

China Mobile 0941.HK

BUY

Elephant Can Run

Our valuation is based on DCF. The target price we obtained is HK\$136.6 which maintains our decision – BUY.

Catalysts

- Strong Increase in subscribers leads by rural market.
- Value-added services revenue increases substantially.
- MOU increment offsets the decreasing tariffs.
- The restructure announcement places a positive impact because it removes the uncertainty that is negatively affecting the stock.
- The appreciation of Renminbi leads to a higher valuation in Hong Kong Dollar.

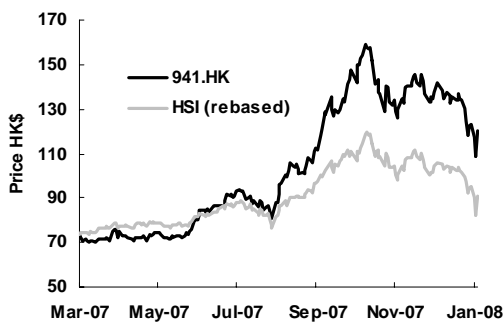
Stock Data

Price (Mar 25 2008)	HK\$112.5
Target Price:	HK\$136.6
Upside/downside	21.4%

DCF Valuation

- Beta	1.23
- Market Risk Premium	7.6%
- Risk Free Rate	4.0%
- Terminal Growth Rate	3%

Price Performance



Source: Reuters

Investment Fundamentals						
RMB		2007A	2008E	2009E	2010E	2011E
Total Revenue	m	356,959	438,520	501,994	546,517	568,428
EBITDA	m	191,422	233,292	264,551	282,549	288,193
EBITDA growth		22%	22%	13%	7%	2%
Profit	m	87,179	106,092	119,678	126,752	128,356
EPS		4.35	5.31	5.99	6.34	6.42
EPS growth		31.6%	21.9%	12.8%	5.9%	1.3%
DPS		2.00	2.60	3.09	3.35	3.75
Dividend Yield		1.8%	2.3%	2.7%	3.0%	3.3%
ROA		15.4%	17.5%	18.9%	18.2%	16.5%
ROE		23.2%	26.8%	29.5%	28.2%	24.8%
Price/book		6.04	5.66	5.52	4.93	4.24
Price/Earning		23.94	17.66	14.92	13.86	13.69

Source: Company data, HKBU Estimates

HKBU Research Team

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Company Overview

Background and business overview

China Telecom was first set up on Sept 3, 1997 and was later renamed China Mobile Communication Corporation (CMCC) on April 20, 2000. CMCC is the largest mobile operator in China. It is also the world's largest mobile phone operator ranked by number of subscribers. China Mobile Limited, of which China Mobile (HK) Group Limited is the major shareholder, has wholly-owned subsidiaries in 31 provinces in China. It publicly listed in HKEx and NYSE. China Mobile provides GSM services and value-added services.

China Mobile is the world largest mobile phone operator ranked by number of subscribers.

Industry Overview

The telecommunication industry in China is mainly divided into two sectors:

- China Telecom and China Netcom are the fixed-line business providers; China Satcom and China TieTong are the two smaller providers.
- China Mobile and China Unicom are the two major mobile phone providers.

After China entered World Trade Organization (WTO) in 2001, foreign operators are now allowed to access the market.

Last year, China's fixed-line and mobile operators spent an average of US\$25bn on network infrastructure, which was more than all western European carriers combined. Now, China owns the world's largest fixed-line and mobile network in terms of both network capacity and number of subscribers.

Restructuring

The rumored plan for restructuring is:

1. Unicom will sell its CDMA network to China Telecom.
2. GSM network of Unicom will merge with Netcom.
3. China Mobile will merge with Tietong.

Details will be further discussed in the report.

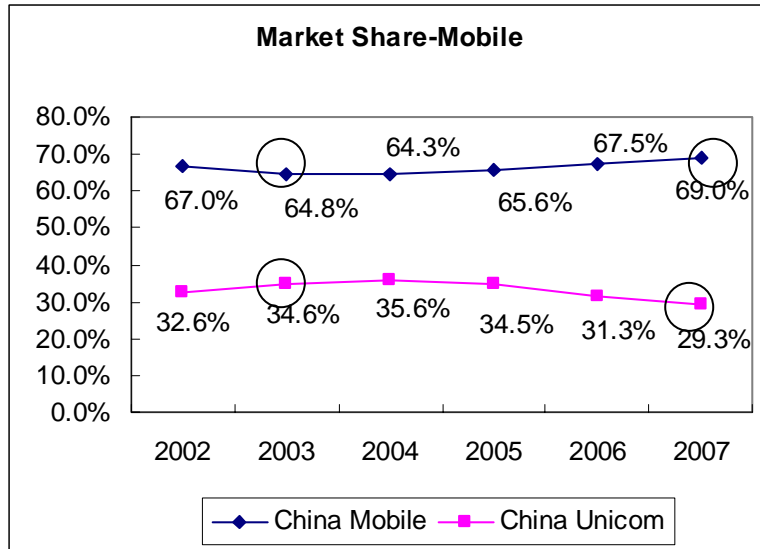
3G – TD-SCDMA

It is currently undergoing a large-scale trial test. Details will be further discussed later in the report.

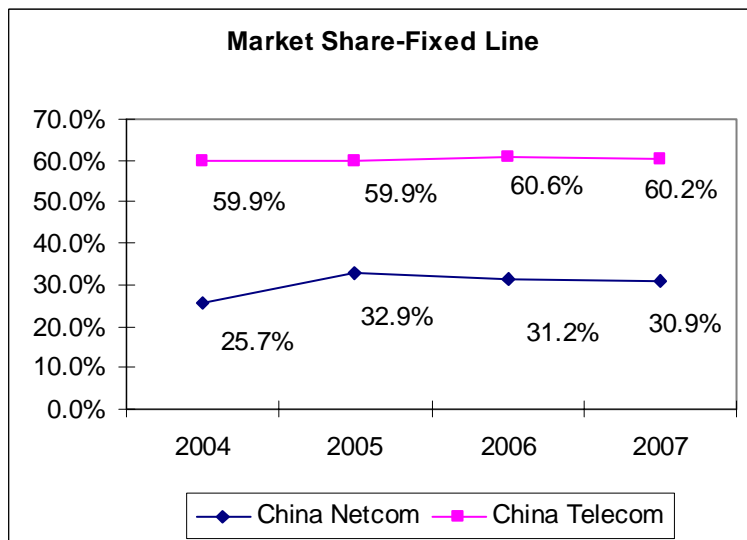
China mobile is the major company of TD-SCDMA trial testing.

Market Share

Starting from 2003, the market share of China Unicom has been decreasing from 34.6% to 29.3%. At the same time, China Mobile increased its share from 64.8% to 69%.



Source: Company data



Source: Company data

Geographic Segments

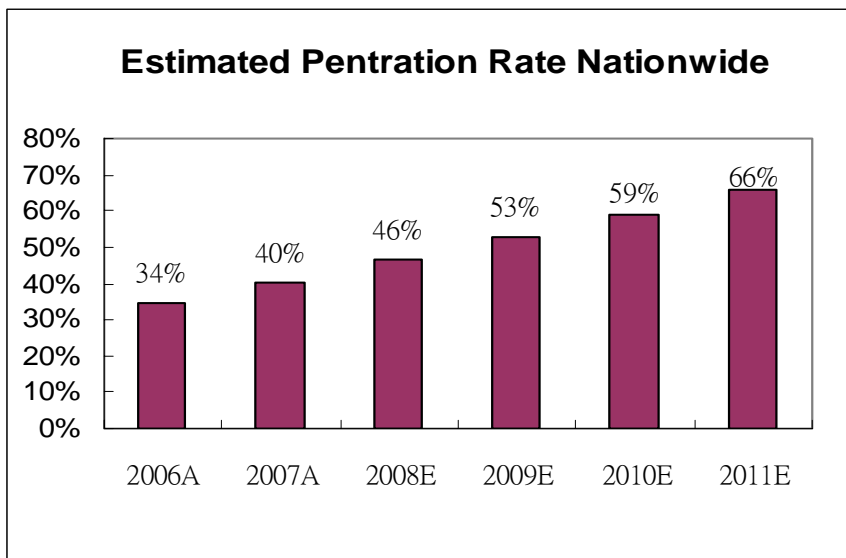
Mobile penetration by province-Large gap between East and West

According to data provided by Ministry of Information Industry, the nationwide mobile penetration rate in 2007 boosted to 40% from 34% in 2006. The penetration rate is 58.1% in the East, the rates in the West and Central are only 31% and 31.8%. Beijing has highest penetration rate 101.6%. Guizhou, one of the poorest provinces in the Middle West,

has only 20.5%. According to CMHK, the rural penetration is expected to be 15% which is much lower than the overall penetration rate.

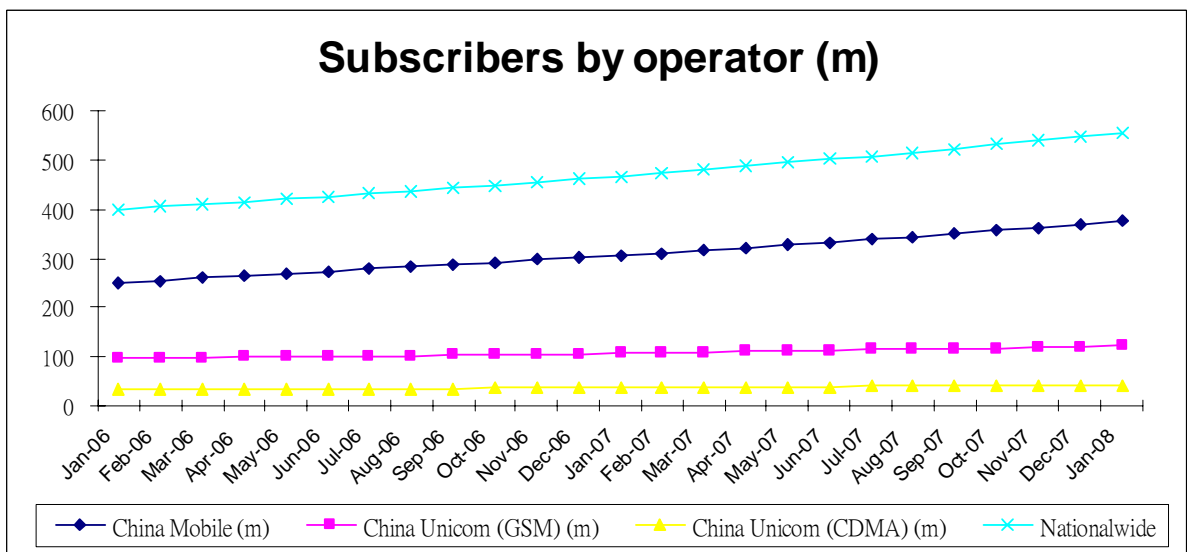
The public predicts the mobile service will be saturated when the penetration rate reaches 64% in 2011, however, we believe the mobile subscribers in China, especially in less developed provinces, are far from saturation. Therefore, China Mobile still has large potential for growth. Given the special environment in China and the strong support of Central Government, we estimate the growth rate to be 5-6% per year.

Refer to Appendix A for penetration rate for each province.



Source: Company data, HKBU Estimates

China Mobile maintains a stable increase in subscribers.



Source: Company data, HKBU Estimates

Product Mix – More than a phone

The data services provided by China mobile include SMS, WAP, color ring and MMS. In addition, the monternet.com serves as a platform for users to download games, videos, music, wallpaper and other information. China Mobile also conducted new business, e.g. Mobile purse, instant messenger (Fetion), mobile news-paper, mobile mail box and mobile bookstore.

We see strong opportunities to expand the data services, such as more variety of bill payments can be done through mobile phone and more entertainment can be downloaded.

China Mobile is investing more to find out opportunities and is refining the network for the value-added business. The Company entered into strategic alliance with Phoenix Satellite Television Holdings Limited and News Corporation to explore new development opportunities in mobile telecommunications businesses and to prepare for the development of next generation businesses. The company also pioneered in developing other ways of communication through mobile phone, including “Fetion”.

Elephant can run

Strong Rural Opportunities

Rural Market is a strong growth driving force for CMHK.

1. First-Mover in the Large Rural Market

China's rural area holds 56.1% of the total population at the end of 2006, which are 737 million people. CMHK has been executing its rural plan since 2003 and its network coverage has reached 99% of the population. The first-mover position enables the company to generate competitive advantages over Unicom and other fixed-line operators. Moreover, the huge capital expenditure as well as time involved in the development of transmission networks will further enlarge the gap. Therefore, we believe that the rural market will be the major factor for CMHK in the future and CMHK's long term market share will be sustained.

The estimated growth rate for 2007 is approximately 14%.

2. Rising Affordability is the Key Driving Force

- **Increasing Income**

According to the National Bureau of Statistics, the average income of rural area residents is RMB 3,587 per year. The estimated growth rate for 2007 is approximately 14%.

- **Decreasing Tariffs**

In most of the rural areas, mobile tariffs per-minute drops from RMB0.6 in 2002 to RMB0.1-0.2 in 2007. CPP (Calling Party Pays) is launched in 2007, which further lower the tariffs. Moreover, CMHK introduced extensive handset subsidies in those areas which are about RMB 8 billion per year. And thus the costs of the handsets will not be a major obstacle.

"Nong Xin Tong" provides up-to-the minute agriculture information; it will gain its popularity in the near future.

3. Tailor-Made Service for Rural Market

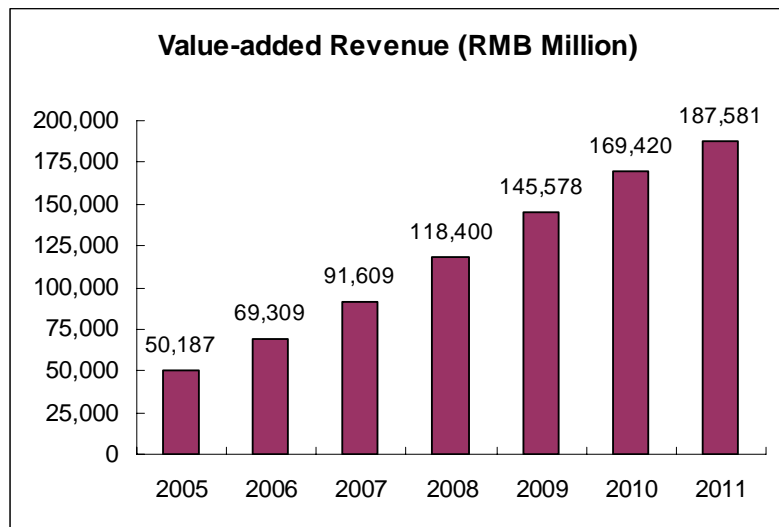
To fulfill the special needs of rural market where agriculture is the main industry, CMHK has developed special services for the potential village customers. For example, the company introduced a service called "Nong Xin Tong" which provides up-to-the-minute agriculture information such as pricing and weather forecast. Although the number of subscribers for this service is only 26 million now, the service will be popular soon because it improves the efficiency and effectiveness of farming.

4. "Go West" Policy and the "Eleventh 5-years" Plan

The Chinese government has always concerned about the wide wealth gap between the urban and rural area. The average net income of urban residents is RMB 11,759 while the average income in rural area is only RMB3, 587. Both the "Go West" policy and the ongoing 5 years plan put huge emphasis on the developing of the rural area. The telecommunication services, as a part of infrastructure construction, is very important component of those policies.

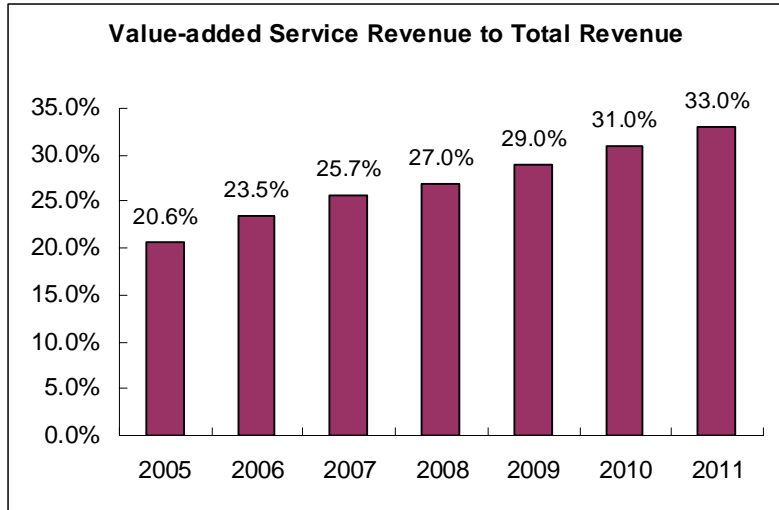


Increasing Value-added Business Revenue



Source: Company data, HKBU Estimates

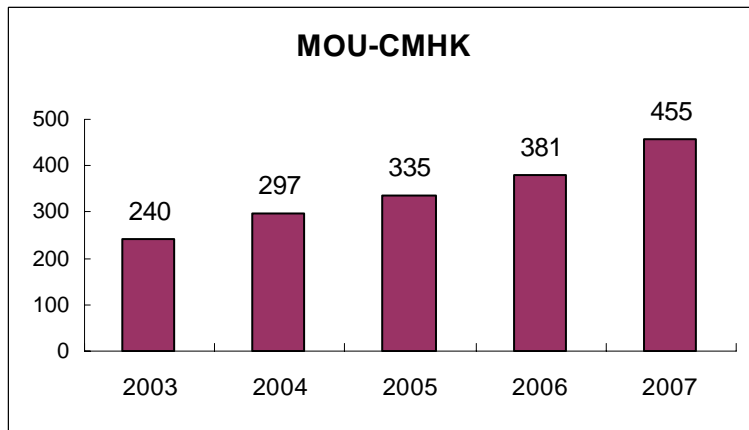
The value-added service has been maintaining a stable growth. The following graphs indicate our estimated growth of the value-added services and how it gains its popularity.



Source: Company data, HKBU Estimates

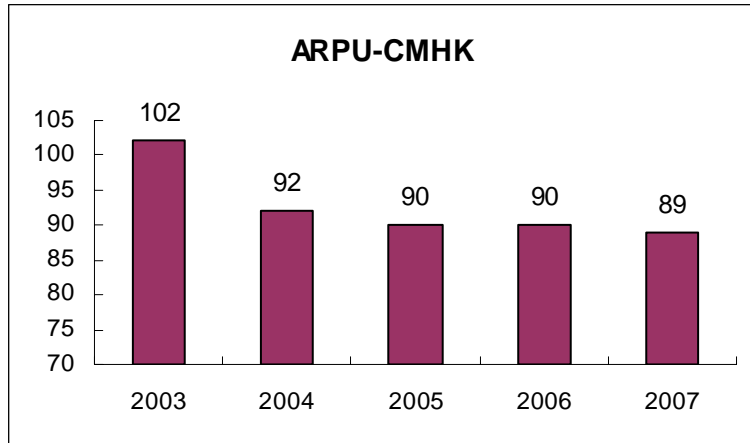
Stable ARPU and rising MOU

Although the mobile market in China has started for more than 10 years, and the recent policy of lowering roaming charges, ARPU remained stable. Due to the increase in ARPU from value-added services, it compensates the decrease in voice call.

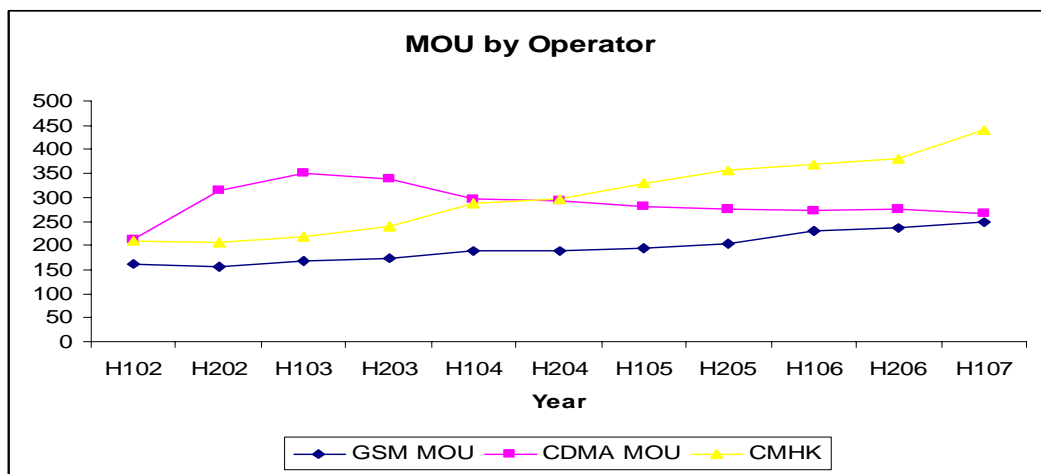


Source: Company data, HKBU Estimates

The ARPU remains at around RMB90 since 2004. Started from 2002, there is a rising trend for MOU, due to greater need in usage of mobile phone.



Source: Company data, HKBU Estimates



Strong RMB

The National Development and Reform Commission has proposed the Renminbi to have an appreciation of 15%-20% in October 2007. This means the Renminbi is at least undervalued by 15%-20%. The 1-year USD/CNY NDF is currently at 6.3275, which is equivalent to CYN/HKD 1.2327 compared with 1.1028 today.

As a result, the appreciation of Renminibi leads to a higher valuation in Hong Kong Dollar.

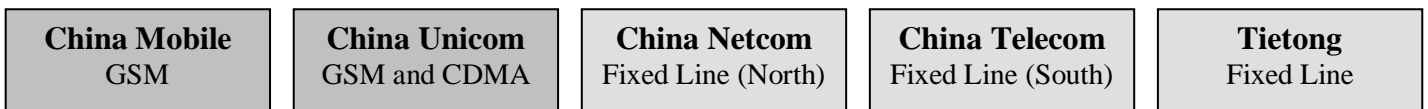
Uncertainties

Restructuring

Reasons for restructuring

1. Mobile services become a substitute for fixed lines. China Telecom and China Netcom want to operate in the mobile field in order to compensate for their declining businesses in fixed line services.
2. China would like to create a stronger competition in mobile industry as China Mobile is a dominant player in the market.
3. The aim for restructuring is to ensure every company can provide mobile, fixed line, broadband and eventually IPTV services.

Current structure



Problem of the current structure

1. China Telecom split into China Telecom and China Netcom in 2002 in order to operate the south and north fixed line businesses respectively. It reduced the economies of scale of the companies and thus weakened both players' profitability.
2. China Unicom was doing well until it started operating CDMA and GSM together in 2002. The CAPEX of GSM was diluted due to an additional network. Therefore, its GSM market share started to decline since 2004 as China Mobile spent a huge CAPEX on GSM in the past three years.

China Mobile becomes more dominant

When China Unicom reduced the CAPEX on GSM, China Mobile did the reverse. China Mobile spent huge capital in increasing the coverage of its network and improving the quality of service. Its market share has kept rising steadily since the new Chairman Mr. Wang decided to increase the CAPEX significantly.

Proposed restructuring plans

The restructuring plan was first discussed in 2004. In the past few years, many rumored plans were being discussed and the first two plans below were the most popular and most feasible.

The third plan shown below is suggested by us and we think it is the worst scenario for China Mobile.

1. Rumored plan since 2004

China Mobile GSM + 3G?	China Unicom + China Netcom Fixed line (North) + GSM (Unicom) + 3G?	China Telecom Fixed line (South) + CDMA (Unicom) + 3G?
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2. Rumored plan since 2008

China Mobile + Tietong Fixed line + GSM + 3G?	China Unicom + China Netcom Fixed line (North) + GSM + 3G?	China Telecom Fixed line (South)+ CDMA + 3G?
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3. The worst plan to China Mobile (HKBU forecast)

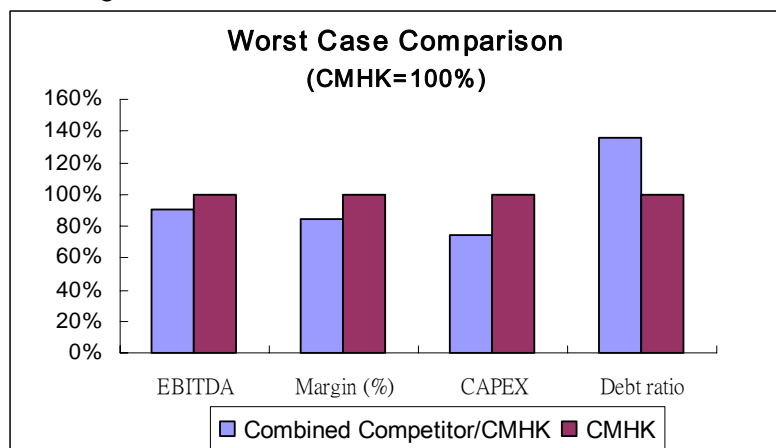
China Mobile GSM + 3G?	China Unicom + China Netcom + China Telecom Fixed line (South) + Fixed line (North) + GSM + CDMA + 3G?
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Worst Scenario target price: HK\$110.9

China Mobile can still survive under this situation, so we think the telecom restructuring has minimal influence to it.

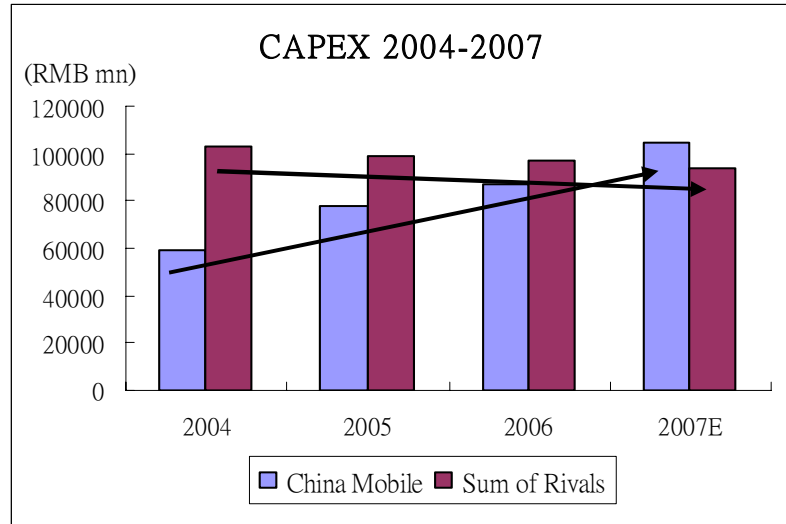
China Mobile is still dominant even in the worst plan

China Mobile can still survive under this situation, so we think the telecom restructuring has minimal influence to it. We believe China Mobile will still dominate in this plan for the following reasons:



Source: Company data

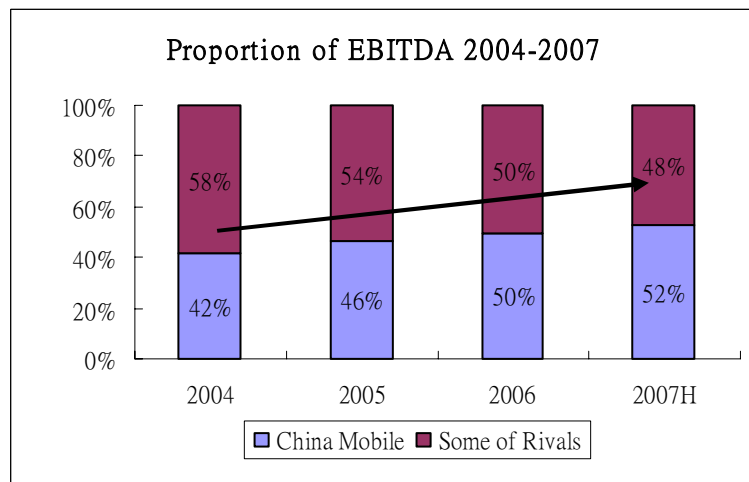
The EBITDA, EBITDA Margin and the CAPEX of China Mobile is larger than the sum of its competitors, while the debt ratio is smaller than the sum of their rivals. Therefore China Mobile will maintain its out-performance.



Source: Companies' Data

China Mobile's CAPEX is higher than the sum of all competitors.

1. It has spent huge capital to increase the coverage and improved the quality of the network. The other three companies have been waiting for restructuring and thus reduced the CAPEX. China Mobile's CAPEX will likely exceed the sum of rivals' in 2007. China Mobile also has an impressive track record of implementing effective CAPEX that translates into return for shareholders. We believe China Mobile will continue to gain the market share from its competitor and it will become more dominant in the market.



Source: Companies' Data

2. China Mobile's EBITDA was the same as the sum of rivals' in 2006 and we expect China Mobile's EBITDA will exceed the sum of rivals' in 2007. This indicates that China Mobile will have more cash to support its CAPEX

and future development (like 3G) than its rivals' in the future.

3. China Mobile has moved ahead of its competitors into rural market. In mobile business, China Mobile has a better coverage than China Unicom in rural area. In fixed line business, the cost of connecting wires into rural area is high. In comparison, the price of mobile network is more reasonable and it is easier to install a mobile station in the rural area. Therefore, China Mobile will still be a leader in the rural market.
4. Time is needed for other companies to create synergy after mergers, and they are not aggressive enough in CAPEX. Therefore, the competitors will not be able to catch up within short period.

3G

China is still a voice country at the moment because more than half of the population is from rural. People in villages do not necessarily need data services. The delay of 3G licensing and the development of 4G technology which make 3G a transitional technology in major cities.

There is a difficulty in building broadband transmission network in the rural area and 3G cannot provide broadband service. Therefore, China will switch to 4G immediately once 4G technology gets mature.

1. China will offer 3G service in 2008

China has finished large-scale TD-SCDMA network trials in 10 cities and 3G is ready for the Olympic in August. The commercial trial will start soon. Current TD-SCDMA mobile phones can support fluent video and voice communication services.

2. Providing 3G service doesn't mean 3G licenses will be granted

3G licenses will only be granted after TD-SCDMA technology and other related products get mature. Therefore, it is unlikely that the China government will issue any licenses before Olympic Game.

3. TD-SCDMA will be first implemented

There are three international 3G standards: TD-SCDMA (China), WCDMA (Europe) and CDMA2000 (United States). As telecom industry is important for military and national security thus China government is going to implement its own TD-SCDMA first.

Offering 3G service in 2008 Olympic doesn't mean 3G licenses will be granted.

4. TD-SCDMA will likely be operated by China Mobile's parent company

China Mobile has enough capital to develop TD-SCDMA.

TD-SCDMA is selected to be the major infrastructure in the "Information Industry 'Eleven Five' Development Plan". According to CCID Consultation, the total investment of TD-SCDMA will reach RMB100bn from 2006 to 2010. China Mobile's parent company has spent a sizable amount of capital to develop TD-SCDMA. The parent company of China Mobile has been receiving huge dividends from China Mobile previously and the future dividends are expected to be even higher due to stronger earnings and higher dividend payout ratio in the coming years.

China Mobile will be back to A-share market soon.

Furthermore, China Mobile will be listed in A-share market soon. Therefore, the parent company will have a large amount of cash for investment of TD-SCDMA. Last, China Mobile is the sole mobile telecommunication service partner for the Beijing Olympic.

3G will not affect China Mobile's earnings

3G will likely be operated by parent company.

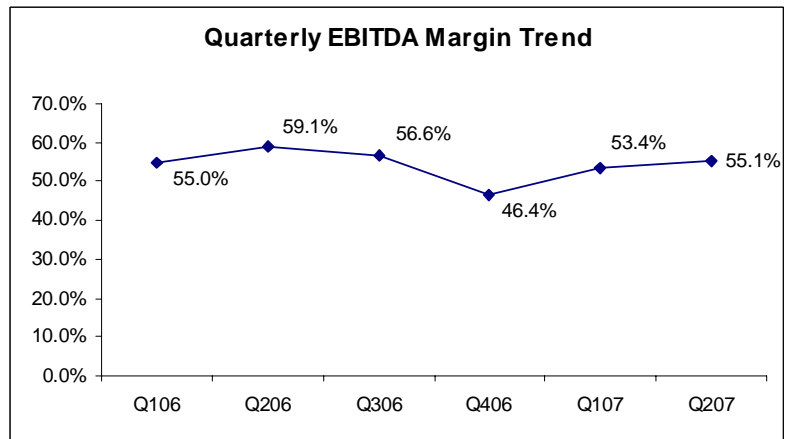
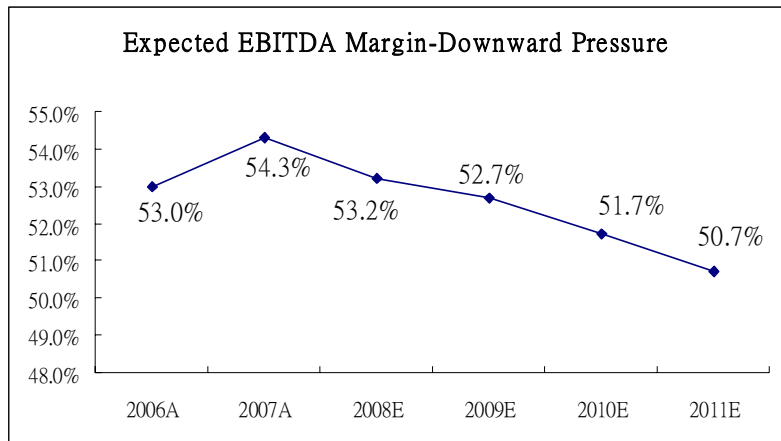
1. The parent company will operate the 3G network and China Mobile does not need to spend huge investment in it.
2. China Mobile will likely rent the 3G network from its parent company based on the number of 3G subscribers. Hence, China Mobile will not have the burden of huge CAPEX and depreciation.
3. The 3G network will not inject to China Mobile before the business makes a profit. (From past experience, parent company operated most of the new projects and these projects were sold to China Mobile when their revenues and expenditures were breakeven.)

3G will be operated by China Mobile when the business makes a profit.

EBITDA Margin pressure-Inevitable Results of Rural Opportunities

One of the inevitable side-effects of the great rural opportunity for China Mobile is the downward pressure of EBITDA margin. In order to enlarge the subscriber bases in rural market, China Mobile introduces advertising and promotion programs to attract villagers, including low-tariffs plan and offering free handsets which will reduce the rural ARPU. According to the China Mobile, the current ARPU of rural market is approximately RMB50, while the overall ARPU is RMB89. This lower-rural-ARPU effect is offset by the higher urban-ARPU in 2007. We believe that because the costs to get new subscribers in poor rural area in the

future will increase, the EBITDA margin will drop to approximately 50.7% by the end of 2011.



Valuation

Fair value of China Mobile

In our valuation model, we have used conservative estimation. We expect an EBITDA margin of 53.2% in 2008 and 52.7% in 2009. In short term, we expect the margin will shrink due to the increase in capital expenditure and the decrease in ARPU. We expect EPS RMB5.31 in FY08. Earnings will continue to improve as a result of rural expansion and the increase in the usage of value-added services. Based on our DCF model, we initiate our coverage with a BUY recommendation with a 12-month target price of HK\$136.6

We forecast EPS RMB5.31 in 2008 and the 12-month target price is HK\$136.6

RMB (m)	2006A	2007A	2008E	2009E	2010E	2011E
EBITDA	156,499	191,422	233,292	264,551	282,549	288,193
Tax Rate	33%	33%	25%	25%	25%	25%
Tax	-51,645	-63,113	-58,323	-66,138	-70,637	-72,048
Depreciation	64,574	67,354	80,249	91,865	100,013	104,022
Tax Shield on depreciation	21,309	22,227	20,062	22,966	25,003	26,006
(Increase)/decrease on WC	10,380	21,782	25,427	-1,641	21,491	30,024
CAPEX	-76,969	-105,100	-127,200	-119,000	-109,000	-109,000
FCF RMB	59,575	67,162	93,259	100,738	149,406	163,174
One Year Forward DCF						
Total DCF RMB	2,042,319					
Net Debt/(Cash) RMB	195,606					
Equity Value RMB	2,237,925					
No. of Shares (m)	19,993					
Equity Value (RMB/share)	111.9					
12-month Forward HKD/RMB	1.22					
Fair Value HKD	136.6					

Parameters in the base-case

Cost of equity	13.39%
Cost of debt	4.25%
Market risk premium	7.6%
Risk free rate	4.03%
Beta	1.23
WACC	12.38%
Terminal Growth Rate	3.00%

Source: Company data, HKBU Estimates

Target Price Sensitive Analysis

Sensitivity Analysis of Equity Value(HKD) to WACC and Terminal Growth Rate						
		WACC				
		10%	11%	12%	13%	14%
Terminal Growth Rate	2.0%	173.1	152.8	136.7	123.6	112.8
	2.5%	178.5	156.5	139.4	125.6	114.4
	3.0%	184.5	160.8	142.4	127.8	116.0
	3.5%	191.6	165.5	145.8	130.3	117.8
	4.0%	199.8	171.0	149.6	133.0	119.9

Conservative estimates in our forecasts

We estimate the market share will up to 71% and penetrate rate will up to 48% in FY08.

Market share will drop to 68% and penetration rate will up to 64% in FY11.

We forecast a growth of market share to 71% and a growth of penetration to 46% in FY08. This has taken in account of RMB17,586 million increases in value-added services and rapid growth of rural expansion. China Mobile's market share will drop to 68% due to the restructuring effect and penetration rate will be up to 64% in FY11. Overall, these reflect China Mobile will have a strong performance with the increase in capital expenditure.

Assumptions for Market Share and Penetration

Major Assumptions

	2006A	2007A	2008E	2009E	2010E	2011E
Population	1,315	1,325	1,337	1,349	1,360	1,369
Penetration	34%	40%	48%	54%	59%	64%
Total Subs.	444	528	642	728	802	876
Net Adds	69	84	114	87	74	74
CM Market share	68%	69%	71%	71%	70%	68%
CM Subs	301	369	456	517	562	596
CM net adds	53	68	87	62	44	34
ARPU(per month)	90	89	88	86	85	83
Revenue	295,358	356,959	438,520	501,994	546,517	568,428

Source: company data, HKBU Estimates

Asia Telecom Valuation

Company	Ticker	Price (local) 25/03/2008	P/E			PE/CAGR 2008-2010	EV/EBITDA			EV/EBITDA/CAGR 2008-2010
			2008	2009	2010		2007	2008	2009	
China Mobile	0941.HK	112.50	17.7	14.9	13.9	1.20	8.1	6.8	6.2	0.53
Bharti Airtel	BRTI.BO	835.10	24.0	18.7	15.1	1.06	13.9	10.5	8.6	0.60
China Unicom	0762.HK	17.24	20.5	17.1	15.1	1.20	5.3	4.8	4.3	0.46
Reliance	RLCM.BO	535.25	21.3	17.3	14.0	0.98	13.5	9.8	7.5	0.52
SK Telecom	017670.KS	183000.00	9.7	8.1	7.7	4.59	3.5	3.3	3.2	0.93
Advanced Info Service	ADVA.BK	99.00	16.0	14.6	13.9	2.04	6.2	5.8	5.6	1.10
Taiwan Mobile	3045.TW	58.50	13.0	12.0	12.4	0.85	7.4	7.1	7.0	3.87
IDEA Cellular	IDEA.BO	97.40	25.2	19.7	15.3	1.04	11.5	8.3	6.3	0.43
Digi.Com	DSOM.KL	24.40	16.1	15.0	14.0	2.40	7.9	7.4	6.9	1.11
KT Freetel	032390.KS	28400.00	15.2	11.4	10.0	0.72	3.2	3.0	3.0	0.94
Globe	GLO.PS	1480.00	12.3	10.9	10.2	1.19	4.4	4.2	4.0	0.70
Indosat	ISAT.JK	6950.00	18.8	15.6	13.3	1.01	3.7	3.3	3.1	0.34
Total Access	DTAC.BK	47.25	13.1	11.6	10.4	0.86	5.0	4.5	4.1	0.47
LG Telecom	032640.KQ	7470.00	6.7	6.0	5.4	0.64	2.5	2.3	2.2	0.34
MobileOne	MONE.SI	2.05	11.4	11.0	10.6	7.10	5.6	5.5	5.5	3.64
Average			18.2	15.2	13.7	1.31	8.4	6.9	6.2	0.63
Average ex-CM			19.0	15.6	13.4	1.52	8.9	7.1	6.0	0.81

Ranking: Descending order of Market Value
Source: Reuters

Catalysts

Rural Opportunities

The rural market is a strong growth opportunity for CMHK and the large advantage will secure the company long-term profitability.

Net adds of subscribers are skyrocketing

Due to the rural expansion and better quality of services, the subscribers have increased at an average of 5.67 million users per month in 2007. The net adds of subscribers reached 7 million in the first two months of 2008.

Increasing value-added services revenue

The value-added service has been maintaining a stable growth. Furthermore, China Mobile partners with other online platform operators in order to provide more comprehensive entertainments for the subscribers.

Macro Factor

The appreciation of Renminbi leads to a higher valuation under Hong Kong Dollar.

Risks

Restructuring

With the 2 proposed structures, China Mobile still will not be threatened by the competitors. However, we are still uncertain about how the restructuring will be.

3G Licensing

We forecast that the parent company of China Mobile has a relative higher ability to invest in TD-SCDMA. However, we cannot ensure until the licensing has been settled. Revenue of China mobile may affect by 3G services

Margin Pressure

Lower-rural-ARPU effect is offset by the higher urban-ARPU in the first two quarter of 2007. We believe that, as the need to get new subscribers in poor rural area and the need to increase in capital expenditure in this area, the EBITDA margin will drop below our expectation.

China mobile income statement (RMBm)-incorporating restructuring						
	2006A	2007A	2008E	2009E	2010E	2011E
Revenue	295,358	356,959	438,520	501,994	546,517	568,428
Operating expense						
Leased lines	2,451	2,330	3,070	3,514	3,826	3,979
Interconnection	18,783	21,500	26,311	30,120	32,791	34,106
Personnel	16,853	18,277	22,365	25,602	27,872	28,990
Other expense	100,772	123,430	153,482	178,208	199,479	213,160
Total Operating expense	138,859	165,706	205,227	237,443	263,968	280,235
EBITDA	156,499	191,422	233,292	264,551	282,549	288,193
growth %	20%	22%	22%	13%	7%	2%
Margin %	53.0%	54%	53%	53%	52%	51%
Depreciation	64,574	67,354	80,249	91,865	100,013	104,022
EBIT	91,925	124,068	153,043	172,686	182,537	184,171
Operating Margin	31%	35%	35%	34%	33%	32%
Non-operating income	3,889	2,980	3,129	3,285	3,450	3,622
Interest Income (net)	1,094	2,190	2,174	2,652	3,196	3,784
EBT	96,908	129,238	158,346	178,623	189,182	191,577
Tax	30,794	42,059	52,254	58,946	62,430	63,220
Profit for the year	66,114	87,179	106,092	119,678	126,752	128,356
attributable to						
Parent	66,026	87,062	105,975	119,561	126,635	128,239
Minority Interest	88	117	117	117	117	117

Source: Company data, HKBU Estimates

China Mobile Balance sheet (RMBm)	2006A	2007A	2008E	2009E	2010E	2011E
Non-current assets						
Property, plant and equipment	218,274	257,170	245,612	256,381	279,323	316,066
Construction in progress	52,436	47,420	57,004	57,004	57,004	57,004
Land lease prepayments	7,675	8,383	7,743	7,743	7,743	7,743
Goodwill	36,894	36,894	36,894	36,894	36,894	36,894
Other intangible assets	700	469	469	469	469	469
Other financial assets	77	77	77	77	77	77
Deferred tax assets	7,113	5,445	5,445	5,445	5,445	5,445
Deferred tax expenses						
total	323,169	355,858	353,244	364,013	386,955	423,698
Current assets						
Inventories	3,007	3,295	4,193	4,337	4,809	5,290
Accounts receivable	7,153	6,985	9,495	10,484	11,551	12,706
Other receivables	2,500	2,929	4,332	4,784	5,270	5,797
Prepayments and other current assets	4,613	5,680	6,498	7,175	7,905	8,696
Amount due from ultimate holding company	305	78	78	78	78	78
Tax recoverable	468	124	124	124	124	124
Deposits with banks	82,294	109,685	109,685	109,685	109,685	109,685
Cash and cash equivalents	71,167	78,859	119,503	134,041	169,193	213,183
total	171,507	207,635	253,908	270,708	308,615	355,559
total assets	494,676	563,493	607,152	634,721	695,570	779,258
Current liabilities						
Account payable	57,240	63,927	68,992	75,680	79,493	83,468
Bills payable	2,212	1,853	1,263	1,263	1,263	1,263
Deferred revenue	21,823	23,762	30,323	33,485	36,889	40,578
Accrued expenses and other payables	46,130	50,860	63,679	71,486	79,791	89,047
Amount due to ultimate holding company	129	26	26	26	26	26
Amount due to immediate holding company	186	196	196	196	196	196
Interest-bearing borrowings	2,996	0	0	0	0	0
Obligations under finance leases	68	68	68	68	68	68
Current taxation	9,823	14,261	11,252	12,036	12,930	12,930
total	140,607	154,953	175,799	194,240	210,656	227,576
net current liabilities						
Net current assets	30,900	52,682	78,109	76,468	97,959	127,983
Total assets less current liabilities carried forward	354,069	408,540	431,353	440,481	484,914	551,682
non-current liabilities						
bank loans and other interest-bearing borrowings	33,574	33,582	33,582	33,582	33,582	33,582
amounts due to immediate holding company						
deferred revenue	930	597	1,083	1,196	1,317	1,449
deferred tax liabilities	192	122	122	122	122	122
total	34,696	34,301	34,787	34,900	35,021	35,153
total liabilities	175,303	189,254	210,586	229,140	245,677	262,729
equity						
share capital	2,130	2,136	2,133	2,133	2,133	2,133
reserves	316,872	371,615	393,949	402,964	447,276	513,912
total equity attributable to equity holders	319,002	373,751	396,082	405,097	449,409	516,045
minority interest	317	488	488	488	488	488
total equity	319,373	374,239	396,570	405,585	449,897	516,533
total equity and liability	494,676	563,493	607,152	634,721	695,570	779,258

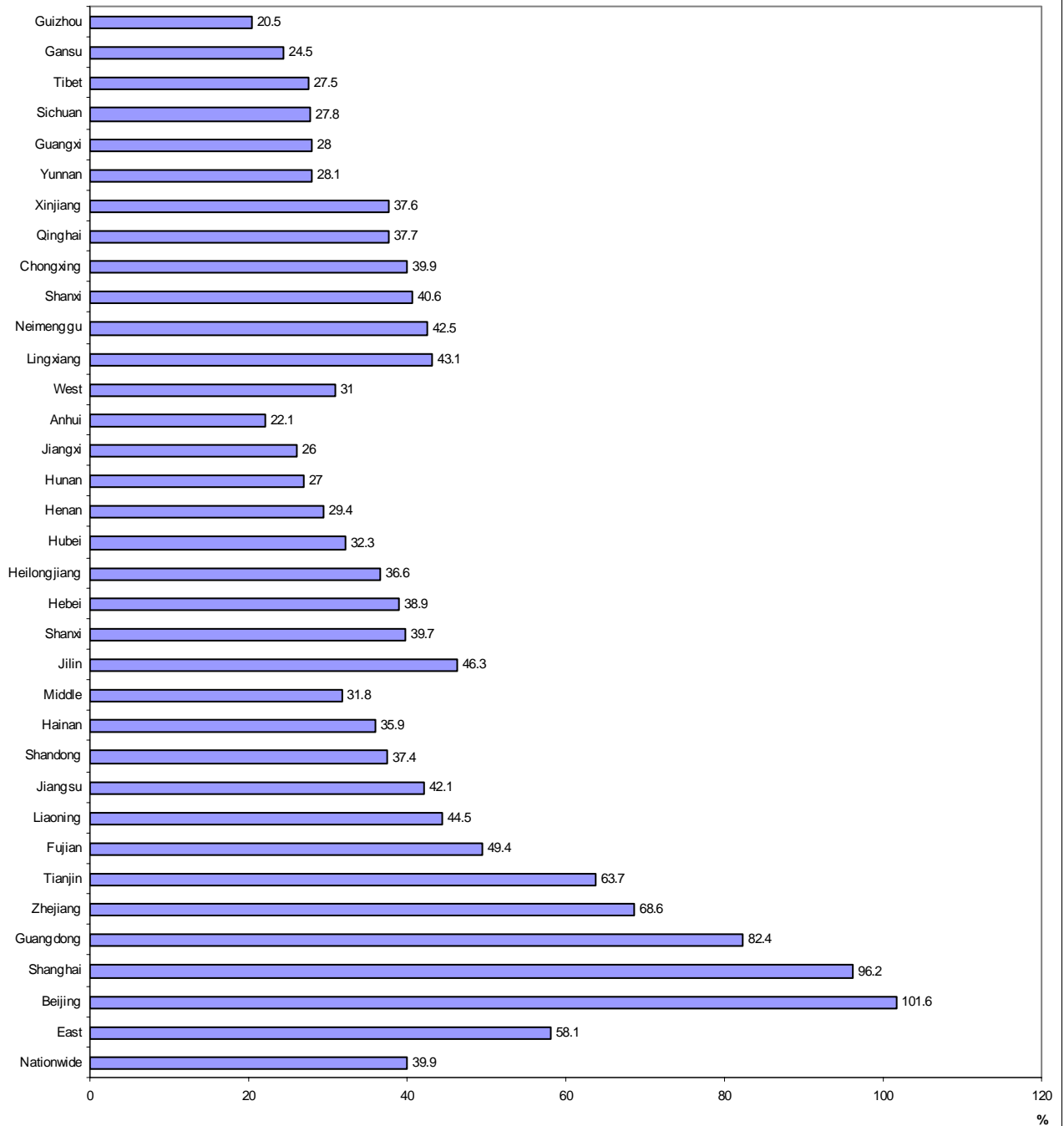
Source: Company data, HKBU Estimates

China Mobile summary cashflow forecast (RMBbn)	2006A	2007A	2008E	2009E	2010E	2011E
Earning before tax	96,908	129,238	158,346	178,623	189,182	191,577
Depreciation and amortization	64,777	67,354	80,249	91,865	100,013	104,022
adjustment for other non-cash items	8,274	(7,504)	(2,000)	(2,000)	(2,000)	(2,000)
operating profit before change in working capital	169,959	189,088	236,595	268,488	287,195	293,599
change in working capital	10,380	21,782	25,427	(1,641)	21,491	30,024
cash generated from operation	180,339	210,870	262,023	266,847	308,686	323,623
tax paid	30,993	42,059	52,254	58,946	62,430	63,220
net cash generated from operating activities	149,346	168,811	209,768	207,901	246,256	260,403
investing activities						
acquisition of subsidiary	(3,410)					
capital expenditure	(76,969)	(105,100)	(127,200)	(119,000)	(109,000)	(109,000)
increase in deposits in banks	(40,369)	(742)				
dividend received	39					
interest received	2,430	3,563	3,893	4,358	4,902	5,490
other item	(562)	31				
net cash used in investing activities	(118,841)	(102,248)	(123,307)	(114,642)	(104,098)	(103,510)
financing activities						
proceeds from issue of share under share option scheme	4,093					
repayment of loans	(104)					
interest paid	(1,414)	(1,721)	(1,719)	(1,706)	(1,706)	(1,706)
dividend paid	(26,162)	(40,002)	(51,890)	(61,780)	(67,051)	(75,023)
net cash used in financing activities	(23,587)	(41,723)	(53,609)	(63,486)	(68,757)	(76,729)
net increase in cash and cash equivalent	6,918	24,840	32,852	29,774	73,401	80,164

Source: Company data, HKBU Estimates

Appendix A

Mobile penetration by province



Disclaimers:

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