

FINANCIAL

OVERVIEW

I. OVERVIEW

In the first half of 2020, the Company continuously deepened the implementation of “Focus Strategy”, total revenue was RMB150.40 billion, up by 3.8% year-on-year. Service revenue was RMB138.33 billion in the first half of 2020, up by 4.0% year-on-year. Net profit¹ was RMB7.57 billion in the first half of 2020, up by RMB0.69 billion year-on-year.

In the first half of 2020, the Company’s net cash flow from operating activities was RMB47.75 billion. Capital expenditure was RMB25.77 billion in the first half of 2020. Liabilities-to-assets ratio was 43.2% as at 30 June 2020.

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II. REVENUE

In the first half of 2020, the Company's revenue was RMB150.40 billion, up by 3.8% year-on-year, of which, service revenue was RMB138.33 billion, up by 4.0% year-on-year due to continuous optimisation of the revenue mix.

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 2020 and 2019:

(RMB in billions)	First half of 2020		First half of 2019	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	138.33	100.00%	132.96	100.00%
Include: Voice service	17.25	12.47%	20.41	15.35%
Non-voice service	121.08	87.53%	112.55	84.65%

1. Voice service

In the first half of 2020, service revenue from the voice service was RMB17.25 billion, down by 15.5% year-on-year.

2. Non-voice service

In the first half of 2020, service revenue from the non-voice service was RMB121.08 billion, up by 7.6% year-on-year.

III. COSTS AND EXPENSES

In the first half of 2020, total costs and expenses were RMB140.66 billion, up by 3.3% 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 2020 and 2019:

(RMB in billions)	First half of 2020		First half of 2019	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	140.66	93.53%	136.21	93.97%
Operating costs	142.25	94.59%	137.24	94.68%
Include: Interconnection charges	5.09	3.39%	5.78	3.99%
Depreciation and amortisation	41.31	27.47%	41.79	28.83%
Network, operation and support expenses	22.22	14.77%	20.80	14.35%
Employee benefit expenses	27.50	18.29%	25.19	17.38%
Costs of telecommunications products sold	11.60	7.71%	12.39	8.55%
Selling and marketing expenses	14.88	9.89%	17.46	12.04%
General, administrative and other operating expenses	19.65	13.07%	13.83	9.54%
Finance costs, net of interest income	0.18	0.12%	0.53	0.37%
Share of net profit of associates	-0.73	-0.49%	-0.69	-0.48%
Share of net profit of joint ventures	-0.26	-0.17%	-0.33	-0.23%
Other income-net	-0.78	-0.52%	-0.54	-0.37%

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1. Interconnection charges

The Company was affected by the decline in voice service, the interconnection charges were RMB5.09 billion in the first half of 2020, down by 11.9% year-on-year and, as a percentage of revenue, decreased from 3.99% in the first half of 2019 to 3.39% in the first half of 2020.

2. Depreciation and amortisation

Depreciation and amortisation charges were RMB41.31 billion in the first half of 2020, down by 1.1% year-on-year and, as a percentage of revenue, decreased from 28.83% in the first half of 2019 to 27.47% in the first half of 2020.

3. Network, operation and support expenses

Network, operation and support expenses were RMB22.22 billion in the first half of 2020, up by 6.8% year-on-year and, as a percentage of revenue, increased from 14.35% in the first half of 2019 to 14.77% in the first half of 2020 due to the increase in the rental expenses of telecommunications electricity cables.

4. Employee benefit expenses

As a result of the improved operating results and increased the introduction of talent pipeline in the meantime, employee benefit expenses were RMB27.50 billion in the first half of 2020, up by 9.2% year-on-year and, as a percentage of revenue, increased from 17.38% in the first half of 2019 to 18.29% in the first half of 2020.

5. Costs of telecommunications products sold

Costs of telecommunications products sold were RMB11.60 billion and revenue from sales of telecommunications products were RMB12.06 billion in the first half of 2020. Gross profit on sales of telecommunications products was RMB0.46 billion, improved by RMB0.85 billion year-on-year.

6. Selling and marketing expenses

The Company promoted transformation on digitisation, strengthened O2O integrated operation and exercised stringent control over user acquisition costs. Selling and marketing expenses were RMB14.88 billion in the first half of 2020, down by 14.8% year-on-year and, as a percentage of revenue, decreased from 12.04% in the first half of 2019 to 9.89% in the first half of 2020.

7. General, administrative and other operating expenses

General, administrative and other operating expenses were RMB19.65 billion in the first half of 2020, up by 42.1% year-on-year, mainly due to the rapid growth of ICT services leading to increased related service costs and increased investment in technical support for innovative businesses.

8. Finance costs, net of interest income

Finance costs, net of interest income, was RMB0.18 billion in the first half of 2020, down by RMB0.36 billion year-on-year.

9. Other income-net

Other income-net was RMB0.78 billion in the first half of 2020, up by RMB0.24 billion year-on-year.

IV. EARNINGS

1. Profit before income tax

In the first half of 2020, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB9.74 billion, up by 11.40% year-on-year.

2. Income tax

In the first half of 2020, the Company's income tax was RMB2.14 billion and the effective tax rate was 22.0%.

3. Profit for the period

In the first half of 2020, the Company's net profit¹ was RMB7.57 billion, up by RMB0.69 billion year-on-year. Basic earnings per share was RMB0.247, up by 10.1% year-on-year.

V. EBITDA²

In the first half of 2020, the Company's EBITDA was RMB49.45 billion, down by 0.1% year-on-year. EBITDA as a percentage of service revenue was 35.7%, down by 1.5 percentage points year-on-year.

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VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2020, capital expenditure of the Company totalled RMB25.77 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In the first half of 2020, the Company's net cash flow from operating activities was RMB47.75 billion. Free cash flow³ was RMB21.98 billion after the deduction of the capital expenditure.

The table below sets forth the major items of the capital expenditure in the first half of 2020:

(RMB in billions)	First half of 2020	
	Total amount	As percentage
Total	25.77	100.00%
Include: Mobile network	15.76	61.14%
Broadband and data	3.85	14.95%
Infrastructure and transmission network	4.29	16.65%
Others	1.87	7.26%

VII. BALANCE SHEET

The Company's total assets changed from RMB562.50 billion as at 31 December 2019 to RMB568.73 billion as at 30 June 2020. Total liabilities changed from RMB241.74 billion as at 31 December 2019 to RMB245.58 billion as at 30 June 2020. The liabilities-to-assets ratio changed from 43.0% as at 31 December 2019 to 43.2% as at 30 June 2020. The debt-to-capitalisation ratio decreased from 15.2% as at 31 December 2019 to 13.7% as at 30 June 2020. The net debt-to-capitalisation ratio was 6.6% as at 30 June 2020.

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

Note 2: EBITDA represents profit for the period before finance costs, interest income, share of net profit of associates, share of net profit of joint ventures, other income-net, income tax expenses, 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 Company. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 3: Free cash flow represents operating cash flow less capital expenditure. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

