



FINANCIAL OVERVIEW

I. OVERVIEW

In the first half of 2021, the Company continuously deepened the implementation of “Focus Strategy”, total revenue was RMB164.17 billion, up by 9.2% year-on-year. Service revenue reached RMB148.67 billion in the first half of 2021, up by 7.5% year-on-year. Net profit¹ was RMB9.17 billion in the first half of 2021, up by RMB1.60 billion year-on-year.

In the first half of 2021, the Company’s net cash flow from operating activities was RMB50.66 billion. Capital expenditure was RMB14.28 billion in the first half of 2021. Liabilities-to-assets ratio was 41.9% as at 30 June 2021.

II. REVENUE

In the first half of 2021, the Company's revenue was RMB164.17 billion, up by 9.2% year-on-year, of which, service revenue was RMB148.67 billion, up by 7.5% 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 2021 and 2020:

(RMB in billions)	First half of 2021		First half of 2020	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	148.67	100.00%	138.33	100.00%
Include: Voice service	17.51	11.78%	17.25	12.47%
Non-voice service	131.16	88.22%	121.08	87.53%

1. Voice Service

In the first half of 2021, service revenue from the voice service was RMB17.51 billion, up by 1.5% year-on-year.

2. Non-Voice Service

In the first half of 2021, service revenue from the non-voice service was RMB131.16 billion, up by 8.3% year-on-year.

III. COSTS AND EXPENSES

In the first half of 2021, total costs and expenses were RMB152.88 billion, up by 8.7% 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 2021 and 2020:

(RMB in billions)	First half of 2021		First half of 2020	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	152.88	93.12%	140.66	93.53%
Operating costs	156.06	95.06%	142.25	94.59%
Include: Interconnection charges	5.25	3.20%	5.09	3.39%
Depreciation and amortisation	41.38	25.20%	41.31	27.47%
Network, operation and support expenses	25.11	15.29%	22.22	14.77%
Employee benefit expenses	30.99	18.88%	27.50	18.29%
Costs of telecommunications products sold	14.81	9.02%	11.60	7.71%
Selling and marketing expenses	15.56	9.48%	14.88	9.89%
General, administrative and other operating expenses	22.96	13.99%	19.65	13.07%
Finance costs, net of interest income	0.17	0.10%	0.18	0.12%
Share of net profit of associates	-1.10	-0.67%	-0.73	-0.49%
Share of net profit of joint ventures	-0.72	-0.44%	-0.26	-0.17%
Other income-net	-1.53	-0.93%	-0.78	-0.52%

1. Interconnection charges

Interconnection charges were RMB5.25 billion in the first half of 2021, up by 3.0% year-on-year and, as a percentage of revenue, decreased from 3.39% in the first half of 2020 to 3.20% in the first half of 2021.

2. Depreciation and amortisation

Depreciation and amortisation charges were RMB41.38 billion in the first half of 2021, up by 0.2% year-on-year and, as a percentage of revenue, decreased from 27.47% in the first half of 2020 to 25.20% in the first half of 2021.

3. Network, operation and support expenses

Network, operation and support expenses were RMB25.11 billion in the first half of 2021, up by 13.0% year-on-year and, as a percentage of revenue, increased from 14.77% in the first half of 2020 to 15.29% in the first half of 2021 due to the increase in usage expenses of premises and equipment, network maintenance and energy consumption cost.

4. Employee benefit expenses

As a result of the ongoing effort in incentive mechanism reform to strengthen performance-based compensation and the acquisition of innovative talents in the meantime, employee benefit expenses were RMB30.99 billion in the first half of 2021, up by 12.7% year-on-year and, as a percentage of revenue, increased from 18.29% in the first half of 2020 to 18.88% in the first half of 2021.

5. Cost of telecommunications products sold

Costs of telecommunications products sold were RMB14.81 billion and revenue from sales of telecommunications products were RMB15.50 billion in the first half of 2021. Gross profits on sales of telecommunications products were RMB0.69 billion.

6. Selling and marketing expenses

The Company promoted transformation on digitisation, strengthened O2O integrated operation and exercised stringent control over users development costs, selling and marketing expenses were RMB15.56 billion in the first half of 2021, up by 4.6% year-on-year and, as a percentage of revenue, decreased from 9.89% in the first half of 2020 to 9.48% in the first half of 2021.

7. General, administrative and other operating expenses

General, administrative and other operating expenses were RMB22.96 billion in the first half of 2021, up by 16.9% 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 RMB0.17 billion in the first half of 2021, basically unchanged year-on-year.

9. Other income-net

Other income-net was RMB1.53 billion in the first half of 2021, up by RMB0.75 billion year-on-year.

IV. EARNINGS**1. Profit before income tax**

In the first half of 2021, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB11.29 billion, up by 16.0% year-on-year.

2. Income tax expense

In the first half of 2021, the Company's income tax expense was RMB2.08 billion and the effective tax rate was 18.4%.

3. Profit for the period

In the first half of 2021, the Company's net profit¹ was RMB9.17 billion, up by RMB1.60 billion year-on-year. Basic earnings per share was RMB0.300, up by 21.1% year-on-year.

V. EBITDA²

In the first half of 2021, the Company's EBITDA was RMB49.49 billion, up by 0.1% year-on-year. EBITDA as a percentage of service revenue was 33.3%, down by 2.4 percentage points year-on-year.

VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2021, capital expenditure of the Company totaled RMB14.28 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In the first half of 2021, the Company's net cash flow from operating activities was RMB50.66 billion. Free cash flow³ was RMB36.38 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 2021:

(RMB in billions)	First half of 2021	
	Total amount	As percentage
Total	14.28	100.00%
Include: Mobile network	4.55	31.83%
Broadband and data	3.71	26.00%
Infrastructure and transmission network	3.24	22.69%
Others	2.78	19.48%

VII. BALANCE SHEET

The Company's total assets changed from RMB580.62 billion as at 31 December 2020 to RMB571.27 billion as at 30 June 2021. Total liabilities changed from RMB253.10 billion as at 31 December 2020 to RMB239.23 billion as at 30 June 2021. The liabilities-to-assets ratio changed from 43.6% as at 31 December 2020 to 41.9% as at 30 June 2021. The debt-to-capitalisation ratio decreased from 12.2% as at 31 December 2020 to 9.4% as at 30 June 2021. The net debt-to-capitalisation ratio was 3.3% as at 30 June 2021.

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 expense, 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.