

# REPORT OF THE SUPERVISORY COMMITTEE

During the reporting period, all members of the Supervisory Committee acted in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, followed the principles of integrity and diligently carried out their supervisory function to safeguard the interests of shareholders, the Company and the employees.

## I. The work status of the Supervisory Committee of the Company

During the reporting period, the Supervisory Committee held two meetings. At the seventh meeting of the Fourth Session of the Supervisory Committee held in March 2014, the Supervisory Committee reviewed and approved six agenda items, including the financial statements for the year 2013, the independent auditor's report, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2013, the working plan of the Supervisory Committee for the year 2014, the change of session of the Supervisory Committee of the Company and passed the relevant resolutions. Regarding major adjusted items, changes in assets, the rectification of problems discovered during the audit and the internal control assessment, changes in related party transactions and the relevant management and control, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. On 29 May 2014, the supervisors duly signed to approve the appointment of Mr. Shao Chunbao as the Chairman of the fifth session of the Supervisory Committee. At the first meeting of the Fifth Session of the Supervisory Committee held in August 2014, the Supervisory Committee reviewed and approved the interim financial statements and the independent auditor's review report for the six months ended 30 June 2014. Regarding changes in major figures in the reports, review of interim financial statements, the effect of replacing business tax with value-added tax and the relevant remedial measures and the growth of ICT business, the Supervisory

Committee has communicated with the Finance Department, Internal Audit Department, external auditors and raised certain recommendations. During the reporting period, members of the Supervisory Committee supervised the major decision-making process of the Company and the performance of duties by the members of the Board and the senior management through their attendance at the relevant meetings such as Board meetings and meetings of the Audit Committee.

## II. The overall assessment of the operation management and performance during the reporting period

The Supervisory Committee believes that during the reporting period, all members of the Board and members of senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fulfilled their responsibilities fully in accordance with the Articles of Association of the Company, diligently implemented the resolutions of the Shareholders' General Meetings and the Board meetings, and strictly complied with the relevant regulations for listed companies. The Supervisory Committee has not observed any behaviours that breached the laws, rules, and Articles of Association of the Company, or damaged the interests of shareholders.

During the reporting period, in the face of a number of prominent changes in the external environment, the Company rose to the challenges and firmly upheld the main theme of "reform and innovation, open cooperation, enhancement in quality and efficiency". Through promoting a transformation in development models and an Internet-oriented transformation, the promotion of rapid development of 4G services, the acceleration of the transformation and upgrade of its fundamental services and the market-driven development of its emerging businesses, the increase

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in the magnitude of the reform and innovation and open cooperation, the Company strived to achieve stable growth in its operating results. In 2014, the operating revenues of the Company reached RMB324.4 billion, an increase of 0.9% from last year. The service revenues reached RMB287.4 billion, an increase of 3% over last year, ranking first in the industry in respect of revenue growth rate. The proportion of service revenues attributable to emerging businesses reached 29%, an increase of 5 percent points over last year and our business structure was continually and rapidly optimised. EBITDA was RMB94.9 billion with EBITDA margin of 33%. Profit attributable to the equity holders of the Company reached RMB17.7 billion, representing an increase of 0.8% from last year. Free cash flows amounted to RMB12.5 billion. In summary, the Company accurately grasped the trends in mobile Internet development and the integrated development of the industry. The operational efficiency was steadily improved. The core competitiveness was continually strengthened and the corporate development is full of vitality. Meanwhile, while conscientiously fulfilling its responsibility to shareholders, the Company voluntarily committed itself to the sustainable economic, social and environmental development and persisted in as well as excelled in fulfilling its social responsibilities, such as its own corporate responsibilities, responsibilities towards customers, responsibilities towards employees, environmental responsibilities and public welfare responsibilities.

### III. The independent opinion on the relevant matters during the reporting period

#### 1. The opinion raised by the Supervisory Committee on the compliance of the operation of the Company with laws and regulations

Pursuant to the relevant laws and regulations of the PRC, the Supervisory Committee monitored the convening procedures and resolutions of the meetings

of the Board, the implementation by the Board of the resolutions approved by the Shareholders' General Meetings, the performance of duties by the Company's senior management, and the Company's management policies. The Supervisory Committee is of the view that the Directors and the senior management, in performing their duties, strictly complied with the relevant rules and regulations, safeguarded the lawful interests of the Company and the shareholders as a whole, especially those of the minority shareholders, actively promoted the regulated operations of the Company, enhanced the level of governance of the Company, followed lawful procedures in their decision-making, implemented resolutions of the Shareholders' General Meetings, and the Supervisory Committee was not aware of any behaviours of the Directors or the senior management which violated the laws, regulations, the Articles of Association of the Company or were detrimental to the interests of the Company.

#### 2. The opinion raised by the Supervisory Committee on the financial implementations of the Company

Through the supervision and inspection of the Company's financial policies and financial condition, the Supervisory Committee is of the view that the Company is able to strictly comply with the regulatory requirements such as section 404 of the US Sarbanes-Oxley Act and to continue to enhance its internal controls over financial reporting, while effectively controlling and managing the Company in accordance with rules and regulations. Upon the review of the unqualified financial statements for the year 2014 and other relevant information, which were prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards as audited by PRC certified accountants and international auditors of the Company, the Supervisory Committee is of the opinion that the financial statements truly and fairly reflect the Company's financial condition, operating results and cash flows.

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In 2015, the Supervisory Committee will continue to strictly adhere to the Articles of Association of the Company and relevant regulations, assume its responsibility to protect the interests of the shareholders and the Company, monitor the Company to fulfill its commitment to its shareholders. The Supervisory Committee will focus on the Company's implementation of important measures in the process of promoting comprehensive deepening reform and the acceleration of the Internet-oriented transformation, and will further broaden the planning of the work of the Supervisory Committee and strengthen its efforts in monitoring so as to protect the interests of all investors.

By Order of the Supervisory Committee

**Tang Qi**

**Zhang Jianbin**

**Hu Jing**

*Supervisors of the Supervisory Committee*

Beijing, PRC

18 March 2015