

# 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 the 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 fourth meeting of the Sixth Session of the Supervisory Committee held on 15 March 2019, the Supervisory Committee reviewed and approved five agenda items, including the financial statements for the year 2018, the auditor's report issued by the external auditors, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2018, the work plan of the Supervisory Committee for the year 2019, and passed the relevant resolutions. Regarding operating results, application of the new revenue standard, internal control formulation and connected transactions, the Supervisory Committee communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. At the fifth meeting of the Sixth Session of the Supervisory Committee held on 15 August 2019, the Supervisory Committee reviewed and approved the interim financial statements of the Company for the six-month period ended 30 June 2019 and the review report of the external auditors, and passed the relevant resolutions. Regarding the Company's operating results, investment in research and development and the review of the interim financial statements, the

Supervisory Committee communicated with the Finance Department, Internal Audit Department and 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 of the members of the Board and the senior management through their attendance at the relevant Board meetings and Audit Committee meetings.

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

The Supervisory Committee believed that during the reporting period, all members of the Board and the senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fully fulfilled their responsibilities in accordance with the Articles of Association of the Company, diligently implemented the resolutions of shareholders' meetings and the Board meetings, and strictly complied with the relevant regulations governing 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, the Company firmly capitalised on the invaluable opportunities arising from the digital transformation of the economy and society, as well as 5G commercialisation, and adhered to the new development principles. Abiding by customer-oriented principles, the Company sharpened its overall strengths, pushed forward value operation, and significantly enhanced its market position. The Company expanded proprietary innovation and open cooperation, while promoting co-building and co-sharing on all fronts and attaining a promising start in 5G commercialisation. Insisting on innovation and coordination, as well as deepening reform, vitality of the Company and employees were concurrently stimulated and high-quality development was elevated to a new level. In 2019, operating revenues of the Company amounted to RMB375.7 billion. Service revenues<sup>1</sup> amounted to RMB357.6 billion, representing an increase of 2.0% compared to last year and continuing to maintain at a level exceeding industry average. Revenues from emerging businesses<sup>2</sup> accounted for 55.3% of total service revenues and contributed 4.5 percentage points to the total service revenues growth, resulting in continual optimisation of revenue structure and persistent expansion of development

impetus. EBITDA<sup>3</sup> amounted to RMB117.2 billion, representing an increase of 12.5% compared to last year. Net profit<sup>4</sup> amounted to RMB20.5 billion, representing a decrease of 3.3% over last year and an increase of 2.0% as compared to the net profit for year 2018 excluding the one-off after-tax gain from the listing of China Tower Corporation Limited<sup>5</sup>. Basic earnings per share were RMB0.25. Capital expenditure was approximately RMB77.6 billion, of which investment other than 5G declined for the fourth consecutive year. Free cash flow<sup>6</sup> was RMB21.7 billion.

In summary, by fully capitalising on accumulated deployment and preparation for 5G in the preceding period, the Company strives to open up a new 'blue ocean' for integrated information services. The Company consolidated its capabilities in network, service and operation, while continuing to deepen its reform and innovation, with its market competitiveness strengthening on all fronts. Meanwhile, while conscientiously fulfilling its responsibility to shareholders, the Company insisted on integrating corporate social responsibility into corporate development and persisted in as well as excelled in fulfilling its social responsibilities.

<sup>1</sup> Service revenues are calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

<sup>2</sup> Revenues from emerging businesses include revenues from data traffic, Internet applications and DICT services.

<sup>3</sup> EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

<sup>4</sup> Net profit represents profit attributable to equity holders of the Company.

<sup>5</sup> The one-off after-tax gain from the listing of China Tower Corporation Limited recognised in 2018 was approximately RMB1.1 billion.

<sup>6</sup> In order to more objectively reflect the Company's free cash flow, enable a comparable basis to free cash flow of prior years and avoid incomparability of free cash flow resulting from the application of IFRS 16, the original free cash flow calculation "free cash flow = EBITDA minus capital expenditure and income tax" has been changed to "free cash flow = EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights".

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

#### 1. The opinion concluded 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 PRC, the Supervisory Committee monitored the convening procedures and resolutions resolved at the meetings of the Board, the implementation by the Board of the resolutions approved by the shareholders' 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 legitimate rights and interests of the Company and the shareholders as a whole, especially those of the minority shareholders, actively promoted the regulated operation of the Company, enhanced the level of corporate governance of the Company, followed lawful procedures in their decision-making, and implemented resolutions approved at the shareholders' meetings. 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 concluded 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. The Supervisory Committee suggested the Company to strengthen risk control as well as investment efficiency assessment in the area of emerging businesses. Upon reviewing the financial statements for the year 2019 with unqualified audit opinion and other relevant information to be tabled by the Board at the shareholders' meetings, 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 respectively, 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.

In 2020, 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, and lay emphasis on monitoring the Company to fulfill its commitment to its shareholders. The Supervisory Committee will supervise the Company's implementation of important measures committed to shareholders and focus on the Company's implementation of important measures in the process of pushing forward network construction, safeguarding network and information security, enhancing the service quality, expanding the subscriber base and promoting corporate high-quality development, and will further broaden the work plan 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  
**Sui Yixun**  
*Chairman of the Supervisory Committee*

Beijing, China  
24 March 2020