

China Unicom (Hong Kong) Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 0762)

Audit Committee Charter

Establishment

1. The Board of Directors of China Unicom (Hong Kong) Limited (the “Company”) proposes the establishment and formation of an audit committee (hereinafter referred to as the “Committee”), the objects, authorities, responsibilities, and duties of which are set out as follows:

Members

2. Members of the Committee shall be appointed by the Board of Directors from the independent non-executive directors of the Company. The Committee shall consist of three members at the minimum, and two members shall constitute a quorum. No members of the Committee shall be materially connected with the Company, and all members shall meet the requirements of the applicable regulatory rules and regulations on the independence of members of the Committee, including, without limitation, the relevant provisions of Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended. Any ex-partner of any independent accounting firm which is currently responsible for the independent audit of the Company (the “External Auditor”) shall not act as member of the Committee for a period of three years from the following dates, whichever is later:
 - (a) the date at which he/she ceases to be a partner of the External Auditor; or
 - (b) the date at which he/she ceases to have any financial interest in the External Auditor.
3. The Chairman of the Committee shall be appointed by the Board of Directors.
4. No member of the Committee shall receive, either directly or indirectly, any remuneration other than directors’ fees from the Company for any advisory or consultancy role or otherwise.
5. All members of the Committee shall have financial knowledge, and one of the members must have the appropriate professional qualifications stipulated under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the qualifications for acting as “financial expert of the audit committee” within the meaning of Item 16A of Form 20-F of the US Securities and Exchange Commission, and the Board of Directors shall, on the basis of its commercial judgement, determine if the accounting or related financial management expertise of such member is appropriate.

6. The term of office of a member of the Committee shall correspond to that of a director, i.e. the term of office of a member of the Committee shall be three years, and shall be renewable upon re-election.

Objects

7. The objects of the Committee shall include but not limited to assisting the Board of Directors in ensuring, through supervision, (1) the completeness and reliability of the financial statements of the Company; (2) the compliance of the Company with the relevant laws and regulations; (3) the possession of appropriate qualifications of the External Auditor and its independence; and (4) the functionality of the internal audit of the Company and the performance of the External Auditor.

Authorities

8. The Committee shall be empowered to investigate any activities falling within the scope of its duties and functions, and to communicate freely and without restriction with any member of the staff, the External Auditor, or any external consultant engaged by the Company.
9. The Committee shall be provided with such funds, other resources, and relevant powers as required for the exercise of its duties, including the power to select, engage, or dismiss any special or independent legal advisors, accountants, or other experts or advisors; and the power to approve any fees of the above consultants and other terms and conditions of their engagement, and no approval shall be required from the Board of Directors or the management for such purposes.

Responsibilities

10. The Committee shall play a key role in the communication among other directors, the External Auditor, and the management, in so far as the duties of such persons are involved in any financial and other reports, internal control, and audit. The Committee shall assist the Board of Directors in performing its duties, including issuing independent opinion based on the review of financial reports, and ensuring effective internal control and efficient audit of the Company.

Duties

11. The duties of the Committee are:
 - (a) subject to the approval and ratification of the Shareholders' General Meeting, to directly take charge of and approve the engagement, retention, dismissal, remuneration, and terms and conditions of the engagement of the External Auditor; to handle issues relating to any resignation or dismissal of auditors; to make relevant proposals to the Board of Directors in respect of the above matters for its further submission to the Shareholders' General Meeting for voting and approval, which shall be final;

- (b) to supervise the duties of the External Auditor, including resolving any dispute and disagreement between the management and the External Auditor in respect of financial statements. External Auditor shall report to the Audit Committee directly;
- (c) to approve, in advance, all of the audit or non-audit services to be provided by the External Auditor (the External Auditor shall include any institutions which are under common control, ownership or management with the firm responsible for the conduct of audit, or a third party which is reasonably aware of the relevant information, and any institution which is reasonably determined in the relevant circumstances to be part of the local or international business of the firm responsible for the audit), or to formulate and implement such pre-approval framework procedures or policies as appropriate ; to consider whether the independence of the External Auditor will be affected if the External Auditor provides any non-audit service to the Company (the Committee may, at its discretion, authorize one or more of its members to approve, in advance, any provision of any audit or non-audit services by the External Auditor of the Company, provided that the above approval shall be reported to the Committee at its next meeting for confirmation); and to conduct reviews and supervision on a continuing basis based on applicable criteria regarding the independence and objectivity of the External Auditor, and the effectiveness of its audit strategies and procedures. Where the Committee opines that an action shall be taken or a matter shall require improvement, the Committee shall report to the Board of Directors accordingly with its suggestion for the course of action advisable to be taken.
- (d) to ensure that the External Auditor communicate with the Committee every year about the internal control procedures of the External Auditor; or any substantial issues identified by the relevant government or any industry regulators in any investigation conducted in most recent year which are related to the audits completed by the External Auditor, or any major measures which have been taken in respect of such issues; and all of the relationships between the External Auditor and the Company;
- (e) to hold discussions with the management on the schedule and procedures for rotation of the partners of the accounting firm who will principally be in charge of the audit of the Company; to give consent to the schedule and procedures for the rotation of such partners and other partners who will participate actively in the audit of the Company;
- (f) to discuss the nature and scope of each of the audits with the External Auditor before its commencement, and the related reporting responsibilities of the External Auditor;

- (g) to request, in respect of any of the audits conducted, the External Auditor to communicate and discuss with the Committee related to, and to promptly provide a written report on, the relevant audited annual financial statement of the Company, which shall cover the following:
 - i. all critical accounting policies and accounting estimates which have been adopted and their application;
 - ii. all alternative methods to handle financial information having been discussed with the management and being in conformity to the requirements of the generally accepted accounting principles; the results of using alternative methods for disclosure and handling; and the method which is considered appropriate for adoption by the External Auditor; and
 - iii. any important written correspondence between the External Auditor and the management, for example, letters sent to the management and their responses as well as the relevant list of disagreements.

- (h) before submitting any quarterly, interim, and annual financial reports to the Board of Directors, to meet, review, and discuss the same with the management of the Company and the External Auditor, so as to monitor the completeness of such reports; to review any significant financial reporting judgments contained in them, and to focus the review on the following aspects in particular:
 - i. management's discussion and analysis of the financial position and operating results of the Company;
 - ii. any changes in accounting policies and practices;
 - iii. any key judgements;
 - iv. any significant adjustments resulting from audit;
 - v. the going concern assumptions and any qualified opinions;
 - vi. compliance with accounting standards; and
 - vii. compliance with the requirements of the applicable listing rules including the Listing Rules and other legal requirements imposed by the regulators and the industry.

In regard to the above:

- (A) members of the Committee must liaise with the Board of Directors and senior management of the Company. The Committee must meet with the External Auditor at least twice a year; and
 - (B) The Committee shall consider any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts, and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the External Auditor.
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- (i) to supervise the Company to put in place the function of the internal audit. Regarding its conclusion on its audit work for the first half of the year and its audit work plan for the second half of the year, the Internal Audit Department shall report to the Committee every year. Any appointment or dismissal of the internal audit officer by the management members of the Company shall be subject to the consent, upon examination, of the Committee; to ensure coordination between the internal audit personnel and the External Auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor the effectiveness of the internal audit function;
 - (j) to review reports by Internal Audit Department, and to report and make suggestions to the Board of Directors accordingly;
 - (k) to review the Company's financial controls, internal control and risk management systems;
 - (l) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, to discuss any procedures and policies which may be adopted by the management for risk assessments, any major financial risks threatening the Company and any measures which may be adopted by the management to mitigate such risks;
 - (m) to take initiative or at the request of the Board of Directors to review, study, and discuss any important findings on matters of internal control and the assessment and response of the management on such matters of internal control, including, but not limited to, any assessment report made by the management on the internal control over financial reporting;

- (n) to hold regular and separate meetings with the management, the person responsible for the Internal Audit Department of the Company, and the External Auditor, and to hold separate discussion with them on issues as they may wish to discuss, including but not limited to, any substantial matters related to financial, audit and internal control, and to take minutes on the results of such discussions for submission to the Board of Directors with suggestions;
- (o) to discuss regularly and separately with the External Auditor regarding issues identified and problems encountered in interim review and final audit, and responses of the management;
- (p) to discuss the results announcements to be made by the Company, and the financial information and results guidelines to be issued to securities analysts and credit rating agencies;
- (q) to formulate the policies to be followed by the Company in employing any current and ex-employees of External Auditor;
- (r) to review any exposition on the internal control system of the Company before it is submitted to the Board of Directors;
- (s) to inquire of the chief executive officer and chief financial officer of the Company of: (i) the existence of any material weakness or significant deficiency (the terms “material weakness” and “significant deficiency” are as defined, and amended from time to time, by Public Company Accounting Oversight Board (“PCAOB”)) in internal control; and (ii) any fraudulent events involving the management or any other employees which plays an important role in the internal control of the Company (whether it is a substantial fraudulent events or not);
- (t) to review the financial and accounting policies and practices of the Company;
- (u) to review the External Auditor’s annual audit results report, any material queries raised by auditors to the management in respect of the accounting records, financial accounts, or internal control recommendations and management’s response;
- (v) to ensure that the Board of Directors will provide a timely response to the internal control recommendations to the management by the External Auditor based on its audit findings in its annual audit results report;
- (w) to report to the Board of Directors on matters set out in the Corporate Governance Code as set out in the Listing Rules;

- (x) to review arrangements the employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (y) to act as a principal representative between the Company and the External Auditor in order to monitor the relationship between them;
- (z) to review the annual report contained in Form 20-F, which is submitted by the Company to the US Securities and Exchange Commission;
- (aa) to consider any major issues identified in the internal audit and the management's response;
- (bb) to set up a whistle-blowing policy and system to accept, record, and handle any complaints received by the Company in respect of its financial reporting, internal control or other matters, and to ensure that proper arrangements be in place by which any employee of the Company can use, in confidence, to raise concerns about possible improprieties in any matter related to the Company through whistle-blowing channels;
- (cc) to regularly report to the Board of Directors on matters falling within the scope of responsibilities of the Committee, including its decisions and suggestions; and
- (dd) to consider such other matters as stipulated by the Board of Directors.

Frequency of Meetings

12. The Committee shall meet at least four times a year. Meeting may be conducted by way of telephone. The External Auditor may, as it considers necessary, request that a meeting be convened.

Attendance

13. Where it is necessary or desirable, the Chairman may request members of the management and a representative of the External Auditor to attend the meeting of the Committee, and other members of the Board of Directors shall be entitled to attend the meeting. Nevertheless, the Committee shall meet with the External Auditor exclusively at least twice a year and such meeting shall not be attended by any member of the Board of Directors and the management.

Report

14. A full set of minutes of the meeting of the Committee shall be kept by the secretary to the meeting, who shall be officially appointed and shall usually be the company secretary. The first draft and final version of the minutes shall be delivered to all members of the Committee within a reasonable period of time after the meeting is held. The draft shall be for the comments of the members, and the final version shall be for the record.

Evaluation

15. The Committee shall evaluate its own performance on a yearly basis by reference to its authority and its responsibilities under this Charter.

Funds

16. The Committee shall have the right to determine the funds and other resources required to perform its duties, including:
 - payment of fees to the External Auditor in respect of audit, review attestation works, and otherwise;
 - all reasonable fees charged by any external advisors engaged by the Committee; and
 - administrative and management funds allocated by the Board of Directors to the Committee on a yearly basis, and such other administrative expenses as necessary for or appropriately required by the Committee to perform its duties.

Corporate Information

17. Where the Board of Directors disagrees with the opinion of the Committee regarding matters relating to the selection, appointment, resignation, or dismissal of the External Auditor, the Company shall ensure inclusion in its Corporate Governance Report a statement made by the Committee explaining its recommendation and the reason(s) why the Board of Directors has taken a different view.
18. The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board of Directors by including them on the website of the Stock Exchange of Hong Kong Limited and the website of the Company.