Operating Revenues

In the first half of 2021, the Company firmly seized the opportunities emerging from the upgrade demands for digitalisation of the economy and society and further implemented the "Cloudification and Digital Transformation" strategy on all fronts. With the focus on customer-oriented approach, the Company accelerated the promotion of cloud-network integration, enhanced the expansion in individual, Smart Family and Industrial Digitalisation market, which continuously strengthened the Company's development momentum and improved profitability, and helped to achieve new heights in operating results. In the first half of the year, operating revenues[1] amounted to RMB219,237 million, representing an increase of 13.1% over the same period of last year. Service revenues[2] amounted to RMB203,502 million, representing an increase of 8.8% over the same period of last year. Among the service revenues, mobile communications service revenues[3] amounted to RMB93,342 million, increased by 6.9% over the same period of last year; wireline and Smart Family service revenues[4] amounted to RMB57,350 million, increased by 5.2% over the same period of last year; Industrial Digitalisation service revenues[5] amounted to RMB50,113 million, increased by 16.8% over the same period of last year; and other service revenues[6] amounted to RMB2,697 million, increased by 14.9% over the same period of last year.

Operating Expenses

The Company firmly seized the opportunities of 5G scale development, comprehensively promoted the subscribers' cloud migration and digital transformation, and continued to increase investment in Industrial Digitalisation service and research and development system, which supported the business development. Meanwhile, the Company continuously carried out sophisticated management on cost and promoted the enhancement of effectiveness. In the first half of 2021, operating expenses amounted to RMB197,986 million, representing an increase of 13.2% over the same period of last year. Operating expenses accounted for 90.3% of operating revenues, representing an increase of 0.1 percentage point over the same period of last year.

In the first half of the year, depreciation and amortisation amounted to RMB45,097 million, representing an increase of 2.1% over the same period of last year. To mainly support the scale development of 5G network and strengthen the competitive advantages on the network, the Company continuously invested in capital expenditure. Meanwhile, the Company thoroughly promoted co-building and co-sharing of the network and precisely controlled the capital expenditure, which enabled the low single-digit growth in depreciation and amortisation.

The Company persistently enhanced the development of network quality and capabilities to improve customer perceptions and support the rapid development of 5G and Industrial Digitalisation. In the first half of the year, network operations and support expenses amounted to RMB63,909 million, representing an increase of 10.8% over the same period of last year.

1 As a result of the deepening of the Group's "Cloudification and Digital Transformation" strategy, the Group re-categorised the presentation of revenues in fiscal year 2021. The new presentation categorises the operating revenues into service revenues and sales of goods and others. Service revenues include mobile communications service revenues, wireline and Smart Family service revenues, Industrial Digitalisation service revenues and other service revenues.

2 Service revenues are calculated based on operating revenues minus sales of mobile terminals (first half of 2021: RMB10,367 million; first half of 2020: RMB3,442 million), sales of wireline equipment (first half of 2021: RMB3,677 million; first half of 2020: RMB1,887 million) and other non-service revenues (first half of 2021: RMB1,691 million; first half of 2020: RMB1,364 million).

3 Mobile communications service revenues represent the aggregate amount of mobile communications service fees, mobile Internet access service fees, caller ID service fees and short messaging service fees, etc., charged to customers for the provision of mobile services.

4 Wireline and Smart Family service revenues represent amounts of wireline communications service fees, broadband Internet access service fees, e-Surfing HD service fees and Smart Family applications service fees charged to customers for the provision of wireline services.

5 Industrial Digitalisation service revenues represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service fees, cloud service fees, digital platform service fees, dedicated Internet access service fees, etc.

6 Other service revenues represent primarily revenues from property rental and other revenues.

Following the ease of epidemic, the Company appropriately increased deployment in marketing resources to support the sound development of its business which resulted in an increase in the selling expenses as compared to the same period of last year. In the first half of the year, selling, general and administrative expenses amounted to RMB28,740 million, representing an increase of 10.6% over the same period of last year.

The Company increased incentives for high-tech talents, core talents, frontline employees and high-performance teams and implemented a new phase of share appreciation rights scheme in the meantime to stimulate the enthusiasm of employees. The investment in the personnel expenses was in line with the direction of the Company's transformation to a sci-tech company. In the first half of the year, personnel expenses amounted to RMB39,685 million, representing an increase of 11.8% over the same period of last year.

In the first half of the year, other operating expenses amounted to RMB20,555 million, representing an increase of 79.6% over the same period of last year, which was mainly due to the substantial increase in the scale of 5G mobile terminals sold by the Company.

Net Finance Costs

In the first half of 2021, the Company continued to improve the capability of funds management, carried out sophisticated management on financing and effectively controlled the scale of interest-bearing debts. Net finance costs amounted to RMB1,079 million, representing a decrease of 31.4% over the same period of last year.

Profitability Level

The Company actively embraced the opportunities of digital transformation, deepened reform and innovation and continuously promoted the enhancement of effectiveness, resulting in continuous enhancement of operating efficiency. The profitability of the Company has been continuously improved. In the first half of the year, profit attributable to equity holders of the Company amounted to RMB17,743 million, representing an increase of 27.2% over the same period of last year and an increase of 17.0% over the same period of last year excluding the one-off after-tax gain from the disposals of the subsidiaries[7]. EBITDA[8] amounted to RMB66,348 million, representing an increase of 5.1% over the same period of last year; while EBITDA margin[9] was 32.6%.

Capital Expenditure and Cash Flows

The Company comprehensively promoted co-building and co-sharing of the network, and continued to implement precise investments. In the first half of the year, capital expenditure amounted to RMB27,005 million, representing a decrease of 37.4% over the same period of last year. Due to sound revenue position and reduction in capital expenditure in the first half of the year, free cash flow[10] substantially increased and amounted to RMB26,782 million in the first half of the year, representing an increase of 182.1% over the same period of last year.

7 The one-off after-tax gain from the disposals of E-surfing Pay Co. Ltd and China Telecom Leasing Corporation Limited was approximately RMB1,416 million.

8 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 International Financial Reporting Standards. 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.

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

10 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.

Assets and Liabilities

The Company maintained a solid financial position. As at 30 June 2021, total assets decreased by 1.2% to RMB706,478 million from RMB715,096 million at the end of 2020. Total indebtedness[11] decreased by 38.8% to RMB32,640 million from RMB53,342 million at the end of 2020. The gearing ratio[12] decreased to 8.0% from 12.8% at the end of 2020.

[11] Total indebtedness refers to interest-bearing debts excluding lease liabilities.

[12] 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.