

Operating Revenues

In the first half of 2020, the Company proactively responded to the Epidemic, while actively embracing technological integration and innovation. Precisely grasping the opportunities emerging from the accelerating development of the digital economy, the Company, in accordance with its customer-oriented principles, expanded its integrated information services including 5G and cloud services by unleashing its edges in new infrastructure resources. The Company deepened Cloudification reform and laid out plan for digital transformation to speed up the shift of development impetus and promote the comprehensive enhancement of quality and efficiency. As a result, the Company's operating results remained solid. In the first half of the year, operating revenues amounted to RMB193,803 million, representing an increase of 1.7% over the same period last year. Service revenues¹ amounted to RMB187,110 million, representing an increase of 2.5% over the same period last year. Among the service revenues, mobile service revenues amounted to RMB90,462 million, increased by 2.5% over the same period last year; wireline service revenues amounted to RMB96,648 million, increased by 2.4% over the same period last year. Non-voice service revenues accounted for 88.9% of service revenues, representing an increase of 1.8 percentage points over the same period last year.

Operating Expenses

The Company proactively deployed the development of 5G and enterprise digital transformation, strengthened the development of Industrial Digitalisation service capabilities and enhanced the deployment in research and development and innovation to support sustainable development in the future. Meanwhile, the Company continuously enhanced its precision cost control and promoted the enhancement of the resource utilisation effectiveness. In the first half of 2020, operating expenses amounted to RMB174,825 million, representing an increase of 2.5% over the same period last year. Operating expenses accounted for 90.2% of operating revenues, representing an increase of 0.7 percentage point over the same period last year.

In the first half of the year, depreciation and amortisation amounted to RMB44,176 million, representing an increase of 1.9% over the same period last year.

The Company persistently enhanced network capabilities and quality to support the development of 5G and Industrial Digitalisation, and appropriately increased the deployment in network operation expenditures. In the first half of the year, network operations and support expenses amounted to RMB57,698 million, representing an increase of 13.6% over the same period last year.

The Company continuously optimised its sales and marketing model and coordinated the development of online and offline channels. Meanwhile, the Company reinforced its precision deployment in sales and marketing resources and enhanced the investment efficiency of sales and marketing resources. In the first half of the year, selling, general and administrative expenses amounted to RMB25,997 million, representing a decrease of 11.0% over the same period last year.

The Company continued to increase incentives for high-tech talents, frontline employees and high-performance teams to mobilise the enthusiasm of employees. In the first half of the year, personnel expenses amounted to RMB35,512 million, representing an increase of 6.6% over the same period last year.

In the first half of the year, other operating expenses amounted to RMB11,442 million, representing a decrease of 17.6% over the same period last year, which was mainly due to the decrease in the number of mobile terminals sold by the Company.

¹ Service revenues are calculated based on operating revenues minus sales of mobile terminals (first half of 2020: RMB3,442 million; first half of 2019: RMB5,480 million), sales of wireline equipment (first half of 2020: RMB1,887 million; first half of 2019: RMB1,686 million) and other non-service revenues (first half of 2020: RMB1,364 million; first half of 2019: RMB733 million).

Financial Review

Net Finance Costs

In the first half of 2020, the Company continued to improve the centralised capability of the group-wide internal capital, effectively controlling the scale of indebtedness. The Company also seized the opportunities of favourable market interest rate to replace bank loans with bond products of lower cost. Net finance costs amounted to RMB1,572 million, representing a decrease of 23.6% over the same period last year.

Profitability Level

The Company firmly seized the prime opportunities period for digital economy development, deepened reform and innovation and strived to promote cost reduction and efficiency improvement, enabling the Company to maintain stable profitability. In the first half of the year, profit attributable to equity holders of the Company amounted to RMB13,949 million, representing an increase of 0.3% over the same period last year. EBITDA² amounted to RMB63,154 million, representing a decrease of 0.2% over the same period last year; while EBITDA margin³ was 33.8%.

Capital Expenditure and Cash Flows

In order to rapidly establish 5G network capabilities, the Company accelerated the investment in 5G network construction. In the first half of the year, capital expenditure amounted to RMB43,126 million, representing an increase of 23.2% over the same period last year. In the first half of the year, free cash flow⁴ amounted to RMB9,495 million.

Assets and Liabilities

The Company continued to maintain a solid financial position. As at 30 June 2020, total assets increased by 1.5% to RMB714,007 million from RMB703,131 million at the end of 2019. Total indebtedness⁵ decreased by 37.2% to RMB49,597 million from RMB79,022 million at the end of 2019. The gearing ratio⁶ decreased to 12.2% from 18.3% at the end of 2019.

² EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

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

⁴ Free cash flow is calculated based on EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights.

⁵ Total indebtedness refers to interest-bearing debts excluding lease liabilities.

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