Operating Revenues

In the first half of 2019, the Company adhered to the new development principles and implemented supply-side structural reforms. Moreover, the Company fully capitalised on the edges in network and talents, deepened reform and innovation. Corporate capabilities and vitality were further enhanced and preliminary results in high quality development have been achieved. Our operating results remained healthy and solid while our capabilities for future sustainable development were continuously strengthened. In the first half of the year, operating revenues amounted to RMB190,488 million, representing a decrease of 1.3% over the same period last year. Service revenues[1] amounted to RMB182,589 million, representing an increase of 2.8% over the same period last year. Among the service revenues, mobile service revenues amounted to RMB88,236 million, increased by 5.6% over the same period last year; wireline service revenues amounted to RMB94,353 million, increased by 0.3% over the same period last year. Non-voice service revenues accounted for 87.1% of service revenues, representing an increase of 2.1 percentage points over the same period last year.

Operating Expenses

The Company focused on key resources areas and enhanced its precision management, facilitating persistent increase in efficiency of resources utilisation. In the first half of 2019, operating expenses amounted to RMB170,544 million, representing a decrease of 1.9% over the same period last year. Operating expenses accounted for 89.5% of operating revenues, representing a decrease of 0.6 percentage point over the same period last year.

In the first half of the year, depreciation and amortisation amounted to RMB43,343 million, representing an increase of 18.1% over the same period last year. Excluding the impact of the application of International Financial Reporting Standard 16 "Leases" ("IFRS 16"), depreciation and amortisation increased by 3.2% over the same period last year. This was mainly because the Company has maintained investments in 4G and fibre broadband network at a relatively high level in recent years to preserve network advantages. Concurrently, the Company enhanced the implementation of precision investment, resulting in a smaller increase in depreciation and amortisation in the same period last year.

The Company persistently enhanced network capabilities and quality, appropriately deployed resources and at the same time tightened cost management, resulting in effective control on incremental magnitude of expenses level. In the first half of the year, network operations and support expenses amounted to RMB50,780 million, representing a decrease of 6.3% over the same period last year. Excluding the impact of the application of IFRS 16, network operations and support expenses increased by 4.2% over the same period last year which were significantly lower than in the same period last year.

In the first half of the year, selling, general and administrative expenses amounted to RMB29,216 million, representing an increase of 0.6% over the same period last year.

In the first half of the year, personnel expenses amounted to RMB33,316 million, representing an increase of 2.0% over the same period last year.

The number of mobile terminals sold by the Company through its own distribution channels decreased. In the first half of the year, other operating expenses amounted to RMB13,889 million, representing a decrease of 34.8% over the same period last year.

[1] Service revenues were calculated based on operating revenues minus sales of mobile terminals (first half of 2019: RMB5,480 million; first half of 2018: RMB12,079 million), sales of wireline equipment (first half of 2019: RMB1,686 million; first half of 2018: RMB2,773 million) and other non-service revenues (first half of 2019: RMB733 million; first half of 2018: RMB589 million).

Net Finance Costs

In the first half of 2019, the net finance costs of the Company amounted to RMB2,057 million, representing an increase of 35.9% over the same period last year. Excluding the impact of the application of IFRS 16, net finance costs decreased by 17.2% over the same period last year, which was mainly because the Company seized favourable market opportunities to properly increase the allocation of bond products with better cost and continually enhance the centralised capabilities of Group's internal funds, effectively controlling the scale of indebtedness and financing costs.

Profitability Level

The Company firmly seized the prime opportunities period for scale development, deepened reform and innovation and strived to promote cost reduction and efficiency improvement, resulting in continuous improvement in profitability. In the first half of the year, profit attributable to equity holders of the Company amounted to RMB13,909 million, representing an increase of 2.5% over the same period last year. EBITDA[2] amounted to RMB63,287 million, representing an increase of 13.3% over the same period last year; while EBITDA margin[3] was 34.7%. Excluding the impact of the application of IFRS 16, EBITDA margin was 31.4%, which was basically the same as the same period last year.

Capital Expenditure and Cash Flows

The Company persistently implemented precision investment in order to assure user experience and enhance comprehensive network edges. In the first half of the year, capital expenditure amounted to RMB35,019 million, representing an increase of 6.3% over the same period last year. In the first half of the year, free cash flow[4] remained strong and amounted to RMB18,309 million.

Assets and Liabilities

The Company continued to maintain a solid financial position. As at 30 June 2019, total assets increased by 7.2% to RMB710,964 million from RMB663,382 million at the end of 2018. Excluding the impact of the application of IFRS 16, total assets increased by 1.1%. Total indebtedness[5] decreased by 20.0% to RMB76,603 million from RMB95,744 million at the end of 2018. The gearing ratio[6] decreased 3.7 percentage points to 18.1% from 21.8% at the end of 2018.

Change in Accounting Policy

On 1 January 2019, the Company applied IFRS 16 for the first time. The primary impact of the application of IFRS 16 has been mentioned above; please refer to note 3 to the unaudited interim financial statements in this interim report for details.

2 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

3 EBITDA margin was calculated based on EBITDA divided by service revenues.

4 In order to more objectively reflect the Company's free cash flow, enable a comparable basis to free cash flow of prior periods and avoid incomparability of free cash flow resulting from the application of IFRS 16, the original free cash flow calculation "free cash flow = EBITDA minus capital expenditure and income tax" has been changed to "free cash flow = EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights."

5 Total indebtedness represented interest-bearing debts excluding lease liabilities.

6 Gearing ratio was calculated based on total indebtedness divided by total capital while total capital was calculated based on total equity attributable to equity holders of the Company plus total indebtedness.