

PCCW LIMITED (“PCCW” OR THE “COMPANY”)
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

AUDIT COMMITTEE

TERMS OF REFERENCE

Revised and approved by the Board of Directors of the Company on 19 November 2015 and effective for accounting period beginning on 1 January 2016

Constitution

1. The Board of the Company (the “Board”) resolved on 13 October 2000 to reconstitute the previous Audit Committee and establish a committee of the Board to be known as the Audit Committee (the “Committee”).

Objective and Role

The responsibilities of the Committee shall include but not limited to assisting the Board in fulfilling its responsibilities, through review and supervision in ensuring:

2. the objectivity and credibility of financial reporting, and that in presenting results to the shareholders, the directors have exercised the care, diligence and skills prescribed by law;
3. the effectiveness of the risk management and internal control systems of the Company in accordance with relevant laws and regulations;
4. maintenance of an appropriate relationship with the external auditors of the Company; and
5. good corporate governance standards and practices within the Company.

Membership

6. The members of the Committee shall be appointed by the Board and shall consist of independent non-executive directors of the Company only and at least three members. There shall be at least one member of the Committee with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Members have to satisfy the “independence” requirements as required by the Listing Rules.
7. The Chairman of the Committee shall be appointed by the Board and must be an independent non-executive director of the Company.

Attendance at Meetings

8. The Committee may invite any appropriate person to attend meetings of the Committee as it considers appropriate, including the Group Chief Financial Officer, the Head of Group Internal Audit, representative(s) of the external auditors and other Board members. However, at least once a year the Committee shall meet with the external auditors without executive Board members present.
9. The Company Secretary of the Company or his or her nominee shall be the Secretary of the Committee.

Frequency of Meetings

10. Meetings shall be held at least twice a year and at such other times as the Committee determines is appropriate to carry out its responsibilities. The external auditors may request a meeting if they consider that one is necessary.

Authority

11. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
12. The Committee is authorized by the Board to delegate to one or more designated members of the Committee the authority to grant the pre-approvals contemplated by Paragraph 16(d) below, provided the Committee is informed of each service pre-approved under this delegated authority at its next scheduled meeting.
13. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance at meetings of the Committee of outside advisers with relevant experience and expertise if it considers this necessary.
14. The Committee shall have available appropriate funding from the Company, as requested by the Committee, for (i) remuneration of the external auditors and any other accounting firm appointed pursuant to Paragraph 16(a) below, as applicable and to the extent permitted by law; (ii) remuneration of any advisers employed by the Committee and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
15. The Committee may authorize any one or more of its members or the Chairman of the Committee to take any action (subject to applicable legal or regulatory requirements) and may impose any regulations upon such authorized person(s), when it deems appropriate and in the best interests of the Company.

Duties

16. The duties of the Committee shall be:
 - a) in accordance with any applicable legal or listing requirements and to the extent permitted by law, (i) to be responsible for the appointment, re-appointment and removal (or to make recommendations to the Board with respect to the foregoing, as applicable), (ii) to consider any questions of resignation or dismissal, (iii) to be responsible for or to approve, as applicable, the remuneration and terms of engagement, (iv) to be responsible for the oversight of the work (including resolution of disagreements between management and the external auditors regarding financial reporting), of the external auditors and any other accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; the external auditors and any such other accounting firm shall, to the extent permitted by law, report directly to the Committee;
 - b) in connection with its oversight responsibilities, to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
 - c) to develop and implement policy on engaging external auditors to supply non-audit services. For this purpose, external auditors shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
 - d) to pre-approve all audit and non-audit services which may be performed by the external auditors and any audit, review or attest services provided by any other accounting firm and to review any pre-approval decisions made on the delegated authority of the Committee as contemplated by Paragraph 12 above at each of its scheduled meetings;
 - e) to monitor integrity of the Company's financial statements, annual report and accounts and half-year report, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:-

- (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- f) Regarding (e) above:-
- (i) members of the Committee should liaise with the Board, senior management, the Group Chief Financial Officer and the Company's staff responsible for the accounting and financial reporting function and the Committee must meet, at least twice a year, with the external auditors;
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts; it should give due consideration to any matters that have been raised by the Group Chief Financial Officer, the Company's staff responsible for the accounting and financial reporting function and, any compliance officer or external auditors; and
 - (iii) the Committee should discuss any problems or reservations arising from the interim and annual audits;
- g) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, and financial reporting functions;
- i) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- j) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- k) to ensure co-ordination among audit firms where more than one audit firm is involved;
- l) to review the PCCW Group's financial and accounting policies and practices;
- m) to review the external auditors' management letter, any material queries raised by the external auditors to management about accounting records, financial accounts or systems of control and management's response;
- n) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- o) to ensure good corporate standards and practices including the following corporate governance functions are maintained:
- (i) to review the Company's established policies and practices on corporate governance and make recommendations to the Board;
 - (ii) to review and monitor the training and continuous professional development of directors and senior management;

- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - (iv) to develop, review and monitor the Company's code of conduct and compliance manual (if any) applicable to directors and employees; and
 - (v) to review the Company's compliance with the Corporate Governance Code set out in the Listing Rules (the "Code") and disclosure in the corporate governance report of the Company's annual report;
- p) to establish procedures and systems for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing or other matters; and the confidential, anonymous submission by employees of concerns regarding questionable accounting, auditing or other matters;
 - q) to review the Company's established whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company;
 - r) to produce and approve disclosure statements in relation to the Committee and its work as required by applicable laws and rules where necessary; and
 - s) to consider other topics, as defined by the Board.

The above duties extend to the PCCW Group and / or subsidiaries of the Company where applicable and / or necessary as required by applicable laws and rules.

Meeting Procedures

- 17. The meetings and proceedings of the Committee shall be governed by the provisions of the Company's Articles of Association for regulating the meetings and proceedings of the Board, except as otherwise determined by the Board from time to time.
- 18. The quorum for meetings shall be two members of the Committee.

Reporting Procedures

- 19. The Committee shall report to the Board concerning its activities and the matters set out in the Code, either orally or in writing, at regular meetings of the Board or at other times or occasions where necessary.
- 20. Full minutes of meetings of the Committee shall be kept by the Secretary of the Committee. Drafts and final versions of minutes of the Committee meetings shall be sent to all Committee members for their comment and records, within a reasonable time after the meeting.
- 21. The Secretary of the Committee shall arrange to distribute the minutes of meetings / written resolutions of the Committee to the Board members.

Frequency of Review

- 22. This Terms of Reference should be reviewed on an annual basis and when necessary, can be revised by the Board from time to time.