and “New World Mobility”.

The corporate structure, in simplified form, of the Vendors and the CSLNW Group as at the date of this announcement and immediately before Completion is as follows:



Note: a dotted line denotes an indirect holding.

The audited consolidated net profits, before and after taxation, of the CSLNW Group as shown in CSLNW’s audited consolidated financial statements in respect of its financial year ended 30 June 2013, prepared under CSLNW’s accounting policies and before alignment adjustments for HKT’s accounting policies, if any, were HK\$1,228 million and HK\$1,022 million, respectively.

The audited consolidated net profits, before and after taxation, of the CSLNW Group as shown in CSLNW's audited consolidated financial statements in respect of its financial year ended 30 June 2012, prepared under CSLNW's accounting policies and before alignment adjustments for HKT's accounting policies, if any, were HK\$990 million and HK\$816 million, respectively.

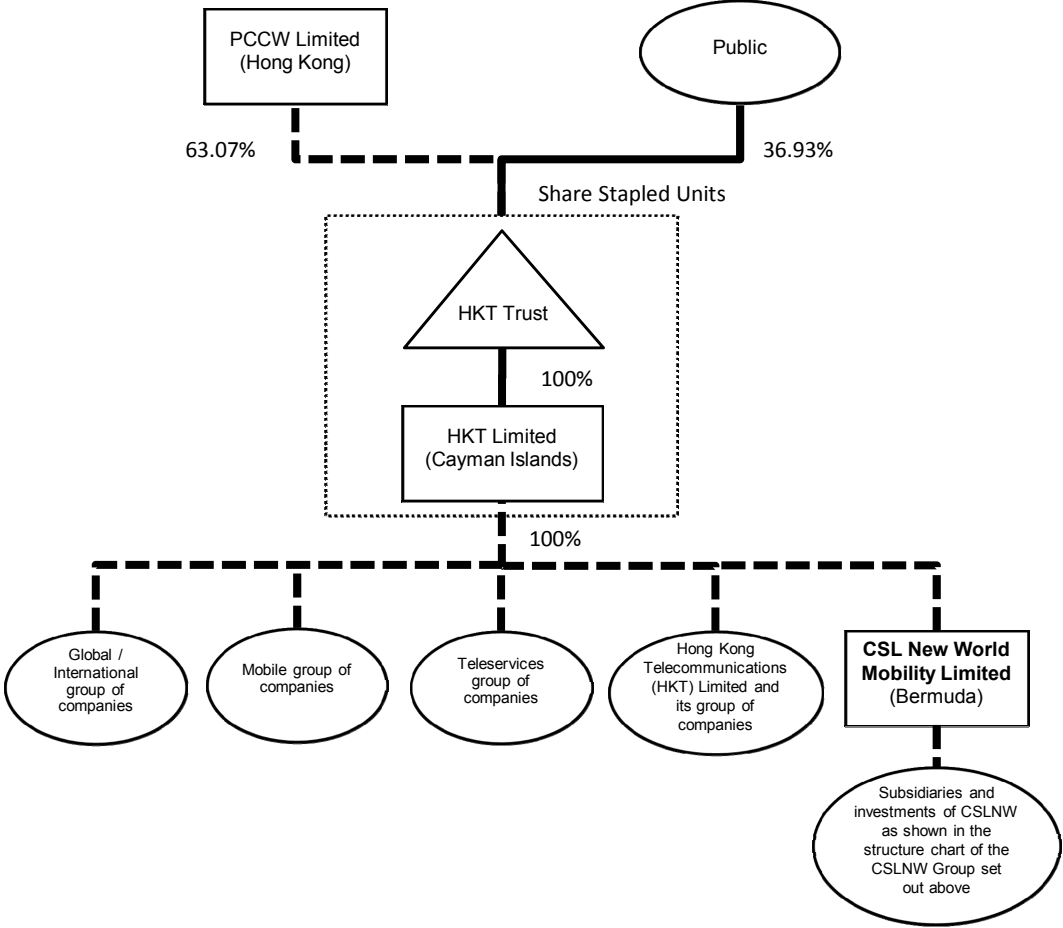
The audited consolidated net assets of the CSLNW Group as shown in its audited consolidated financial statements as at 30 June 2013, prepared under CSLNW's accounting policies and before alignment adjustments for HKT's accounting policies, if any, were HK\$6,301 million.

The normalised Adjusted Funds Flow[#] of the CSLNW Group for the year ended 30 June 2012 and 2013 were HK\$831 million and HK\$760 million, respectively.

[#]The normalised Adjusted Funds Flow of the CSLNW Group was adjusted to exclude once-off payments such as 4G spectrum rights acquisition costs and capital expenditures in relation to projects prefunded by the Vendors.

CORPORATE STRUCTURE ON COMPLETION

The corporate structure, in simplified form, of PCCW, HKT and the CSLNW Group upon Completion would be as follows:



Note: a dotted line denotes an indirect holding.

Following Completion, HKT intends to reorganise the business of the CSLNW Group by combining and integrating it with HKT’s existing mobile telecommunications business under its mobile group of companies in order to unlock and make optimal use of available operational synergies and efficiencies, as described in the section headed “Post Completion Reorganisation” above.

INFORMATION ON TELSTRA AND TELSTRA BERMUDA

Telstra is Australia's leading telecommunications and information services company, offering a full range of communications services including mobile services, fixed voice services and retail fixed broadband services. Telstra's shares are listed on the Australian Securities Exchange.

Telstra Bermuda is a wholly owned subsidiary of Telstra and its only business activity is to hold its investment in CSLNW through the holding of the Telstra Sale Shares.

INFORMATION ON NEW WORLD AND UPPER START

New World and its subsidiaries are principally engaged in property, infrastructure, hotel operation, department store operation, services, as well as telecommunications and technology businesses. New World's shares are listed on the Stock Exchange.

Upper Start is a wholly owned subsidiary of New World and its only business activity is to hold its investment in CSLNW through the holding of the NW Sale Shares.

INFORMATION ON THE HKT TRUST AND HKT

The HKT Trust has been established as a fixed single investment trust, with its activities being limited to investing in HKT and anything necessary or desirable for or in connection with investing in HKT.

The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centres. HKT and its subsidiaries operate primarily in Hong Kong, and also serve customers in mainland China and other parts of the world.

INFORMATION ON PCCW

The principal activities of the PCCW Group are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific region.

LISTING RULES IMPLICATIONS

The HKT Trust and HKT

As one or more of the applicable percentage ratios in relation to the HKT Trust and HKT in respect of the Proposed Acquisition is greater than 25% and less than 100%, as calculated under Rule 14.07 of the Listing Rules, the Proposed Acquisition is a major transaction for the HKT Trust and HKT under the Listing Rules. Completion of the Proposed Acquisition is, therefore, conditional on approval by holders of Share Stapled Units.

PCCW has provided a written undertaking to Telstra, New World, the HKT Trust and HKT in relation to the approval of the Proposed Acquisition as a major transaction for the HKT Trust and HKT under the Listing Rules. The undertaking provides that, subject to the PCCW Shareholders passing an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules, PCCW's wholly owned subsidiary, CAS, shall approve the Proposed Acquisition as a major transaction for the HKT Trust and HKT in accordance with Rule 14.44 of the Listing Rules. The undertaking provides that such approval shall be given immediately following the PCCW Shareholders having passed an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules. As at the date of this announcement, CAS holds 4,047,215,832 Share Stapled Units, representing approximately 63.07% of the Share Stapled Units in the HKT Trust and HKT in issue.

Accordingly, subject to the PCCW Shareholders present and voting (whether in person or by proxy) at the shareholders' meeting to be convened by PCCW (as described below) passing an ordinary resolution approving the Proposed Acquisition as a major transaction for PCCW under the Listing Rules, the Proposed Acquisition will be approved as a major transaction for the HKT Trust and HKT under the Listing Rules by way of the written approval of CAS as holder of more than 50% in nominal value of the Share Stapled Units in issue, as permitted by Rule 14.44 of the Listing Rules. No meeting of holders of Share Stapled Units will be convened by the Trustee-Manager and HKT to approve the Proposed Acquisition. It is anticipated that a circular containing further information relating to the Proposed Acquisition and other information required by the Listing Rules will be despatched to holders of Share Stapled Units on or before 15 January 2014.

PCCW

As one or more of the applicable percentage ratios in relation to PCCW in respect of the Proposed Acquisition is greater than 25% and less than 100%, as calculated under Rule 14.07 of the Listing Rules, and HKT is a subsidiary of PCCW, the Proposed Acquisition is also a major transaction for PCCW under the Listing Rules. The Proposed Acquisition is, therefore, conditional on approval by PCCW Shareholders.

A meeting of PCCW Shareholders will be convened to consider and, if thought fit, pass an ordinary resolution by a simple majority of votes of PCCW Shareholders present and voting (whether in person or by proxy) at the shareholders' meeting to be convened by PCCW to approve the Proposed Acquisition. It is anticipated that a circular containing, among other things, further information in relation to the Proposed Acquisition, a notice convening a meeting of PCCW Shareholders and other information required by the Listing Rules will be despatched to the PCCW Shareholders on or before 15 January 2014.

Pacific Century Regional Developments Limited, which, as at the date of this announcement, holds 1,548,211,301 shares in PCCW representing approximately 21.29% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Regional Developments Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

中國聯合網絡通信集團有限公司(China United Network Communications Group Company Limited[#]) has provided a written undertaking to Telstra, New World and PCCW to ensure that all the 1,343,571,766 shares in PCCW (representing approximately 18.48% of the issued share capital of PCCW) held by its wholly owned subsidiary, China Unicom Group Corporation (BVI) Limited, are voted in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Pacific Century Group Holdings Limited, which, as at the date of this announcement, holds 154,785,177 shares in PCCW representing approximately 2.13% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Group Holdings Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Pacific Century Diversified Limited, which, as at the date of this announcement, holds 237,919,824 shares in PCCW representing approximately 3.27% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Pacific Century Diversified Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

Eisner Investments Limited, which, as at the date of this announcement, holds 33,747,000 shares in PCCW representing approximately 0.46% of PCCW's issued share capital, has provided a written undertaking to Telstra, New World and PCCW to vote all the shares in PCCW held by Eisner Investments Limited in favour of the ordinary resolution of PCCW Shareholders to be proposed to approve the Proposed Acquisition at the meeting of PCCW Shareholders to be convened for that purpose.

GENERAL

Holders of Share Stapled Units, PCCW Shareholders and potential investors should note that Completion of the Proposed Acquisition is subject to a number of conditions. There is no assurance that the Proposed Acquisition will be completed. Holders of Share Stapled Units, PCCW Shareholders and potential investors should, accordingly, exercise caution when dealing in the Share Stapled Units of the HKT Trust and HKT and the shares of PCCW.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

"Adjusted Funds Flow"

EBITDA, less capital expenditures, customer acquisition costs and license fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. Adjusted Funds Flow is not presented as a measure of leverage or liquidity

[#] *For identification only*

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 Adjusted Funds Flow for the purposes of this announcement may not be comparable to similarly titled measures of other companies

"Adjustment Accounts"

the audited consolidated accounts of the CSLNW Group as at the Adjustment Date to be prepared by CSLNW following Completion

"Adjustment Date"

the last day of the month immediately preceding the date of Completion (provided that if the date of Completion falls on the last day of a month, then the Adjustment Date shall fall on the same day)

"CAS"

CAS Holding No. 1 Limited, a wholly owned subsidiary of PCCW which, as at the date of this announcement, holds Share Stapled Units representing approximately 63.07% of the Share Stapled Units in issue

"Communications Authority"

the Communications Authority established under section 3 of the Communications Authority Ordinance (Cap. 616)

"Completion"

completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement

"Completion Date"

the date on which Completion takes place as defined in the Share Purchase Agreement

"CSLNW"

CSL New World Mobility Limited, an investment holding company incorporated in Bermuda with limited liability which is engaged, through its subsidiaries and joint venture interests, primarily in the provision of mobile telecommunications services through 4G, 3G and 2G networks, and the sale of mobile telecommunications products, to customers in Hong Kong under three mobile brands: "1010", "one2free" and "New World Mobility"

"CSLNW Group"

CSLNW and its subsidiaries at the relevant time

"EBITDA"

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 and intangible assets, net other gains/losses, losses on property, plant and equipment,

restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the share of results of associates and joint ventures

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|------------------------------------|---|
| "Enlarged Group" | HKT Group, as enlarged by the Proposed Acquisition |
| "Estimated Net Cash Amount" | the US\$ equivalent of the estimated amount (if it is a positive amount) of net cash held by the CSLNW Group, to be calculated with reference to, and as at the balance sheet date of, the latest management accounts available as at the date on which the final conditions precedent set out in the Share Purchase Agreement is satisfied, in accordance with the methodology set out in the Share Purchase Agreement |
| "HK\$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "HKFRS" | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (as amended, supplemented or otherwise modified from time to time) |
| "HKT" | HKT Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability and registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance (Cap. 32 of the laws of Hong Kong, as amended, supplemented or otherwise modified from time to time) 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 Articles" | the amended and restated articles of association of HKT |
| "HKTGH" | HKT Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and a direct wholly owned subsidiary of HKT |
| "HKT Group" | HKT and its subsidiaries |
| "HKT Trust" | a trust constituted on 7 November 2011 under the laws of Hong Kong and managed by the Trustee-Manager 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 People's Republic of China |

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| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "New World" | New World Development Company 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: 0017) |
| "NW Sale Shares" | 154,789,174 shares in CSLNW held by Upper Start, representing approximately 23.6% of the issued share capital of CSLNW |
| "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 of America (ticker: PCCWY) |
| "PCCW Group" | PCCW and its subsidiaries from time to time |
| "PCCW Shareholders" | holders of shares in PCCW |
| "Proposed Acquisition" | the proposed purchase of the Sale Shares by HKT from the Vendors pursuant to the Share Purchase Agreement |
| "Sale Shares" | the Telstra Sale Shares and the NW Sale Shares, representing 100% of the issued share capital of CSLNW |
| "Securities and Futures Ordinance" | Cap. 571 of the laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| "Share Purchase Agreement" | the Share Purchase Agreement dated 20 December 2013 between HKT, CSLNW, Telstra Bermuda, Telstra, Upper Start and New World in respect of the sale and purchase of the Sale Shares |
| "Share Stapled Unit(s)" | <p>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:</p> <ul style="list-style-type: none"> (a) a unit in the HKT Trust; (b) the beneficial interest in a specifically identified ordinary share in HKT linked to the unit in the HKT Trust 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 in HKT |

stapled to the unit in the HKT Trust

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|---------------------------------------|--|
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Telecommunications Ordinance" | Cap. 106 of the laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| "Telstra" | Telstra Corporation Limited, a company listed on the Australian Securities Exchange (ASX code: TLS) |
| "Telstra Bermuda" | Telstra Holdings (Bermuda) No. 2 Limited, a company incorporated in Bermuda with limited liability and a wholly owned subsidiary of Telstra |
| "Telstra Sale Shares" | 501,097,157 shares in CSLNW held by Telstra Bermuda, representing approximately 76.4% of the issued share capital of CSLNW |
| "Trust Deed" | the trust deed dated 7 November 2011 constituting the HKT Trust (as amended) |
| "Trustee-Manager" | HKT Management Limited (a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of PCCW), in its capacity as the trustee-manager of the HKT Trust |
| "Upper Start" | Upper Start Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of New World |
| "US\$" | United States dollar(s), the lawful currency of the United States of America |
| "Vendors" | Telstra Bermuda and Upper Start, and each of them is a "Vendor" |
| "%" | per cent |

Unless indicated otherwise, in this announcement, translation of amounts in US\$ into HK\$ has been made at the rate of US\$1 = HK\$7.78 for illustration purposes only.

By order of the boards of
HKT Management Limited
and
HKT Limited
Philana WY Poon
*Group General Counsel and
Company Secretary*

By order of the board of
PCCW Limited
Philana WY Poon
Group Company Secretary

Hong Kong, 20 December 2013

As at the date of this announcement, the directors of the Trustee-Manager and HKT are as follows:

Executive Directors:

Li Tzar Kai, Richard (Executive Chairman); Alexander Anthony Arena (Group Managing Director) and Hui Hon Hing, Susanna (Group Chief Financial Officer)

Non-Executive Directors:

Peter Anthony Allen; Chung Cho Yee, Mico; Lu Yimin and Li Fushen

Independent Non-Executive Directors:

Professor Chang Hsin Kang, ^{FREng, GBS, JP}; Sir Rogerio (Roger) Hyndman Lobo, ^{CBE, LLD, JP}; The Hon Raymond George Hardenbergh Seitz and Sunil Varma

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

Executive Directors:

Li Tzar Kai, Richard (Chairman); Chan Ching Cheong, George (Group Managing Director); Hui Hon Hing, Susanna (Group Chief Financial Officer) and Lee Chi Hong, Robert

Non-Executive Directors:

Sir David Ford, ^{KBE, LVO}; Tse Sze Wing, Edmund, ^{GBS}; Lu Yimin (Deputy Chairman); Li Fushen; Li Gang 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 and David Christopher Chance