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## **HKT Trust**

*(a trust constituted on November 7, 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)**

### **AMENDMENT AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH THE PCCW GROUP**

The HKT Limited Group entered into various transactions with the PCCW Group for operational needs as described in the 2013 Announcement which constituted continuing connected transactions of the Company under the Listing Rules for a term expiring on December 31, 2016. With the continued growth and development in the business and operations of the HKT Limited Group and the PCCW Group, the amount of some of these continuing connected transactions for 2016 is expected to grow and exceed the relevant annual caps set out in the 2013 Announcement. Furthermore, the scope of some of the continuing connected transactions as described in the 2013 Announcement would need to be adjusted to cater for the change in the needs of the HKT Limited Group and the PCCW Group as a result of the growth and development of their respective businesses and operations. Therefore, the Directors propose to amend the agreements for the relevant continuing connected transactions so as to revise the 2016 Annual Caps and to make other necessary adjustments to the terms of the relevant agreements.

Furthermore, it is anticipated that some of the existing continuing connected transactions as described in the 2013 Announcement with the PCCW Group will continue beyond December 31, 2016. The Directors propose to renew these continuing connected transactions with Annual Caps as described in this announcement for the three financial years ending December 31, 2017 to 2019.

PCCW is the controlling holder of the Share Stapled Units. Accordingly, the PCCW Group is a connected person of the Company under the Listing Rules.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the relevant Annual Caps, in each case (or on an aggregated basis, as described below), of the continuing connected transactions referred to in this announcement, which are categorised according to the providers of the relevant service, exceed 0.1% but are less than 5%, the continuing connected transactions are subject to the announcement, annual review and reporting requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **BACKGROUND**

The HKT Limited Group entered into various transactions with the PCCW Group for operational needs as described in the 2013 Announcement which constituted continuing connected transactions of the Company under the Listing Rules for a term expiring on December 31, 2016. With the continued growth and development in the business and operations of the HKT Limited Group and the PCCW Group, the amount of some of these continuing connected transactions for 2016 is expected to grow and exceed the relevant annual caps set out in the 2013 Announcement. Furthermore, the scope of some of the continuing connected transactions as described in the 2013 Announcement would need to be adjusted to cater for the change in the needs of the HKT Limited Group and the PCCW Group as a result of the growth and development of their respective businesses and operations. Therefore, the Directors propose to amend the agreements for the relevant continuing connected transactions so as to revise the 2016 Annual Caps and to make other necessary adjustments to the terms of the relevant agreements.

Furthermore, it is anticipated that some of the existing continuing connected transactions as described in the 2013 Announcement with the PCCW Group will continue beyond December 31, 2016. The Directors propose to renew these continuing connected transactions with Annual Caps as described in this announcement for the three financial years ending December 31, 2017 to 2019.

## **PRINCIPAL TERMS OF THE AMENDMENT AND RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT**

### ***Services and floor space supplied by the HKT Limited Group to the Media Group***

#### **(1) The provision of carriage services**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Media entered into a carriage services agreement, pursuant to which HK Telecom has agreed to provide or procure the

provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television and other services to its customers.

On December 23, 2016, the carriage services agreement was amended to expand the scope of the Media Group to include HKTVE, which has launched its free TV services in April 2016. There was no change to the Annual Cap for 2016.

On December 23, 2016, a renewal agreement was also entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were determined by reference to the historical transaction amount in 2016 and taking into consideration the anticipated increase in the demand for fibre coverage and growth of Media Group's business as well as the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The annual service fee has been determined on the basis of marginal cost charging. Under this mechanism, the incremental costs (i.e. incremental to the 'sunk' historic cost of the HKT Limited Group's existing network) of the various services needed to deliver the overall carriage service have been determined, in some cases, on the basis of comparing transaction charges with those of broadly comparable independent companies and, in other cases, on a cost-plus basis with a cost-plus percentage of initially around 5%, subject to the review of the parties from time to time .

The agreement provides that the Media Group is entitled to enjoy the benefit of enhancements to the network, as made by the HKT Limited Group. Any addition in capacity or enhancement in network agreed by the Media Group, as might arise out of a proposed annual review process, would result in an increase in the annual service fee. The amount of the fee increase would depend upon the relevant aspect of the carriage service requiring to be enhanced. Thus, an increase in line or channel transmission capacity or enhancement in network would require the Media Group to contribute to the additional expenditure required; whereas a requested increase in field services would be calculated on a cost-plus basis with a cost-plus percentage of initially around 5%, subject to the review of the parties from time to time.

In a similar vein, the agreement provides that the Media Group is entitled, out of the annual review process, to call for a capacity reduction. However, no reduction is allowed for lines and/or channel transmission capacity. In this context, the annual service fee would be reduced to the extent that the relevant component of the service necessary to deliver the reduction was, in essence, a 'manpower' issue or one otherwise specifically identifiable to the Media Group's reduced needs (e.g. as to the budgeting of access into and exit from the HKT Limited Group network, so called server end links/local connectivity links). However, to the extent that the Media Group were to underutilize its agreed number of lines or channel capacity, the related element of the annual service fee would not be reduced.

The annual service fee is calculated based on the number of internet protocol multicast enabled broadband access lines installed for a maximum agreed capacity of up to 1.1 million lines. In cases where the capacity installed exceeds the maximum agreed capacity or if there is network enhancement, the Media Group is required to pay additional fees to reimburse HK Telecom for any incremental capital and/or other expenditure required to build the additional lines requested or for the enhanced services

resulted from the upgraded work at a pre-agreed required rate of return on investment referencing the weighted average cost of capital of HKT Limited Group plus a fixed annual maintenance charge determined on cost basis.

**(2) The provision of marketing and sales services**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services renewal agreement, pursuant to which HK Telecom has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service.

Although the Media Group has its own dedicated sales team, the marketing and sale of the Media Group's products and services by the HKT Limited Group's sales team and the provision of a unified call-centre support service, are seen by both parties as important in providing a one-stop shop to both groups' customers. Hence, there is a reciprocal marketing and sales services agreement as referred to in paragraph (6) below, on like terms, governing sales by the Media Group's dedicated sales staff of the HKT Limited Group's products and services.

On December 23, 2016, the marketing and sales services agreement was amended pursuant to which the Annual Cap for 2016 was increased to cater for the anticipated increase in demand for marketing and sales services arising from various new business initiatives such as The Club of the HKT Limited Group, the free TV services of HKTVE and the over-the-top (OTT) services of the Media Group, and the increased customer base of the HKT Limited Group following the acquisition of CSL. Furthermore, the scope of the Media Group was also expanded to include HKTVE which has launched its free TV services in April 2016. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

On December 23, 2016, a renewal agreement was also entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the amended Annual Cap for 2016 taking into consideration the potential cross-selling opportunities resulting from various new business initiatives such as The Club of the HKT Limited Group, the free TV services of HKTVE and the OTT services of the Media Group, the full effect of the increased customer base of the HKT Limited Group after the acquisition of CSL and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph

“Historical Transaction Amounts and Annual Caps” of this announcement below.

The fees payable by the Media Group to the HKT Limited Group mainly include (i) the sales commission (i.e. the commission that the HKT Limited Group earns from the successful sale of the Media Group’s products or services) at a market rate, based on attaining certain service levels and sales targets, as agreed annually in advance, which is capable of being benchmarked against the commissions offered by external independent sales agents; and (ii) fees charged on a cost plus basis in relation to call centre inbound and outbound telephone calls and customer and technical service calls made by the HKT Limited Group.

Pursuant to the marketing and sales services agreement between HK Telecom and the Media Group, the following service fees are chargeable and calculated:

- (a) Direct marketing and front-line sales team services are charged based on the number of sales orders achieved with certain pre-agreed price plan levels, at a market rate per order which is benchmarked against the commissions offered by external independent sales agents.
- (b) Retail shops sales team services are charged on a revenue-sharing basis, based on the total contract revenues cross-sold by the shop sales team during the year.
- (c) The unified call-centre support service is charged at a range of monthly rates determined by reference to rates which would have been charged for independent third party customers.

**(3) The provision of internal (specialist telecom) services**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Media entered into an internal (specialist telecom) services agreement, pursuant to which HK Telecom has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialized support services that are integral to the operation of the Media Group’s business.

In summary, the services principally comprise:

- the provision of international private leased circuit (“**IPLC**”);
- maintenance services in respect of the Media Group’s PABX (telephone) and other technological office systems;

- the provision of business, mobile, data and fax lines;
- the provision of broadband lines; and
- the provision of development services for the Media Group's products and services.

On December 23, 2016, the internal (specialist telecom) services agreement was amended pursuant to which the scope of the Media Group has been expanded so that services can also be provided to HKTVE which has launched its free TV services in April 2016. There was no change to the Annual Cap for 2016.

On December 23, 2016, a renewal agreement was also entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the Annual Cap for 2016 taking into consideration the anticipated growth of the Media Group's business and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The charges for these services are typically calculated based on the actual service usage (e.g. number of IPLCs rented from the HKT Limited Group, number of broadband lines used, number of technological office systems in place), charged at market rate determined by reference to rates which would have been charged to independent third party customers. The application development services are charged on a cost-plus basis.

The services are provided by the HKT Limited Group in the ordinary course of its business given that it is a leading provider of such services in Hong Kong.

#### (4) Licensed access to floor space

Date of existing agreement	: December 27, 2013
Parties	: (a) HKTC and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

Under the licence agreement dated December 27, 2013, PCCW Media has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of premises of HKTC ("**HKTC's Premises**"). Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at the HKTC's Premises.

HKTC continues to meet and defray all costs, expenses and outgoings of the HKTC's

Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of the HKTC's Premises. Accordingly, the licence fees paid by the Media Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Media Group.

On December 23, 2016, the licence agreement was amended pursuant to which the scope of the Media Group has been expanded so that HKTC's Premises can also be used by HKTVE which has launched its free TV services in April 2016. There was no change to the Annual Cap for 2016.

On December 23, 2016, a renewal agreement was also entered into to renew the licence agreement between HKTC and PCCW Media on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were reduced compared to the Annual Cap for 2016 taking into consideration the cessation of the licensing arrangement for some of the HKTC's Premises in 2016 and 2017. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The license and related fees are charged based on the area occupied by the Media Group at various HKTC's Premises, at monthly rates per square foot which were determined by reference to market rates.

### ***Services supplied by the Media Group to the HKT Limited Group***

#### **(5) Service packaging arrangements / provision of service and product**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Media entered into a service packaging agreement. The agreement comprises two aspects:

- a mutual commitment to package the HKT Limited Group's products and services and the Media Group's products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and
- a commitment by the Media Group to provide the customers of the HKT Limited Group with certain services and products, the composition of which is agreed

between the parties from time to time.

On December 23, 2016, the service packaging agreement was amended pursuant to which the Annual Cap for 2016 was increased taking into consideration the introduction of new 4K set-top boxes which are supplied by the Media Group to the HKT Limited Group and/or its customers and the growth in the business of the Media Group and the HKT Limited Group. The agreement was also amended to expand the scope of Media Group to include HKTVE which has launched its free TV services in April 2016. The agreement was renamed as service and product provision agreement to more accurately reflect the nature of the transactions which include the supply of products such as 4K set-top boxes. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

On December 23, 2016, a renewal agreement was also entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. Besides, the Media Group will also provide to the HKT Limited Group user access to and connectivity services in respect of various materials via Media Group’s pay TV set-top-boxes and/or other medium. The Annual Cap for 2017 was increased compared to the amended Annual Cap for 2016 taking into consideration the full year effect of the introduction of the new 4K set-top boxes, the organic growth in the business of the Media Group and the HKT Limited Group and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

HK Telecom is required, depending upon the nature of the services, to pay to the Media Group (or procure payment of) an agreed lump sum or a minimum guaranteed amount and/or a per subscriber fee, in each case, capable of being benchmarked against the monthly rate which the Media Group charges its own retail subscribers to view the ‘Now TV’ services, including set-top-box rental plus channel subscription fees, and is open for review annually. The 4K set-top boxes will be sold by the Media Group to the HKT Limited Group on a cost-plus basis with a cost-plus percentage of initially around 3%, subject to the review of the parties from time to time. The user access to and connectivity services in respect of various materials via set-top-boxes and/or other medium will be charged by reference to the market rates for independent third party customers.

**(6) The provision of marketing and sales services**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019



On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services renewal agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group.

On December 23, 2016, the marketing and sales services agreement was amended pursuant to which the Annual Cap for 2016 was increased taking into consideration the potential cross-selling opportunities resulting from various new business initiatives such as The Club of the HKT Limited Group, and the free TV services and OTT services of the Media Group. Besides, the scope of the Media Group is also expanded to include HKTVE which has launched its free TV services in April 2016. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

On December 23, 2016, a renewal agreement was also entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the amended Annual Cap for 2016 taking into consideration the full year effect of the various business initiatives above, the organic growth in the business of the Media Group and the HKT Limited Group and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

The fees payable by HK Telecom to the Media Group include, for example, sales commission (i.e. the commission that the Media Group earns from the successful sale of the HKT Limited Group’s products or services) at a market rate, based on attaining certain service levels and sales targets, as agreed annually in advance, which is capable of being benchmarked against the commissions offered by external independent sales agents, and fees paid by HKT Limited Group for advertisements, programmes or activities on the various media platforms of the Media Group for promoting products and services of the HKT Limited Group.

**(7) Content provision arrangements**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Media
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Media entered into a media content services agreement, pursuant to which PCCW Media has a first right of supply and agreed to supply, procure the supply of or provide content management and production support services to the HKT Limited Group for distribution through its various

platforms including **eye** (HKT Limited Group's smart communications services) and mobile platforms or other platforms.

On December 23, 2016, the media content services agreement was amended pursuant to which the Annual Cap for 2016 was increased taking into consideration the growth in the business of the Media Group and certain new business initiatives involving supply of content-related services to the HKT Limited Group in support of its services to its customers. Besides, the scope of the Media Group was expanded to include HKTVE which has launched its free TV services in April 2016. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

On December 23, 2016, a renewal agreement was entered into to renew the transactions on the substantially same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the amended Annual Cap for 2016 taking into consideration the organic growth in the business of the Media Group and the HKT Limited Group and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The Media Group supplies or procures the supply of various categories of content, and provides related content management and production support services to the HKT Limited Group for distribution through the various platforms, so that the HKT Limited Group can offer the same to its customers. The content comprises:

- self-produced content by the Media Group;
- third party produced content for which the Media Group has multiplatform distribution rights;
- third party produced content for which the Media Group applies for specific distribution rights for the various platforms;
- MOOV music, music video content services for distribution on the various platforms;
- content management and production support services for distribution on the various platforms; and
- other content and content related services as the HKT Limited Group and the Media Group may agree from time to time.

The Media Group supplies various categories of content to the HKT Limited Group for distribution through the various platforms, and recharges the HKT Limited Group based on the actual content and content production costs incurred for the content supplied, at a cost-sharing ratio with reference to the proportion of the number of subscribers with content-viewing rights on the various platforms over total Media Group's subscriber base.

**(8) Directories publishing arrangements**

Date of existing agreement : December 27, 2013  
Parties : (a) HK Telecom and (b) PCCW Media  
Term : January 1, 2014 to December 31, 2016

On December 27, 2013, PCCW Media and HK Telecom entered into a directories publishing agreement. As the overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format.

The Media Group charges the HKT Limited Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories.

There was no amendment made to the directories publishing agreement. As it is anticipated that there will not be any transaction under this agreement in the future, this agreement will not be renewed upon the expiry of the current term on December 31, 2016.

**(9) Pay TV set-top-box access agreement**

Date of existing agreement : December 27, 2013  
Parties : (a) HK Telecom and (b) PCCW Media  
Current term : January 1, 2014 to December 31, 2016  
Date of amendment agreement : December 23, 2016

On December 27, 2013, HK Telecom and PCCW Media entered into an agreement pursuant to which the HKT Limited Group pays the Media Group a monthly charge for the provision of ‘user access’ to certain services that are capable of being provided via the Media Group’s set-top-boxes to customers subscribing for such services from the HKT Limited Group. The Media Group charges a market rate for such user-access rights determined by reference to the rate it charges independent third party customers for similar rights.

On December 23, 2016, the agreement was amended pursuant to which the scope of the Media Group is expanded to include HKTVE which has launched its free TV services in April 2016. There was no change to the Annual Cap for 2016.

As the service and product provision agreement as described in paragraph (5) above between HK Telecom and PCCW Media dated December 23, 2016 for three years ending December 31, 2019 covers the provision of user access services through the Media Group’s set-top-boxes, this agreement will not be renewed upon the expiry of the current term on December 31, 2016.

***Services and floor space supplied by the HKT Limited Group to the Solutions Group***

**(10) Provision of managed services and other telecommunications related services**

Date of existing agreements	: December 27, 2013
Parties	: (a) HK Telecom and (b) PCCW Solutions
Current term	: January 1, 2014 to December 31, 2016
Date of renewal agreements	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW Solutions entered into the following agreements:

- (a) a managed wavelength service agreement whereby HK Telecom has agreed to provide certain connectivity services to PCCW Solutions, linking the Solutions Group's data centre(s) in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels.
- (b) a telecommunications and other miscellaneous services agreement whereby HK Telecom and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms. The HKT Limited Group charges the Solutions Group on market rate.

There was no amendment made to the existing agreements. On December 23, 2016, the agreements were renewed on substantially the same terms for three years ending December 31, 2019. The aggregate Annual Caps for these agreements for 2017 to 2019 were increased compared to the aggregate Annual Cap for 2016 taking into consideration the organic growth of business of the Solutions Group and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

Services provided by the HKT Limited Group include two major types of services: (i) connectivity and other telecommunications services; and (ii) equipment and facilities leasing charges:

- (i) The HKT Limited Group being the backbone of the Solutions Group provides services that include telephone services (fixed line and mobile services), connectivity services including broadband, datapak, IPLCs, asynchronous transfer mode and network services, to support the Solutions Group's daily operations and to ensure the smooth running of the business for its clients by linking data centre sites in Hong Kong. The connectivity services are charged at a monthly rate determined by reference to usage and service duration as well as the market rate charged for similar third party customers.
- (ii) The HKT Limited Group is to provide fully equipped premises to the Solutions Group for its data centre business needs. These premises are exchange buildings which are converted and built to specifically fulfill data centre specifications by

installing equipment and facilities such as generators, chillers, cooling towers, transformers and other power equipments up to the required loading requirements and standards. These equipped premises are leased to the Solutions Group for its data centre business and charged at a monthly rate per area used determined by reference to the rate charged for similar third party customers.

**(11) Licensed access to floor space**

Date of existing agreement : December 27, 2013

Parties : (a) HKTC and (b) PCCW Solutions

Current term : January 1, 2014 to December 31, 2016

Date of renewal agreement : December 23, 2016

Renewal term : January 1, 2017 to December 31, 2019

Under the licence agreement dated December 27, 2013, PCCW Solutions has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of HKTC's Premises. Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at the HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of the HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of the HKTC's Premises. Accordingly, the licence fees paid by the Solutions Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Solutions Group.

There was no amendment made to the existing licence agreement. On December 23, 2016, a renewal agreement was entered into to renew the licence arrangement between HKTC and PCCW Solutions on substantially the same terms as the existing agreement for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were reduced compared to the Annual Cap for 2016 taking into consideration the cessation of the licensing arrangement for some of the HKTC's Premises in 2016 and 2017. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The license and related fees are charged based on the area occupied by the Solutions Group at various HKTC's Premises, at monthly rates per square foot which were determined by reference to market rates.

***Services supplied by the Solutions Group to the HKT Limited Group***

**(12) Solutions services**

The Solutions Group provides the following customized solutions to the HKT Limited Group pursuant to the following agreements:

***(a) Data Centre and Managed Services (“DCMS”)***

Date of existing agreement : December 27, 2013

Parties : (a) HK Telecom and (b) PCCW Solutions

Current term : January 1, 2014 to December 31, 2016

Date of amendment agreement : December 23, 2016

Pursuant to a bureau services agreement dated December 27, 2013, PCCW Solutions provides certain DCMS services to HK Telecom and its designated affiliates. These services include help desk services, problem management, change management, system and database support, information technology security services, data centre services, backup management, service level management, disaster recovery and technical platform services.

On December 23, 2016, the bureau services agreement was amended to increase the Annual Cap for 2016 to cater for the increasing demand of data centre sub-contracting services based on HK Telecom’s contracts with third parties for the provision of overall connectivity services, part of which is related to data centre services such as data centre hosting, colocation and backup management. Besides, PCCW Solutions may subcontract any of the work to its affiliates. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

The services are charged at market rate by reference to average rate for third party customers.

***(b) Information Technology Systems Integration (“ITSI”)***

Date of existing agreements : December 27, 2013

Parties : (a) HK Telecom and (b) PCCW Solutions

Current term : January 1, 2014 to December 31, 2016

Date of amendment agreements : December 23, 2016

PCCW Solutions provides the following services to HK Telecom and its designated affiliates:

- certain application management services (such as application support and maintenance, production acceptance testing and application release management); and
- certain system development services (such as information technology system design, development and implementation).

On December 23, 2016, the agreements for the ITSI services were amended to increase the Annual Caps for 2016 to cater for the increase in demand of application management and system development services arising from mobile-IT

integration program (MIP) after the acquisition of CSL which migrates CSL subscribers from CSL systems to HKT Limited Group's system. Besides, PCCW Solutions may subcontract any of the work to its affiliates. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

The services are charged at market rate by reference to the average rate for third party customers.

**(c) *Business Process and Logistics Operation ("BPLO")***

Date of existing agreement : December 27, 2013

Parties : (a) HK Telecom and (b) Power Logistics Limited

Current term : January 1, 2014 to December 31, 2016

Date of amendment agreement : December 23, 2016

Under the BPLO services agreement dated December 27, 2013, Power Logistics Limited, a company in the Solutions Group, provides a range of different business processing, order fulfillment and logistical services to the HKT Limited Group. These services include warehouse and stock management, logistics services, transportation services, printing and lettershopping services, delivery, mass distribution, document imaging and data entry services.

On December 23, 2016, the BPLO services agreement was amended so that Power Logistics Limited may subcontract any of the work to its affiliates. There was no change to the Annual Cap for 2016.

The basis of charging is the actual usage of the services, such as the number of application and support servers installed and the number of support staff required during the construction process and maintenance period, as well as the current market price and adjusted by the Consumer Price Index annual growth factor forecasted by Bloomberg.

**Renewal of solutions services for 2017 to 2019**

Date of renewal agreement : December 23, 2016

Parties : (a) HK Telecom and (b) PCCW Solutions

Renewal term : January 1, 2017 to December 31, 2019

On December 23, 2016, the solutions services provided by the Solutions Group to the HKT Limited Group under (a) to (c) above were renewed for a term of three years ending December 31, 2019, under one consolidated agreement for information technology, logistic and other contractor services for administrative convenience in view of the high degree of connections and similarities between such services, on substantially the same terms of services as the existing agreements for the current term. The Annual Caps for 2017 to 2019 were increased compared to the amended aggregate

Annual Cap for 2016 for the solutions services taking into consideration the organic growth of business of the HKT Limited Group as well as the effect of inflation.

Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

**(13) Sub-contracting agreement**

Date of existing agreement	: December 27, 2013
Parties	: (a) PCCW-HKT Technical Services Limited and (b) PCCW (Macau), Limitada
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016 (entered into between Pacific Century CyberWorks Solutions (Macau) Limited and PCCW (Macau), Limitada)
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, PCCW (Macau), Limitada (“**PCCW Macau**”), a company within the HKT Limited Group, and PCCW-HKT Technical Services Limited (“**TSL**”), an indirect wholly-owned subsidiary of PCCW, entered into a sub-contracting agreement. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as information technology related systems within hotels and casinos. Rather than performing the work itself, PCCW Macau has sub-contracted the work to TSL. Accordingly, the work is carried out by TSL and all fees received in respect of the work are passed on by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees, which is estimated to be at an average rate of 5% of the gross fees.

On December 23, 2016, the sub-contracting agreement was amended to increase the Annual Caps for 2016 to be the same as the Annual Caps for 2014 and 2015 by reference to the transaction amounts in the first six months of 2016 and the anticipated total transaction amount for 2016. Furthermore, sub-contracting works may be commissioned by any affiliate of PCCW Macau to any affiliate of TSL and, where appropriate, works for other places than Macau may also be sub-contracted under this agreement. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

On December 23, 2016, a renewal agreement was entered into by PCCW Macau and Pacific Century CyberWorks Solutions (Macau) Limited (“**PCCS**”), another indirect wholly-owned subsidiary of PCCW in place of TSL, to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019, with the Annual Caps for 2017 to 2019 being the same as the amended Annual Caps for 2016. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.



## *Other transactions between the HKT Limited Group and the PCCW Group*

### **(14) The provision of corporate shared services**

Date of existing agreement	: December 27, 2013
Parties	: (a) HKT Services Limited and (b) PCCW Services Limited
Current term	: January 1, 2014 to December 31, 2016
Date of amendment agreement	: December 23, 2016
Date of renewal agreement	: December 23, 2016
Renewal term	: January 1, 2017 to December 31, 2019

On December 27, 2013, HKT Services Limited (“**HKT Services**”), a company within the HKT Limited Group and PCCW Services Limited (“**PCCW Services**”), a direct wholly-owned subsidiary of PCCW, entered into a shared services agreement, pursuant to which HKT Services and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support.

On December 23, 2016, the shared services agreement was amended to increase the Annual Cap for 2016 taking into consideration the increased need of the PCCW Group for corporate support services resulted by its organic business growth and new business initiatives such as free TV services and OTT services of the Media Group as well as the effect of inflation. Besides, the scope of the PCCW Group has been expanded to include HKTVE which has launched its free TV services in April 2016, and the detailed scope of services have been amended to cater for changes in the needs of the PCCW Group. Details of the existing and amended Annual Caps for 2016 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

On December 23, 2016, a renewal agreement was entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the amended Annual Cap for 2016 taking into consideration the anticipated growth of the PCCW Group’s business and the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

The charges for these services are actual direct and indirect cost incurred in the supply and procurement of the services, including overheads, human and/or other resources and/or units and other deliverables.

### **(15) The provision of marketing and promotion services**

Date of existing agreement	: December 27, 2013
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Parties : (a) HK Telecom and (b) PCCW-HKT Limited

Current term : January 1, 2014 to December 31, 2016

Date of amendment agreement : December 23, 2016

Date of renewal agreement : December 23, 2016

Renewal term : January 1, 2017 to December 31, 2019

On December 27, 2013, HK Telecom and PCCW-HKT Limited, an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement, pursuant to which HK Telecom has agreed to provide marketing and promotion services to members of the PCCW Group for the marketing and promotion of PCCW Group's products and services. The services are charged on a cost basis.

On December 23, 2016, the marketing and promotion services agreement was amended pursuant to which the scope of PCCW Group was expanded to include HKTVE which has launched its free TV services in April 2016. There was no change to the Annual Cap for 2016.

On December 23, 2016, a renewal agreement was entered into to renew the transactions on substantially the same terms as the existing agreement, as amended, for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were increased compared to the Annual Cap for 2016 taking into consideration the increased need of the PCCW Group for marketing and promotion services resulted by its organic business growth and new business initiatives such as free TV services and OTT services of the Media Group as well as the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph "Historical Transaction Amounts and Annual Caps" of this announcement below.

#### **(16) Licensing agreement (PCCW Tower)**

Date of existing agreement : December 27, 2013

Parties : (a) PCCW Services and (b) HKT Services

Current term : January 1, 2014 to December 31, 2016

Date of renewal agreement : December 23, 2016

Renewal term : January 1, 2017 to December 31, 2019

PCCW Services is the tenant in respect of certain spaces located at PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expired on December 31, 2014 with the subsequent extension of 3 years until December 31, 2017. Under and subject to the terms of the lease, PCCW Services is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. PCCW Services and HKT Services entered into an agreement dated December 27, 2013 pursuant to which HKT Services has been granted a licence to occupy certain floor space for office use for fees including licence fees, rates,

management fees and other charges based on area of premises occupied and rental cost of PCCW Services for such premises.

There was no amendment made to the existing licensing agreement. On December 23, 2016, the licensing agreement was renewed on substantially the same terms as the existing agreement for a term of three years ending December 31, 2019. The Annual Caps for 2017 to 2019 were determined by reference to the historical transaction amount in 2016 and taking into account the effect of inflation. Details of the Annual Caps for 2017 to 2019 are set out in the paragraph “Historical Transaction Amounts and Annual Caps” of this announcement below.

If the lease for PCCW Tower entered into by PCCW Services with the landlord is not renewed upon its expiry on December 31, 2017 and other premises are rented by PCCW, HKT Services may continue to be granted a licence to occupy such premises under the licensing agreement.

**(17) Licensing of leased floor spaces (Telecom House)**

Date of existing agreement	: December 27, 2013
Parties	: (a) HK Telecom; (b) PCCW Global Limited and (c) PCCW Media
Term	: January 1, 2014 to December 31, 2016

PCCW Global Limited (“**PCCW Global**”), an indirect wholly-owned subsidiary of the Company, is a tenant in respect of certain spaces located at Telecom House, 3 Gloucester Road, Wanchai, Hong Kong (“**Telecom House**”), which is leased from Reach Networks Hong Kong Limited pursuant to a tenancy agreement dated February 28, 2011 (supplemented by three supplemental agreements dated September 9, 2011, December 19, 2013 and October 2, 2015 respectively). The tenancy agreement expired on February 29, 2016 and was not renewed.

HK Telecom is also a tenant in respect of certain spaces located at Telecom House, which is leased from Reach Networks Hong Kong Limited pursuant to two leases dated May 25, 2012 and December 13, 2012 respectively. The tenancy agreements expired on February 29, 2016 and were not renewed.

On December 27, 2013, PCCW Media entered into a licensing agreement with PCCW Global and HK Telecom pursuant to which PCCW Media has been granted a licence to occupy certain floor space at Telecom House for office use for an aggregate amount (inclusive of license fees, rates, management fees and other charges).

As the tenancy agreements between HKT Limited Group and Reach Networks Hong Kong Limited in respect of the Telecom House were not renewed when they expired in February 2016, the licensing agreement with PCCW Media had been terminated with effect from February 2016 and will not be renewed.

## HISTORICAL TRANSACTION AMOUNTS AND ANNUAL CAPS

Set forth below are the approximate historical aggregate values for the respective periods set out below, the existing annual caps for the year ending December 31, 2016, the revised Annual Caps for the financial year ending December 31, 2016 and the Annual Caps for the next three financial years ending December 31, 2017 to 2019:

### (A) Historical transaction amounts

<u>Agreement / service description</u>		Aggregate values for the financial year ended <u>December 31, 2014</u> (HK\$ million)	Aggregate values for the financial year ended <u>December 31, 2015</u> (HK\$ million)	Aggregate values for the period from January 1, 2016 to <u>June 30, 2016</u> (HK\$ million)
<u>Services and floor space supplied by the HKT Limited Group to the Media Group</u>				
(1)	The provision of carriage services	154.3	153.3	76.4
(2)	The provision of marketing and sales services	177.7	183.6	99.1
(3)	The provision of internal (specialist telecom) services	21.0	21.3	14.0
(4)	Licensed access to floor space	1.3	1.4	1.2
<u>Services supplied by the Media Group to the HKT Limited Group</u>				
(5)	Service and product provision agreement (previously known as service packaging arrangements)	605.9	634.4	329.2
(6)	The provision of marketing and sales services	23.7	24.2	19.0
(7)	Content provision arrangements	330.6	366.5	204.5
(8)	Directories publishing arrangements	-	-	-
(9)	Pay TV set-top-box access agreement	0.2	0.2	0.1
<u>Services and floor space supplied by the HKT Limited Group to the Solutions Group</u>				
(10)	Provision of managed services and other telecommunications related services	58.3	70.2	165.1
(11)	Licensed access to floor space	10.3	10.5	5.7

<u>Agreement / service description</u>	<u>Aggregate values for the financial year ended December 31, 2014 (HK\$ million)</u>	<u>Aggregate values for the financial year ended December 31, 2015 (HK\$ million)</u>	<u>Aggregate values for the period from January 1, 2016 to June 30, 2016 (HK\$ million)</u>
<u>Services supplied by the Solutions Group to the HKT Limited Group</u>			
(12) Solutions services			
(a) DCMS – bureau services	329.7	398.0	179.6
(b) ITSI – application management services	81.3	90.2	72.8
ITSI – system development services	50.1	57.9	37.2
ITSI – Total	<u>131.4</u>	<u>148.1</u>	<u>110.0</u>
(c) BPLO – business process and logistics operation	126.0	161.4	62.1
Total	587.1	707.5	351.7
(13) Sub-contracting agreement			
(a) Contracted service cost from PCCW Macau to TSL	74.1	92.6	40.4
(b) Sub-contracting fees from TSL to PCCW Macau	1.5	1.8	0.8
<u>Other transactions between the HKT Limited Group and the PCCW Group</u>			
(14) The provision of corporate shared services	81.9	125.3	69.0
(15) The provision of marketing and promotion services	37.4	28.5	13.7
(16) Licensing agreement (PCCW Tower)	128.2	142.0	70.1
(17) Licensing of leased floor spaces (Telecom House)	12.8	16.0	2.5

***(B) Existing and amended Annual Caps for the financial year ending December 31, 2016***

<u>Agreement / service description</u>	<u>Existing Annual Caps for the year ending December 31, 2016 (HK\$ million)</u>	<u>Existing/Amended Annual Caps for the year ending December 31, 2016 (HK\$ million)</u>
<u>Services and floor space supplied by the HKT Limited Group to the Media Group</u>		
(1) The provision of carriage services	506.6	506.6
(2) The provision of marketing and sales services	249.3	253.0
(3) The provision of internal (specialist telecom) services	24.8	24.8
(4) Licensed access to floor space	5.9	5.9
<b>Aggregation of items (1) to (4) and (17)</b>	<b>808.2</b>	<b>811.9</b>
<u>Services supplied by the Media Group to the HKT Limited Group</u>		
(5) Service and product provision agreement (previously known as service packaging arrangements)	634.5	1,051.6
(6) The provision of marketing and sales services	24.8	71.6
(7) Content provision arrangements	378.0	435.6
(8) Directories publishing arrangements (See Note 1)	0.0	0.0
(9) Pay TV set-top-box access agreement	1.1	1.1
<b>Aggregation of items (5) to (9)</b>	<b>1,038.4</b>	<b>1,559.9</b>
<u>Services and floor space supplied by the HKT Limited Group to the Solutions Group</u>		
(10) Provision of managed services and other telecommunications related services	366.8	366.8
(11) Licensed access to floor space	16.3	16.3

Note:

1. The existing Annual Cap for this transaction for 2016 is HK\$0.04 million, which has not been amended.

<u>Agreement / service description</u>	Existing Annual Caps for the year ending <u>December 31, 2016</u> (HK\$ million)	Existing/Amended Annual Caps for the year ending <u>December 31, 2016</u> (HK\$ million)
<u>Services supplied by the Solutions Group to the HKT Limited Group</u>		
(12) Solutions services		
(a) DCMS - bureau services	435.0	841.8
(b) ITSI - application management services	100.1	200.2
ITSI - system development services	64.4	162.5
ITSI - Total	164.5	362.7
(c) BPLO - business process and logistics operation	174.3	174.3
Total	773.8	1,378.8
(13) Sub-contracting agreement		
(a) Contracted service cost from PCCW Macau to TSL	100.0	150.0
(b) Sub-contracting fees from TSL to PCCW Macau	5.0	7.5
<b>Aggregation of items (10), (11) and (13)(b)</b>	<b>388.1</b>	<b>390.6</b>
<b>Aggregation of items (12) and (13)(a)</b>	<b>873.8</b>	<b>1,528.8</b>
<u>Other transactions between the HKT Limited Group and the PCCW Group</u>		
(14) The provision of corporate shared services	139.2	215.0
(15) The provision of marketing and promotion services	104.3	104.3
(16) Licensing agreement (PCCW Tower)	173.0	173.0
(17) Licensing of leased floor spaces (Telecom House)	21.6	21.6

*(C) Annual Caps for each of the three financial years ending December 31, 2017 to 2019*

<u>Agreement / service description</u>		Annual Caps for the year ending December 31,			<i>Notes</i>
		<u>2017</u> (HK\$ million)	<u>2018</u> (HK\$ million)	<u>2019</u> (HK\$ million)	
<u>Services and floor space supplied by the HKT Limited Group to the Media Group</u>					
(1)	The provision of carriage services	360.2	456.9	565.7	a
(2)	The provision of marketing and sales services	305.5	345.4	379.9	b
(3)	The provision of internal (specialist telecom) services	25.8	28.4	31.2	c
(4)	Licensed access to floor space	3.3	3.7	4.0	d
<b>Aggregation of items (1) to (4) and (17)</b>		<b>694.8</b>	<b>834.4</b>	<b>980.8</b>	
<u>Services supplied by the Media Group to the HKT Limited Group</u>					
(5)	Service and product provision agreement (previously known as service packaging arrangements)	1,091.5	1,048.4	999.4	e
(6)	The provision of marketing and sales services	104.6	122.1	138.2	e
(7)	Content provision arrangements	465.3	514.1	562.8	e
(8)	Directories publishing arrangements	<i>This transaction is not renewed for 2017 to 2019</i>			
(9)	Pay TV set-top-box access agreement	<i>This transaction is not renewed for 2017 to 2019</i>			
<b>Aggregation of items (5) to (9)</b>		<b>1,661.4</b>	<b>1,684.6</b>	<b>1,700.4</b>	
<u>Services and floor space supplied by the HKT Limited Group to the Solutions Group</u>					
(10)	Provision of managed services and other telecommunications related services	406.5	446.5	491.2	f
(11)	Licensed access to floor space	9.0	8.2	9.0	g



<u>Agreement / service description</u>		Annual Caps for the year ending December 31,			<i>Notes</i>
		<u>2017</u> (HK\$ million)	<u>2018</u> (HK\$ million)	<u>2019</u> (HK\$ million)	
<u>Services supplied by the Solutions Group to the HKT Limited Group</u>					
(12)	Solutions services	1,425.6	1,456.8	1,488.0	h
(13)	Sub-contracting agreement				
	(a) Contracted service cost from PCCW Macau to PCCS	150.0	150.0	150.0	i
	(b) Sub-contracting fees from PCCS to PCCW Macau	7.5	7.5	7.5	i
<b>Aggregation of items (10), (11) and (13)(b)</b>		<b>423.0</b>	<b>462.2</b>	<b>507.7</b>	
<b>Aggregation of items (12) and (13)(a)</b>		<b>1,575.6</b>	<b>1,606.8</b>	<b>1,638.0</b>	
<u>Other transactions between the HKT Limited Group and the PCCW Group</u>					
(14)	The provision of corporate shared services	243.5	269.8	298.1	j
(15)	The provision of marketing and promotion services	112.5	154.9	201.4	k
(16)	Licensing agreement (PCCW Tower)	150.0	170.0	175.0	l
(17)	Licensing of leased floor spaces (Telecom House)	<i>This transaction is not renewed for 2017 to 2019</i>			

Notes:

The Annual Caps have been determined on the following bases:

- a. the estimated incremental costs (including the labour costs, the supply of telecommunications lines and exchange spaces) of the provision of relevant carriage services, and also reflects the expected increase in usage demand from the Media Group.
- b. (i) the historical figures for running the services for the Media Group; (ii) the estimated level of services required by the Media Group; and (iii) the proposed sales and marketing plan.
- c. (i) the historical figures for running the services for the Media Group; (ii) the estimated level of services required by the Media Group; and (iii) the staff and resources requirement for the services.
- d. benchmarking against market rates.
- e. (i) the historical figures for running the services by the Media Group; (ii) the estimated level of services required; and (iii) the staff and resources requirement for the services.
- f. (i) the historical figures for running the services; (ii) the estimated level of services required, which shows a substantial increase due to growing demand for connectivity, equipment sales and facilities charges to meet requirement from PCCW Solutions' expanded data centre business; and (iii) the staff and resources requirement for the services.
- g. benchmarking against market rates.
- h. (i) the historical figures for running the services by the Solutions Group; (ii) the estimated level of services required, which shows a substantial increase as compared to the historical amounts due to an expansion of new data centres in the coming three years; and (iii) the staff and resources requirement for the services.

- i. existing contracts entered into by PCCW Macau and its expectation for pipeline projects of Macau hotels and casinos.
- j. (i) the historical figures for running the services for the PCCW Group; (ii) the estimated level of services required for the PCCW Group; and (iii) the staff and resources requirement for the services.
- k. (i) the historical figures for running the services for the PCCW Group; (ii) the estimated level of services required by the PCCW Group; and (iii) the proposed marketing and promotion plan.
- l. the actual annual licence fee payable and estimates of related expenses such as rates, management fees and other charges.

## **REASONS FOR THE AMENDMENT TO AND THE RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS**

The Directors believe that the amendment to and the renewal of the existing continuing connected transactions with the PCCW Group as referred to in this announcement will enable the HKT Limited Group to meet the demand of the continuing growth and development of its businesses and operations, and help to achieve business continuity and efficiency as well as to minimize any potential disruption to the daily operation of the HKT Limited Group. It is also considered that the various agreements relating to these continuing connected transactions are consistent with the commercial objectives of the HKT Limited Group and fall within the core business of the HKT Limited Group. It is anticipated that the amendment to and the renewal of these transactions with the PCCW Group will further strengthen HKT Limited Group's position as a premier telecommunications service provider in Hong Kong.

The Directors (including the independent non-executive Directors) consider that the various agreements relating to the aforesaid continuing connected transactions and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the HKT Limited Group and that the terms thereof and the Annual Caps are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

As no Director has any material interest in the aforesaid continuing connected transactions with the PCCW Group, none of the Directors have abstained from voting on the resolutions of the respective Boards approving them.

## **LISTING RULES IMPLICATIONS**

PCCW is the controlling holder of the Share Stapled Units. Accordingly, the PCCW Group is a connected person of the Company under the Listing Rules.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the relevant Annual Caps, in each case (or on an aggregated basis, as described above), of the continuing connected transactions referred to in this announcement, which are categorised according to the providers of the relevant service, exceed 0.1% but are less than 5%, the continuing connected transactions are subject to the announcement, annual review and reporting requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## GENERAL

The HKT Trust, a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by the Trustee-Manager, has been established as a fixed single investment trust, with its activities being limited to investing in the Company and anything necessary or desirable for or in connection with investing in the Company.

The principal activities of the HKT Limited 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, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

The principal activities of the PCCW Group (including the HKT Limited 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 HKTVE, PCCW also operates a domestic free television service in Hong Kong.

## DEFINITIONS

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

<b>“2013 Announcement”</b>	the announcement dated December 27, 2013 jointly issued by HKT Trust and the Company
<b>“Annual Caps”</b>	the annual caps for each category of continuing connected transactions with the PCCW Group as referred to in this announcement for the relevant financial years
<b>“Boards”</b>	the boards of directors of the Company and the Trustee-Manager
<b>“CSL”</b>	CSL Holdings Limited, a company incorporated in Bermuda with limited liability and a direct wholly-owned subsidiary of the Company
<b>“Companies Ordinance”</b>	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being

<b>“Company”</b>	HKT Limited, a company incorporated in the Cayman Islands with limited liability, the Share Stapled Units of the HKT Trust and the Company are listed on the main board of the Stock Exchange (Stock Code: 6823)
<b>“connected person”</b>	has the meaning ascribed to it in the Listing Rules
<b>“continuing connected transaction”</b>	has the meaning ascribed to it in the Listing Rules
<b>“Directors”</b>	the directors of the Company and the Trustee-Manager
<b>“HK Telecom”</b>	Hong Kong Telecommunications (HKT) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“HKT Limited Group”</b>	the Company and its subsidiaries
<b>“HKT Trust”</b>	a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by the Trustee-Manager and having its Share Stapled Units jointly issued with the Company listed on the main board of the Stock Exchange (Stock Code: 6823)
<b>“HKTC”</b>	PCCW-HKT Telephone Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of PCCW
<b>“HKTVE”</b>	HK Television Entertainment Company Limited, a company incorporated in Hong Kong with limited liability
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Media Group”</b>	Media Holdings and its subsidiaries, either under the Companies Ordinance or the Listing Rules
<b>“Media Holdings”</b>	HKT Media Holdings Limited, a company incorporated in the Cayman Islands with limited liability and an indirect wholly-owned subsidiary of PCCW

<b>“PCCW”</b>	PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on 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), which is indirectly holding approximately 63.07% of the Share Stapled Units in issue as at the date of this announcement
<b>“PCCW Group”</b>	PCCW and its subsidiaries (excluding HKT Limited Group)
<b>“PCCW Media”</b>	PCCW Media Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of PCCW
<b>“PCCW Solutions”</b>	PCCW Solutions Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of PCCW
<b>“Share Stapled Units”</b>	the share stapled units of the HKT Trust and the Company
<b>“Solutions Group”</b>	Solutions Holdings and its subsidiaries
<b>“Solutions Holdings”</b>	HKT Solutions Holdings Limited, a company incorporated in the Cayman Islands with limited liability and an indirect wholly-owned subsidiary of PCCW
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Trustee-Manager”</b>	HKT Management Limited (a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of PCCW), the trustee-manager of the HKT Trust

By order of the boards of  
**HKT Management Limited**  
and  
**HKT Limited**  
**Bernadette M. Lomas**  
*Group General Counsel and Company Secretary*

Hong Kong, December 23, 2016

As at the date of this announcement, the directors of the Trustee-Manager and the Company 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; Li Fushen and Srinivas Bangalore Gangaiah (aka BG Srinivas)

*Independent Non-Executive Directors:*

Professor Chang Hsin Kang, FREng, GBS, JP; Sunil Varma; Aman Mehta and Frances Waikwun Wong