

FINANCIAL

OVERVIEW

OVERVIEW

In 2019, the Company continuously deepened the implementation of “Focus Strategy”, the Company’s revenue was RMB290.51 billion in 2019, down by 0.1% year-on-year, of which service revenue reached RMB264.39 billion, up by 0.3% year-on-year. Net profit¹ was RMB11.33 billion, up by RMB1.13 billion year-on-year.

In 2019, net cash flow from operating activities was RMB93.68 billion. Capital expenditure was RMB56.42 billion. Liabilities-to-assets ratio was 43.0% as at 31 December 2019.

The Company has adopted IFRS/HKFRS 16, “Leases” since 1 January 2019. Subject to practical expedients allowed by the standard, the Company recognised a lease liability and a corresponding right-of-use asset for all applicable leases, and recognised interest expenses accrued on the outstanding balance of the lease liability and depreciation of the right-of-use asset. The Company has elected to use the modified retrospective approach for the adoption of the

standard, i.e. it will not restate the comparative figures for years/periods prior to initial application, and will recognise the cumulative effect of initial application as adjustments to the opening balance of total assets, total liabilities and retained earnings in the current year. As a result, the adoption of IFRS/HKFRS 16 caused depreciation and amortisation, finance costs to increase in 2019 while the rental expenses within network, operation and support expenses reduced correspondingly.

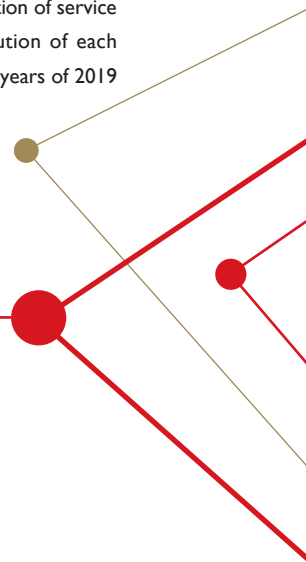
REVENUE

In 2019, the Company’s revenue was RMB290.51 billion, down by 0.1% year-on-year, of which, service revenue accounted for RMB264.39 billion, up by 0.3% 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 years of 2019 and 2018:

SERVICE REVENUE
(RMB BIL)

264.39



EBITDA²
(RMB BIL)

94.36

NON-VOICE
SERVICE REVENUE
(RMB BIL)

224.91

| (RMB in billions) | 2019 | | 2018 | |
|------------------------|--------------|------------------------------------|--------------|------------------------------------|
| | Total amount | As a percentage of service revenue | Total amount | As a percentage of service revenue |
| Service revenue | 264.39 | 100.00% | 263.68 | 100.00% |
| Include: Voice service | 39.48 | 14.93% | 46.06 | 17.47% |
| Non-voice service | 224.91 | 85.07% | 217.62 | 82.53% |

Voice Service

In 2019, service revenue from the voice service was RMB39.48 billion, down by 14.3% year-on-year.

Non-Voice Service

In 2019, service revenue from the non-voice service was RMB224.91 billion, up by 3.3% year-on-year.

F I N A N C I A L O V E R V I E W

COSTS AND EXPENSES

In 2019, total costs and expenses amounted to RMB276.35 billion, down by 0.5% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the years of 2019 and 2018:

| (RMB in billions) | 2019 | | 2018 | |
|---|-----------------|----------------------------------|--------------|----------------------------------|
| | Total amount | As a percentage of revenue | Total amount | As a percentage of revenue |
| Total costs and expenses | 276.35 | 95.12% | 277.80 | 95.50% |
| Operating costs | 279.25 | 96.12% | 281.75 | 96.86% |
| Include: Interconnection charges | 11.51 | 3.96% | 12.58 | 4.32% |
| Depreciation and amortisation | 83.08 | 28.60% | 75.78 | 26.05% |
| Network, operation and support expenses | 43.24 | 14.88% | 55.08 | 18.93% |
| Employee benefit expenses | 50.52 | 17.39% | 48.14 | 16.55% |
| Costs of telecommunications products sold | 26.41 | 9.09% | 27.60 | 9.49% |
| Selling and marketing expenses | 33.54 | 11.55% | 35.17 | 12.09% |
| General, administrative and other expenses | 30.95 | 10.65% | 27.40 | 9.43% |
| Finance costs, net of interest income | 0.85 | 0.29% | -0.09 | -0.03% |
| Share of net profit of associates | -1.36 | -0.47% | -2.48 | -0.85% |
| Share of net profit of joint ventures | -0.65 | -0.22% | -0.60 | -0.21% |
| Other income-net | -1.74 | -0.60% | -0.78 | -0.27% |

Interconnection charges

The Company was affected by the decline in voice service, the interconnection charges amounted to RMB11.51 billion in 2019, down by 8.5% year-on-year and, as a percentage of revenue, decreased from 4.32% in 2018 to 3.96% in 2019.

Depreciation and amortisation

Depreciation and amortisation charges were RMB83.08 billion in 2019, up by 9.6% year-on-year and, as a percentage of revenue, changed from 26.05% in 2018 to 28.60% in 2019, mainly due to the impact on adoption of new standard, "Lease".

Network, operation and support expenses

Network, operation and support expenses were RMB43.24 billion in 2019, down by 21.5% year-on-year and, as a percentage of revenue, decreased from 18.93% in 2018 to 14.88% in 2019, mainly due to the impact on adoption of new standard, "Lease".

Employee benefit expenses

As a result of the improved operating results, the Company's employee benefit expenses amounted to RMB50.52 billion in 2019, up by 4.9% year-on-year and, as a percentage of revenue, changed from 16.55% in 2018 to 17.39% in 2019.

Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB26.41 billion and revenue from sales of telecommunications products amounted to RMB26.13 billion in 2019. Loss on sales of telecommunications products was RMB0.28 billion, of which handset subsidy cost accounted to RMB0.79 billion in 2019, down by 17.0% year-on-year.

Selling and marketing expenses

The Company adjusted its mobile development priority in a timely manner, deepened the Internet-oriented operation transformation and exercised stringent control over user acquisition costs. Selling and marketing expenses were RMB33.54 billion in 2019, down by 4.6% year-on-year and, as a percentage of revenue, decreased from 12.09% in 2018 to 11.55% in 2019.

General, administrative and other expenses

General, administrative and other expenses were RMB30.95 billion in 2019, up by 12.9% 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.

Finance costs, net of interest income

Finance costs, net of interest income, was RMB0.85 billion in 2019, increased by 0.94 billion year-on-year, mainly due to the impact on adoption of new standard, "Lease".

Other income-net

Other income-net was RMB1.74 billion in 2019, increased by RMB0.96 billion year-on-year.

F I N A N C I A L O V E R V I E W

EARNINGS

Profit before income tax

In 2019, the Company benefited from continuous enhancement in growth quality and profitability, the Company's profit before income tax was RMB14.17 billion, up by 8.3% year-on-year.

Income tax

In 2019, the Company's income tax was RMB2.80 billion and the effective tax rate was 19.7%.

Net profit

In 2019, the Company's net profit¹ was RMB11.33 billion, up by RMB1.13 billion year-on-year. Basic earnings per share was RMB0.370, up by 11.1% year-on-year.

EBITDA²

In 2019, the Company's EBITDA was RMB94.36 billion, up by 11.1% year-on-year. EBITDA as a percentage of service revenue was 35.7%, up by 3.5 percentage points year-on-year, mainly due to the impact on adoption of new standard, "Lease".

CAPITAL EXPENDITURE AND CASH FLOW

In 2019, capital expenditure of the Company totalled RMB56.42 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2019, the Company's net cash inflow from operating activities was RMB93.68 billion. Free cash flow³ was RMB37.26 billion after the deduction of the capital expenditure.

TO ELEVATE
SHAREHOLDER
VALUE THROUGH
QUALITY &
EFFICIENCY
ENHANCEMENT

Improve the strategy execution system by better aligning with budgeting and performance assessment to achieve a closed-loop management model

Activate operating assets with innovation to improve efficiency, especially for property

The table below sets forth the major items of the capital expenditure in 2019.

| RMB (in billions) | 2019 | |
|---|--------------|----------------|
| | Total amount | As percentage |
| Total | 56.42 | 100.00% |
| Include: Mobile network | 29.65 | 52.54% |
| Broadband and data | 8.43 | 14.94% |
| Infrastructure and transmission network | 11.42 | 20.23% |
| Others | 6.92 | 12.29% |

BALANCE SHEET

Mainly due to the impact on adoption of new standard, "Lease", the Company's total assets changed from RMB540.32 billion as at 31 December 2018 to RMB562.50 billion as at 31 December 2019, total liabilities changed from RMB226.03 billion as at 31 December 2018 to RMB241.74 billion as at 31 December 2019, the liabilities-to-assets ratio changed from 41.8% as at 31 December 2018 to 43.0% as at 31 December 2019 and the debt-to-capitalisation ratio changed from 11.3% as at 31 December 2018 to 15.2% as at 31 December 2019. The net debt-to-capitalisation ratio was 5.9% as at 31 December 2019.

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

Note 2: EBITDA represents profit for the year 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.

Strengthen value management with focus on free cash flow; enhance cash flow management by aligning investment with return and outgoings with revenue

Timely optimise management mechanism and work flow to meet the needs in transformation

Strengthen problem and risk-oriented audit control; optimise the risk prevention and control mechanisms