

# FINANCIAL OVERVIEW

## REVENUE

In the first half of 2017, total revenue was RMB138.16 billion, down by 1.5% as compared to the same period of last year. The Company fully implemented "Focus Strategies", operating results improved steadily. Service revenue was RMB124.11 billion in the first half of 2017, up by 3.2% as compared to the same period of last year. Service revenue from the mobile service was RMB76.84 billion, up by 5.2% as compared to the same period of last year. Service revenue from the fixed-line service was RMB46.57 billion, remain unchanged 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 72.7% in the first half of 2016 to 77.5% in the first half of 2017.

## COSTS AND EXPENSES<sup>1</sup>

In the first half of 2017, total costs and expenses were RMB134.74 billion, down by 2.7% as compared to the same period of last year.

Depreciation and amortisation charge were RMB38.87 billion in the first half of 2017, up by 2.5% as compared to the same period of last year.

Network, operation and support expenses were RMB26.37 billion in the first half of 2017, up by 2.9% as compared to the same period of last year.

The Company continuously promoted the transformation of its sales and marketing model, selling and marketing expenses were RMB16.10 billion in the first half of 2017, down by 6.0% as compared to the same period of last year.

As a result from changes in volume of interconnection services, interconnection charges were RMB6.33 billion in the first half of 2017, down by 0.6% as compared to the same period of last year.

Costs of telecommunications products sold were RMB14.64 billion, down by 32.7% 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 RMB0.58 billion, of which terminal subsidy cost accounted to RMB0.80 billion, down by 54.7% as compared to the same period of last year.

As a result of the improved operating results, employee benefit expenses were RMB20.07 billion in the first half of 2017, up by 9.9% as compared to the same period of last year.

General, administrative and other expenses<sup>2</sup> were RMB11.10 billion, up by 12.9% as compared to the same period of last year.

Finance costs, net of interest income, was RMB2.43 billion, up by 19.7% as compared to the same period of last year.

# REVIEW

## EARNINGS

In the first half of 2017, profit before income tax was RMB3.42 billion, profit for the period<sup>3</sup> was RMB2.42 billion, up by 68.9% as compared to the same period of last year. Basic earnings per share was RMB0.101 in the first half of 2017. EBITDA<sup>4</sup> was RMB43.56 billion in the first half of 2017, up by 5.5% as compared to the same period of last year. EBITDA as a percentage of the service revenue was 35.1%, up by 0.8 percentage points.

## OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2017, the Company's net cash flow from operating activities was RMB46.66 billion, up by 11.3% as compared to the same period of last year. Capital expenditure was RMB9.14 billion in the first half of 2017.

## STATEMENT OF FINANCIAL POSITION

Liabilities-to-assets ratio decreased from 62.9% as at 31 December 2016 to 61.4% as at 30 June 2017. Debt-to-capitalisation ratio changed from 43.6% as at 31 December 2016 to 43.5% as at 30 June 2017.

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 profit/(loss) of associates, share of net profit of joint ventures and other income-net.

Note 2: Excluded costs of telecommunications products sold and selling and marketing expenses.

Note 3: Profit for the period refers to profit attribute to equity shareholders of the Company.

Note 4: EBITDA represents profit for the period before finance costs, interest income, shares of net profit/(loss) of associates, share of net profit 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.