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PCCW Limited

電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

**INSIDE INFORMATION
DISCLOSEABLE TRANSACTION**

PCCW MEDIA STRATEGY ANNOUNCEMENT INVOLVING

**(1) THE PROPOSED TRANSFER OF PCCW MEDIA LIMITED, OPERATOR
OF THE “NOW TV” BUSINESS, TO HKT AND
(2) STRATEGIC REVIEW OF PCCW OTT**

The Company has undertaken a strategic evaluation of its media business in response to the rapidly-evolving industry and technology landscape, as well as changes in consumer behaviour and accelerated growth in demand for digital entertainment. Riding on the industry trends and tailwinds to enhance and maximize the prospects of its media business, the Company announces today its strategic initiative for the media business, which involves (1) the proposed transfer of PCCW Media to HKT; and (2) a review of strategic options in relation to PCCW OTT. These two steps ensure strategic alignment across the group in terms of focus and resources.

(1) The proposed transfer of PCCW Media to HKT

Reference is made to the announcement made by HKT today in relation to the Proposed Transaction. To enhance and maximize the prospects of the Group’s “Now TV” business, on August 6, 2020 (after market close), PCCW Interactive Media, an indirect wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with HKT Interactive Media, an indirect wholly-owned subsidiary of HKT, in relation to the sale by PCCW Interactive Media to HKT Interactive Media of the entire issued share capital of PCCW Media for a Consideration of US\$250 million (or HK\$1,950 million based on the Agreed Exchange Rate). The PCCW Media Group operates the “Now TV” business, which is the leading pay-television service provider in Hong Kong, offering a wide range of local and international content through linear TV channels, on-demand and apps.

Completion of the Proposed Transaction is subject to the fulfilment or waiver of the conditions precedent specified in the Share Purchase Agreement and summarised below in the section headed “Conditions Precedent” in this announcement.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Proposed Transaction exceeds 5% but is less than 25%, the Proposed Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements thereunder.

(2) Strategic review of PCCW OTT

PCCW OTT operates pan-regional OTT (over-the-top) video entertainment and music platforms, including under the “Viu” and “Moov” brands in Hong Kong, Southeast Asia and the Middle East. The Company continues to actively evaluate various strategic alternatives to support the continued growth of PCCW OTT, including but not limited to seeking to introduce additional third party financing into PCCW OTT through a potential separate listing of PCCW OTT and/or additional investment in PCCW OTT from strategic partners. The Company will make further announcement(s) on its strategy in relation to PCCW OTT as and when appropriate.

Shareholders of the Company and potential investors should note that completion of the Proposed Transaction is subject to a number of conditions precedent. There is no assurance that the Proposed Transaction or any potential strategic initiative in relation to PCCW OTT will take place or as to when they may take place. Shareholders and potential investors of the Company should therefore exercise caution when dealing in or investing in the shares of the Company.

INTRODUCTION

This announcement is issued pursuant to Part XIVA of the Securities and Futures Ordinance and Rule 13.09(2)(a) of the Listing Rules.

The Company has undertaken a strategic evaluation of its media business in response to the rapidly-evolving industry and technology landscape, as well as changes in consumer behaviour and accelerated growth in demand for digital entertainment. Riding on the industry trends and tailwinds to enhance and maximize the prospects of its media business, the Company announces today its strategic initiative for the media business, which involves (1) the proposed transfer of PCCW Media to HKT; and (2) a review of strategic options in relation to PCCW OTT. These two steps ensure strategic alignment across the group in terms of focus and resources. Further details are set out below.

(1) THE PROPOSED TRANSFER OF PCCW MEDIA TO HKT

THE SHARE PURCHASE AGREEMENT

Date

August 6, 2020

Parties

- (1) PCCW Interactive Media, as seller.
- (2) HKT Interactive Media, as purchaser.

Proposed sale and purchase of the entire issued share capital of PCCW Media

The Share Purchase Agreement provides for the sale by PCCW Interactive Media and the purchase by HKT Interactive Media of the entire issued share capital of PCCW Media. The PCCW Media Group operates the “Now TV” business, which is a leading pay-television service provider in Hong Kong, offering a wide range of local and international content through linear TV channels, on-demand and apps.

Upon Completion, PCCW Media will become a wholly-owned subsidiary of HKT. PCCW Media will remain as an indirect subsidiary of the Company as the Company is the controlling shareholder of HKT.

Consideration

The Consideration payable by HKT Interactive Media under the Share Purchase Agreement for the Proposed Transaction is US\$250 million (or HK\$1,950 million based on the Agreed Exchange Rate), payable at Completion in cash.

The Consideration was determined by the Parties following arm’s length negotiation, taking into consideration the historical and expected financial results of the PCCW Media Group as well as market valuations of companies operating in the same or similar industry.

Conditions precedent

Completion of the Proposed Transaction is subject to the fulfilment or waiver of the following conditions precedent:

- (1) completion of the Restructuring;
- (2) service agreements in relation to certain technical, support and marketing services having been entered into between the relevant members of the HKT Group and the PCCW Interactive Media Group;
- (3) all necessary consents, approvals and/or waivers having been obtained and maintained in full force and effect (i) under applicable laws, rules and regulations and/or licences held by or necessary for the business of the PCCW Media Group; and (ii) under any contract to which any member of the PCCW Media Group is a party and which is material to the business, financial position or operations of the PCCW Media Group;
- (4) PCCW having provided an irrevocable consent under the Non-Compete Agreement to allow the HKT Group to conduct the business of providing pay television services; and
- (5) PCCW Interactive Media having complied fully with its obligations in relation to the conduct of the business of the PCCW Media Group in the ordinary and usual course before Completion.

If any of the above conditions precedent are not fulfilled or waived on or before the date falling four months after the date of the Share Purchase Agreement or such later date as the Parties may agree, the Share Purchase Agreement shall be capable of termination by either Party forthwith on written notice to the other.

FURTHER INFORMATION ON THE PCCW MEDIA GROUP

The unaudited pro-forma consolidated earnings before interest income, finance costs, income tax, depreciation and amortization and net other gains/losses (“**EBITDA**”) of the PCCW Media Group for each of the financial years ended December 31, 2018 and December 31, 2019 were HK\$527 million and HK\$513 million respectively.

The unaudited pro-forma consolidated profit before taxation and net profit after taxation of the PCCW Media Group were HK\$98 million and HK\$75 million respectively for the financial year ended December 31, 2018 and HK\$62 million and HK\$41 million respectively for the financial year ended December 31, 2019.

The unaudited pro-forma consolidated net asset value of the PCCW Media Group, adjusted for intra-group balances, was approximately HK\$2,145 million as at December 31, 2019.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTION

The Directors consider that the Proposed Transaction will help enhance and maximize the prospects of PCCW Media, increase synergies and bring about the following benefits:

- (1) Creation of Hong Kong’s sole genuine quadruple play services provider – with the acquisition of the “Now TV” business operated by PCCW Media, which is a leading pay-television service provider in Hong Kong, HKT will be able to position itself after Completion as the sole genuine quadruple-play services provider in Hong Kong, capable of providing a seamless user experience across fixed line, broadband, mobile and pay-television services;
- (2) Enriched product offering – “Now TV” will be able to work more closely with the broadband and mobile businesses of HKT and deliver an enriched total offering of connectivity and content to better serve the needs and interests of customers;
- (3) Enhanced cross-selling of services – within the HKT Group as enlarged as a result of the Proposed Transaction, the cross selling of services between broadband, mobile and pay-television by common channels will be enhanced, which is expected to lead to higher conversion rates as well as higher customer satisfaction and strengthened customer retention;
- (4) Improved operating efficiencies – the integration of the network, sales teams as well as certain corporate functions as a result of the Proposed Transaction is expected to generate business synergies and yield improved operating efficiencies, thereby resulting in enhanced customer experience and business productivity;
- (5) As the Company is the controlling shareholder of HKT, the Company will continue to hold an indirect interest in PCCW Media after completion of the Proposed Transaction and benefit from any potential upside in the business of PCCW Media through consolidation of the financial results of the PCCW Media Group; and

- (6) The financial position of PCCW Media Group is expected to strengthen over time as a result of the synergies generated from the Proposed Transaction, which will in turn improve the Company's consolidated financial position.

Based on the above, the Directors believe that the terms of the Proposed Transaction are fair and reasonable and in the interests of the Company's shareholders as a whole.

EXPECTED FINANCIAL IMPACT OF THE PROPOSED TRANSACTION AND USE OF PROCEEDS

After completion of the Proposed Transaction, PCCW Media will remain as an indirect subsidiary of the Company as the Company is the controlling shareholder of HKT and the financial results of the PCCW Media Group will continue to be consolidated in the financial statements of the Company. As the Proposed Transaction will not result in a loss of control by the Company over PCCW Media, the Proposed Transaction will be accounted for as an equity transaction and will not result in the recognition of any gain or loss in profit or loss in the income statement.

The proceeds of the Proposed Transaction will be used by the Group for general corporate and working capital purposes, including repayment of debt at the PCCW level.

INFORMATION ON THE PARTIES

HKT Interactive Media is an indirect wholly-owned subsidiary of HKT.

HKT is principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, enterprise solutions, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centres. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world. HKT is a subsidiary of the Company.

PCCW Interactive Media is an indirect wholly-owned subsidiary of the Company.

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

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Proposed Transaction exceeds 5% but is less than 25%, the Proposed Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements thereunder.

(2) STRATEGIC REVIEW OF PCCW OTT

PCCW OTT operates pan-regional OTT (over-the-top) video entertainment and music platforms, including under the “Viu” and “Moov” brands in Hong Kong, Southeast Asia and the Middle East. The Company continues to actively evaluate various strategic alternatives to support the continued growth of PCCW OTT, including but not limited to seeking to introduce additional third party financing into PCCW OTT through a potential separate listing of PCCW OTT and/or additional investment in PCCW OTT from strategic partners.

The Company will make further announcement(s) on its strategy in relation to PCCW OTT as and when appropriate.

Shareholders of the Company and potential investors should note that completion of the Proposed Transaction is subject to a number of conditions precedent. There is no assurance that the Proposed Transaction or any potential strategic initiative in relation to PCCW OTT will take place or as to when they may take place. Shareholders and potential investors of the Company should therefore exercise caution when dealing in or investing in the shares of the Company.

DEFINITIONS

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

“ Agreed Exchange Rate ”	the exchange rate agreed between the Parties under the Share Purchase Agreement of US\$1 = HK\$7.8
“ Company ” or “ PCCW ”	PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Hong Kong 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)
“ Completion ”	completion of the Proposed Transaction pursuant to the terms and conditions of the Share Purchase Agreement
“ Consideration ”	the total consideration payable by HKT Interactive Media under the Share Purchase Agreement described under the heading “Consideration” in this announcement
“ Directors ”	the directors of the Company
“ Group ”	the Company and its subsidiaries, excluding the PCCW Media Group
“ 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, the share stapled units of which jointly issued with the HKT Trust are listed on the Hong Kong Stock Exchange (stock code: 6823). HKT is a subsidiary of the Company

“HKT Group”	HKT and its subsidiaries
“HKT Interactive Media”	HKT Interactive Media Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of HKT
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-Compete Agreement”	the non-compete agreement dated November 8, 2011 entered into between HKT and PCCW in respect of the business of providing pay and free television services, under which HKT agreed not to undertake any pay television services without PCCW’s consent
“Parties”	PCCW Interactive Media and HKT Interactive Media, being the parties to the Share Purchase Agreement, and a “Party” shall be construed accordingly
“PCCW Interactive Media”	PCCW Interactive Media Holdings Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“PCCW Interactive Media Group”	PCCW Interactive Media and its subsidiaries, any holding company of PCCW Interactive Media and all other subsidiaries of any such holding company from time to time (except members of the PCCW Media Group and the HKT Group)
“PCCW Media”	PCCW Media Limited, a company incorporated in Hong Kong with limited liability and currently an indirect wholly-owned subsidiary of the Company
“PCCW Media Group”	PCCW Media and its subsidiaries and joint venture following the Restructuring
“PCCW OTT”	PCCW International OTT (Cayman Islands) Holdings Limited, a company incorporated in the Cayman Islands with limited liability and an indirect subsidiary of the Company
“Proposed Transaction”	the proposed transfer involving the sale by PCCW Interactive Media and purchase by HKT Interactive Media of the entire issued share capital of PCCW Media

“Restructuring”	among other things, certain transfers of shares and assets between certain members of the Group to be completed prior to Completion so as to facilitate the Proposed Transaction
“Share Purchase Agreement”	the share purchase agreement in relation to the Proposed Transaction entered into between PCCW Interactive Media as seller and HKT Interactive Media as purchaser on August 6, 2020
“US\$”	United States dollars, the lawful currency of the United States of America

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

Hong Kong, August 6, 2020

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; Li Fushen (Deputy Chairman); Mai Yanzhou; Zhu Keping and Wei Zhe, David

Independent Non-Executive Directors

Aman Mehta; Frances Waikwun Wong; Bryce Wayne Lee; Lars Eric Nils Rodert; David Christopher Chance and David Lawrence Herzog