



FINANCIAL OVERVIEW



REVENUE

In the first half of 2016, total revenue was RMB140.26 billion, down by 3.1% as compared to the same period of last year. The Company continued to push forward the implementation of “Focus Strategy”, operating results improved progressively. Service revenue was RMB121.91 billion in the first half of 2016, which turned around from negative growth to positive growth, up by 1.4% as compared to the same period of last year. The rapid decline trend of mobile service has been restrained, service revenue from the mobile service was RMB73.04 billion, down by 0.6% as compared to the same period of last year. Service revenue from the fixed-line service sustained stable growth, and service revenue from the fixed-line service was RMB48.23 billion, up by 4.4% as compared to the same period of last year.

As a result of the rapid development in the Internet service and continuous optimisation in the Company’s business structure, revenue from non-voice service as a percentage of service revenue further improved from 68.3% in the first half of 2015 to 73.1% in the first half of 2016.

COSTS AND EXPENSES¹

In the first half of 2016, total costs and expenses were RMB138.43 billion, up by 2.0% as compared to the same period of last year.

By the impact of increase in telecommunications towers usage fee on one hand and expansion of its network scale and increase in utilities charges and properties rental expenses on the other hand, network, operation and support expenses were RMB25.62 billion in the first half of 2016, increase by RMB6.47 billion and up by 33.8% as compared to the same period of last year.

As depreciation charge saving was benefited from the disposal of telecommunications towers related assets, depreciation and amortisation charge were RMB37.92 billion in the first half of 2016, decrease by RMB0.63 billion and down by 1.6% as compared to the same period of last year.

The Company accelerated market expansion and increased market investment. As a result, selling and marketing expenses were RMB17.13 billion in the first half of 2016, increase by RMB2.50 billion and up by 17.1% as compared to the same period of last year.


As a result from decrease in volume of interconnection voice calls, interconnection charges were RMB6.37 billion in the first half of 2016, down by 2.9% as compared to the same period of last year.

Costs of telecommunications products sold were RMB20.22 billion, down by 19.4% as compared to the same period of last year. It is primarily due to decrease in sales of mobile handsets. Loss on the sales of telecommunications products was RMB1.88 billion, of which terminal subsidy cost accounted to RMB1.76 billion, up by 43.5% as compared to the same period of last year.

The Company continued to deepen the reform in recruitment and remuneration as well as resources allocation. Employee benefit expenses were RMB18.27 billion in the first half of 2016, up by 1.9% as compared to the same period of last year.

General, administrative and other expenses were RMB11.36 billion, increased by RMB0.49 billion and up by 4.5% as compared to the same period of last year.

Benefited from the change of exchange gain/loss by RMB0.93 billion, finance costs, net of interest income, was RMB2.03 billion, decrease by RMB1.04 billion and down by 34.0% as compared to the same period of last year.





EARNINGS

In the first half of 2016, profit before income tax was RMB1.82 billion, down by 79.6% as compared to the same period of last year. Profit for the period was RMB1.43 billion. Basic earnings per share was RMB0.06 in the first half of 2016. EBITDA² was RMB41.28 billion in the first half of 2016, and EBITDA as a percentage of the service revenue was 33.9%. Decrease in EBITDA and profit for the period as compared to the same period of last year was primarily due to the significant increase as compared to the same period of last year in selling and marketing expenses and the significant increase as compared to the same period of last year in network, operation and support expenses resulted from increase in telecommunications towers usage fee and increase in utilities charges and properties rental expenses.

OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2016, the Company's net cash flow from operating activities was RMB41.93 billion, up by 9.5% as compared to the same period of last year. Capital expenditure was RMB18.10 billion in the first half of 2016.

STATEMENT OF FINANCIAL POSITION

Liabilities-to-assets ratio decreased from 62.1% as at 31 December 2015 to 61.9% as at 30 June 2016. Debt-to-capitalisation ratio changed from 39.2% as at 31 December 2015 to 40.4% as at 30 June 2016.

Note 1: Including interconnection charges, depreciation and amortisation, network, operation and support expenses, employee benefit expenses, selling and marketing expenses, costs of telecommunications products sold, general, administrative and other expenses, finance costs, interest income, share of net losses of associates, share of net profit/(loss) of joint ventures and other income-net.

Note 2: EBITDA represents profit for the period before finance costs, interest income, share of net losses of associates, share of net profit/(loss) of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Group.

