

FINANCIAL OVERVIEW

I. OVERVIEW

In the first half of 2019, total revenue was RMB144.95 billion, down by 2.8% year-on-year. Service revenue was RMB132.96 billion in the first half of 2019, down by 1.1% year-on-year. Net profit¹ was RMB6.88 billion in the first half of 2019, up by RMB0.97 billion year-on-year.

In the first half of 2019, the Company's net cash flow from operating activities was RMB42.36 billion. Capital expenditure was RMB22.05 billion in the first half of 2019. Liabilities-to-assets ratio was 44.0% as at 30 June 2019.

The Company has adopted IFRS/HKFRS 16, "Leases" since 1 January 2019. Subject to practical expedients allowed by the standard, the Company recognised a lease liability and a corresponding right-of-use asset for all applicable leases, and recognised interest expense accrued on the outstanding balance of the lease liability and depreciation of the right-of-use asset. The Company has elected to use the modified retrospective approach for the adoption of the standard, i.e. it will not restate the comparative figures for years/periods prior to its initial application, and will recognise the cumulative effect of initial application as adjustments to the opening balance of total assets, total liabilities and retained earnings in the current period. As a result, the adoption of IFRS/HKFRS 16 caused depreciation and amortisation, finance costs to increase in the first half of 2019 while the rental expenses within network, operation and support expenses reduced correspondingly.

FINANCIAL OVERVIEW

II. REVENUE

In the first half of 2019, the Company's revenue was RMB144.95 billion, down by 2.8% year-on-year, of which, service revenue was RMB132.96 billion, down by 1.1% year-on-year.

The table below sets forth the composition of service revenue, and the percentage contribution of each service to total service revenue for the first half of 2019 and 2018:

(RMB in billions)	First half of 2019		First half of 2018	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	132.96	100.0%	134.42	100.0%
Include: Voice service	20.41	15.4%	24.00	17.9%
Non-voice service	112.55	84.6%	110.42	82.1%

1. Voice Service

In the first half of 2019, service revenue from the voice service was RMB20.41 billion, down by 14.9% year-on-year.

2. Non-Voice Service

In the first half of 2019, service revenue from the non-voice service was RMB112.55 billion, up by 1.9% year-on-year.

III. COSTS AND EXPENSES

In the first half of 2019, total costs and expenses were RMB136.21 billion, down by 3.6% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the first half of 2019 and 2018:

(RMB in billions)	First half of 2019		First half of 2018	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	136.21	93.97%	141.29	94.76%
Operating costs	137.24	94.68%	142.08	95.29%
Include: Interconnection charges	5.78	3.99%	6.69	4.48%
Depreciation and amortisation	41.79	28.83%	38.65	25.92%
Network, operation and support expenses	20.80	14.35%	27.74	18.61%
Employee benefit expenses	25.19	17.38%	24.41	16.37%
Costs of telecommunications products sold	12.39	8.55%	14.70	9.86%
Selling and marketing expenses	17.46	12.04%	16.49	11.06%
General, administrative and other expenses	13.83	9.54%	13.41	8.99%
Finance costs, net of interest income	0.53	0.37%	0.21	0.14%
Share of net profit of associates	-0.69	-0.48%	-0.55	-0.37%
Share of net profit of joint ventures	-0.33	-0.23%	-0.29	-0.19%
Other income-net	-0.54	-0.37%	-0.16	-0.11%

FINANCIAL OVERVIEW

1. Interconnection charges

The interconnection charges were RMB5.78 billion in the first half of 2019, down by 13.6% year-on-year and, as a percentage of revenue, decreased from 4.48% in the first half of 2018 to 3.99% in the first half of 2019.

2. Depreciation and amortisation

Depreciation and amortisation charges were RMB41.79 billion in the first half of 2019, up by 8.1% year-on-year and, as a percentage of revenue, increased from 25.92% in the first half of 2018 to 28.83% in the first half of 2019, after the impact on adoption of IFRS/HKFRS 16.

3. Network, operation and support expenses

Network, operation and support expenses were RMB20.80 billion in the first half of 2019, down by 25.0% year-on-year and, as a percentage of revenue, decreased from 18.61% in the first half of 2018 to 14.35% in the first half of 2019, after the impact on adoption of IFRS/HKFRS 16.

4. Employee benefit expenses

Employee benefit expenses were RMB25.19 billion in the first half of 2019, up by 3.2% year-on-year and, as a percentage of revenue, increased from 16.37% in the first half of 2018 to 17.38% in first half of 2019.

5. Cost of telecommunications products sold

Costs of telecommunications products sold were RMB12.39 billion and revenue from sales of telecommunications products were RMB12.00 billion in the first half of 2019. Loss on sales of telecommunications products was RMB0.39 billion, of which handset subsidy cost amounted to RMB0.61 billion in the first half of 2019, up by 61.9% year-on-year.

6. Selling and marketing expenses

Selling and marketing expenses were RMB17.46 billion in the first half of 2019, up by 5.9% year-on-year and, as a percentage of revenue, increased from 11.06% in the first half of 2018 to 12.04% in the first half of 2019.

7. General, administrative and other expenses

General, administrative and other expenses were RMB13.83 billion in the first half of 2019, up by 3.1% year-on-year and, as a percentage of revenue, increased from 8.99% in the first half of 2018 to 9.54% in the first half of 2019.

8. Finance costs, net of interest income

Finance costs, net of interest income, was RMB0.53 billion in the first half of 2019, increased by RMB0.32 billion year-on-year, after the impact on adoption of IFRS/HKFRS 16.

9. Other income-net

Other income-net was RMB0.54 billion in the first half of 2019, up by RMB0.38 billion year-on-year.

IV. EARNINGS

1. Profit before income tax

In the first half of 2019, profit before income tax was RMB8.74 billion, up by 11.8% year-on-year.

2. Income tax

In the first half of 2019, the Company's income tax was RMB1.85 billion and the effective tax rate was 21.2%.

3. Net profit

In the first half of 2019, the Company's net profit¹ was RMB6.88 billion, up by RMB0.97 billion year-on-year. Basic earnings per share was RMB0.225, up by 16.3% year-on-year.

FINANCIAL OVERVIEW

V. EBITDA²

In the first half of 2019, the Company's EBITDA was RMB49.51 billion, up by 8.4% year-on-year. EBITDA as a percentage of service revenue was 37.2%, up by 3.2 percentage points year-on-year, after the impact on adoption of IFRS/HKFRS 16.

VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2019, capital expenditure of the Company totalled RMB22.05 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In the first half of 2019, the Company's net cash inflow from operating activities was RMB42.36 billion. Free cash flow was RMB20.31 billion after the deduction of the capital expenditure.

VII. BALANCE SHEET

Mainly due to the impact on adoption of IFRS/HKFRS 16, the Company's total assets changed from RMB540.32 billion as at 31 December 2018 to RMB565.13 billion as at 30 June 2019. Total liabilities changed from RMB226.03 billion as at 31 December 2018 to RMB248.44 billion as at 30 June 2019. The liabilities-to-assets ratio increased from 41.8% as at 31 December 2018 to 44.0% as at 30 June 2019. The debt-to-capitalisation ratio increased from 11.3% as at 31 December 2018 to 16.9% as at 30 June 2019. The net debt-to-capitalisation ratio was 9.7% as at 30 June 2019.

Note 1: Net profit represented profit attributable to equity shareholders of the Company.

Note 2: EBITDA represents profit for the period before finance costs, interest income, shares of net profit 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 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 Company.