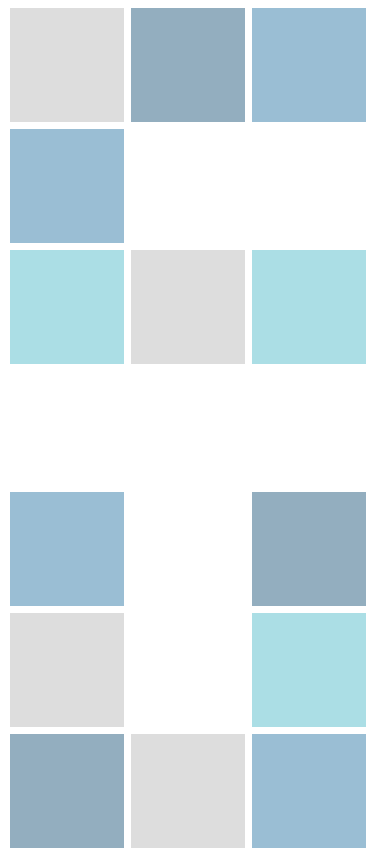


CFRED Student Forum



How should the spin-off of PCCW's telecommunication business be viewed in light of previous PCCW transactions

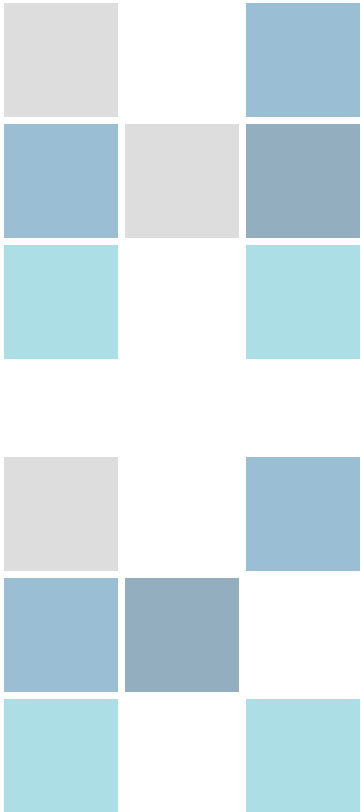
Lu Kai

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PhD Candidate



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1 Structure of Share Stapled Units

2 Reasons to design the Structure

3 Effects on PCCW shareholders



1. Structure of Share Stapled Units

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

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

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



PCCW Limited

電訊盈科有限公司

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

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

Independent Financial Adviser to the Independent Board Committee and the Shareholders:



A letter from the Board is set out on pages 22 to 152 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on pages 153 to 154 of this circular. A letter from the independent financial adviser to the Independent Board Committee and the Shareholders is set out on pages 155 to 190 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company is to be held at 10:30 a.m. on Wednesday, 12 October 2011 at 6th Floor, Telecom House, 3 Des Voeux Road, West, Hong Kong (to be set out on pages 91 to 93 of this circular). A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM or at any adjourned meeting in person, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Investors Communications Centre, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event no less than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

26 September 2011

GLOBAL OFFERING OF SHARE STAPLED UNITS

to be jointly issued by

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



Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

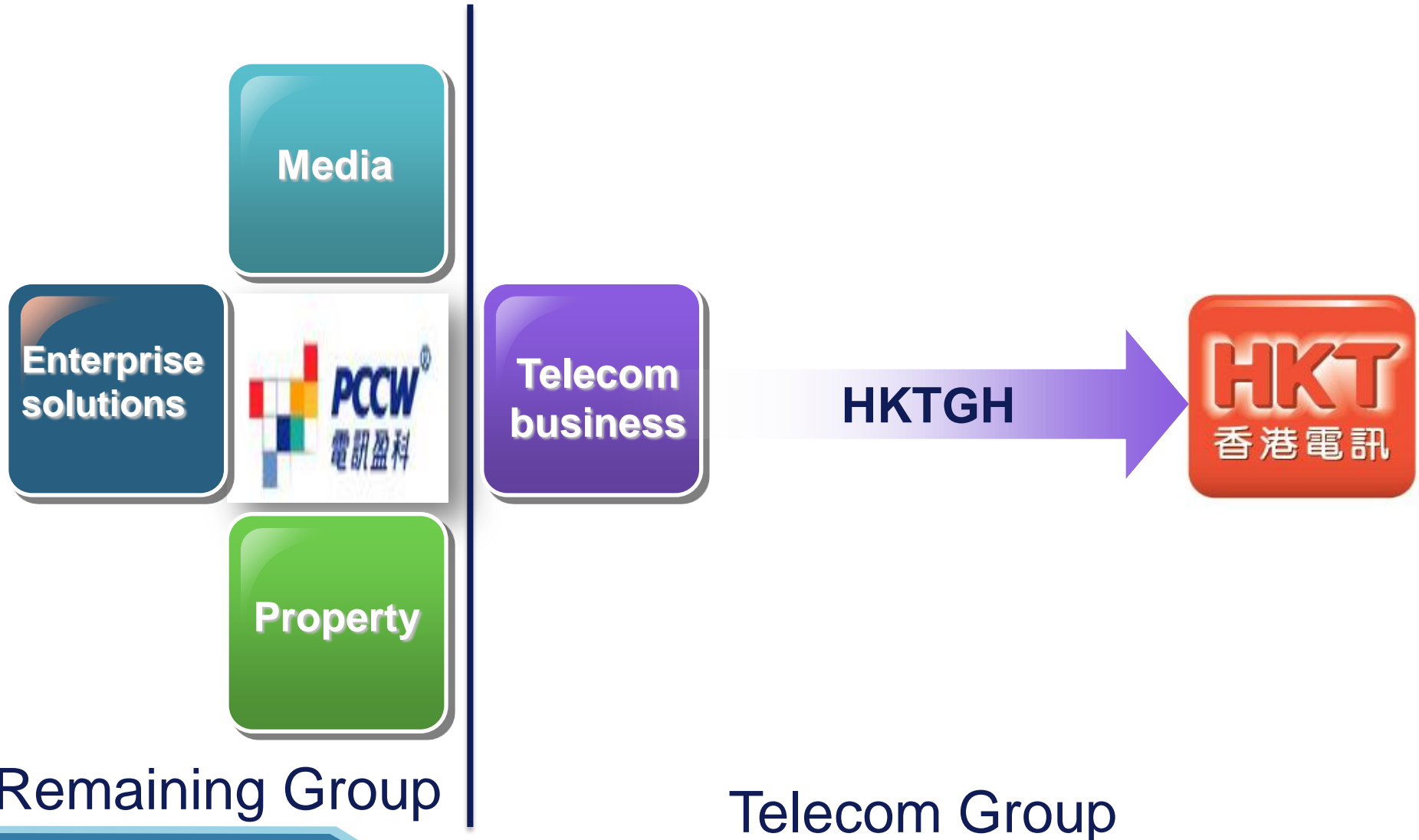


Joint Bookrunners and Joint Lead Managers
(in alphabetical order)



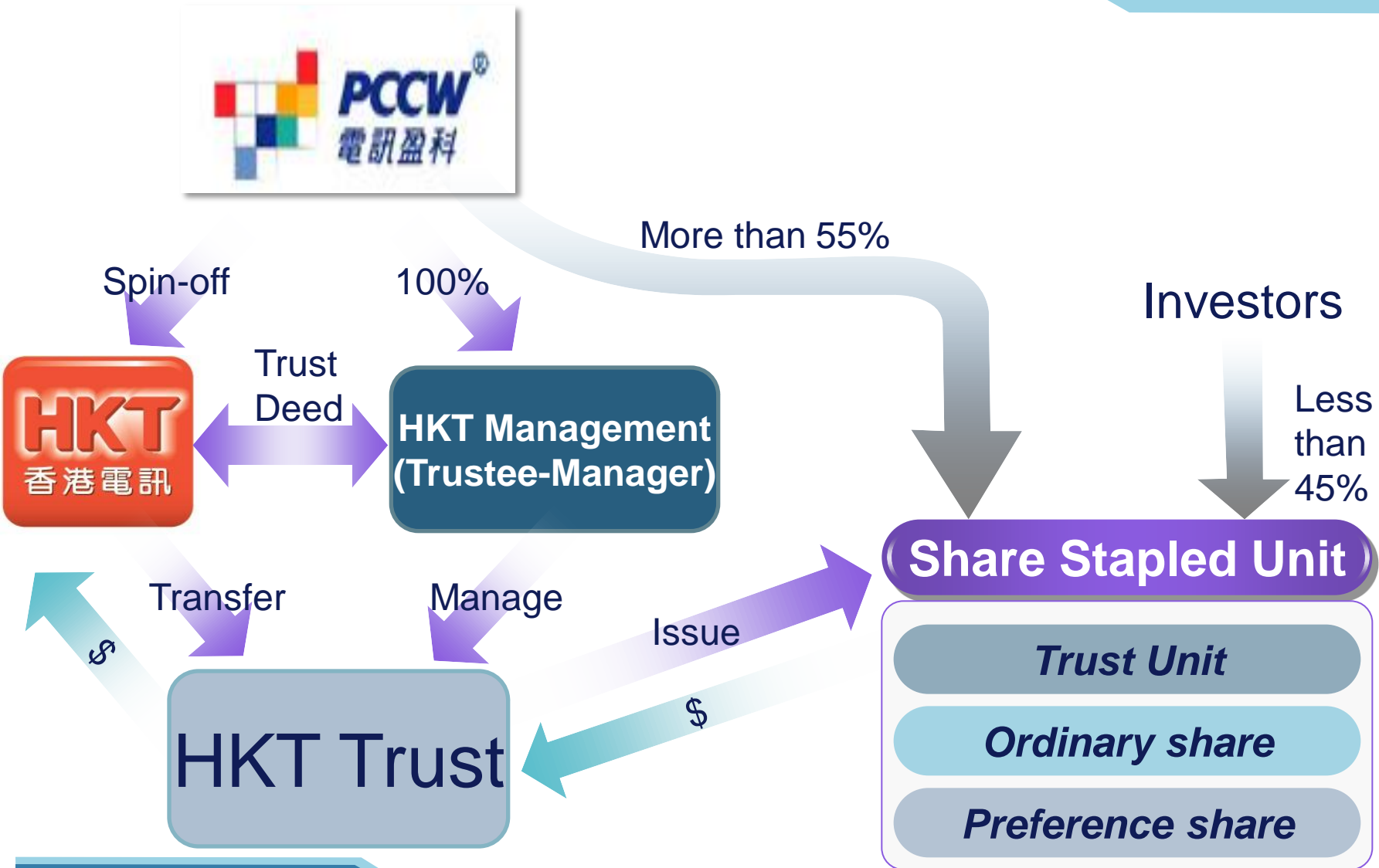


1.1. Pre-IPO restructuring





1.2. The Basic Flow Chart





1.3. Features of share stapled units



SSU

- Combination of units, ordinary shares and preference shares
- Numbers of three components are the same
- Listed on SEHK, traded as a whole

Owners

- Unitholders are legal and equitable owners of units and preference shares, and equitable owners of ordinary shares
- Trustee-Manager is the legal owner of ordinary shares

Meeting

- Meetings are held on a combined basis or, separately but concurrently or consecutively
- Meetings of unitholders and shareholders have same agenda

Vote

- Unitholder: one vote (trust) and one vote (preference share)
- Trustee-Manager: one vote (ordinary share)
- Trustee-Manager votes in accordance with unitholders



2.1. Background

2000

Richard Li acquired the HKT with a bank loan of 11 billion USD. PCCW was heavily indebted after takeover.

2006

PCCW attempted to sell telecom assets but it was rejected by shareholders.

2008

PCCW planned to sell up to 45% equity interest in HKTGH, but it was failed again because received bids were unattractive.

2009

PCCW proposed privatization by buying out public trading shares, but overruled by the court on the ground of voting manipulation.

2011

Li's Father successfully spun off the Hutchison ports assets and listed on SGX as a business trust (HPH Trust).



2.2. Reasons to design the structure

Why spin-off?

1. Unlock value
2. More defined business focus
3. Increase financial resources for telecom group
4. Additional value for PCCW shareholders
5. Maintain the control
6. Share proportions are not diluted

Why list trust units?

1. Technically, it is not economical or legal to list HKT Trust on SEHK.
2. However, the trust structure can include a clearer and more focused distribution policy.
3. The distributable cash flow in a trust is usually higher and more stable than the share dividends in a listed company.



2.2. Reasons to adopt the structure

Why link?

1. Generally, the protection of unitholders is weaker than shareholders.
2. The linking confers the rights and protections of shareholders to unitholders. When the HKT is listed, the linked trust units can be treated as derivatives in relation to listed shares (SFO s.285), governed by SFO.

Why staple?

1. It is not a usual practice in jurisdictions which enable listed business trusts.
2. The capital protection equal to the face value in case of the winding up or termination of HKT.
3. Secure the legitimacy of regulator's investigation and enforcement.



3.1. Share value of PCCW after spin-off

Are benefits of spin-off described in the prospectus really convincing?

The share proportions are not diluted, but the share values are depreciated because significant assets have been transferred out of the PCCW.



3.2. Coercion on shareholders?



Share price in Mid-November 2011 when units were offered for subscription: a little higher than **3 HKD**

If shareholders want to fully maintain their interests in telecom business, they have to subscribe trust units. The offering price was from **4.53 to 5.38 HKD** per unit. The share price of PCCW was around **3 HKD** at that time. Therefore, to be unitholders, shareholders have to make up the gap by paying at least **1.5 HKD** for each unit. How to protect these shareholders?



3.3. Can shareholders really say?

1. Spin-off is smarter than privatization because it only needs an ordinary resolution.
2. The majority shareholders, Richard Li and China Unicom, held nearly 46% of PCCW shares.
3. The minority shareholders could say nothing, or even if they have said, it counts nothing.
4. Shall certain spin-off transactions be covered by s. 166 of CO in the future?

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**Thank you for your
presence and
patience!**