

Corporate Governance

The Group is committed to high standards of ethics and integrity in all aspects of its business and to ensuring its affairs are conducted in accordance with applicable laws and regulations. We believe that we have incorporated the key elements of sound corporate governance in our management structures and internal control procedures, as described in this report.

Board of Directors

The objectives of the management structures within the Group, headed by the board of directors of PCCW (Board) and led by the Chairman and Chief Executive, are focused on enhancing shareholders' value and ensuring the sustainable long-term development of the Group. The Board is responsible for the management of the Group and its key responsibilities include the formulation of the Group's overall strategies and the supervision of management performance. All directors may take independent professional advice in furtherance of their duties if necessary. The Board reserves itself to making broad policy decisions, delegating responsibility for the more detailed considerations to the Executive Committee under the leadership of the Chairman and Chief Executive.

In January 2003 shareholders approved amendments to the Company's Articles of Association such that at each annual general meeting of the Company, one-third of the directors shall retire and be eligible for re-election.

Audit Committee

The Audit Committee of the Board oversees the financial reporting process and the adequacy and effectiveness of the Company's systems of internal control. Its authority and duties are set out in written terms of reference that are consistent with those recommended by the Hong Kong Society of Accountants.

The Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditors. To ensure auditor independence, procedures have been adopted by the Audit Committee for the pre-approval of all auditing and any permitted non-audit services proposed to be undertaken by the external auditors.

Each member of the Audit Committee is an independent non-executive director. The Audit Committee meets at least three times a year to review, among other things, PCCW's financial statements, the internal financial reporting and compliance processes and internal controls, and the work program and activities of the Group Internal Audit unit. The Audit Committee meets regularly with, and reviews and receives reports from, our management and external auditors.

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding the Chairman and Chief Executive, has been in existence since the second half of 2000. The committee was established in consultation with the Telecommunications Authority and the Broadcasting Authority. It reviews and monitors, among other things, dealings with the Hutchison Whampoa Group and Cheung Kong Holdings Group to ensure that all dealings between the Group and the Hutchison Whampoa Group and Cheung Kong Holdings Group are on arm's-length terms.

Executive Committee and subcommittees

The Executive Committee of the Board meets regularly and operates as a general management committee with overall delegated authority from the Board. The Executive Committee reports through the Chairman and Chief Executive to the Board.

The members of the Executive Committee are Li Tzar Kai, Richard (Chairman); Alexander Anthony Arena (Deputy Chairman); Yuen Tin Fan, Francis; Cheung Wing Lam, Linus; Michael John Butcher; Chung Cho Yee, Mico and Lee Chi Hong, Robert.

In January 2002, the Executive Committee established a new subcommittee structure to strengthen decision-making and supervision of all key operating and functional areas within the Company. A Finance Committee, Operational Committee and Infrastructure Committee have been established, comprising executive directors and members of senior management. Each subcommittee has defined terms of reference covering its

authority and duties and is chaired by an executive director. The subcommittees meet regularly and report to the Executive Committee on a regular basis.

Internal Control

The directors are responsible for internal controls within the Company and for reviewing their effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material errors, losses or fraud.

The key internal control procedures established within the Group include the following:

- **Expenditure Authorization and Control.** Authority to operate the various business units and subsidiaries within the Group is delegated to their respective business unit heads/managing directors within limits set by the Board, or by the Executive Committee of the Board, under powers delegated by the Board. Authorities are delegated downwards within the Group to the point where decisions can be taken most efficiently, with the aim of balancing effective supervision with operational flexibility.
- **Business Planning and Performance Monitoring.** The Group Finance department has established comprehensive management control systems incorporating planning, budgeting and monitoring arrangements for each business unit or subsidiary. The Group Finance department tracks key performance indicators on a monthly basis and regular reviews and assessments of progress against agreed targets are carried out by the Operational Committee in conjunction with operational management.
- **Integrity of Records and Accounting Procedures.** Detailed operational, financial and management reporting procedures and guidelines are established by the Group Finance department for application across the Group. These are designed to ensure that proper controls are in place for the recording of complete, accurate and timely accounting and

management information. Regular reviews and audits are carried out to ensure that the financial statements are prepared in accordance with generally accepted accounting principles, the Group's accounting policies and the laws and regulations applicable in each country of operations.

- **Corporate Responsibility Policy.** This policy comprises a set of rules adopted by the Executive Committee and applies to all employees, including directors and officers, throughout the Group. This policy is intended to be a clear and simple guide to the standards of the way PCCW goes about its business and to the corporate responsibilities of employees of PCCW. This includes guidance on obligations towards the Company; civic responsibilities; equal opportunities; safeguarding communications, company information and property; privacy of personal data; prevention of bribery and conflicts of interest; competition; and health and safety at work and the environment. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

- **Corporate Functions.** Centralized corporate functions have been given responsibility to set policies, procedures and standards in the areas of finance, treasury and debt execution, taxation, legal and regulatory affairs, company secretarial, risk management and compliance, human resources, mergers and acquisitions, corporate communications, purchasing and supply, property management and environmental protection. The Finance Committee has appointed a Compliance Co-ordinator to ensure proper co-ordination among these functional units and to promote management awareness of, and conformity, with all the Group's governance policies and compliance obligations.

Group Internal Audit

Group Internal Audit was established to provide independent assurance to the Board and executive management on the adequacy and effectiveness of the internal controls for the Group. The internal audit function is now an independent unit that was separated from PCCW's Risk Management and Compliance unit in 2002. The director of Group Internal Audit has reporting lines to the Audit Committee, the Chairman and Chief Executive and the Group Chief Financial Officer.

Group Internal Audit adopts a risk and control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's business and service units. All audit reports are communicated to the Audit Committee and key members of executive and senior management. Audit issues are tracked and followed up for proper implementation, and progress is reported to the Audit Committee on a quarterly basis.

Investor Relations

The Company encourages two-way communication with both its institutional and private investors. Extensive information about the Company's activities is provided in the Annual Reports and Interim Reports which are sent to shareholders. There is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and are dealt with in an informative and timely manner. Relevant contact information is provided on page 140 of this report.

In order to promote effective communication, the Company maintains its Internet website (<http://www.pccw.com>) on which financial and other information relating to the Group, and its business, are provided.