

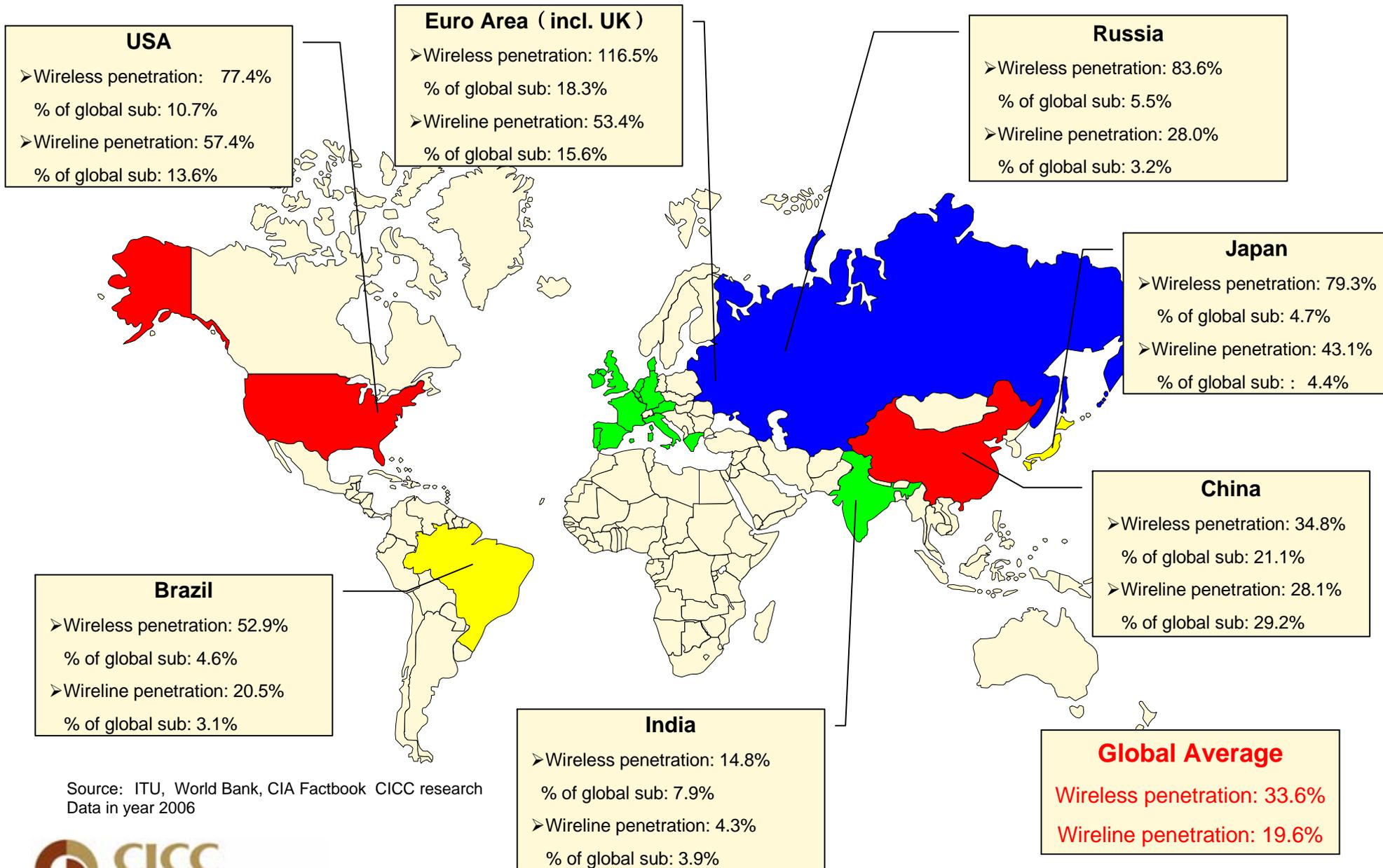
# China Telecom industry

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25 June 2008

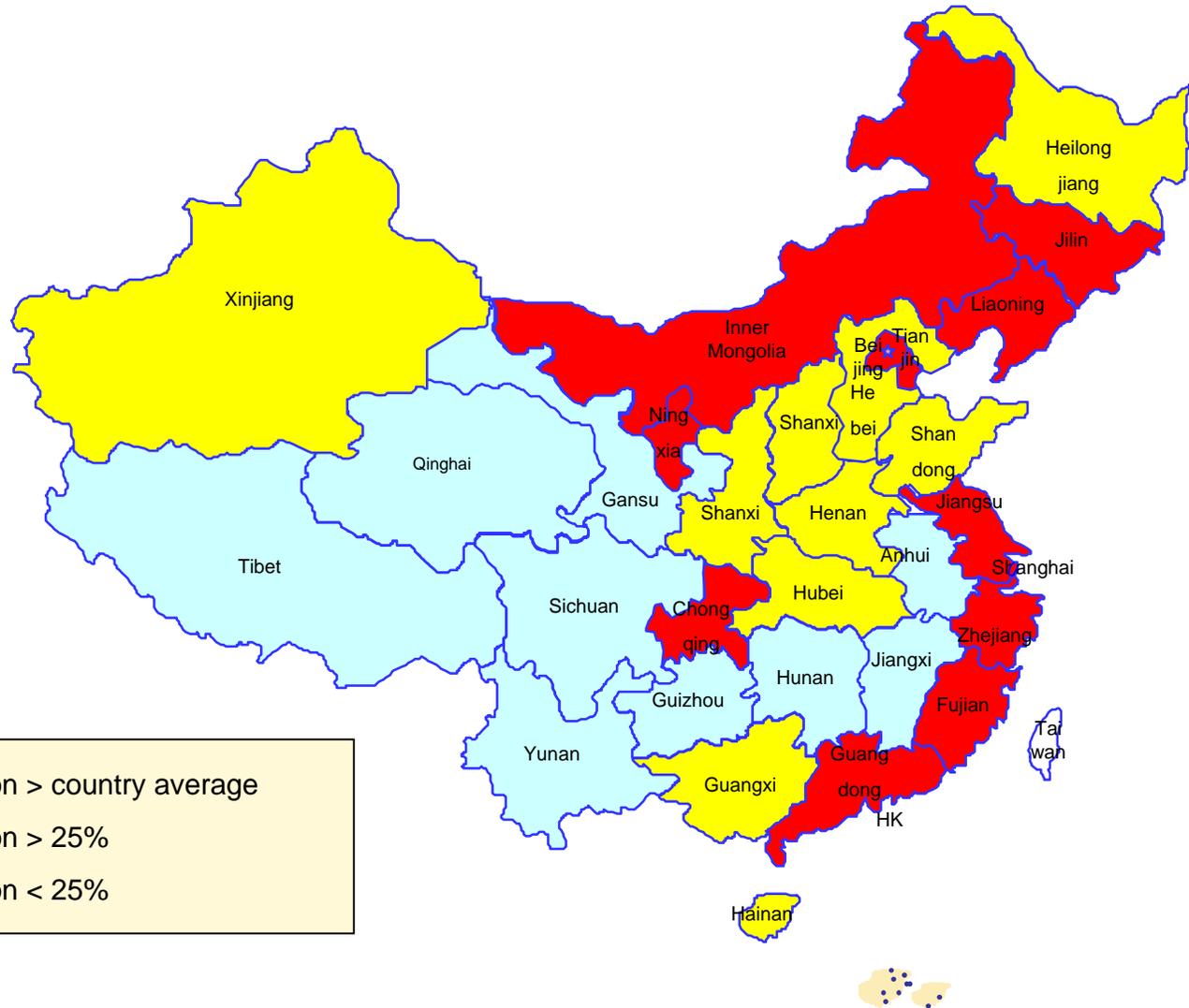
## 2nd Lowest in the Meaningful Areas; Barely Higher Than Global Average



Source: ITU, World Bank, CIA Factbook CICC research  
Data in year 2006

# Wireless Penetration basically In Line With GDP per Capita

- Wireless penetration is 35.3% in 2006 in China; Wireline penetration is 28.1% in 2006 in China
- Wireless penetration is 41.6% in 2007 in China; Wireline penetration is 27.8% in 2007 in China
- To be consistent with global data, we choose China's data in 2006 to compare. Actually, only two provinces including Anhui and Guizhou's wireless penetration were below 25% till 2007.

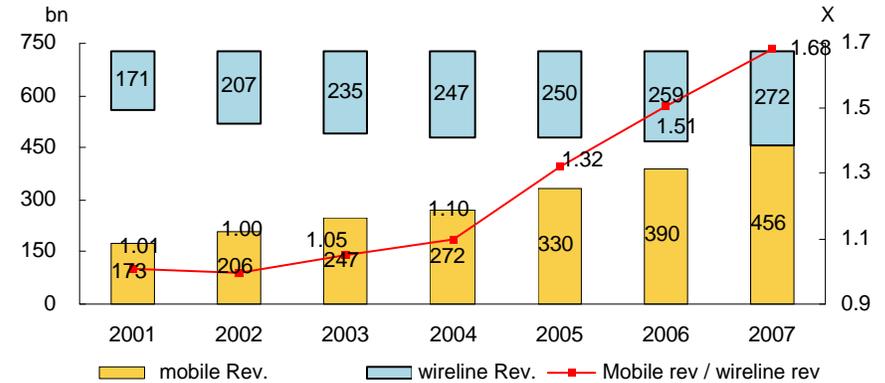
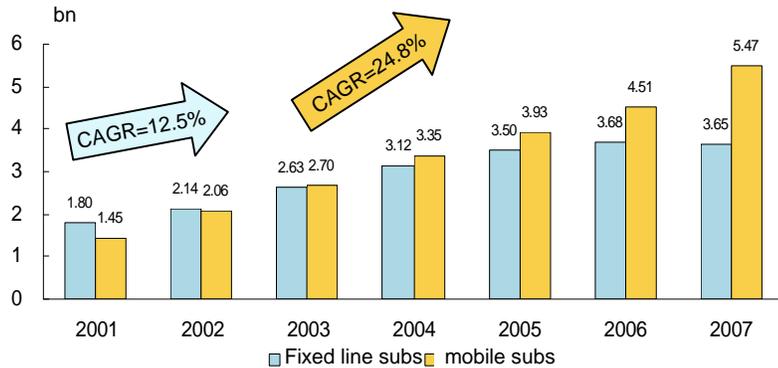


Source: MII, CICC research  
Data in year 2006

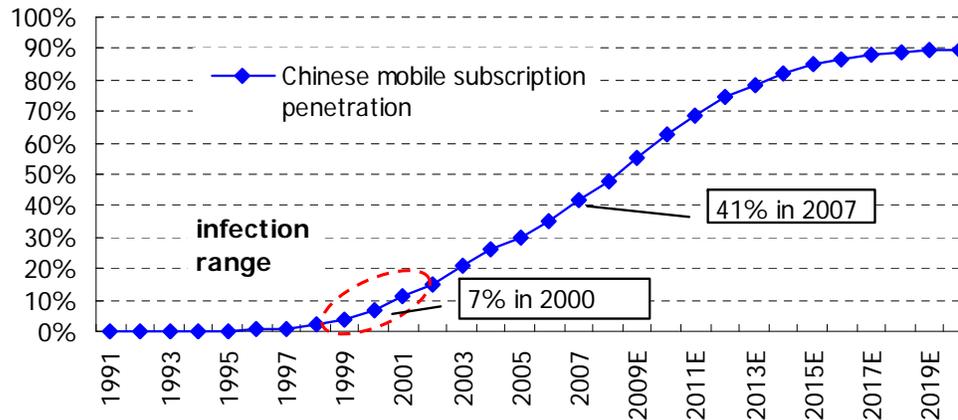
# Inevitable Mobile Substitution

Growth rate of mobile subscriber were about two times of the growth rate of fixed line from 2001, and fixed line subscriber turned out of negative growth in 2007 for the first time.

During the 7 years, mobile industry revenue has increased from similar to fixed-line in 2001 to 1.68X in 2007

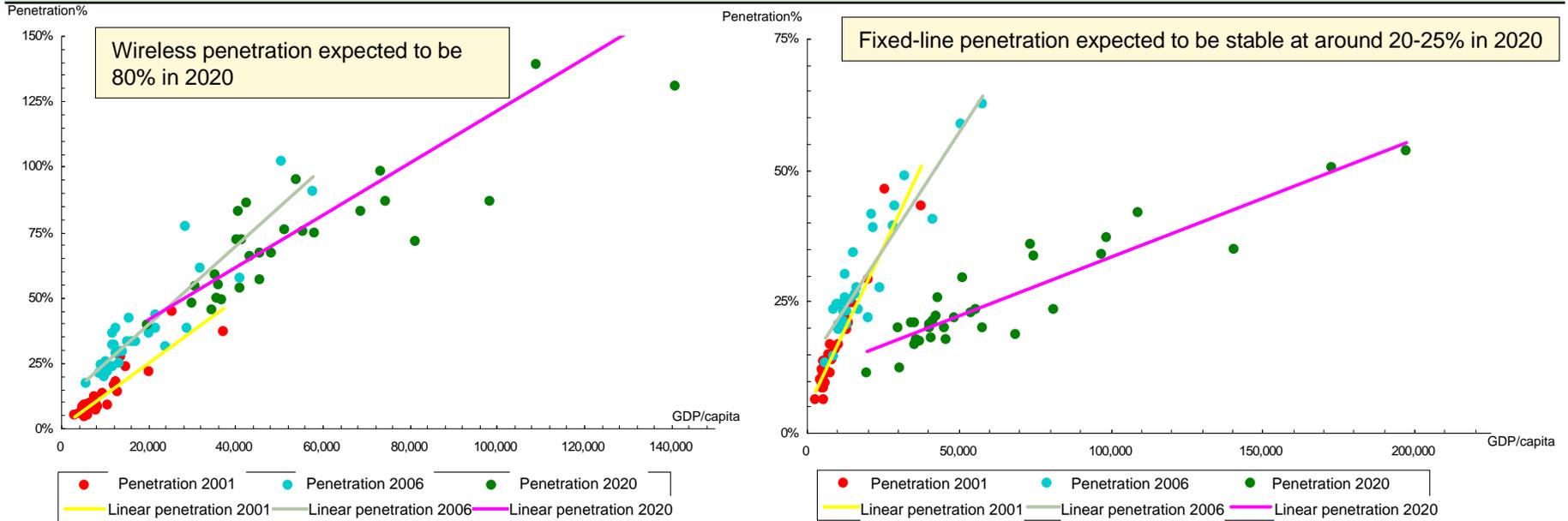


## Mobile penetration growth in China

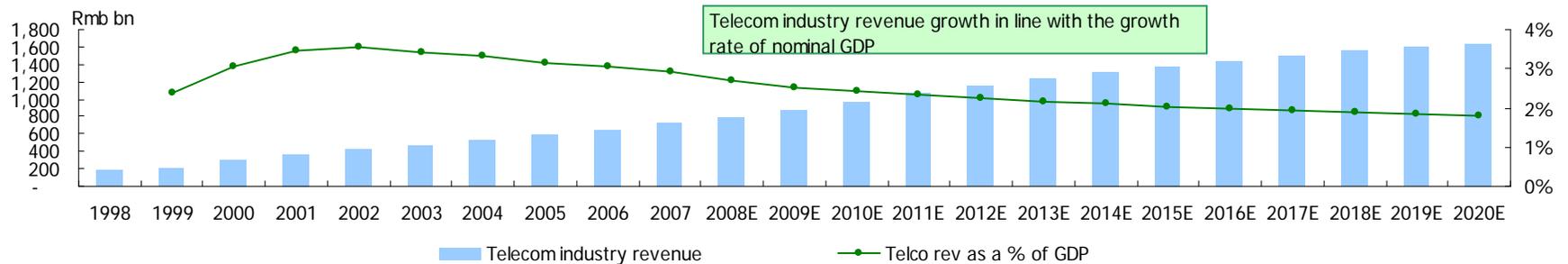


# Industry Estimate: Subscriber Enlarged, Revenue Increased steadily

## Mobile subscriber increased further, fixed-line subscribers would not decrease significantly



## Industry revenue increased steadily



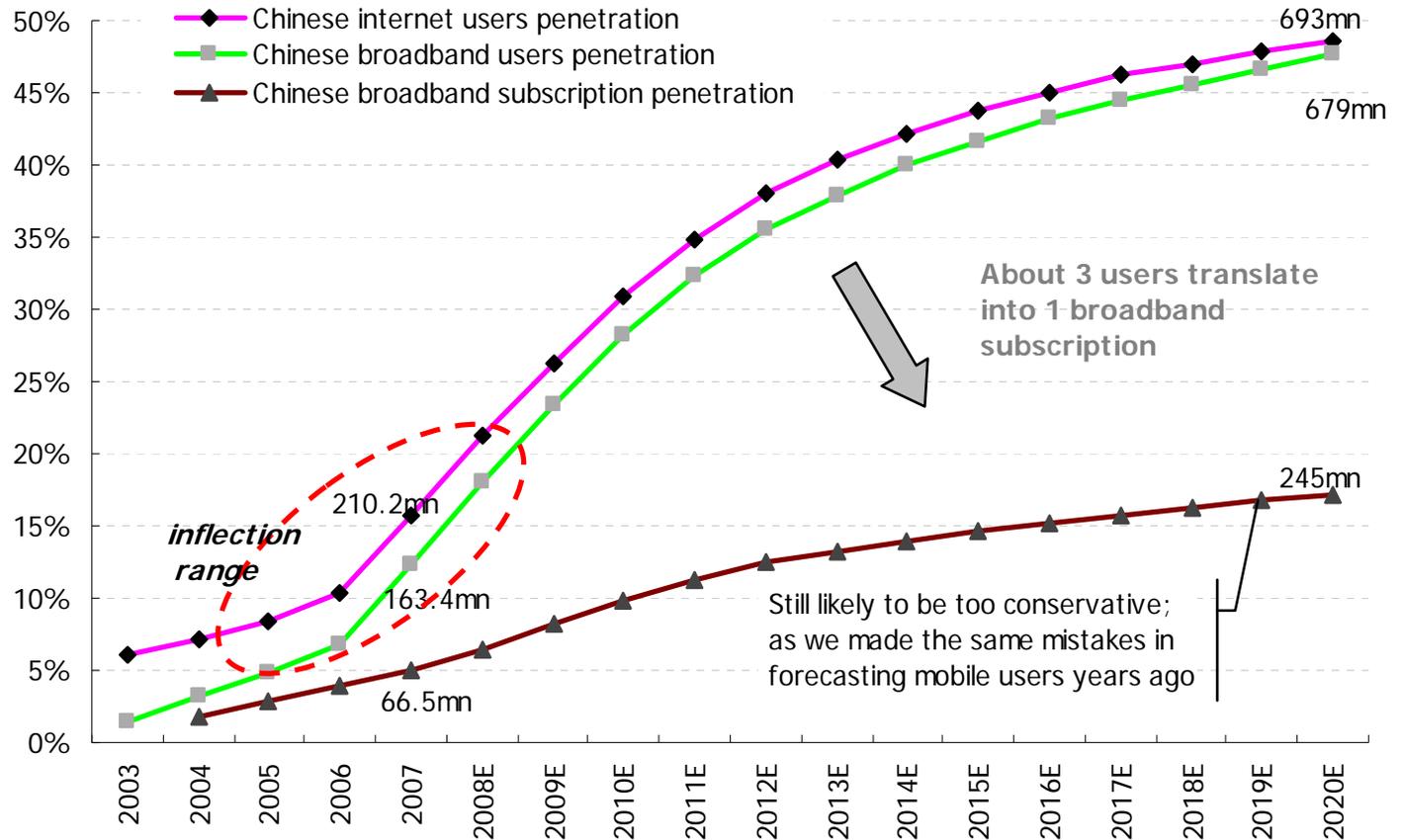
# Broadband: Chinese addressable broadband market

Broadband and Data business is a promising resort for fixed-line operators

We expect China's total number of internet users & broadband subscriptions to double in 3 years and triple in 9.

Still low compared to many countries' current levels of internet penetration (80%) or broadband subscription penetration (30%).

Please refer to our recent report: "China Broadband Addressable Market Analysis"



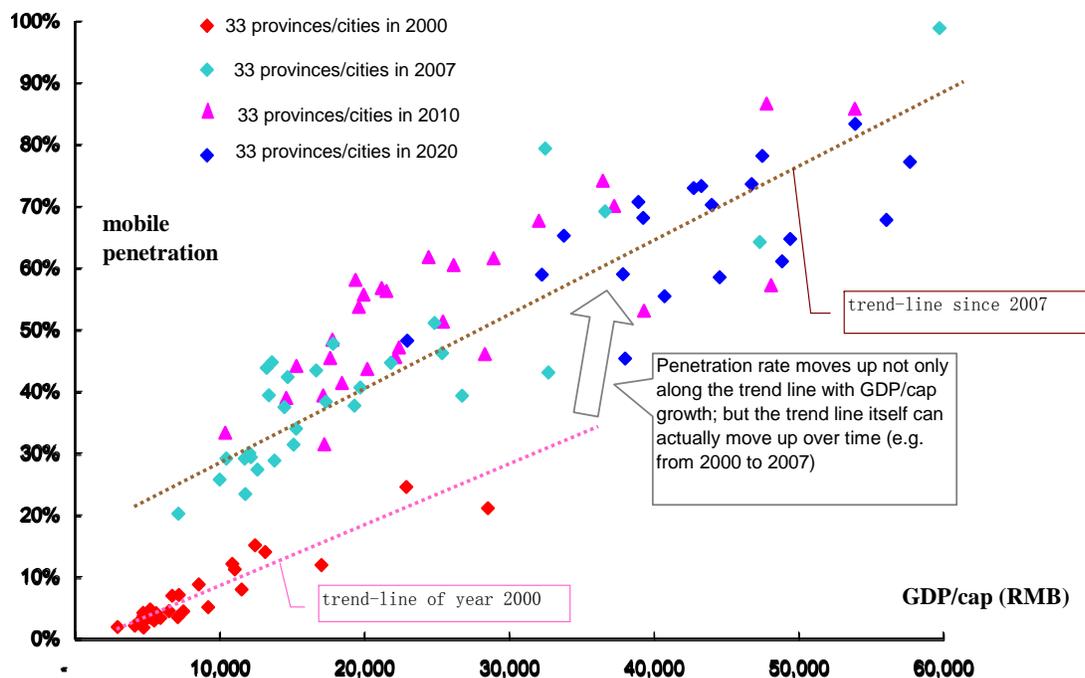
Source: CICC Research

## Still large industry upsides; provide room for “win-win”

We expect mobile penetration to grow from 40% today to over 90% in 2020 ----- terminal year with GDP/cap forecast of US\$7,800.

Still 1/3 of provinces with penetration rate below 30% and GDP/cap around US\$1500.

Value-added service at primary level-----  
Data, FMC & bundling “start from zero”.



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Nominal GDP (Rmb 100mn)	119,096	135,174	159,587	184,739	211,808	246,545	284,759	321,920	362,627	403,533	447,730	490,968	537,077	580,861	626,965	669,244	713,207	755,372	798,964
Nominal GDP YoY (%)	10.2	13.5	18.1	15.8	14.7	16.4	15.5	13.1	12.6	11.3	11.0	9.7	9.4	8.2	7.9	6.7	6.6	5.9	5.8
Real GDP (Rmb 100mn) base yr=1978	32,728	36,001	39,637	43,760	48,617	54,159	60,117	65,527	71,425	77,139	83,310	89,142	95,382	101,105	107,171	112,529	118,156	123,473	129,029
Real GDP YoY (%)	9.1	10.0	10.1	10.4	11.1	11.4	11	9	8	8	8	7	7	6	6	5	5	4.5	4.5
Inflation Rate (%)	1.1	3.5	8.0	5.4	3.6	5.0	4.5	4.1	3.6	3.3	3.0	2.7	2.4	2.2	1.9	1.7	1.6	1.4	1.3
Population (mn)	1,285	1,292	1,300	1,308	1,314	1,294	1,300	1,308	1,316	1,324	1,331	1,337	1,342	1,346	1,351	1,355	1,360	1,366	1,371
<b>Nominal GDP per Capita (Rmb)</b>	<b>9,272</b>	<b>10,460</b>	<b>12,277</b>	<b>14,129</b>	<b>16,113</b>	<b>19,049</b>	<b>21,899</b>	<b>24,615</b>	<b>27,547</b>	<b>30,488</b>	<b>33,647</b>	<b>36,729</b>	<b>40,020</b>	<b>43,149</b>	<b>46,419</b>	<b>49,376</b>	<b>52,424</b>	<b>55,307</b>	<b>58,259</b>
Total Telecom Revenue (Rmb 100mn)	3,341	4,377	5,017	5,723	6,400	7,111	7,935	8,667	9,381	10,010	10,501	11,103	11,715	12,308	12,862	13,378	13,892	14,422	14,986
-- % of nominal GDP (%)	2.81	3.24	3.14	3.10	3.02	2.88	2.79	2.69	2.59	2.48	2.35	2.26	2.18	2.12	2.05	2.00	1.95	1.91	1.88
Potential Revenue Accretion from FMC/Bundling services (the another 30% upside we assigned to CT) (Rmb 100mn)							823	819	837	855	893	941	991	1,048	1,121	1,198	1,279	1,366	1,460
-- % of nominal GDP w/ FMC synergy (%)	2.81	3.24	3.14	3.10	3.02	2.88	3.08	2.95	2.82	2.69	2.54	2.45	2.37	2.30	2.23	2.18	2.13	2.09	2.06
Telecom ARPU (Rmb per month)	22	28	32	36	41	46	51	55	59	63	66	69	73	76	79	82	85	88	91

# “Win-win” in the industry’s 2 battlefields:

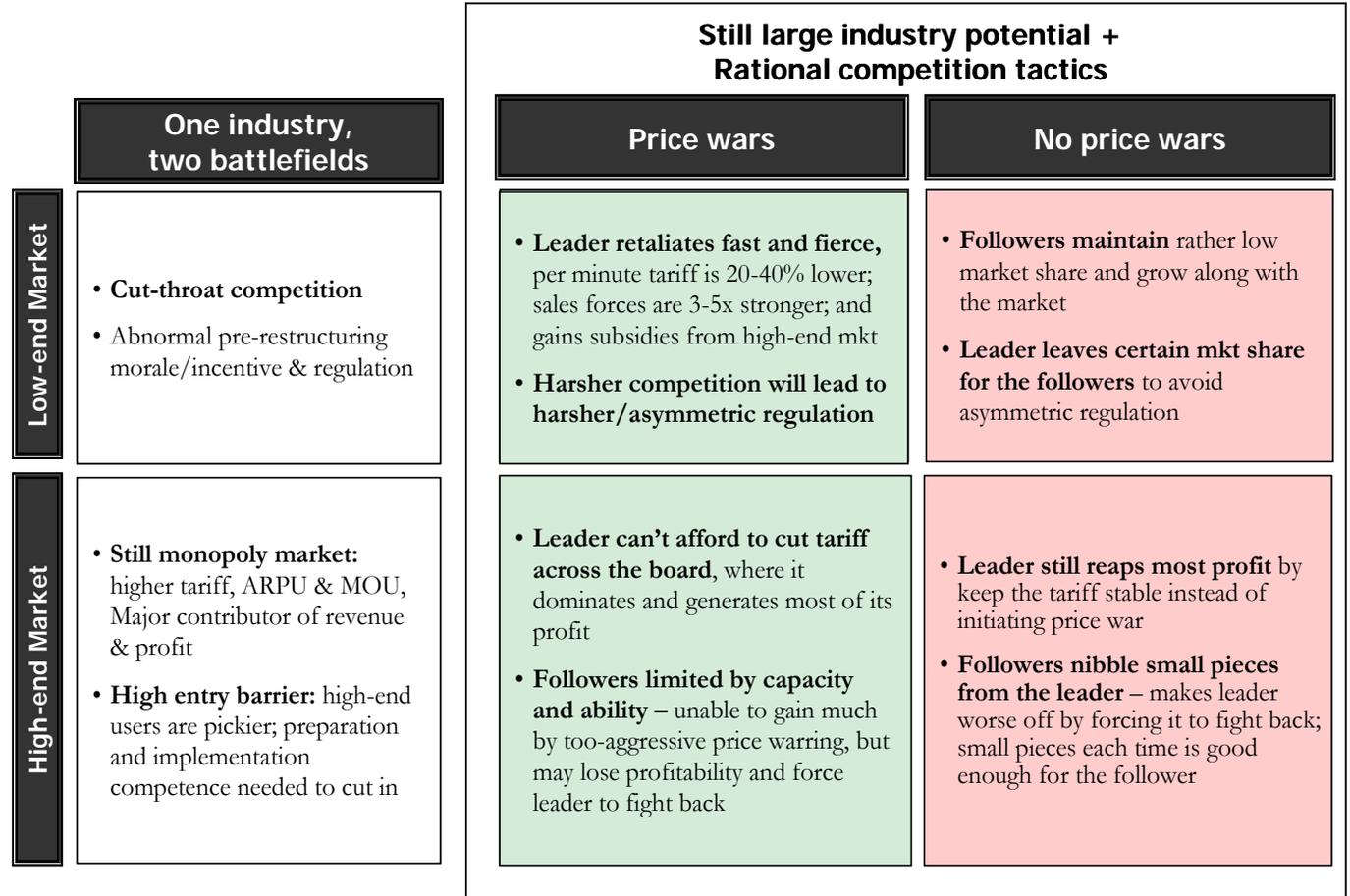
*Low-end fully competitive market and high-end still monopoly market*

**Low-end mkt is already over competitive:**

- Followers avoid price war as CM can cut into their cost.
- CM can’t fight further before triggering asymmetric regulation.
- Current competition is overdue as regulation is abnormally loose in “waiting for restructuring”.

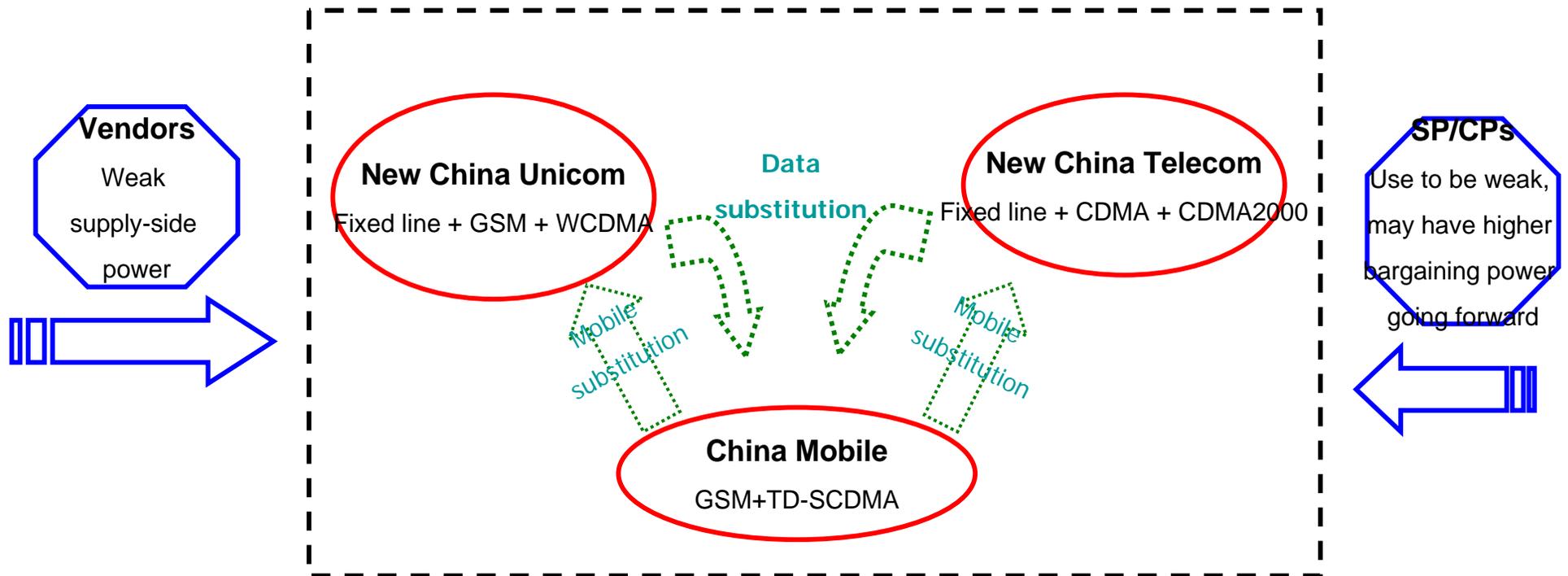
**High-end mkt is still monopolized by CM:**

- CT’s ability and preparation make it able to slice small pieces (and only small pieces) gradually.
- CM is unfavorable to fight back in its dominantly controlled mkt for small mkt share loss.



Source: CICC Research

## Post-Restructuring Industry Landscape



**Very High Entry Barrier due to strict regulation**  
**Large country; hard for network build-up and sales...**

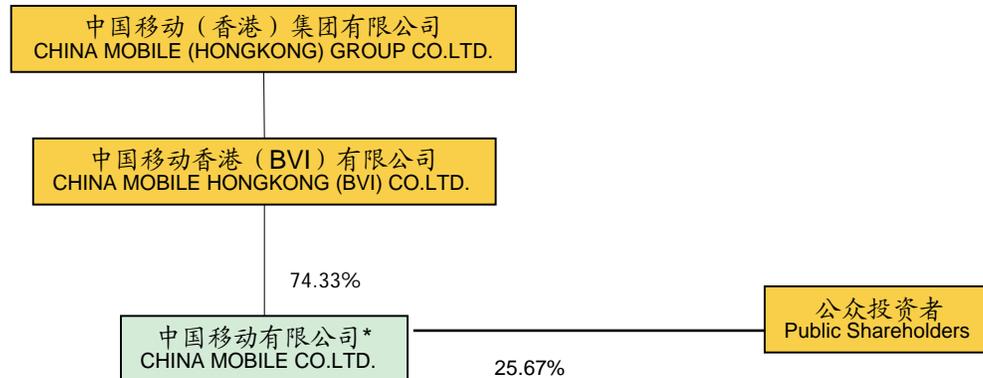
# China Mobile ( 941.HK ) History

## Milestone of China Mobile since listing

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
China Telecom (Hong Kong) Limited incorporated in HK Raised US\$4.2 bn in IPO, listed on the NYSE and HK	Brought into HSI index in Jan Acquired Jiangsu Mobile	Equity offering of US\$2 bn and global notes of US\$600 mn due 2004 Acquired Fujian, Henan and Hainan Mobile	Changed name to China Mobile (Hong Kong) Limited Offered equity (US\$6.865 bn), convertible notes(US\$690 mn); raised RMB12.5 bn loans Acquired 7 provs	Issued RMB5 bn of corp. bonds in China, which listed on the Shanghai Stock Exchange.	Acquired 8 provinces. issued a further RMB8 bn in aggregate of corp. bonds in China	The RMB 8bn corp. bonds were listed and trading on the Shanghai Stock Exchange.	Acquired the other 10 provinces, China Mobile Communication co. Ltd and Beijing P&T Consulting and Design Institute Ltd	Made a voluntary conditional cash offer for all the issued shares of China Resources Peoples Telephone Co Ltd.	Acquired & privatized Peoples Changed name to China Mobile Limited. Build a long-terms strategic alliance with News Corp. and STAR Group Ltd.	Acquired Paktel - the 5th operators in Pakistan Held 10-years listing anniversary in NYSE and HKEx	TD trial commercialized in 8 cities Execute roaming ceiling Established unified overseas brand "ZONG"
Chairman: Shi Cuiming		Chairman: Wang Xiaochu					Chairman: Wang Jianzhou				

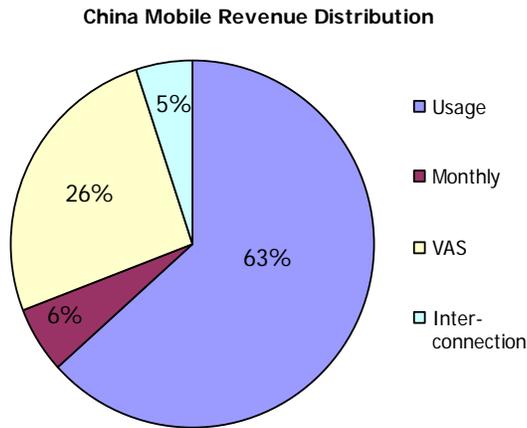
## Shareholding Structure of China Mobile

### Mobile Information Expert

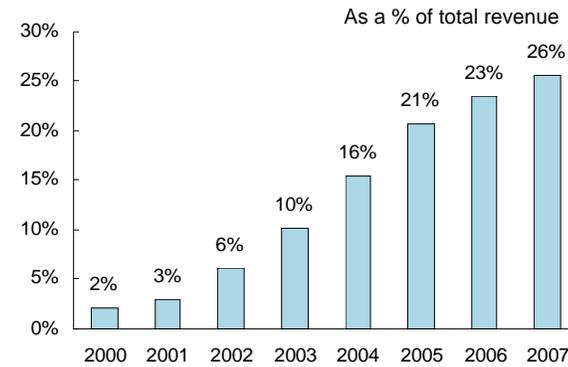


# New business expanded

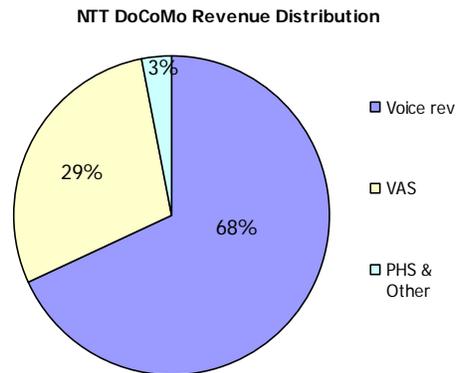
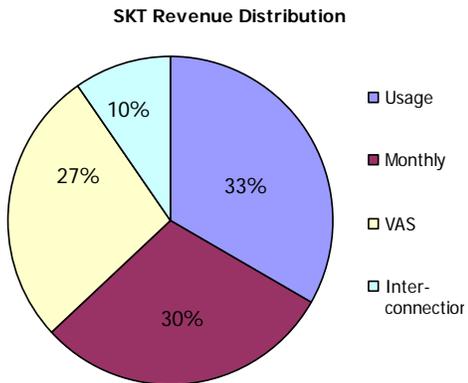
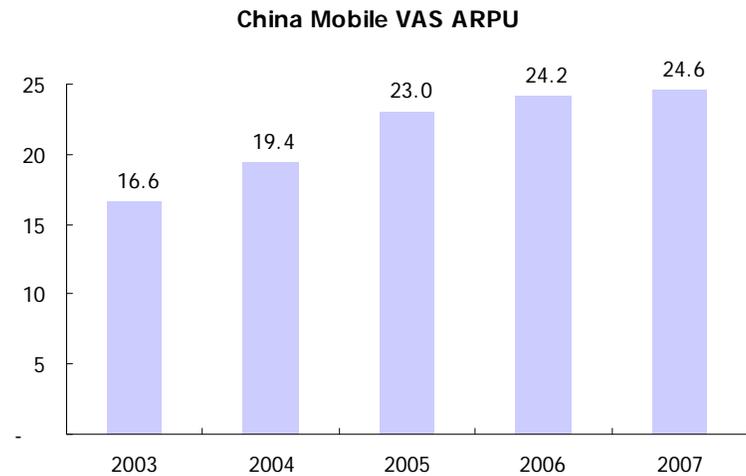
Revenue distribution in 2007 of China Mobile



New business as a % of total revenue

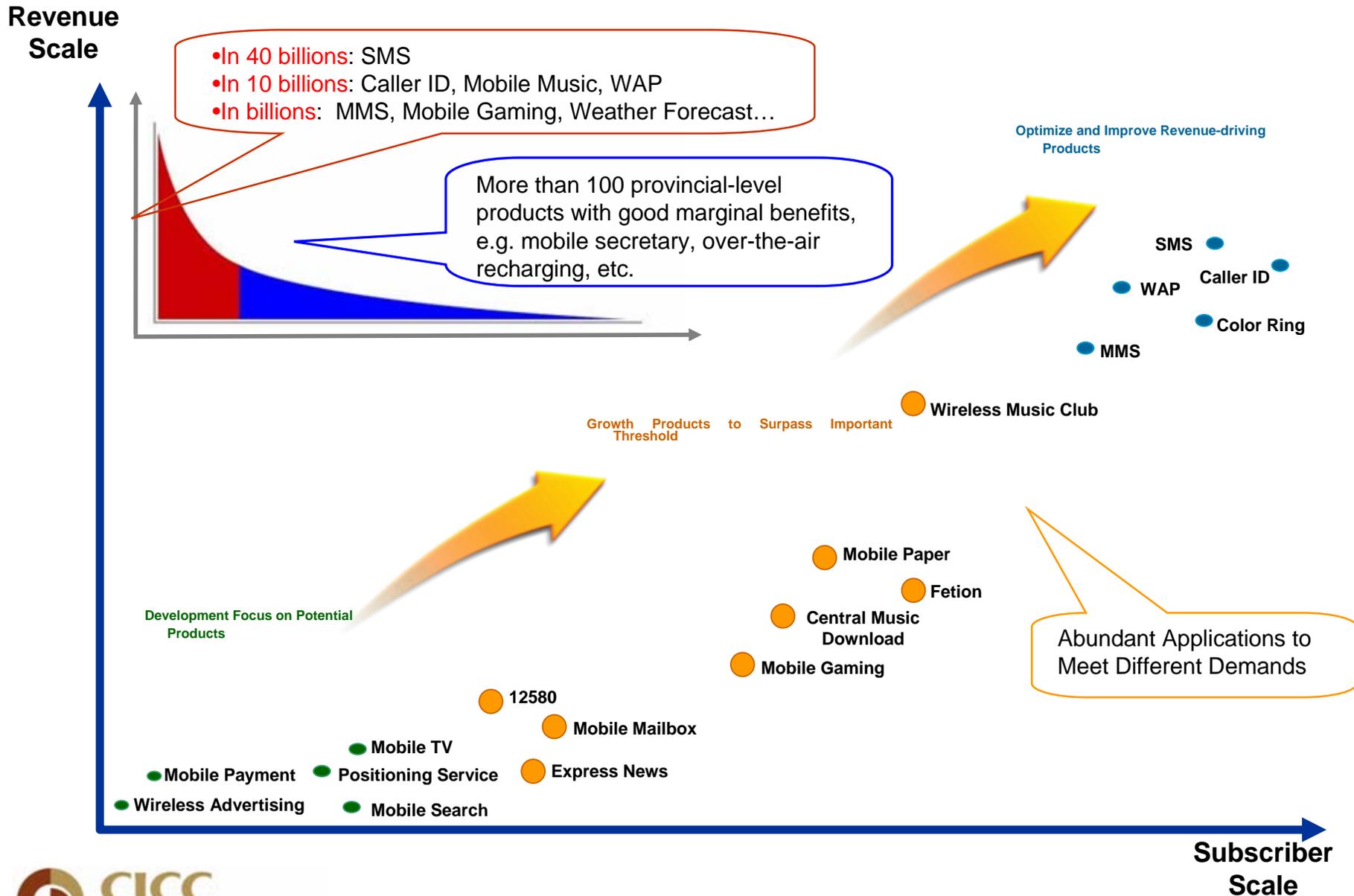


VAS ARPU



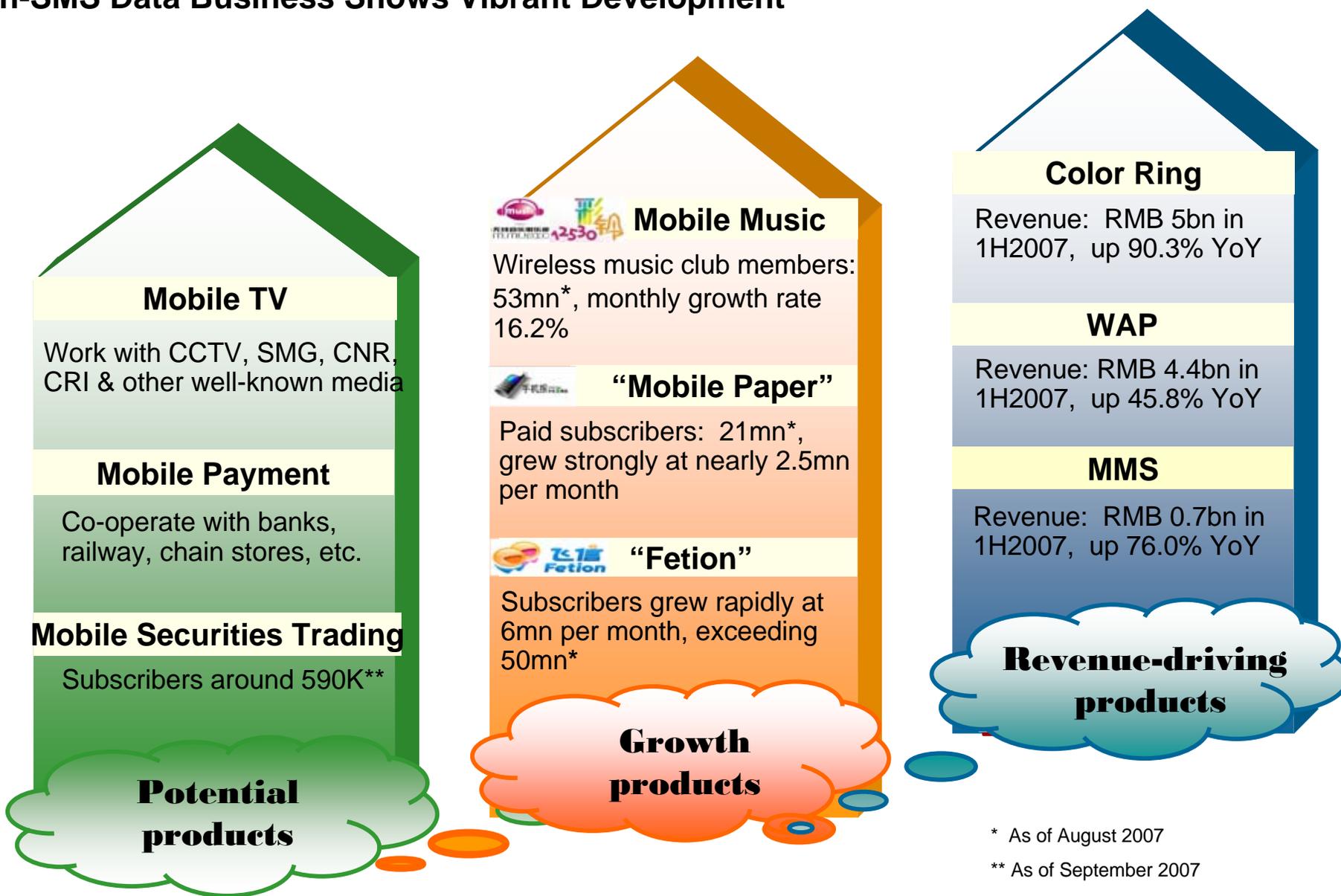
# Value-added Business

## A Stratified Product Reserve for Sustainable Development



# Value-added Business

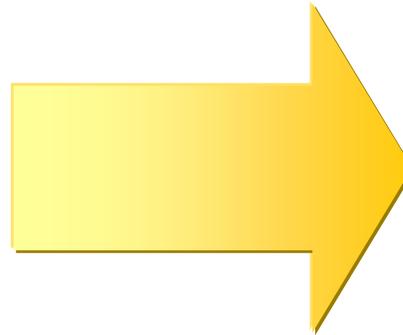
## Non-SMS Data Business Shows Vibrant Development



# Rural Market

## Effective Strategy Delivers Significant Contribution

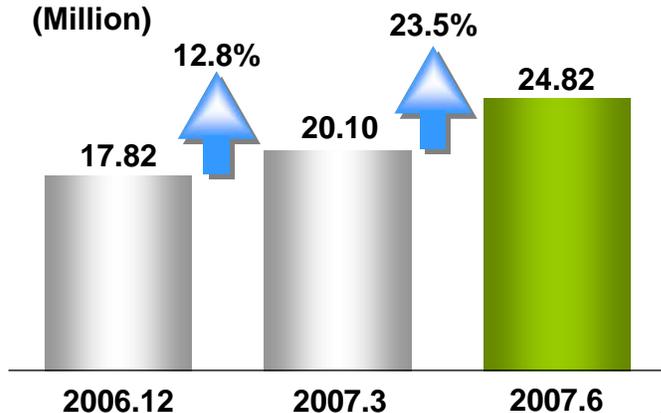
- Relatively low penetration rate in rural areas
- Per capita income of rural residents continued to grow
- Strong support from new rural policy
- Users' entry barrier further lowered
- Appropriate marketing strategy



Rural market contributed significantly to our overall performance

### Agricultural Information Access Subscribers

(Million)



"Agricultural Information Access" provides rural customers with practical and updated information, via SMS, voice and the Internet

- Well received by the market, driving subscriber growth
- Effectively enhanced customer loyalty and lowered churn rate
- Propelled revenue, further boosting the proportion of data business to total revenue
- Promoted rural informationalization

# Rural Market

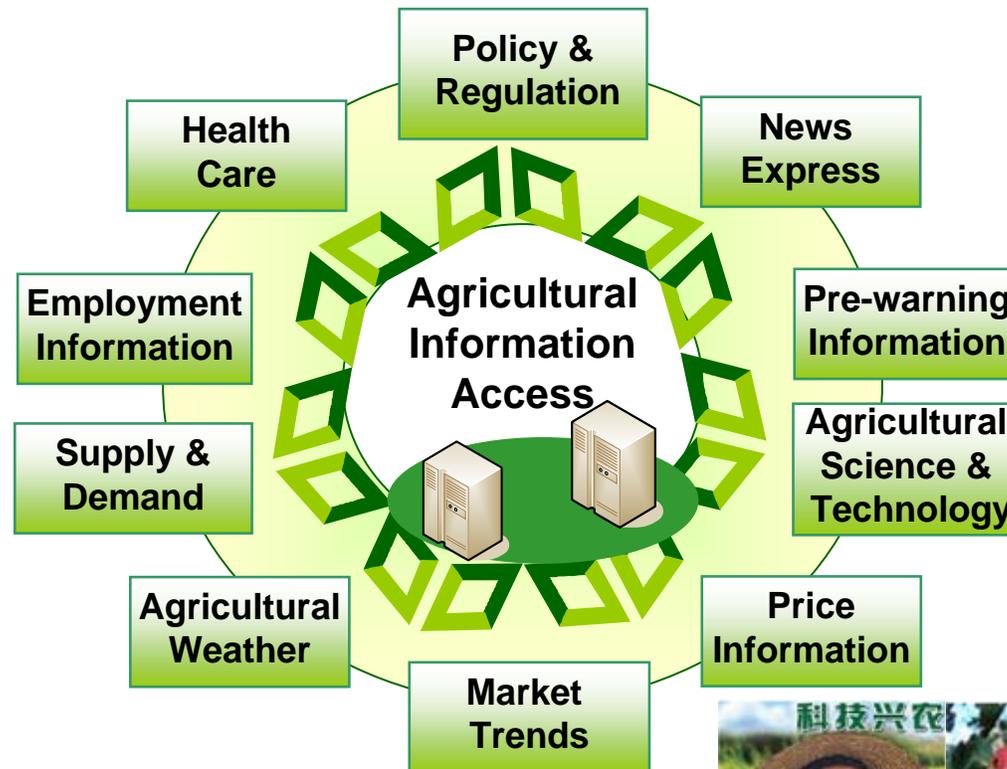
## Promoting Rural Informationalization

Driving Forces

Business Platform

Government Initiative

Farmers Initiative



# Equity Value of China Mobile

## DCF model of China Mobile

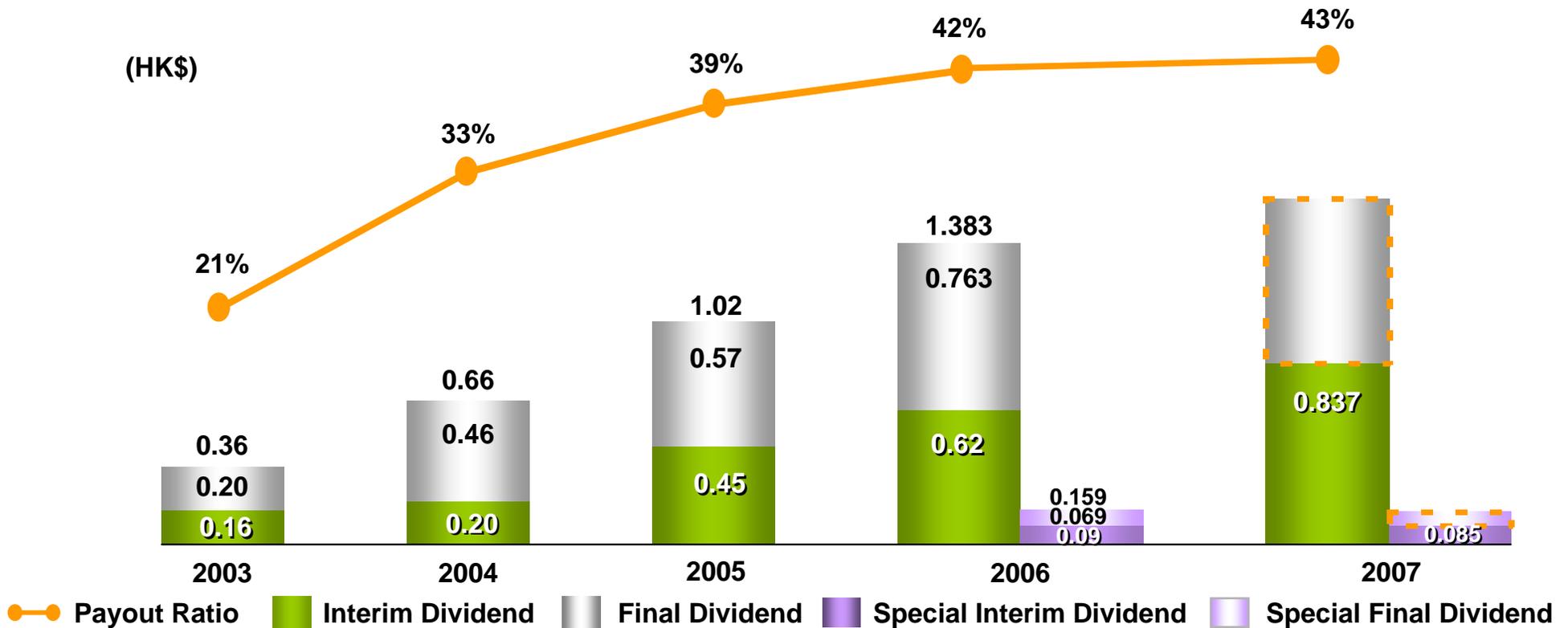
(Rmb mn)	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
December yearend																
Subscriber growth	20.7%	22.1%	22.6%	23.5%	14.5%	9.7%	7.6%	6.5%	5.0%	3.8%	3.3%	2.8%	2.4%	2.0%	1.7%	1.4%
ARPU	90.0	90.0	89.0	87.0	83.7	82.2	82.0	82.4	83.2	84.0	84.9	85.9	86.8	87.8	88.9	90.0
Revenue growth	19.1%	21.5%	20.9%	20.7%	14.0%	10.0%	8.4%	7.6%	6.6%	5.4%	4.6%	4.1%	3.7%	3.4%	3.1%	2.8%
EBITDA margin	54.9%	54.0%	54.3%	54.2%	53.1%	52.6%	52.1%	51.8%	51.5%	51.2%	51.0%	50.8%	50.5%	50.3%	50.1%	49.9%
Capex/reported sales	29.4%	29.5%	29.4%	29.5%	28.0%	26.0%	24.0%	22.0%	20.0%	19.0%	19.0%	18.5%	17.5%	17.0%	16.5%	16.0%
Debt/total capital	11.8%	10.3%	8.3%	7.1%	6.2%	5.5%	4.2%	3.8%	3.5%	3.2%	3.0%	2.8%	0.0%	0.0%	0.0%	0.0%
EBIT * (1-tax rate)	52,703	64,674	85,259	116,332	133,627	145,816	158,389	170,713	182,267	192,821	200,981	209,220	216,460	222,395	228,561	234,369
Growth (%)	21.9%	22.7%	31.8%	36.4%	14.9%	9.1%	8.6%	7.8%	6.8%	5.8%	4.2%	4.1%	3.5%	2.7%	2.8%	2.5%
Depreciation and amortization	56,368	64,777	67,354	74,269	82,528	89,510	93,749	98,584	103,142	105,886	109,706	112,757	115,947	119,881	122,410	125,044
Write-off of PPE	5,645	2,857	2,788	3,781	4,007	3,908	4,022	3,950	3,846	3,723	3,748	3,752	3,877	3,929	4,080	4,146
Other non-cash items	2,968	3,852	3,872	3,949	4,028	4,109	4,191	4,275	4,361	4,448	4,537	4,627	4,720	4,814	4,911	5,009
Change in working capital	11,128	10,380	1,856	4,101	650	1,612	-1,580	560	-2,223	-262	-3,270	-928	-3,944	-1,566	-4,534	-2,096
Capital expenditure	-71,500	-87,000	-105,100	-127,148	-137,544	-140,457	-140,542	-138,592	-134,364	-134,583	-140,777	-142,755	-140,088	-140,675	-140,705	-140,231
Growth (%)	10.6%	21.7%	20.8%	21.0%	8.2%	2.1%	0.1%	-1.4%	-3.1%	0.2%	4.6%	1.4%	-1.9%	0.4%	0.0%	-0.3%
<b>Free cash flows</b>	<b>57,312</b>	<b>59,540</b>	<b>56,029</b>	<b>75,283</b>	<b>87,297</b>	<b>104,497</b>	<b>118,230</b>	<b>139,490</b>	<b>157,028</b>	<b>172,032</b>	<b>174,924</b>	<b>186,674</b>	<b>196,972</b>	<b>208,778</b>	<b>214,723</b>	<b>226,241</b>
Growth (%)	36.6%	3.9%	-5.9%	34.4%	16.0%	19.7%	13.1%	18.0%	12.6%	9.6%	1.7%	6.7%	5.5%	6.0%	2.8%	5.4%
FCF margin	23.6%	20.2%	15.7%	17.5%	17.8%	19.3%	20.2%	22.1%	23.4%	24.3%	23.6%	24.2%	24.6%	25.2%	25.2%	25.8%
<b>WACC</b>	<b>10.3%</b>															
Discount factor at WACC	<b>0.79</b>	<b>0.87</b>	<b>0.96</b>	<b>1.06</b>	<b>1.17</b>	<b>1.29</b>	<b>1.42</b>	<b>1.57</b>	<b>1.73</b>	<b>1.91</b>	<b>2.11</b>	<b>2.33</b>	<b>2.57</b>	<b>2.83</b>	<b>3.12</b>	<b>3.45</b>
Discounted FCF-now			58,397	71,115	74,740	81,086	83,148	88,911	90,714	90,073	83,009	80,287	76,780	73,759	68,754	65,657
Discounted FCF-1yrs forward				78,465	82,464	89,466	91,742	98,100	100,090	99,382	91,588	88,585	84,716	81,382	75,860	72,442
Discounted FCF-2yrs forward					90,987	98,712	101,223	108,239	110,434	109,653	101,053	97,740	93,471	89,793	83,700	79,929

	Now
	<b>2008-17</b>
NPV of cash flows	904,597
PV of terminal value	1,109,509
Enterprise value	2,014,106
Terminal value as % of EV	55%
Net cash (year end 2006, 2007,2008)	154,894
Dividends Paid before the Net Cash calculation	34,088
Equity value	2,203,088
Shares at year end (mn)	20,032
<b>Equity value/share (Rmb)</b>	<b>109.98</b>
Exchange rate	0.87
<b>Equity value/share (HK\$)</b>	<b>126.01</b>
Equity value/Subscriber (Rmb)	4,828
Perpetual growth	3.0%
Implied terminal value exit multiple (x)	13.6

WACC calculation	
Ke =	11.1%
Kd =	4.60%
t =	25.0%
Rf =	4.50%
Equity risk premium=	6.0%
B =	1.10
E(Rm) =	10.5%
WACC =	<b>10.3%</b>
Debt/capital	10%
Equity/capital	90%
Debt/capital (10 yr aver.	5%

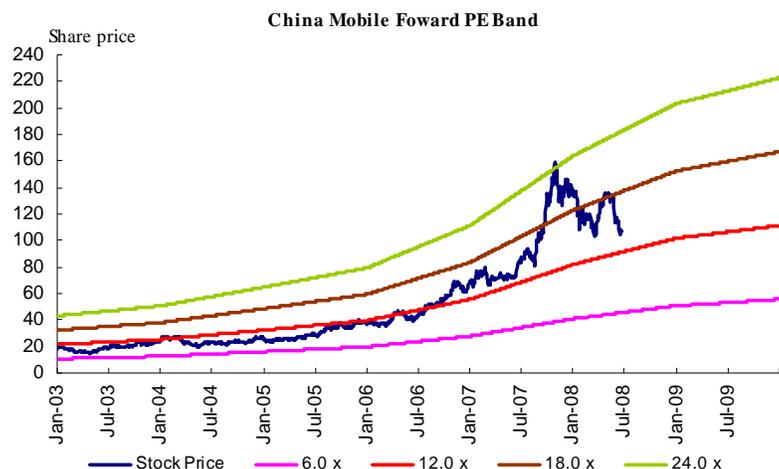
# Favorable and Continued Dividend Growth

## Dividend and Payout Ratio



# Valuation Is About Historical Average

## PE Band of China Mobile



## China Mobile v.s. MSCI China



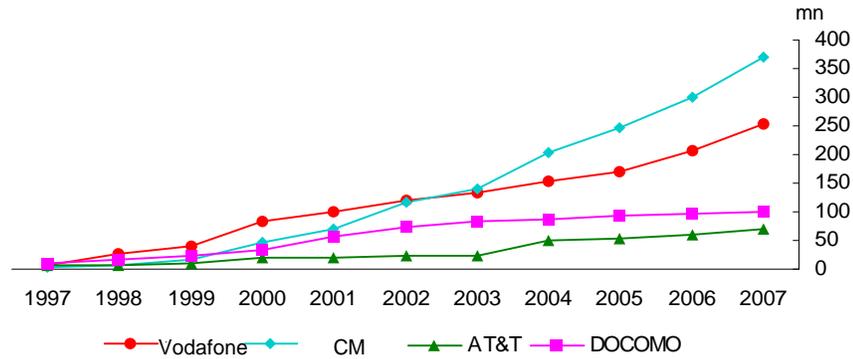
Report date	(HK\$) Price	Comments on	EPS Forecast (RMB)									P/E							
			2002	2003	2004	2005	2006	2007	2008	2009	2002	2003	2004	2005	2006	2007	2008	2009	
2002	15-Aug-02	21.80	1H02 results	1.68	1.80	1.89	X	X	X	X	X	13.90	13.00	12.40	X	X	X	X	X
2003	21-Oct-03	23.15	3Q03 results	X	1.82	1.73	1.64	X	X	X	X	14.10	13.50	14.20	15.00	X	X	X	X
	17-Dec-03	23.05	10P acquisition plan	X	1.82	1.85	1.83	X	X	X	X	14.10	13.40	13.20	13.30	X	X	X	X
2004	21-Apr-04	21.85	1Q04 results	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	3-May-04	20.60	10P acquisition deal	X	X	2.00	2.04	1.85	X	X	X	X	11.60	10.85	10.67	11.80	X	X	X
	19-Aug-04	21.65	1H04 results	X	X	2.00	2.16	X	X	X	X	13.20	12.70	11.50	10.60	X	X	X	X
2005	14-Mar-05	25.60	FY04 results	X	X	2.20	2.34	2.47	X	X	X	X	X	12.40	11.60	11.00	X	X	X
	21-Apr-05	25.45	1Q05 results	X	X	X	2.37	2.51	X	X	X	X	X	12.30	11.40	10.70	X	X	X
	4-Jul-05	29.10	Revise valuation	X	X	X	2.41	2.57	X	X	X	X	X	14.06	12.82	12.02	X	X	X
	11-Aug-05	34.45	1H05 results	X	X	X	2.56	2.83	X	X	X	X	20.70	16.30	14.00	12.70	X	X	X
	21-Oct-05	34.55	3Q05 results	X	X	X	2.59	2.96	X	X	X	X	20.80	16.40	13.90	12.10	X	X	X
	5-Dec-05	39.80	Downgrade to Accu	X	X	X	2.59	2.93	3.20	X	X	X	X	19.24	16.01	14.14	12.94	X	X
2006	17-Mar-06	37.60	FY05 results	X	X	X	X	3.17	3.57	X	X	X	X	18.17	14.43	12.33	10.94	X	X
	21-Apr-06	46.75	1Q06 results	X	X	X	X	3.41	3.85	X	X	X	X	22.60	17.94	14.25	12.62	X	X
	18-Aug-06	51.70	1H06 results	X	X	X	X	3.26	3.87	4.24	X	X	X	X	19.80	16.30	13.80	12.60	X
	23-Oct-06	59.10	3Q06 results	X	X	X	X	3.38	4.00	4.50	X	X	X	X	22.50	18.00	15.20	13.50	X
2007	22-Mar-07	73.65	FY06 results	X	X	X	X	X	4.05	4.73	X	X	X	X	27.20	22.20	17.30	14.00	X
	20-Apr-07	74.90	1Q07 results	X	X	X	2.71	3.32	3.99	4.67	X	X	X	X	X	X	17.80	14.40	X
	8-Jun-07	72.85	Sector report	X	X	X	2.71	3.32	3.99	4.67	X	X	X	26.30	21.50	17.00	13.80	X	X
	15-Aug-07	80.85	1H07 results	X	X	X	2.71	3.32	4.07	4.85	X	X	X	29.80	24.40	18.90	15.00	X	X
	30-Jun-08	104.80	Current Forecast	X	X	X	2.71	3.32	4.35	5.96	6.87	X	X	X	40.19	31.72	22.60	15.36	12.37

# Global Operators Valuation

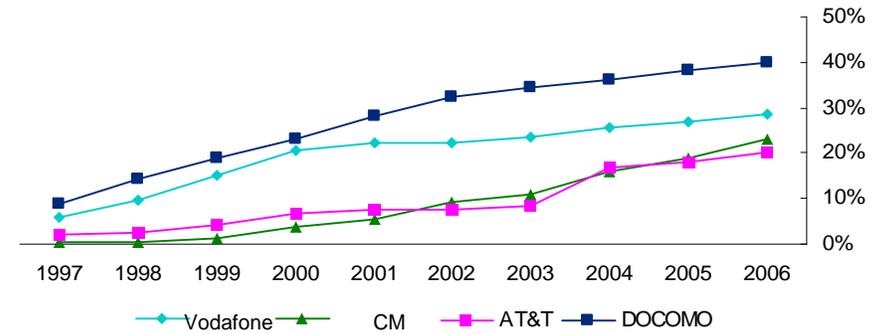
Company	Curcy	Close Price (Local Curcy)	Market Cap (USD mn)	P/E			P/B			EV/EBITDA			Dividend yield			EBITDA margin 07A	Net margin 07A	ROE 07A
				07A	08E	09E	07A	08E	09E	07A	08E	09E	07A	08E	09E			
<i>Domestic operators</i>																		
China Mobile	HKD	104.80	269,147	22.6	15.2	12.2	5.3	4.2	3.3	9.6	7.3	5.7	2.0%	3.0%	3.9%	54.3%	24.4%	25.1%
China Unicom	HKD	14.48	25,311	25.0	21.3	16.4	1.9	1.7	1.5	6.0	5.0	4.2	1.5%	1.9%	2.7%	33.2%	7.5%	7.9%
China Telecom	HKD	4.24	43,994	15.8	13.1	11.4	1.4	1.2	1.1	5.0	4.4	3.8	2.0%	2.4%	2.8%	49.0%	11.6%	10.6%
China Netcom	HKD	21.25	18,183	13.3	12.4	11.1	1.6	1.4	1.2	4.8	4.2	3.7	2.8%	3.4%	3.2%	50.0%	12.1%	12.8%
Average				19.2	15.5	12.8	2.6	2.1	1.8	6.3	5.2	4.4	2.1%	2.7%	3.1%	46.6%	13.9%	14.1%
<i>US operators</i>																		
Verizon	USD	35.4	100,912	18.5	13.5	12.2	2.1	2.0	1.9	5.4	4.9	4.5	4.7%	4.9%	5.0%	32.1%	5.9%	14.7%
Sprint Nextel	USD	9.5	27,085	-0.9	105.6	109.2	1.2	1.3	1.4	4.5	6.1	6.2	1.1%	0.3%	0.2%	25.6%	-73.7%	-4.4%
AT&T	USD	33.69	200,152	17.3	11.1	9.9	1.8	1.8	1.7	6.5	5.9	5.6	4.2%	4.7%	5.0%	35.3%	10.1%	15.5%
Average				11.6	43.4	43.8	1.7	1.7	1.7	5.5	5.7	5.4	3.3%	3.3%	3.4%	31.0%	-19.2%	8.6%
<i>Europe operators</i>																		
British Telecom	GBP	2.00	30,728	9.1	8.4	8.1	2.9	3.4	3.1	4.3	4.2	4.1	8.0%	8.2%	8.6%	28.0%	8.4%	45.5%
Vodafone	GBP	1.49	158,302	11.5	11.3	10.4	1.0	1.0	1.0	n.m.	7.2	6.8	5.4%	5.4%	5.7%	37.0%	18.8%	9.9%
Deutsche Telecom	EUR	10.46	71,460	80.5	13.8	12.2	1.1	1.1	1.1	5.2	4.5	4.4	7.5%	7.6%	7.9%	26.3%	0.9%	7.6%
France Telecom	EUR	18.71	76,916	7.7	9.3	8.8	1.6	1.6	1.5	4.8	4.8	4.7	6.9%	7.4%	7.8%	36.3%	11.9%	17.1%
Telefonica	EUR	16.88	126,703	9.0	10.5	9.1	4.0	3.4	2.9	5.7	5.8	5.5	4.4%	5.9%	6.8%	40.4%	15.8%	32.4%
Telecom Italia	EUR	1.28	36,692	9.8	9.8	9.4	1.0	0.9	0.9	5.3	5.0	5.0	6.3%	6.6%	7.0%	37.1%	7.8%	9.3%
Average				21.3	10.5	9.7	1.9	1.9	1.7	5.1	5.2	5.1	6.4%	6.9%	7.3%	34.2%	10.6%	20.3%
<i>Korea operators</i>																		
KT	KRW	45,100.00	11,856	8.8	10.2	9.2	1.0	1.0	0.9	3.1	2.9	2.8	4.4%	4.6%	5.0%	30.4%	8.0%	9.6%
SK Telecom	KRW	190,000.00	14,736	8.4	11.2	9.9	1.2	1.4	1.3	4.5	4.3	4.3	4.9%	4.7%	5.2%	35.7%	14.6%	12.9%
KTF	KRW	27,750.00	5,108	21.7	14.0	13.4	1.2	1.3	1.2	4.0	4.1	4.2	0.0%	2.3%	2.6%	21.7%	3.4%	6.0%
Average				13.0	11.8	10.8	1.2	1.2	1.1	3.9	3.8	3.8	3.1%	3.9%	4.3%	29.3%	8.6%	9.5%
<i>Japanese operators</i>																		
NTT DoCoMo	JPY	158,000.00	66,838	13.9	13.1	13.2	1.6	1.5	1.4	4.3	4.2	4.3	3.0%	3.1%	3.2%	33.6%	10.4%	11.7%
KDDI Corporation	JPY	662,000.00	27,990	13.6	11.3	10.3	1.8	1.6	1.4	4.6	4.0	3.6	1.6%	1.7%	1.8%	21.1%	6.1%	14.7%
Average				13.7	12.2	11.7	1.7	1.5	1.4	4.5	4.1	3.9	2.3%	2.4%	2.5%	27.4%	8.2%	13.2%
<i>Other Asia operators</i>																		
Telekom Malaysia	MYR	3.20	3,505	4.3	13.4	12.6	0.6	1.0	1.0	1.8	6.6	6.3	10.9%	7.3%	7.5%	41.6%	14.3%	7.1%
MobileOne	SGD	1.86	1,222	10.3	10.3	10.0	8.1	7.0	6.6	5.9	5.8	5.7	5.9%	8.3%	8.7%	39.6%	21.4%	75.9%
Singtel	SGD	3.59	41,951	14.4	14.0	12.9	2.7	2.5	2.3	13.9	11.8	11.4	3.3%	3.7%	4.1%	29.6%	26.7%	18.6%
PLDT	PHP	2,350.00	9,859	12.5	11.6	10.3	4.2	3.8	3.6	5.3	5.1	4.8	7.8%	7.4%	8.4%	62.8%	26.1%	33.8%
Chunghwa Telecom	TWD	76.10	23,963	16.7	15.3	14.4	1.8	2.0	1.9	6.3	6.1	6.0	n.m.	5.7%	6.4%	54.0%	25.9%	13.1%
Taiwan Mobile	TWD	52.40	6,562	23.7	12.0	11.0	3.0	3.3	3.1	7.5	7.4	7.3	5.0%	6.8%	7.6%	45.3%	12.9%	33.0%
Average				13.6	12.8	11.9	3.4	3.3	3.1	6.8	7.1	6.9	6.6%	6.5%	7.1%	45.5%	21.2%	30.2%

# China Mobile v.s. Worldwide Peers

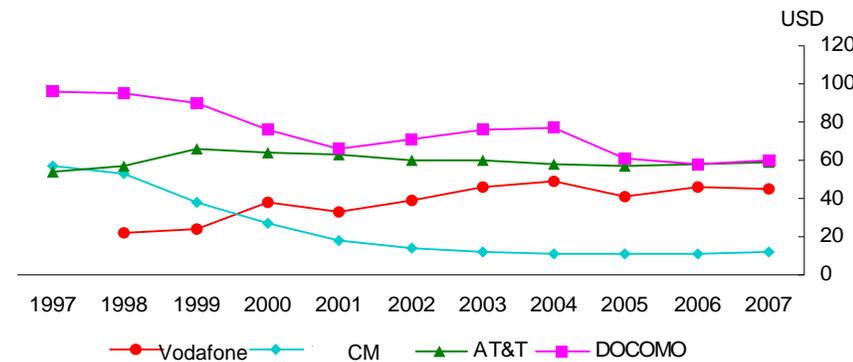
**CM: largest subscriber base**



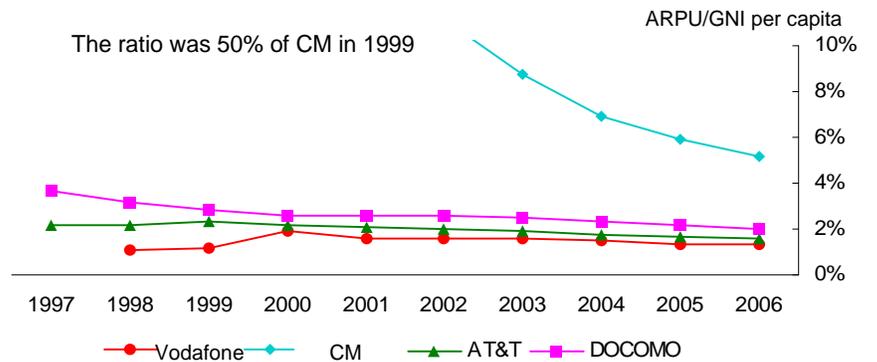
**DOCOMO: highest local penetration**



**CM: lowest ARPU**



**CM: ARPU relative to average GNI is still higher**



# Distinct Strategic Intent of China Mobile

## Overseas mkt strategy

- After becoming the controlling shareholder of Paktel, CM promoted unified overseas brand – “ZONG”, which established a foundation of overseas market development.
- CM adopt cautious attitude towards overseas deployment; it would become the next Vodafone if it were over aggressive .
- Participating foreign operators operation as a minor shareholder, will finally achieve the controlling objective via steady expansion.

## New media industry

- CM assigned new CEO (Ye Bing) for wholly-owned subsidiary ASPire, and position the company under a more free structure. Aspire would develop wireless internet and VAS and improve CM's industry structure in future information society.
- CM's original cooperation maybe change when it tries to enter internet and SP domain. CM maybe will not realize full coverage towards these domain, but will adopt new strategy to cooperate with SPs.
- CM entered strategic cooperation with Peonix, News Corp and Star movie in 2006, preparing to enter media industry.

## Restructuring and TD

- Restructuring would not bring significant negative pressure. On the contrary, inducing competition would become CM's impetus to pursue new growth business (eg. going abroad)
- TD-SCDMA, more than a 3G standard, is more a state developed communication standard. CM's voluntarily assuming responsibility of TD trial network construction means politics intent more than commercial intent. However, TD's capability is greatly different with CDMA2000 and WCDMA, so CM has no much incentive to promote TD and maybe will regard TD as the transition product to 4G.
- CM commit himself to LTE development. It is obvious that the company intends to evolve wireless broadband and media info industry.

## Rural business

- CM commenced to expand to rural market from 2004, which promote resources utilization through marketing tunnel and brand recognition. It provides information related to rural production, daily life and work force info, which was welcomed by rural subs. This increased sub stickness and promoted rural informatization
- CM allure rural subs via low tariff and has had good achievement at present. In the future, rural market will become the important resource of sub net adds and revenue growth driver.

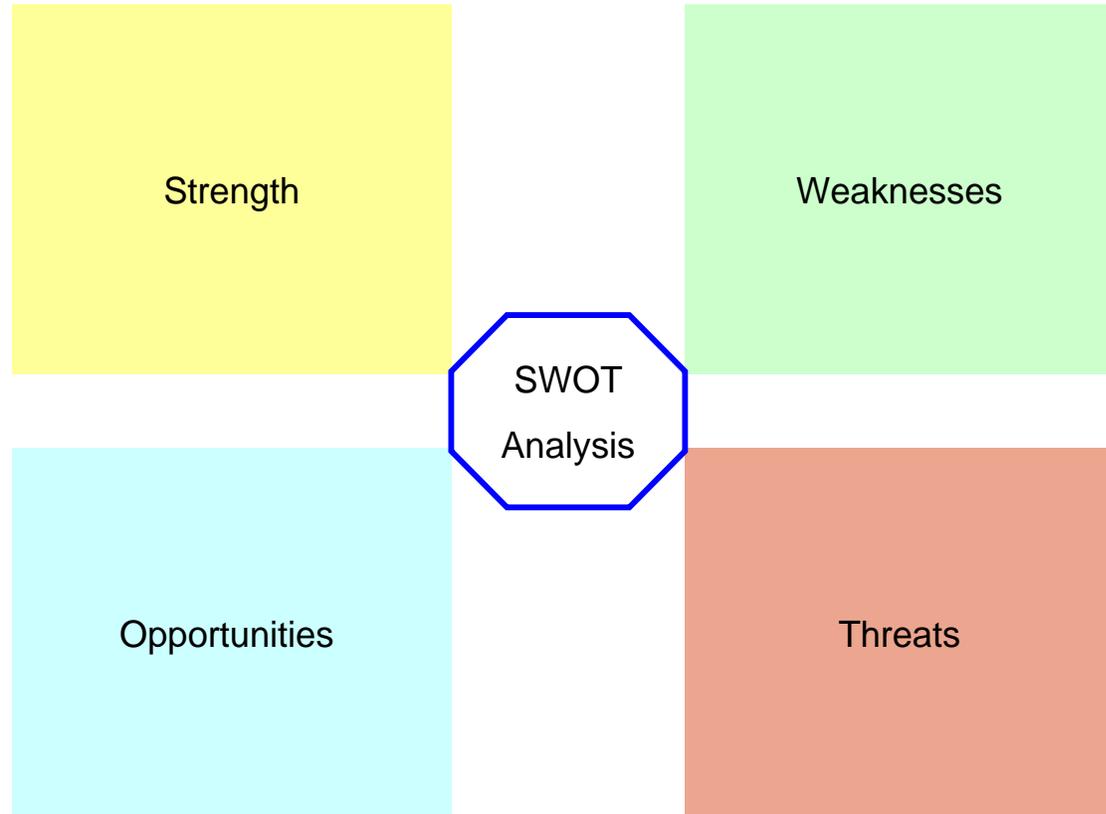
# Key Financial and Operating Data of China Mobile

## Key financial and operating data, valuation and financial ratios

( Rmb mn )	2006A	2007A	2008E	2009E	2010E		2006A	2007A	2008E	2009E	2010E
<b>Profit and loss</b>						<b>Operating data</b>					
Operating revenue	295,358	356,959	431,010	491,227	540,221	Subscribers (mn)	301.2	369.3	456.3	522.4	573.1
Operating cost	(138,656)	(165,537)	(199,152)	(232,028)	(257,652)	MOU	381	455	536	639	709
EBITDA	159,574	194,003	233,627	260,697	283,931	Blended ARPU	90.0	89.0	87.0	83.7	82.2
Depreciation and amortizatic	(64,777)	(67,354)	(74,269)	(82,528)	(89,510)	Data ARPU	24.2	24.6	24.9	24.8	25.1
Interest income	2,604	4,015	5,472	6,657	7,827	Annual Churn rate	33%	32%	31%	31%	30%
Interest expense	(1,510)	(1,825)	(2,003)	(2,003)	(2,003)	Usage tariff	0.15	0.12	0.10	0.08	0.07
Profit before tax	96,908	129,238	163,621	183,727	201,239	SMS volume (bn)	353	503	703	920	1,126
Net income	66,026	87,062	119,295	137,629	150,747	<b>Valuation</b>					
EPS (Rmb)	3.32	4.35	5.96	6.87	7.53	P/E	31.7	22.6	15.4	12.4	11.3
EPS (HKD)	3.30	4.64	6.82	8.47	9.28	EV/EBITDA	13.3	9.6	7.2	5.8	5.2
DPS (HKD)	1.54	2.10	3.15	4.05	4.88	P/B	6.6	5.3	4.2	3.3	2.9
<b>Cash flow</b>						Dividend yield	1.5%	2.0%	3.0%	3.9%	4.7%
Cash flow from Operating	149,346	168,612	203,509	225,204	245,777	FCF yield	3.0%	3.1%	4.6%	5.9%	7.3%
Cash flow from Investing	(118,841)	(123,039)	(138,230)	(149,543)	(160,485)	<b>Financial ratio</b>					
Cash flow from Financing	(23,587)	(37,635)	(49,316)	(62,413)	(74,513)	EBITDA margin	54.0%	54.3%	54.2%	53.1%	52.6%
Net cash inflow	6,918	7,938	15,963	13,248	10,779	Net profit margin	22.4%	24.4%	27.7%	28.0%	27.9%
<b>Balance sheet</b>						FCF margin	20.2%	15.7%	17.5%	17.8%	19.3%
Total asset	494,676	563,493	651,692	737,029	825,503	Net cash/Equity (%)	36.6%	41.4%	44.3%	44.7%	46.2%
--cash and cash equivalent	153,461	188,544	227,506	261,651	302,187	Dividend payout ratio	42.0%	43.6%	45.0%	47.0%	52.0%
Total liability	175,303	189,254	213,142	226,530	243,391	Effective tax rate	31.8%	32.5%	27.0%	25.0%	25.0%
--total debt	36,638	33,650	33,650	33,650	33,650	Capex/sales	29.5%	29.4%	29.5%	28.0%	26.0%
Total Equity	319,002	373,751	437,913	509,697	581,127	ROA	14.4%	16.5%	19.6%	19.8%	19.3%
						ROE	22.3%	25.1%	29.4%	29.0%	27.6%
						ROIC	19.9%	22.8%	27.1%	27.1%	26.0%

Source: Company data, CICC research

## Risks along with strengths:



Source: CICC research

## CT (LT Buy, may require patience)

<b>Simulating CT's Growth Potentials</b>	2007	2008	2009	2010	2011	2012	2013
<b>Traditional Fixed-line (% of total revenue)</b>	50%	46%	41%	36%	31%	27%	23%
-- <i>yoy growth</i>	-6%	-8%	-8%	-7%	-6%	-6%	-5%
<b>PHS (% of total revenue)</b>	10%	8%	6%	5%	4%	3%	2%
-- <i>yoy growth</i>	-18%	-20%	-20%	-20%	-20%	-20%	-20%
<b>BB+ICT (% of total revenue)</b>	25%	32%	39%	46%	53%	59%	64%
-- <i>yoy growth</i>	30%	25%	25%	23%	20%	18%	16%
<b>Others (% of total revenue)</b>	15%	15%	14%	14%	13%	12%	11%
-- <i>yoy growth</i>	0%	0%	0%	0%	0%	0%	0%
Revenue Growth (-) due to Fixed-line+PHS	-4.8%	-5.3%	-4.5%	-3.5%	-2.7%	-2.1%	-1.6%
Revenue Growth (+) due to BB+ICT	7.5%	7.9%	9.6%	10.3%	10.6%	10.7%	10.5%
-- <b>Revenue Growth (net)</b>	<b>2.7%</b>	<b>2.7%</b>	<b>5.1%</b>	<b>6.8%</b>	<b>7.9%</b>	<b>8.6%</b>	<b>8.8%</b>
<b>Depreciation (% of total revenue)</b>	<b>30.0%</b>	<b>30.0%</b>	<b>29.3%</b>	<b>28.8%</b>	<b>28.5%</b>	<b>28.4%</b>	<b>28.3%</b>
-- <i>yoy growth</i>		2.7%	2.7%	5.1%	6.8%	7.9%	8.6%
<b>Net profit (% of total revenue)</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>15%</b>	<b>15%</b>
-- <i>yoy growth of net margin</i>	0%	0.0%	5.4%	3.3%	2.1%	1.2%	0.5%
<b>Net profit yoy Growth</b>	<b>2.7%</b>	<b>2.7%</b>	<b>10.8%</b>	<b>10.4%</b>	<b>10.2%</b>	<b>9.9%</b>	<b>9.4%</b>

The shrinking of traditional business is under control.

The growing new broadband and ICT businesses are strong & sustainable.

Valuations are low.

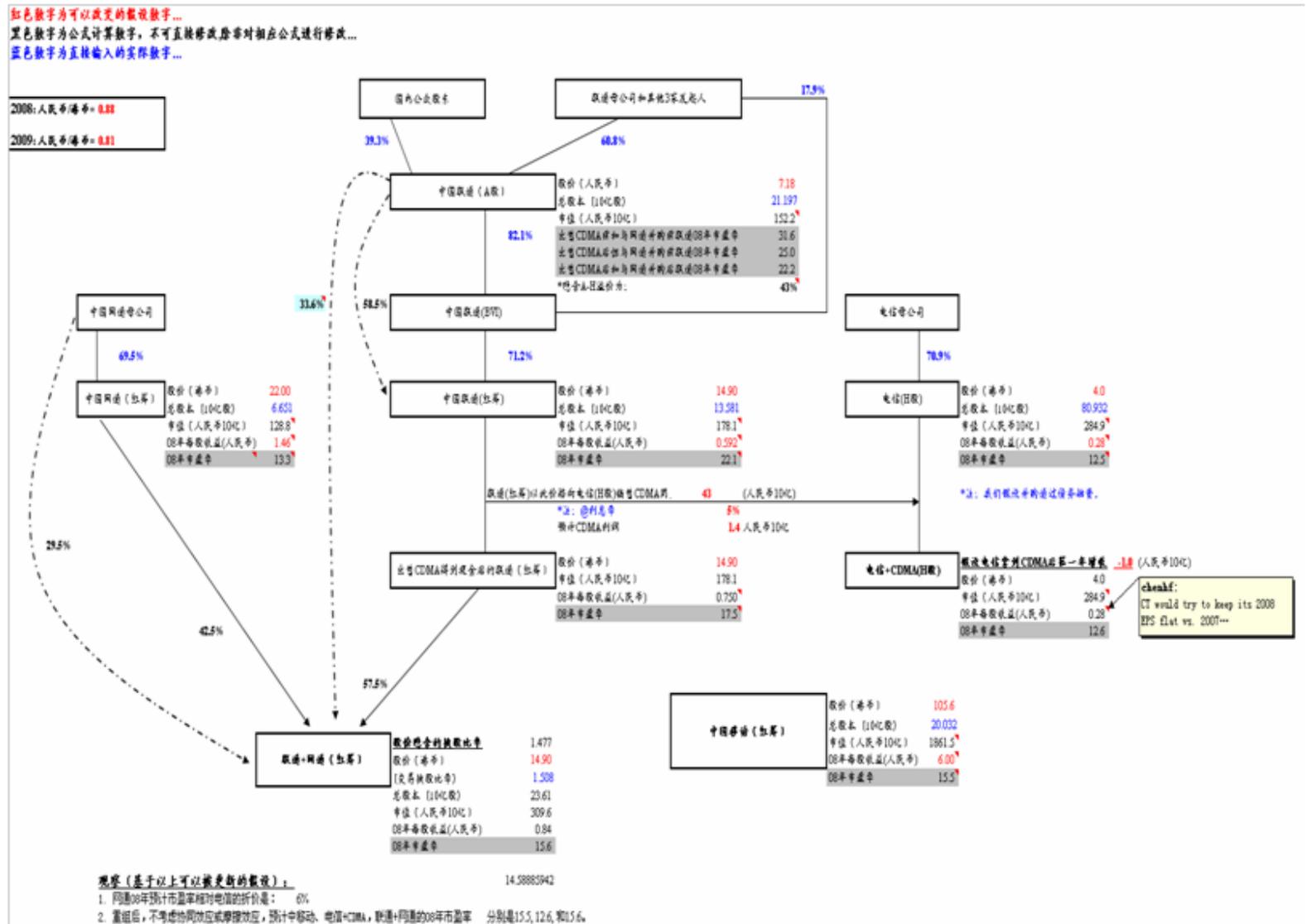
Good FCF yield may remain even after restructuring.

### CDMA: What can CT do that CU can't?

1. Sales strategy; open market handset for CDMA (LT strategy becomes possible + no need to worry about hurting CU-GSM)
2. Bundle with broadband (free upgrading; Home broadband is self-paid while mobile bill is company-paid)
3. Stop unfavorable internal transactions with the parentco, possibly through leasing fees (or reducing revenue & cost simultaneously; improve margins)

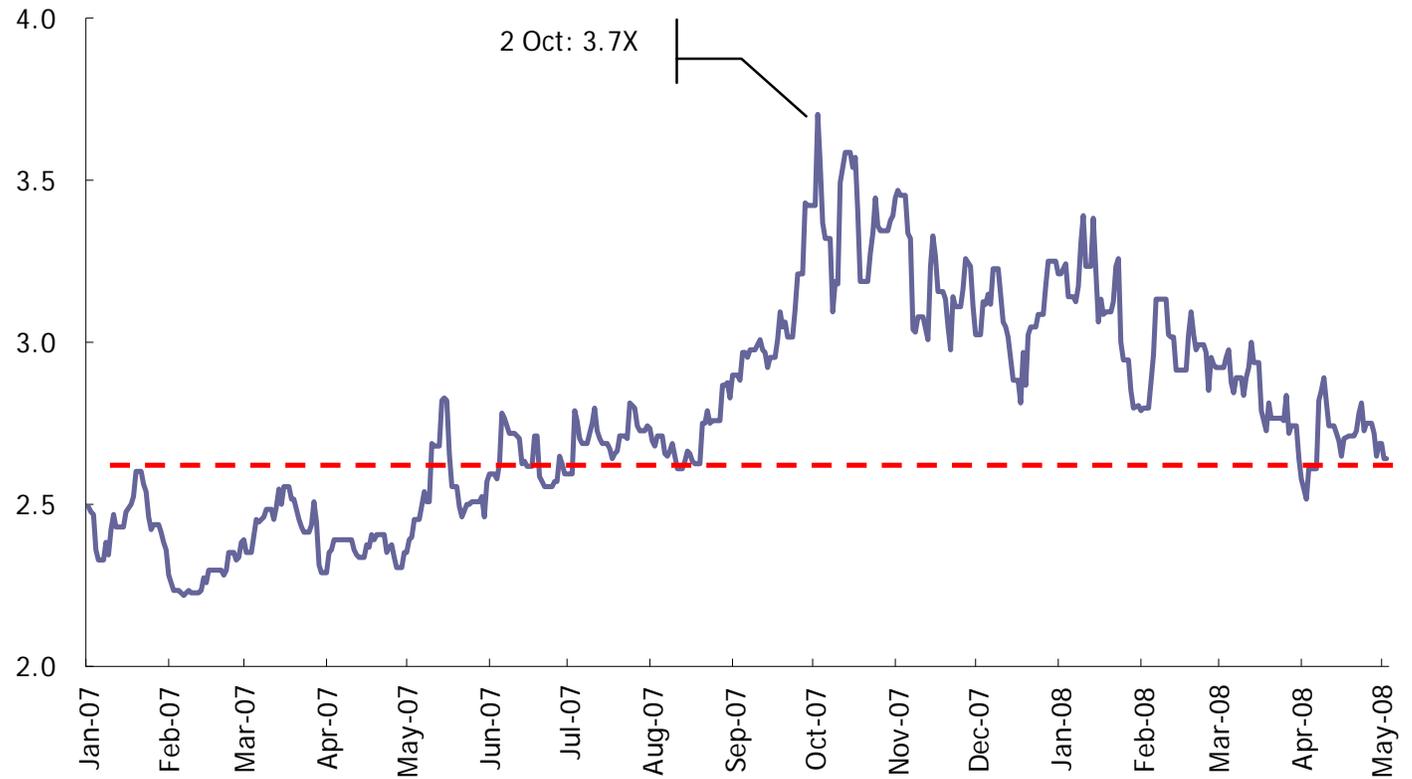
Source: CICC Research

# CU:



CN:

CT's MKT Cap. relative to CN's MKT Cap.



Source: CICC Research