

# Corporate Governance

PCCW believes it has incorporated the key elements of sound corporate governance in its management structures and internal control procedures.

During the past year, steps to enhance our corporate governance standards have included:

- Creating a Group Managing Director's role, separate from the Chairman's office
- Establishing Board Nomination and Remuneration Committees
- Forming a Disclosure Committee to set policy and develop compliance procedures for our reporting obligations to the US Securities & Exchange Commission (SEC)
- Appointing an additional independent non-executive director to join the Audit Committee. Independent non-executive directors now represent one-third of the members of the Board; and
- Publishing a corporate governance section on PCCW's website (*www.pccw.com*) to provide up-to-date and easily accessible information on our management structure and governance practices.

## Business Ethics

PCCW 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 have adopted a Corporate Responsibility Policy that applies to all employees, including directors and officers, throughout the PCCW Group. This sets out standards in the way we go about our business, plus the corporate responsibilities of PCCW employees.

These include guidance on obligations to the Company; civic responsibilities; equal opportunities; safeguarding communications, company information and property; privacy of personal data;

prevention of bribery and conflicts of interest; competition; 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.

## Board of Directors

The Board is responsible for the management of the Company. Key responsibilities include formulation of the PCCW Group's overall strategies, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions, delegating responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman.

Pursuant to the articles of association of the Company, one-third of the directors shall retire and be eligible for re-election at each PCCW annual general meeting.

All directors have full and timely access to all relevant information, including regular reports from each of the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

Biographies of all the directors are set out on pages 26 to 28 of this annual report.

## Executive Committee and sub-committees

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 determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board.

Members of the Executive Committee are:

- Li Tzar Kai, Richard (Chairman)
- Alexander Anthony Arena (Deputy Chairman)
- So Chak Kwong, Jack
- Yuen Tin Fan, Francis
- Michael John Butcher
- Chung Cho Yee, Mico
- Lee Chi Hong, Robert

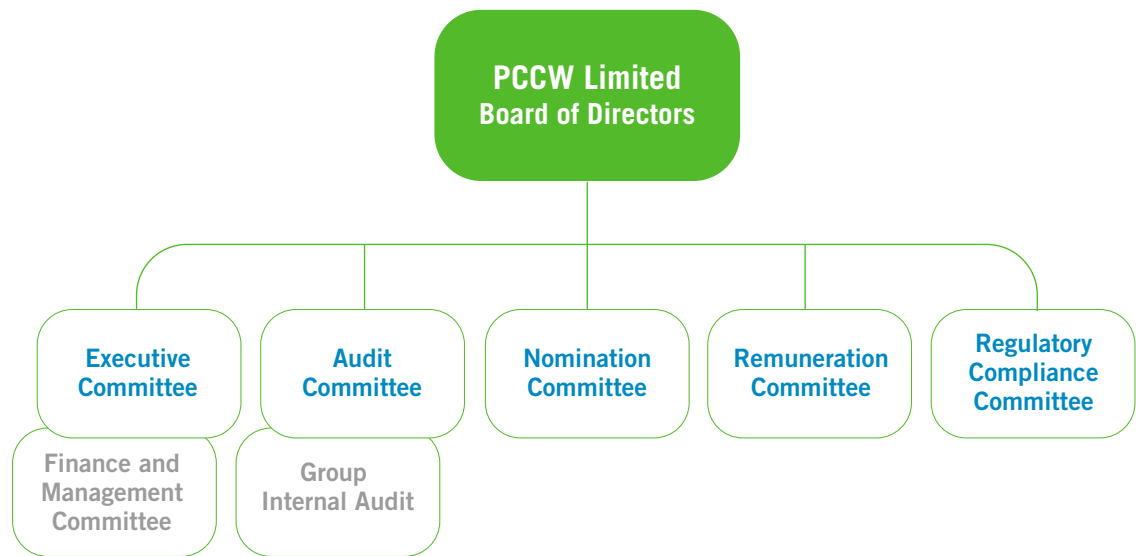
Reporting to the Executive Committee are sub-committees comprising executive directors and members of senior management who oversee all key operating and functional areas within the Company. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The **Finance and Management Committee** was established in August 2003 to take over the functions of the former Finance Committee. This committee is chaired by Deputy Chairman and Group Managing Director So Chak Kwong, Jack and meets frequently on a regular basis to review management and strategic matters across the PCCW Group and to set overall financial objectives and policies.

The **Operational Committee** directs all the core communications and business solutions operations, while the **Infrastructure Committee** oversees the Cyberport development and property operations.

A Disclosure Committee has also been established, comprising senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat and Group Internal Audit departments. The Committee meets to review the procedures for the preparation and content of PCCW's annual reports on Form 20-F to the SEC, and reports to the Finance and Management Committee on an ad hoc basis.

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### Audit Committee

The Audit Committee of the Board is responsible for ensuring objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to the shareholders. The committee's authority and duties are set out in written terms of reference, 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 audit and permitted non-audit services to be undertaken by the external auditors. The breakdown of fees paid to the external auditors for such services is set out in Note 10 to the financial statements.

The Audit Committee meets regularly with management and external auditors and reviews their reports.

Members of the Audit Committee are:

- Sir Roger Lobo (Chairman)
- Prof Chang Hsin-kang
- Dr The Hon Li Kwok Po, David
- Aman Mehta

Each member of the Audit Committee is an independent non-executive director.

The Audit Committee met five times in 2003 to review our financial statements and internal financial reporting, plus compliance processes and internal controls, as well as the work program and activities of our Group Internal Audit unit.

### Nomination Committee

The Nomination Committee was formed in May 2003 to ensure fair and transparent procedures for the appointment of directors to the Board. The committee's authority and duties are set out in written terms of reference, which specify that it must comprise at least three members, the majority of whom are independent non-executive directors.

Members of the Nomination Committee are:

- Sir Roger Lobo (Chairman)
- Li Tzar Kai, Richard
- Dr The Hon Li Kwok Po, David

### Remuneration Committee

The Remuneration Committee was formed in May 2003 to ensure formal and transparent procedures for overseeing and developing policies on the remuneration packages of individual executive directors. In addition, the committee provides effective supervision and administration of the Company's share

option scheme, as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference, which specify that it must comprise at least three members, the majority of whom are independent non-executive directors.

Members of the Remuneration Committee are:

- The Hon Raymond George Hardenbergh Seitz (Chairman)
- Sir Roger Lobo
- Dr The Hon Li Kwok Po, David

### Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding Chairman Li Tzar Kai, Richard, has been established to review and monitor dealings with the Hutchison Whampoa Group and Cheung Kong Holdings Group. This is to ensure all dealings between these entities are conducted on arm's-length terms.

Members of the Regulatory Compliance Committee are:

- Sir Roger Lobo (Chairman)
- Alexander Anthony Arena
- Dr The Hon Li Kwok Po, David
- Prof Chang Hsin-kang
- Dr Fung Kwok King, Victor

## Internal Controls

The directors are responsible for internal control in PCCW and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records and ensuring 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. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses or fraud.

Further information on internal controls is provided within the corporate governance section of the Company's website ([www.pccw.com](http://www.pccw.com)).

## Group Internal Audit

Group Internal Audit was established to provide independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the PCCW Group. The Director of Group Internal Audit reports directly to the Audit Committee, the Deputy Chairman and Group Managing Director 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, with progress 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 on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. Regular dialogue takes place with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. Relevant contact information is provided on page 132 of this report.

In order to promote effective communication, financial and other information relating to the Group and its business activities is disclosed on the Company's website ([www.pccw.com](http://www.pccw.com)).

## People Development

PCCW is committed to cultivating one of the most motivated and competitive IT&T teams in the world.

The best way of meeting this objective is to make sure our employees are kept at the cutting-edge of technology and business practices.

That's why PCCW places a heavy emphasis on training and developing its people.

More than 15,000 man-days of technology and product training, plus people development initiatives, were provided to staff during 2003 in support of business projects and service launches.

## Technology Training

PCCW provided up-to-date telecommunications training in 2003 in the fields of broadband, IP networking, server and telecoms equipment operations. Special emphasis was placed on wireless broadband, IP-VPN (virtual private network) and DWDM (dense wavelength division multiplexing) optical equipment training.

Substantial training was also made available to field contractor staff, in partnership with the contractor works control team, to ensure that **NOW** Broadband TV home installations would meet customer expectation.

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More than 15,000 man-days of technology and product training, plus people development initiatives, were offered to PCCW employees during 2003 in support of business projects and service launches.

### Product Training

Product and systems training was given to ensure effective introduction, sales and service of products such as New Generation Fixed Line Services, NOW Broadband TV, PCCW Convergence and NETVIGATOR broadband Internet access. More than 1,100 sales professionals and 800 engineers and technicians were trained in product knowledge, application and systems operation.

### Company and professional/practitioner accreditation

The Company maintained its Telecom Leadership (TL) 9000 accreditation on exchange operations and acquired additional BS 7799-2 security certification relating to Cascade and Unihub (see page 18). More than 100 industrial certificates were attained at the individual level. These included the Certified Oracle Database Administrator, Certified Information System Auditor, Microsoft Certified System Engineer and Certified Project Management Professional, plus PRINCE2 Practitioner and Sun accreditations.

### Business and Management Training

More than 10,000 man-days of training were provided to staff in Greater China and other countries for development of sales, marketing, consultancy, service and

management skills, as well as to support the expansion of our business outside Hong Kong.

Initiatives have included workshops to develop customer service, people, sales and management skills.

A series of training sessions were conducted to sharpen skills in business development, commercial acumen and execution capability in support of the commercialization of Cascade and our Contact Centers business. More than 250 engineers from Cascade attended Business Transformation Workshops designed to help them optimize telecoms business opportunities in the region.

Fifty engineers subsequently took part in an intensive program designed to equip them with sales, consultancy and bid management skills, plus cross-cultural awareness to help explore consultancy and technical services opportunities in Asia-Pacific. This helped to win business in markets such as Vietnam, mainland China and Malaysia.

Similarly, engineers, operations and business development professionals in our Contact Centers unit received training to boost their sales and consultancy skills.

Some 1,500 man-days of training were provided to the commercial and consumer

sales teams in their pursuit of sales and marketing excellence.

Among the teams' achievements in 2003, five salespeople from Commercial Group were listed as finalists in the *Distinguished Salesperson Award Program* – the 'Oscars' for professional salespeople, based on a recognition scheme organized by the Hong Kong Management Association.

In addition, two salespeople from Consumer Group were finalists in the Service & Courtesy Awards organized by the Retail Management Association.

Another 46 sales and marketing professionals from Commercial Group took part in a one-year program, leading to the Executive Diploma in Marketing Management and Strategic Marketing, which is jointly organized by the Chinese University of Hong Kong and PCCW.

Training programs on people management and strategy execution were run for 480 managers to help establish effective management practices throughout the Company.

People management programs were conducted for the Consumer Group, PCCW Directories and other business units, with the aim of strengthening PCCW's high-performance culture.



Programs on execution and innovation were also made available to managers and executives to encourage new ideas at different levels within the Company.

#### New Talent

To maintain an influx of new blood in engineering, commercial and other functional areas, the Group continued its intake of local and overseas graduates, attracting more than 100 trainees for a variety of schemes.

These included the Business Associate Scheme; a Cascade Graduate Trainee Scheme, which aimed to develop people capable of acquiring corporate membership of the Hong Kong Institution of Engineers; the Information Technology Professional Trainee Scheme leading to vendor-accredited certification; and Sales Management Trainee Schemes in Hong Kong and Guangzhou to develop sales and customer service, as well as other front-line management skills.

#### Leadership Development

Leadership and executive development are given high priority to ensure the Company has a succession of strong leaders for the future.

A number of senior managers attended the INSEAD global business school's Asian

International Executive Program in pursuit of excellence in formulating and executing business strategies.

Forty-eight high-performing middle managers continued the in-house *Challenge21* leadership program designed to create leaders capable of extraordinary results.

Discussions on succession planning and leadership development took place as part of various performance and leadership planning forums.

#### Executive Development

With the aim of achieving optimum results from business assignments in mainland China, managers were given the opportunity to attend the *Tsinghua/Harvard Executive Education Program* entitled *Managing in the Information Age*.

Also, two groups of 40 managers attended Tsinghua University in Beijing to complete the four-day *Business Executive Development Program*.

In Hong Kong, another 80 executives from Commercial Group participated in a similar program, comprising 12 evening seminars with a focus on strategic marketing and business development, adoption of technology in business and consultancy practices.

#### eLearning development

During 2003, more than 3,000 staff took part in online training programs from the Aladdin learning portal, which was developed in-house by PCCW in 2000.

In addition to our 400 web-based standard training offerings, we launched more than 15 video-based programs in 2003.

More than 1,000 employees in Greater China and other countries are also able to access the portal.

#### Community

One of our most significant 2003 milestones was inclusion in the *FTSE4Good Global Index*, which acknowledged PCCW as an investment meeting internationally-accepted standards of corporate responsibility.

This provided a welcome boost to our aspirations to maintain good corporate citizenship in Hong Kong.

One of the Company's major contributions to the community last year was in joining the fight against atypical pneumonia, which attacked the territory's morale, economy and image, as well as its health.

Our people fought the effects of SARS through the Company's efforts to alleviate hardship, and by giving up their free time to work as volunteers.

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The public recognized PCCW's efforts by voting it one of 11 corporate award winners in a scheme mounted by the *Ming Pao* newspaper and Radio and Television Hong Kong. The result was an *Outstanding Award for Fighting Against SARS*.

PCCW provided special communications centers in quarantine camps so that displaced residents were able to enjoy free use of local and international phone, fax and Internet services.

In May 2003, PCCW joined with the Hong Kong Hospital Authority to offer video-conferencing facilities at the United Christian Hospital so that SARS patients could stay in touch with loved ones. That was the prelude to *NetCare Campaign*, a network and video-conferencing service launched by PCCW and nine non-governmental organizations to link SARS patients and medical staff with their families. The service was installed at the Alice Ho Miu Ling Nethersole Hospital, Prince of Wales Hospital and the Tai Po Community Centre. As the territory began to recover, PCCW was keen to help repair and promote Hong Kong's global image as a business center and tourist attraction round the world. For example, the Company supported the *We Love Hong Kong* campaign by providing a special hotline and call-center facilities. Other contributions included a free story

hotline for children confined to their homes, a free outpatient consultation hotline run by the Hong Kong Doctors' Union, and a medical and legal consultation hotline for the Agency for Volunteer Service. Further free hotlines enabled donations to the Community Chest of Hong Kong, known as the Operation UNITE Fund; and donation hotlines for the 1:99 charity concert organized by the Hong Kong Performing Artistes Guild (HKPAG).

PCCW made a HK\$1 million donation to the Business Community Relief Fund for Victims of SARS. In addition, our SARS Volunteer Group mounted an educational program aimed primarily at people newly arrived in Hong Kong, and the elderly, to promote precautionary measures against SARS and other communicable diseases.

Apart from our efforts to combat the impact of atypical pneumonia, PCCW's 2003 community efforts included provision of communications services for non-governmental and social service organizations, as well as charities, in support of counselling, fund-raising and recruitment of volunteers.

Among those organizations were Enlighten Hong Kong, a new charitable group that aims to assist those affected by epilepsy with advice, counselling, training and community education.

Others included The Stewards, providing hotline-based mental health guidance and counselling for young people; the Hong Kong Blind Union, enabling blind and visually-impaired people to hear daily news via phonelines; OXFAM, which used emergency lines and broadband service in support of its *Trailwalker 2003* international fund-raising event; and a new mutual-help group for patients with brain damage, called Neuro United, which we were able to support with hotline and website services.

The Company also provided financial support for the *Caring Families, Caring Communities Campaign*, a Hong Kong Council of Social Service initiative aiming to build a caring community during times of economic downturn.

PCCW is concerned for the safety and communications needs of the elderly. For example, *Our Care for the Elderly Line* has provided free installation and service for approximately 7,300 needy Hong Kong senior citizens since 1992. The Company also provided hotlines for the Personal Emergency Link Centre operated by the Senior Citizen Home Safety Association, which provides 24-hour service for single senior citizens who may need ambulance or police assistance.



Our people fought the effects of atypical pneumonia through the Company's efforts to alleviate hardship in the community and by giving up their own free time to work as volunteers.

Recognition of PCCW's efforts in the community in 2003 came in the form of public gestures from various organizations. One was the Caring Company certificate from the Hong Kong Council of Social Service. Others included accolades from the Social Welfare Department for being a top-10 *Private Organization offering Highest Volunteer Service Hours*; a *Long Service Volunteer Group* accreditation for four service groups at PCCW; *Long Service Volunteer* awards for 36 PCCW volunteers who served the community for more than five years, and a *Most Talented Volunteer* award for a PCCW individual who used his many skills to benefit the community.

### Education

PCCW is a keen supporter of education in Hong Kong. In 2003, the Company acted as program sponsor of an AIESEC-LC-HKU student organization event staged by the University of Hong Kong. The aim was to encourage future leaders to adopt a global perspective and expose them to practical enterprise and management experience.

As part of the Company's support, Chairman Richard Li delivered a presentation on the subject of leadership, while PCCW's President of Consumer Sales and Channel, Tom Chan, talked about creativity in business.

Another aspect of PCCW's support to education in Hong Kong in 2003 was a donation to the Pathways Foundation, which provides special assessment and services to help children with specific learning difficulties.

Meanwhile, the PCCW Foundation continues to support the *Workplace English Campaign*, the *Internet 2 Project* of JUCC (Joint Universities Computer Centre) and other initiatives such as the *PCCW Athletes' Enhancement Program* and annual scholarships and bursaries for students nominated by local universities.

### Environment

PCCW is committed to best environmental practice in all its commercial activities.

To promote energy conservation and reduction of waste in the business sector, PCCW leads the promotion of paperless ecommerce in the Hong Kong Business Environment Council and participates in the Hong Kong General Chamber of Commerce's Environment Committee.

The Company continues to promote recycling in preference to landfill waste disposal. In 2003, it recycled 400,000 kgs of paper, 1,800 toner cartridges and 140 tonnes of copper wire.

PCCW has also offered free service, funding and volunteer support to environmental protection schemes. Twenty-three of our environmental protection volunteers offered their services in February 2003 to support the *Green Power Hike*, a fund-raising walk from the Peak to Tai Tam. The event was arranged by Green Power, a non-governmental organization providing education programs and research for the community.

The PCCW Environmental Volunteer Group was placed 2nd runner-up in the *Campaign Evergreen Innovative Volunteer Service Project* competition in 2003.

The entry was a youth education program designed and implemented by 60 environmental protection volunteers between 2001 and 2003.

The program benefited 4,800 young people who were able to learn about reduction of waste, saving energy and protecting nature via activities such as group project work, outdoor excursions, research, educational talks, games and study groups.

The competition was organized by the Steering Committee on Promotion of Volunteer Service (SCPVS), which is part of the Social Welfare Department of the Hong Kong Government.