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Finanční analýza společnosti China Mobile

Financial Analysis of China Mobile Company

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Description:

1. Introduction
2. Description of the financial analysis methodology
3. Characterization of China mobile company
4. Financial analysis of the company
5. Conclusion
Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

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The declaration
"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

Ostrava dated ....

....
Student's name and surname

Contents

1 Introduction

Financial analysis is the process of collecting, collating the relevant data in the company's financial and accounting reports, in combination with other relevant additional information, comprehensively evaluating and contrasting financial position, operating results and cash flow performance of a company.

Financial statements mainly contain income statement, balance sheet and cash flow. Income statement reflects the current corporate income and expenses. It should be credited into the fees and structure situation of profits and losses of the current profits. Balance sheet reflects the final status of corporate assets, liabilities and capital and verifies the company's long-term solvency, short-term solvency, profit distribution capacity and so on. Cash flow statement reflects flows of the business cash from three parts of the company's operating, investing and financing activities.

We can use financial analysis to access the company's strengths and weakness and ability of repaying debt, operating capacity and profitability through analyzing the company's financial statement, predict the company's future trends of development and make some judgment to evaluate and find out the problem.

This work is focused on China Mobile Limited. It is a mobile communication service provider of China mainland and has the largest number of mobile users and the largest mobile communication network.

The main objective of this work is to evaluate financial performance of China Mobile Limited. First, the method of financial analysis will be explained. Common-size and financial ratios analysis will be described in detail, DuPont analysis is evaluated from financial ratios and dissected each selected item, main attention will be paid to the indicators that will be used latter in the work. Second, the characterisation of this company will be stated. The introduction of the company, the shareholders' structure in this company, management team,

corporate culture and the company's achievements will be explained clearly. Next, analysis of the company's financial situation will be carried out through the method of the financial analysis and some figures of China Mobile Limited company's financial statement. All results will be summarized at the end of the thesis.

2 Description of the financial analysis methodology

This chapter is based on introducing the methods to evaluate the company's financial position, its financial performance, potential risks and predict the company's future financial development. The methods will be introduced as follows:

· Common-size analysis;

· Financial ratio analysis;

· DuPont analysis.

The main information source for this chapter is by Clayman, Fridson and Troughton (2008).

2.1 Common-Size Analysis

How a company creates value from resources and gets challenge under its management? Understanding a company's financial statement is the company's core strategy, which is that we can use common-size analysis to understand the company's financial position.

Common-size analysis is based on converting the financial statement data into a specific benchmark way or ratio in order to know the trends of development and major differences and shows the items appearing on it in percentage form, each item is stated as a percentage of some total of which that item is a part.

Common-size analysis can be divided into two types, which are vertical common-size analysis and horizontal common-size analysis. Vertical common-size analysis focuses more on the internal structure analysis of each item in the financial statement, while the horizontal common-size analysis focuses on the major items' comparison in the different years.

2.1.1 Vertical Common-Size Analysis

Vertical common-size analysis is used to make an item as a benchmark in a given period to compare the proportion of other items in each selected year. It's a method of analysis that compares the data of each item with benchmark in order to realize the position, significance and changes of each item in general. Through the vertical common-size analysis, we can know the company's status of development and the extent and speed of development and progress.

· For the income statement, one application of the vertical common-size analysis idea is to show all items on the income statement in percentage form in terms of revenues as a benchmark. Each item is shown as a percentage of revenues. We can use the vertical common-size analysis to know the company's financial performance clearly and find out the solution that the company should be reduced or enhanced control;

· For the balance sheet, one application of the vertical common-size analysis idea is to show all items on the balance sheet in percentage form in terms of total assets as a benchmark. Each item is shown as a percentage of total assets. We can use the vertical common-size analysis to know the company's investments, financing situation and the proportion of its liabilities and shareholders' equity, check out whether the company's financial structure is sound.

2.1.2 Horizontal Common-Size Analysis

Horizontal common-size analysis is a financial analysis of comparing the information which reflects the financial position of company's reporting period in percentage form. It is used to analyze the development fluctuant condition of the company's operation results or financial condition of each item. The basic element of the horizontal common-size analysis is that it makes a comparison

with the same items in different selected years in the statement resources. In the horizontal common-size analysis, we can choose a base year as the benchmark to find out the difference of each item during years, compare and analyzing the trends and its reason. The base year equals 100%, with all other selected years stated in some percentage of this base.

2.2　Financial Ratio Analysis

Financial ratio analysis is an analysis based on an inter-comparison with the relevant data of a number of important items in the financial statement of the same period, computing the ratios for evaluating the company's operating activities and current and historical conditions. It's the most basic and powerful tool of financial statement analysis. It may be expressed in the form of co-efficient, percentage, proportion, or rate.

Computing the financial ratios analysis, we should use values which are taken from income statement, balance sheet and cash flow. These make up the company's financial statement to analyze changes of earnings in some investment of each year.

Ratio analysis is an important and often used technique of financial analysis. The following are some advantages or benefits of financial ratios analysis:

· Analyzing financial statements: the financial statement is easy to be understood by using financial ratios analysis. The ratios show the whole story of changes in the financial condition of the business. For managers, investors, creditors and shareholders, using financial ratios analysis to analyzing the company's financial situation;

· Analyzing and judging efficiency: computing financial ratios are important for judging the company's efficiency in terms of its operations and management. They make it clear that how well the company has been able

to utilize its assets and gain profits. They also help in investment decisions in case of investors and lending decisions in case of bankers;

· Getting to know the weakness: calculating ratios can also be used in knowing weakness of the company's operations even through its total performance or results may be quite good. Managers can then pay attention to the weakness and take remedial measures to manage the company's operation and overcome them;

· Making plans: the financial ratios not only are used to analyze the company's past financial performance, but also can be used to predict future trends of its financial performance. As a result, the financial ratios can facilitate managers to draw up the company's future plans.

Though the financial ratios are simple to calculate and easy to be understood, there are also some limitations existing:

· Financial ratios are useful in the area of judging the company's efficiency only when they are compared with past results of the business. However, such a comparison only provides reference of the past performance, forecast the future trends may not be correct in case that the changes of several other factors such as market conditions, management policies and so on;

· Limitations of financial statement: financial ratios are based on the information which has been recorded in the financial statement. Financial statement itself is subject to several limitations, thus the financial ratios are also subject to several limitations.

Financial ratios analysis groups the ratios in several categories which are used to analyze a company's finances and operations. An overview of some types of the financial ratios is given below:

· Activity ratios, which use turnover measures to evaluate how efficient a company is in its operations and usage of assets investment;

- Liquidity ratios, which measure a company's short-term financial situation and the ability to meet or repay the short-term debt;

- Solvency ratios, which are used to evaluate a company's ability to meet its debt obligations;

- Profitability ratios, which show the results of business operations, total performance and effectiveness of the company to know how much the company gain the profits from its sales.

2.2.1 Activity Analysis

Company's purpose is getting more earnings to maximize its profits. A company hopes and tries to convert its products such as inventories and receivables into cash, cash equivalents or sales as soon as possible so as to generate higher revenues or sales.

Activity ratio analysis is a measure to analyze how quickly a company puts its investment to use and convert into cash, cash equivalents or sales. We can use the activity ratios to evaluate the company's ability to use its assets. Activity ratio analysis can evaluate efficiency of a company's assets operations and find out problems of a company's assets operations. It's basis and supplement of the profitability analysis and solvency analysis.

There are two methods of calculating activity ratios which are turnover ratios and numbers of days. In the turnover ratios, we evaluate how many times a company uses its assets to convert into cash or cash equivalents to generate profit during a period. If the times of turnover are more frequent, it means that a company's ability to convert into cash or cash equivalents is stronger and its level of management is higher. If the times of turnover are less frequent, it means that a company's ability to convert into cash or cash equivalents is weaker and its level of management is lower. In the methods of number of days, we evaluate how many days it would take a company uses its assets or puts its investment to convert into cash to cover the capital inputs. If the days

of turnover are shorter, it means that a company's ability to convert into cash is stronger and its level of management is higher. If the days of turnover are longer, it means that a company's ability to convert into cash is weaker and its level of management is lower. In conclusion, if a company wants to generate more profits and cover the inputs in its investment, it should reach to faster turnover speed that more frequency of turnover times and shorter turnover days.

As we know from the information above, turnover ratios are used to measure a company's efficiency to get cash as soon as possible. There are two common turnover ratios: inventory turnover and receivable turnover.

A)　Inventory turnover ratio

Inventory turnover ratio is a composite index that measures and evaluates a company's management condition of various aspects which are purchasing inventories, putting into introduction and receiving sales. In current assets, there is a large proportion of inventories, the liquidity of inventories will directly affect the current ratio of a company. Therefore, we must pay special attention to the analysis of inventory. It reflects the speed of inventory turnover including inventory turnover and number of days of inventory.

Inventory turnover

Inventory turnover is a ratio which aims to reflect how many times it takes that a company uses its inventories to convert into sales during a certain period.

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Inventory}} \qquad (2.1)$$

The cost of goods sold is from income statement, while the inventory is from balance sheet.

Number of days of inventory

Number of days of inventory reflects how many days it takes that a company operates the inventory process in order to get the profits to cover the costs within a certain period such as one year.

$$\text{Number of days of inventory} = \frac{\text{Inventory}}{\text{Average day's cost of goods sold}}$$

$$= \frac{365 \cdot \text{Inventory}}{\text{cost of goods sold}} \tag{2.2}$$

In general, the faster the speed of inventory turnover is, which is the more frequent times of inventory and less number of days, the lower level of inventory occupied, the stronger the liquidity is, the faster the speed of converting inventory into cash or cash equivalents is. Thus, it will strengthen a company's ability of repaying short-term debt and profitability. Through the inventory turnover ratios analysis, it's good to find out the problems in inventory management and minimize the funds of taking up level as far as possible

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B)   Receivable turnover ratio

Receivable turnover ratio is used to measure the indicators of flow degree of a company's receivables, financial and operational performance and the speed of its debt collection. This ratio shows how quickly a company gets cash or cash equivalents from its customers during a selected year and can be used to check out if the company has difficulties receiving sales made on credit.

Receivable turnover

Receivable turnover indicates how many times it takes that a company can receive receivables to cover debt from customers during a certain period or one year.

$$\text{Receivable turnover} = \frac{\text{Total revenue}}{\text{Receivables}} \qquad (2.3)$$

The total revenue is from income statement in the financial statement, while the receivables are from balance sheet.

Number of days of receivables

Number of days of receivables reflects how many days it takes that customers can pay their accounts to the company so that the company can collect receivables in the current assets.

$$\text{Number of days of receivables} = \frac{\text{Accounts receivables}}{\text{Average day's revenue}}$$

$$= \frac{365 \cdot \text{Accounts receivables}}{\text{Revenue}} \qquad (2.4)$$

In general, the faster the speed of receivables is, which is the more frequent times of receivables and less number of days, the better benefit for a company. It indicates a company's faster speed of receiving accounts, shorter collection period, less bad debts losses, faster liquidity of assets and stronger ability to repay debt. If the number of days is too long, then it means that the debtors owe accounts for a long time, have low creditworthiness and increase the risk

of causing bad debt losses; meanwhile it also means the company does not try its best to collect payments from customers.

C) Total asset turnover

Total asset turnover ratio is a ratio that measures how well assets are being used to efficiently generate revenues. This ratio considers all the assets including current assets such as inventory, receivables as well as any other current assets and fixed assets such as goodwill, plant and equipment. It is an important indicator that investigates a company's operational efficiency of assets. It embodies all the assets' speed of turnover from input to output during the period of business operation, reflects the management quality and usage efficiency of a company's all the assets.

Total asset turnover indicates how many times it takes that a company can use its total assets to result in revenues during a certain period or one year.

$$\text{Total asset turnover} = \frac{\text{Total revenue}}{\text{total assets}} \qquad (2.5)$$

Through the comparative analysis of the indicator, the total asset turnover ratio can reflect the operational efficiency and changes of a company's total assets in the current year or prior years. In general, if the total asset turnover ratio is higher, it indicates that a company's speed of total asset turnover is faster, the company's ability to sell is stronger and the usage efficiency of assets is higher.

D) Working capital turnover

Working capital turnover measures how efficient the management is that a company uses its working capital to produce revenues. The working capital turnover rate indicates that the usage efficiency of a company's working capital.

It reflects that the working capital of each input can be converted into sales revenues, and also reflects the times of turnover of working capital in one year.

$$\text{Working capital turnover} = \frac{\text{Total revenue}}{\text{Total working capital}} \tag{2.6}$$

In general, if a company's working capital turnover rate is higher, it indicates that a company can obtain more revenues by the working capital of each input and it has high usage efficiency of its working capital. On the contrary, the lower rate of a company's working capital, the lower usage efficiency of it.

E) Number of days of payables

Number of days of payables measures how long a company would take to pay its creditors on average.

Number of days of payables

$$= \frac{\text{Accounts payable} \cdot 365}{\text{Purchases}}$$

$$= \frac{\text{Accounts payable} \cdot 365}{\text{cost of goods sold} + \text{ending inventory} - \text{beginning inventory}} \tag{2.7}$$

If the number of days of payables is higher, it indicates that the company has difficulty to pay its creditors, or the company pays its creditor relatively slow, the company's financial condition is going to be worse. If the number of days of payables is lower, it indicates that the company has ability to pay its creditors relatively easy, or the company pays its creditors quickly.

F) Operating cycle

For a company, the basic concept of operating cycle is that a company purchases products or services with cash, sells them to customers to receive cash through collection of accounts receivables and then repeat this process, this is called the operating cycle. It depends on two factors: number of days of inventory and number of days of receivables.

Operating cycle = Number of days of inventory + Number of days of receivables   (2.8)

If the operating cycle is shorter, it means that a company is able to quickly recover its investment and convert it into cash or cash equivalents. If the operating cycle is longer, it means that a company has less cash or cash equivalents available to meet short-term needs.

2.2.2   Liquidity Analysis

Liquidity analysis is an analysis that measures a company's short-term liquidity and the efficiency of converting a company's assets into cash or cash equivalents. The purpose is to know the company's ability to pay off debt obligations and detect the possibility of occurring financial crisis.

The indicators which reflect the liquidity analysis are current ratio, quick ratio and cash ratio.

A) Current ratio

Current ratio is the ratio of current assets to current liabilities which can be used to measure a company's current assets that can be turned into cash and used to pay off liabilities before the expiration to the short-term debt.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \qquad (2.9)$$

B)   Quick ratio

Quick ratio is a measure of a company's current assets that can be immediately used the ability to repay current liabilities in short-term period.

$$\text{Quick ratio} = \frac{\text{Cash+Short−term marketable investments+Receivables}}{\text{Current liabilities}}$$

$$(2.10)$$

C)   Cash ratio

Cash ratio is a ratio that calculates the ratio of company's cash and cash equivalents and the current liabilities to measure the company's liquidity and its ability to repay its short-term debt.

$$\text{Cash ratio} = \frac{\text{Cash+Short−term marketable investments}}{\text{Current liabilities}} \qquad (2.11)$$

In general, if the liquidity ratios are higher, it means that a company has the better ability to meet its immediate needs and pay off its short-term debt.

2.2.3   Solvency Analysis

A company's solvency refers to the ability of a company that uses its assets to pay off its long-term and short-term debt and the ability of its assets and business process to create the income to repay debts and meet its interest

17

costs. A company has the ability to pay assets and repay its debt, it's the key that the company can be survival and has healthy development.

A) Component-Percentage Solvency Ratios

Component-percentage solvency ratios measure the relationship among assets, debt and shareholders' equity and how much a company relies on its debt financing.

Debt-to-assets ratio

Debt-to-assets ratio is the ratio of total debt to total assets. It shows the structure of sources and the proportion of total debt to assets.

$$\text{Debt-to-assets ratio} = \frac{\text{Total debt}}{\text{Total assets}} \qquad (2.12)$$

If the debt-to-assets ratio is high, it means that the company has strong dependence on funds borrowed from creditors. On the contrary, the company has weak dependence on funds borrowed from creditors.

Long-term debt-to-assets ratio

Long-term debt-to-assets ratio is the ratio of long-term debt to total assets which measures a company's dependence on long-term debt.

$$\text{Long-term debt-to-assets ratio} = \frac{\text{Long-term debt}}{\text{Total assets}} \qquad (2.13)$$

If the long-term debt-to-assets ratio is high, it means that the company has stronger long-term debt dependence than other kinds of debt dependence. On the contrary, the company has weaker long-term debt dependence.

Debt-to-equity ratio

Debt-to equity ratio is the ratio of total debt to total shareholders' equity. This indicator shows the relation of capital sources provided by creditors and investors and measures the stability of a company's basic financial structure.

$$\text{Debt-to-equity ratio} = \frac{\text{Total debt}}{\text{Total shareholders'equity}} \qquad (2.14)$$

If the debt-to-equity ratio is high or over 1, it means that the funds provided by creditors are more than that provided by owners. On the contrary, the assets provided by investors are more than they provided by creditors.

Financial leverage

Financial leverage refers to a method of a company when liabilities are used to regulate the gains of equity capital. It shows that a company operates with borrowed funds properly during the process of financing and regulates the capital structure to bring additional profits for the company.

$$\text{Financial leverage} = \frac{\text{Total assets}}{\text{Total shareholders'equity}} \qquad (2.15)$$

Total assets are composed of total debt and total shareholders' equity. If the financial leverage ratio is high, it means that the company uses its debt more than shareholders' equity to financing. On the other hand, if the financial leverage ratio is low, the company uses its shareholders' equity more than debt to financing.

B) Coverage Ratios

Coverage ratios measure a company's ability to meet a certain financial obligation and indicate a company's business revenues to pay interest on

borrowings. The most common coverage ratios include interest coverage ratio, cash flow coverage ratio, cash-flow-to-debt ratio.

Interest coverage ratio

Interest coverage ratio is the ratio of earnings before interest and taxes to interest payments. It measures a company's ability to meet its interest payments obligations.

$$\text{Interest coverage ratio} = \frac{\text{Earning before interest and taxes}}{\text{Interest payments}} \qquad (2.16)$$

If the interest coverage ratio is less than 1, a company is not able to satisfy its interest payments obligations. On the other hand, if the interest coverage ratio is more than or equal 1 and higher, the company has the ability to repay the interest payments.

Cash flow coverage ratio

Cash flow coverage ratio has the relationship between cash flow and interest payments, tax and interest. It measures a company's ability of having enough funds available to meet its interest payments obligations.

$$\text{Cash flow coverage ratio} =$$
$$\frac{\text{Cash flow from operations} + \text{Interest payments} + \text{Tax payments}}{\text{Interest payments}}$$

$$(2.17)$$

Cash-flow-to-debt ratio

Cash-flow-to-debt ratio is the ratio of cash flow from operations to total debt. It's a measure of how well a company pays its total debt by the cash generated from its operations.

$$\text{Cash-flow-to-debt ratio} = \frac{\text{Cash flow from operations}}{\text{Total debt}} \qquad (2.18)$$

The rate of cash-flow-to-debt ratio is less than 1, in the case that the company has so much debt that the cash generated from its operations cannot cover its debt. If the rate of cash-flow-to-debt ratio is equal or more than 1, the company has the ability to satisfy its debt obligations from its cash generation.

2.2.4 Profitability Analysis

Profitability analysis evaluates a company's ability to make profits, how much profits it can make and its effectiveness. It shows us the company's financial health and it performance in business. There are two ways to prove a company's profitability:

· calculating margins;

· return-on-investment ratios.

A) Margins

Margins are used to check out the relationship and impact between each kind of income such as gross profit, operating profit, net profit, pretax profit or other kinds of profit and total revenue.

Gross profit margin

Gross profit is the profit that shows the difference between revenues and cost of goods sold. Gross profit margin measures a company's effectiveness during the production process or primary business without costs.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Total revenue}} \qquad (2.19)$$

If the gross profit margin is high, the company has the ability to control its costs and the ability of the profits obtained from the main business is strong.

Operating profit margin

Operating profit is the profit before interest and taxes. Operating profit margin reflects the total profitability of a company and the company's ability to control its costs and expenses.

$$\text{Operating profit margin} = \frac{\text{Operating income}}{\text{Total revenue}} \qquad (2.20)$$

If the operating profit margin is high, the company has ability to control its costs and expenses and the sales increase faster than costs.

Net profit margin

Net profit margin is the ratio of net income to total revenue. It measures how much profit is left after all the costs and expenses including interest payments, taxes and non-operating costs are paid off. It reflects earnings generated by business during a certain period.

$$\text{Net profit margin} = \frac{\text{Net income}}{\text{Total revenue}} \qquad (2.21)$$

The higher net profit margin is, the higher earnings the company gets. The lower net profit margin is, the lower earnings the company gets, the higher costs and expenses the company has.

Pretax profit margin

Pretax profit margin means how much the company gets profit before it pays the taxes.

$$\text{Pretax profit margin} = \frac{\text{Earnings before taxes}}{\text{Total revenue}} \qquad (2.22)$$

The higher pretax profit margin is, the higher earnings before taxes are. The lower pretax profit margin is, the lower earnings before taxes are, the higher taxes the company paid.

B) Return-on-Investment Ratios

Return-on-investment ratios measure the profit generated from various kinds of investment.

Operating return on assets

Operating return on assets is the ratio of operating income to total assets. It measures how well the company manages its ability of assets to generate its operating income.

$$\text{Operating return on assets} = \frac{\text{Operating income}}{\text{Total assets}} \qquad (2.23)$$

Return on assets

Return on assets is used to measure how much earnings is generated from investment capital.

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}} \qquad (2.24)$$

The higher the ratio of return on assets is, the higher the company's effect of using assets is, it indicates that the company achieves good results in the part of increasing revenues, saving funds and offers sufficient return of capital invested.

Return on equity

Return on equity is the ratio of net income to shareholders' equity. It reflects how much profit the company gets from shareholders' investment.

$$\text{ROE} = \frac{\text{Net income}}{\text{shareholders' equity}} \qquad (2.25)$$

The higher the ratio of return on equity is, the higher profit the shareholders can get. On the contrary, the shareholders' profitability is lower.

2.3 DuPont Analysis

DuPont analysis is a classical method used to evaluate a company's profitability, return on equity and corporate performance from financial point of view. It uses the relationship among several main financial ratios to comprehensively analyze a company's financial position. This analysis was first used by America DuPont company, so named DuPont analysis.

In DuPont analysis, there are three factors which affect return on equity:

· Operating efficiency which is measured by net profit margin;

· efficient usage of assets which is measured by total assets turnover;

· financial leverage which is measured by equity multiplier.

$$\text{Return on equity} = \text{Net profit margin} \cdot \text{Total assets turnover} \cdot \text{Financial leverage}$$

$$= \frac{\text{Net income}}{\text{Revenues}} \cdot \frac{\text{Revenues}}{\text{Total assets}} \cdot \frac{\text{Total assets}}{\text{Total shareholders' equity}}$$

$$(2.26)$$

This formula can be expressed as follows:

Operating profit margin · Effect of nonoperating items · Tax effect · Total assets turnover · Financial leverage

$$\text{Return on equity} = \frac{\text{Operating income}}{\text{Revenues}} \cdot \frac{\text{Income before taxes}}{\text{Operating income}} \cdot$$
$$\left(1 - \frac{\text{Taxes}}{\text{Income before taxes}}\right) \cdot \frac{\text{Revenues}}{\text{Assets}} \cdot \frac{\text{Total assets}}{\text{Total shareholders' equity}} \quad (2.27)$$

Influence quantification

Influence quantification aims at analyze ratios, whose change have caused change in the basic ratio. Based on the change of component ratios, it shows their influence on the basic ratio. The basic ratio is ROE, the component ratio is net profit margin, total assets turnover and financial leverage.

There are two methods for quantification of influence:

· Method of gradual changes;

· Logarithmic decomposition method.

A) Method of gradual changes

This method shows the change in the basic ratio caused by change in the component ratio. The impact of the component ratios depends on their order. $\triangle X$ is the absolute change in the basic ratio, a is the component ratio and $\triangle a$ is the absolute change in the component ratio.

$\triangle X_{a1} = \triangle a_1 \cdot a_{2,0} \cdot a_{3,0}$

$\triangle X_{a2} = a_{1,1} \cdot \triangle a_2 \cdot a_{3,0}$

$\triangle X_{a3} = a_{1,1} \cdot a_{2,1} \cdot \triangle a_3$

$$(2.28)$$

B) Logarithmic decomposition method

The advantage of this method is regardless of how many component ratios there are, there is only one formula for the impact of quantification. The impact of the component ratios is independent on their order. This method can not be used if the indexes are negative.

$\triangle$X is the absolute change in the basic ratio, $I_x = \dfrac{X1}{X0}$ is the index of change in

basic ratio and $I_a = \dfrac{a1,}{a,0}$ is the index of change in component ratio.

$$\triangle X_{ai} = \frac{\ln lai}{\ln lx} \cdot \triangle X \qquad (2.29)$$

3   Characterisation of China Mobile Limited

China Mobile Limited was set up in Hong Kong on 3 September 1997. It's an investment holding company, provides telecommunications and other relevant services mainly in China mainland. It has various kinds of services which are local calls, domestic long distance calls, international long distance calls, domestic roaming and international roaming. It also offers voice value-added services which are caller identity display, caller restrictions, call waiting, call forwarding, call holding, voice mail and conference calls; data services, including short messaging, wireless application protocol, multimedia messaging, and color ring services, as well as Java Applications, interactive voice response, PIM[1].

China Mobile Ltd. was listed on the New York Stock Exchange ("NYSE") on 22 October 1997 and on the Stock Exchange of Hong Kong Limited ("HKEx") on 23 October 1997. The company was chosen as a constituent stock of the Hang Seng Index in Hong Kong on 27 January 1998. As a leading mobile services provider in China, China Mobile Ltd. is the world's largest mobile network and has the world's largest mobile customer base. In 2010, it was selected as one of the "FT Global 500" by Financial Times and "The World's 2000 Biggest Public Companies" by Forbes magazine, and was recognized on the Dow Jones Sustainability Indexes ("DJSI"). Recently, the company's credit rating is Aa3/Outlook Positive by Moody's and AA-/Outlook Stable by Standard & Poor's, respectively equivalent to China's sovereign credit rating[2].

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[1] Yahoo Finance [online]. [20. 4. 2012]. Available on http://finance.yahoo.com/q/pr?s=CHL+Profile
[2] China Mobile Limited [online]. [20. 4. 2012]. Available on http://www.chinamobileltd.com/about.php?menu=1

Exhibit 3.1 China Mobile Ltd. common stock on NYSE

China Mobile Limited Common Sto
■ CHL   Apr 27, 2012

(Yahoo Finance [online]. [20. 4. 2012]. Available on
http://finance.yahoo.com/q/bc?s=CHL&t=my&l=on&z=l&q=l&c=)

Until 31 December 2010, China Mobile had a total staff of 164,336 and a customer base of 584 million, and enjoyed a market share of approximately 69.3% in Mainland China. Its GSM global roaming services covered 237 countries and regions and its GPRS roaming services covered 186 countries and regions.

3.1 Shareholding structure

China Mobile Ltd.'s majority shareholder is China Mobile (Hong Kong) Group Limited, which indirectly holds an equity interest of approximately 74.21% in the company through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining equity interest of approximately 25.79% of is held by public investors.

China Mobile Communications Corporation, a company found in China mainland, owns 74.20% equity interest in China Mobile Ltd. through

intermediate holding companies. China Mobile Ltd. owns 100% equity interests in Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile, Shanxi Mobile, Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xijiang Mobile, Jingyi and CMC, and a 66.41% equity interest in Aspire Holdings Limited which is a company found in the Cayman Islands[3].

3.2 Leadership

Several main managers who have important position in the China Mobile Ltd. company are introduced as follows:

- Xi Guohua is an executive director and chairman of the company, joined the Board of Directors of the Company in July 2011. He is in charge of the overall management of the company.

- Li Yue is an executive director and chief executive officer of the company, joined the Board of Directors of the Company in March 2003. He is in charge of the operation and management of the company.

- Xue Taohai is an executive director, vice president and chief financial officer of the company, joined the board of directors of the company in July 2002. He is principally in charge of the corporate affairs, finance and internal audit of the company.

- Huang Wenlin, an executive director and vice president of the company, joined the board of directors of the company in September 2007, is

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[3] China Mobile Limited [online]. [21. 4. 2012]. Available on http://www.chinamobileltd.com/about.php?menu=3

principally in charge of human resources and inspection matters of the company.

- Sha Yuejia, an executive director and vice president of the company, joined the board of directors of the company in March 2006, is principally in charge of marketing, data business and corporate customers management of the company.

- Liu Aili, an executive director and vice president of the company, joined the board of directors of the company in March 2006 and is principally in charge of network operation, business support, information management, information security and planning and construction of the company.

- Xu Long is an executive director of the company, joined the board of directors of the company in August 1999 and also the chairman and president of Guangdong Mobile. He is responsible for the company's business operations in Guangdong[4].

3.3 Enterprise Culture

The core connotation of China Mobile Ltd.'s corporate culture is responsibility and excellent, which reflects China Mobile as a business and one if the society, will become a responsible and best company and individual as its own pursuit. The concept system of China Mobile Ltd. enterprise culture constitutes three parts of core values, mission, vision.

China Mobile's core value is to benefit the people and strive for continuous improvement. China Mobile's mission is to create unlimited communication world and be the information pillar of society. China Mobile's vision is to become a creator of making excellent quality.

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[4] China Mobile Limited [online]. [21. 4. 2012]. Available on http://www.chinamobileltd.com/about.php?menu=2

The company's goal has always been to enhance its corporate value, maintain its sustainable long-term development and generate greater returns for its shareholders. In order to better achieve the above objectives, China Mobile Limited has established good corporate governance practices following the principles of integrity, transparency, openness and efficiency, and has implemented sound governance structure and measures. With respecting to the key participants involved in the practice of good corporate governance, including shareholders, board of directors and its committees, management and staff, internal audit, external auditors and other stakeholders, it has established and improved various policies, internal controls and other management mechanisms.

3.4 Company's achievements from 2006 to 2010

·   March 28, 2006. China Mobile (Hong Kong) Limited completed the acquisition and privatization of former China Resources Peoples Telephone Company Limited and later changed its name to China Mobile Peoples Telephone Company Limited. China Mobile Peoples Telephone Company Limited became a wholly-owned subsidiary of China Mobile (Hong Kong) Limited.

·   May 29, 2006. China Mobile (Hong Kong) Limited changed its name to China Mobile Limited.

·   June 8, 2006. China Mobile Limited entered into a memorandum of understanding with News Corporation and STAR Group Limited to build a long-term wireless media strategic alliance.

·   October 10, 2007. The 10th anniversary of China Mobile Limited's listing on the Stock Exchange of Hong Kong and New York Stock Exchange.

·   April 29, 2009. China Mobile Limited entered into a share subscription agreement with Far EasTone Telecommunications Co., Ltd. ("Far

EasTone") to acquire, through its wholly-owned subsidiary, 444,341,020 shares, representing 12% of the enlarged issued share capital of Far EasTone.

· March 10, 2010. The Company's wholly-owned subsidiary, Guangdong Mobile and Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank") entered into a share subscription agreement to acquire 20% interest in SPD Bank at a consideration of RMB39.5 billion. Completion of the subscription took place in October.

On 25 November, China Mobile Limited and SPD Bank entered into a strategic cooperation agreement, thereby officially commenced their cooperation in areas of mobile finance and mobile e-commerce businesses[5].

3.5 Main Competitors

There are more providers of mobile services in China, the main competitors of China Mobile Ltd. are:

· China telecommunications corporation;

· China Unicom.

China telecommunications corporation

It was set up in 2002, and it's large state-owned communications enterprise. As a principal telecom enterprise and the largest infrastructure network operators, it owns the world's largest fixed telephone network. China Telecom Tianyi mobile users broke 100 million that it became the world's largest CDMA(Code division multiple access) network operators on 31 March 2011.

China Unicom

It was set up through the merger on the basis of former China Netcom and former China Unicom on 6 January 2009. It mainly engaged in GSM and

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[5] China Mobile Limited [online]. [21. 4. 2012]. Available on http://www.chinamobileltd.com/about.php?menu=6

WCDMA mobile networks, fixed broadband services and broadband mobile internet services.

China Mobile has a 70% market share in its domestic mobile services market, however, China Unicom and China Telecom have 20% and 10% market shares, respectively.

4   Financial Analysis of the Company

This chapter provides financial analysis of China Mobile Limited based on methods in chapter 2. The data, tables and charts will be presented in this chapter, through it, we can know China Mobile Ltd.'s financial performance and predict its future development. All calculations are carried out based on data in annexes (Annex 1 – 3).

4.1 Common-Size analysis

4.1.1   Vertical Common-Size Analysis

First, let's have a look at the shorter version of China Mobile Ltd.'s income statement in the 5 years period.

(Table 4.1) Vertical common size analysis of income statement

	Common-size Statement (% of revenues)				
	2006	2007	2008	2009	2010
Revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenue	7.2	6.7	6.0	5.5	5.3
Gross profit	92.8	93.3	94.0	94.5	94.7
Total operating expenses	61.7	58.6	59.4	62.0	63.6
Other income (expense)	2.2	2.0	2.1	1.8	1.9
Provision for income taxes	10.4	11.8	8.9	8.5	8.0
Net income	22.4	24.4	27.4	25.5	24.7

From chart 4.1, the total operating expenses have large proportions, it means that China Mobile Ltd. cost much on its operating expenses. The cost of revenue is decreasing and this decrease is concurrent with a gradual increase in the gross profit. The net income in 2008 is higher than other remaining 4

years. The income taxes are higher in 2007, after 2007 it got decreasing over time.

(Chart 4.1) Vertical common size analysis of income statement
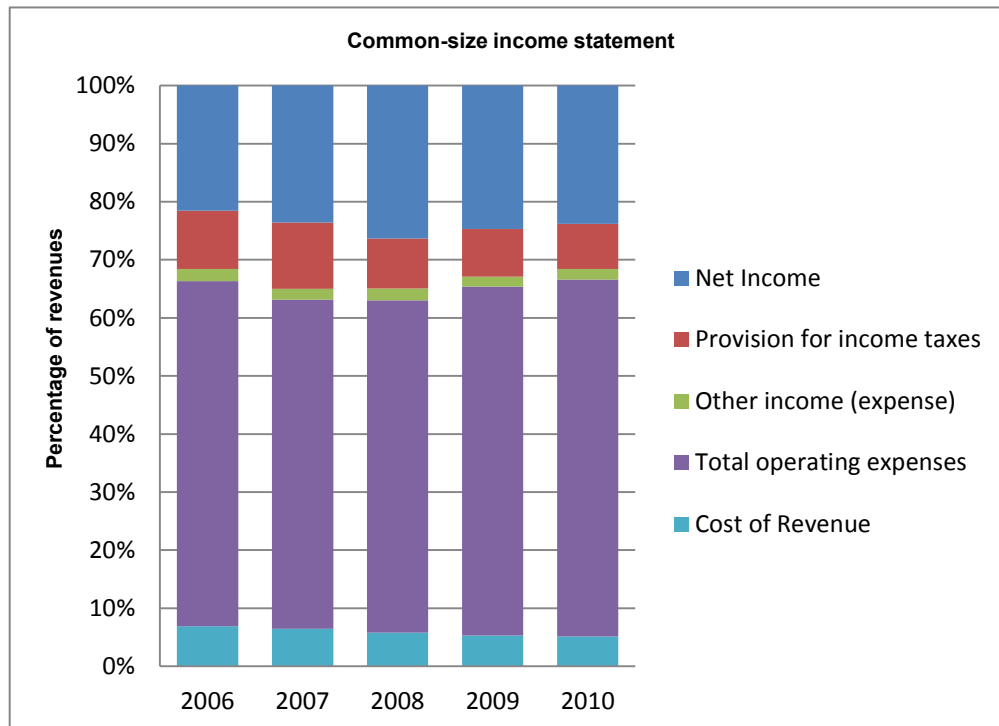
As we did for income statement, China Mobile Ltd.'s balance sheet case will be stated as follows.

(Table 4.2) Vertical common size analysis of balance sheet (assets)

	Common-Size Statement (% of assets)				
	2006	2007	2008	2009	2010
Cash and Short Term Investments	14.4	14.0	13.3	10.6	10.5
Receivables	1.4	1.2	1.1	0.9	0.9
Inventories	0.6	0.6	0.5	0.5	0.5
Prepaid Expenses	0.9	1.0	1.2	1.2	1.2
Cash in the	17.3	20.0	20.5	25.0	24.2

bank					
Property, Plant and Equipment	44.2	45.6	49.8	47.9	44.7
Equity and other investments	-	-	0.0011	0.0008	4.7
Intangible assets	0.1	0.1	0.0	0.1	0.1
Deferred income taxes	1.4	1.0	1.0	1.2	1.1
Other Long Term Assets	12.1	9.9	6.9	7.6	7.8

(Chart 4.2) Vertical common size analysis of balance sheet
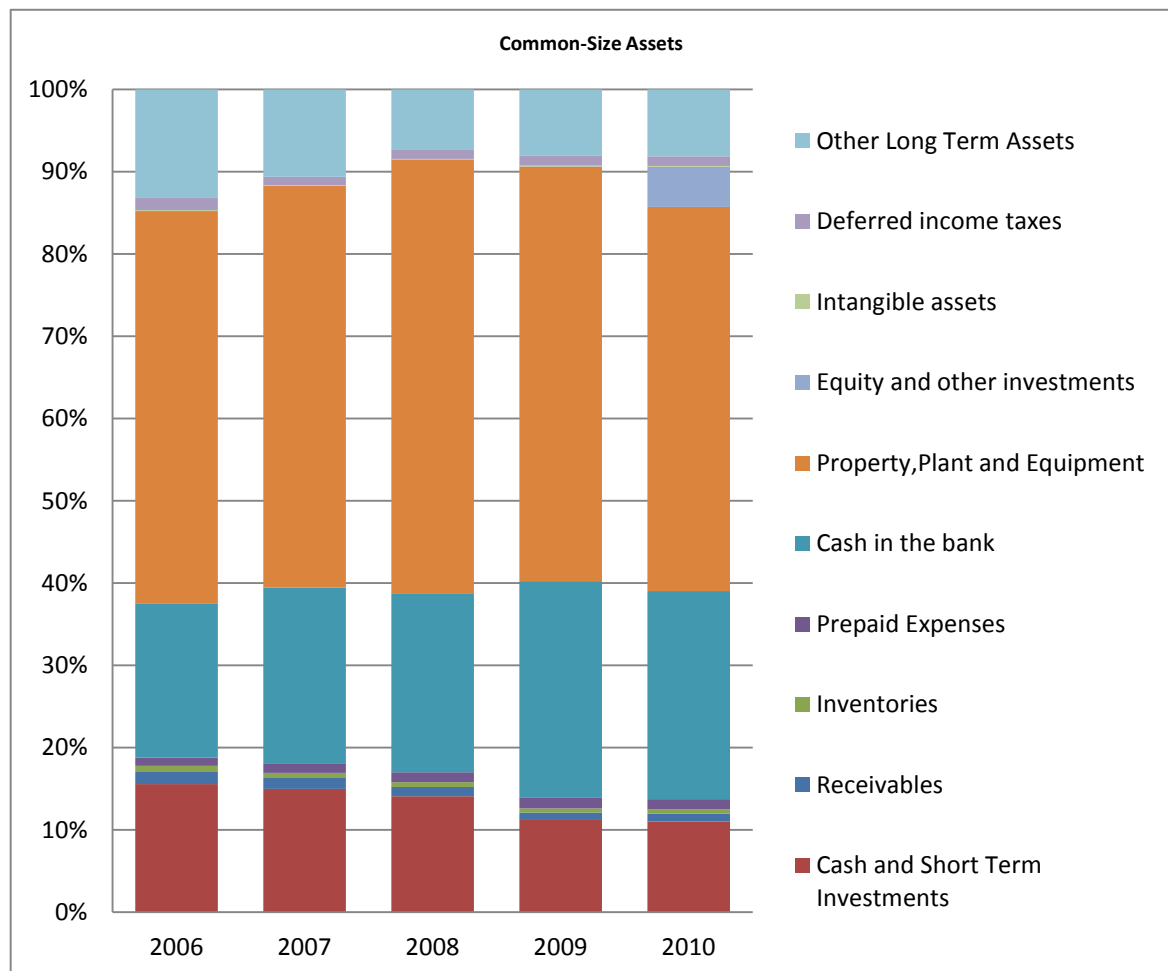
Chart 4.2 shows the proportions of selected asset items on total assets. The largest proportions are obvious for cash and short term investments, cash in the bank and property, plant and equipment over the whole period 2006-2010. The level of the selected item property, plant and equipment is relatively stable and achieves approximately 50% of total assets over the selected years. Then China Mobile Ltd. has large deposit in the bank, substantially increases from 2006 to 2009 and in 2010 it just decreased a little bit. Even though cash and short term investments have a big impact on assets, its proportions were decreasing over the selected years from 14.4% to 10.5%.

In chart 4.2, we see that the equity and other investments have large changes from 2009 to 2010 (from 0.0008% to 4.7%). The reason is China Mobile Ltd. increased large affiliated company equity in 2010.

(Table 4.3) Vertical common size analysis of balance sheet (liabilities and equity)

	Common-Size Statement (% of assets)				
	2006	2007	2008	2009	2010
Other current liabilities	0.6	0.04	0.02	0.02	0.6
Accounts payable	11.6	11.3	12.1	12.8	13.0
Accrued liabilities	9.3	9.0	9.3	9.2	9.9
Tax payable	2.0	2.53	1.7	1.1	1.1
Long-term liabilities	6.8	6.0	5.1	4.5	3.3
Deferred taxes liabilities	0.039	0.022	0.012	0.008	0.005
Minority Interest	0.07	0.09	0.10	0.12	0.14
Capital stock	0.4	0.4	0.3	0.3	0.2

| Reserve | 64.1 | 65.9 | 66.9 | 67.2 | 66.6 |

In the chart 4.3, we see that obviously the reserve accounts represents a large proportion on liabilities and shareholders' equity, directly influence its liabilities and shareholders' equity and all proportions over the 5 years are beyond 50%.

(Chart 4.3) Vertical common size analysis of balance sheet
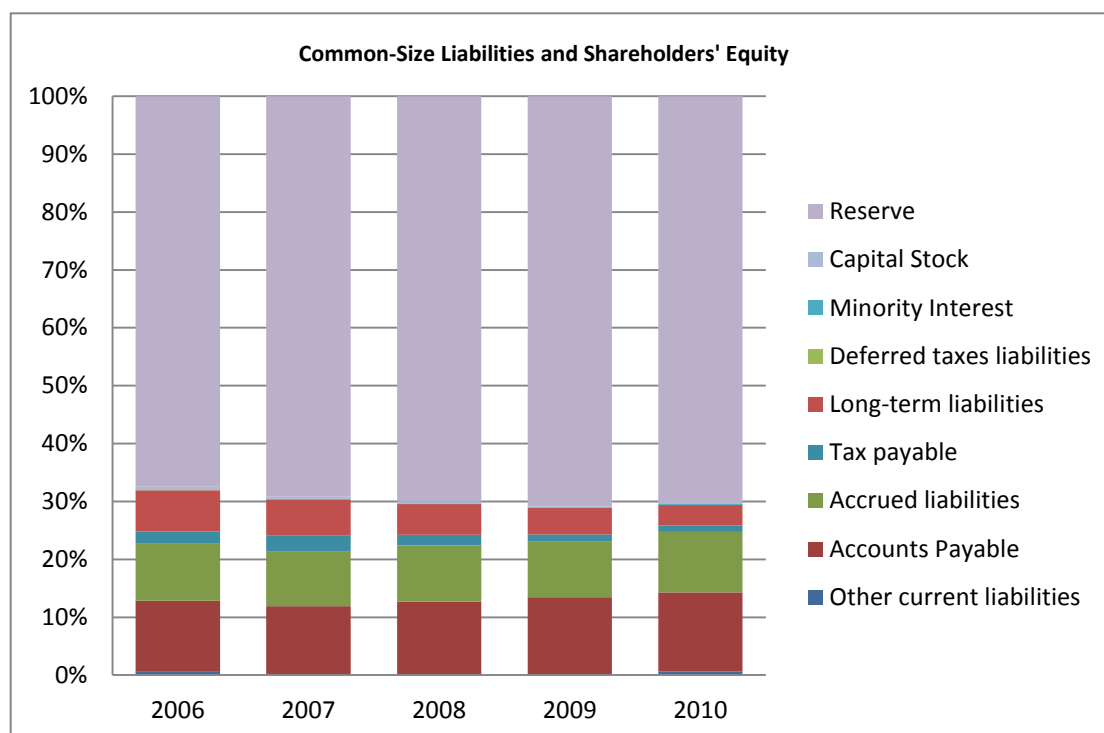
China Mobile Ltd. strengthened its reserve to expand business and investment. Then accounts payable and accrued liabilities have a big impact on liabilities and shareholders' equity, relatively stable.

Deferred taxes liabilities decreased and minority interest increased over the selected years.

In the other current liabilities of table 4.3, from 2007 to 2009, there are the relative lower proportions. It's because during these 3 years, China Mobile Ltd. had reduced the loan with interest, final holding company funds payable and direct holding company funds payable.

4.1.1   Horizontal Common-Size Analysis

The year 2006 is considered as a benchmark, then the common-size income statement for the subsequent 4 years is calculated as follows.

(Table 4.4) Horizontal common size analysis of income statement

	Common-size Statement (% of 2006 value)				
	2006	2007	2008	2009	2010
Revenues	100.0	121.0	139.7	153.2	164.4
Cost of revenue	100.0	112.3	117.4	117.2	121.5
Gross profit	100.0	121.6	141.5	156.0	167.8
Total operating expenses	100.0	114.8	134.5	154.0	169.6
Operating income	100.0	135.1	155.3	160.1	164.2
Other income (expense)	100.0	107.9	133.8	124.4	142.1
Provision for income taxes	100.0	136.7	119.6	124.8	126.9
Net income	100.0	132.0	171.0	174.6	181.4

From the table 4.4, we can see that the growth of net income is mainly affected by revenues comparing with the cost of revenue. From 2006 to 2010, net income increased by 81.4%, while revenues increased by 64.4%. As we see, operating income increased by 64.2% in 2010, it's the main factor affecting the growth of net income. The gross profit increased over the selected years, because the growth of revenues is higher than the growth of cost of revenues, in 2010, revenues increased by 64.4% and cost of revenues increased by 21.5%.

(Table 4.5) Horizontal common size analysis of balance sheet

	Common-size Statement (% of 2006 value)				
	2006	2007	2008	2009	2010
Cash and Short Term Investments	100.0	110.9	123.0	112.3	127.7
Receivables	100.0	97.7	98.2	89.9	110.9
Inventories	100.0	109.6	116.3	128.0	141.4
Prepaid Expenses	100.0	123.4	165.9	196.8	220.4
Cash in the bank	100.0	132.0	157.4	220.1	244.2
Total current assets	100.0	121.2	140.2	167.7	187.9
Property, Plant and Equipment	100.0	117.8	150.2	165.0	176.5
Intangible assets	100.0	66.5	42.5	103.6	115.8
Deferred income taxes	100.0	76.6	96.9	125.8	136.8
Other Long Term Assets	100.0	93.2	76.2	95.7	111.9
Total assets	100.0	144.0	133.1	152.0	174.4

In table 4.5, through calculating common-size assets of China Mobile Ltd. for the subsequent 4 years relative to 2006, the total assets increased by 74.4% from 2006 to 2010, the most main factors that affecting total assets are cash in the bank and repaid expenses which increased by 144.2% and 120.4% respectively, repaid expenses caused mainly by prepaid rent expenses increased. Then the property, plant and equipment also largely rose by 76.5%.

In table 4.6, through calculating common-size liabilities and shareholders' equity of China Mobile Ltd. , we see that comparing with liabilities, the company has a large proportion of equity which increased by 80.8% from 2006 to 2010. Then the trend of equity is almost the same with the trend of reserve

in each selected year. While total liabilities increased by 62.8% over the same period.

(Table 4.6) Horizontal common size analysis of balance sheet

	Common-size Statement (% of 2006 value)				
	2006	2007	2008	2009	2010
Other current liabilities	100.0	6.7	3.9	3.8	157.1
Accounts payable	100.0	111.7	139.1	167.7	139.0
Accrued liabilities	100.0	110.3	132.9	150.3	185.8
Tax payable	100.0	145.2	114.9	82.2	93.4
Long-term liabilities	100.0	100.1	100.0	100.0	85.3
Deferred taxes liabilities	100.0	63.6	41.0	31.3	20.0
Minority Interest	100.0	133.2	171.4	241.4	339.5
Total liabilities	100.0	108.1	122.7	139.4	162.8
Capital stock	100.0	100.1	100.3	100.4	100.4
Reserve	100.0	117.4	139.0	159.4	181.3
Total equity	100.0	117.3	138.8	159.0	180.8
Total liabilities and shareholders' equity	100.0	114.0	133.1	152.0	174.4

4.2   Financial Ratio Analysis

Financial analysis calculates financial ratios which are based on the company's financial statements (Annexes 1 – 3). The main items for many

ratios are revenue, total assets, total liabilities and equity, which are presented in the following table (Table 4.7).

(Table 4.7)

Year	2006	2007	2008	2009	2010
Revenue	295,080	356,939	412,343	452,103	485,231.00
Total Assets	494,211	563,456	657,697	751,368	861,935
Total Liabilities	175,513	189,725	215,419	244,620	285,778
Total Equity	318,698	373,731	442,278	506,748	576,157

4.2.1   Activity Analysis

A)   Inventory turnover

(Table 4.8)

Year	2006	2007	2008	2009	2010
Cost of Revenue	21,214	23,826	24,905	24,853	25,783
Inventories	3,005	3,294	3,494	3,847	4,249

Through table 4.8, we can use formula 2.1, 2.2 to calculate the inventory turnover and number of days of inventory as follows.

(Table 4.9)

Year	2006	2007	2008	2009	2010
Inventory turnover	7.06	7.23	7.13	6.46	6.07
number of days of inventory	52	50	51	56	60

In table 4.9, we see that the higher inventory turnover, the lower number of days of inventory. The values of inventory turnover are more than 5 and keep relatively stable; the flow of funds is high, this company's sales ability is strong, the company's sales efficiency is high.

In 2009 and 2010, the inventory turnover is lower than 7,because its inventories in 2009 and 2010 are larger than in other selected years, China Mobile Ltd. increased its phones, SIM cards and mobile phone accessories, their cost of goods sold did not change much comparing inventories.

B) Receivables turnover

(Table 4.10)

Year	2006	2007	2008	2009	2010
Receivables	7,149	6,983	7,022	6,430	7,925

According to table 4.7, 4.10 and formula 2.3, 2.4, we can calculate the receivables turnover and number of days of receivables.

(Table 4.11)

Year	2006	2007	2008	2009	2010
Receivable turnover	41.28	51.12	58.72	70.31	61.23
number of days of receivables	9	7	6	5	6

In table 4.11, we see that from 2006 to 2009, the receivable turnover rate is increasing, it means that the company can get the receivables fast, the days of receiving receivables are short, the liquidity is high, short-term debt paying ability is strong and lower the bad debt. So the days of receivables are decreasing from 2006 to 2009.

C) Total assets turnover

According to table 4.7 and formula 2.5, we can get total assets turnover as follows.

(Table 4.12)

Year	2006	2007	2008	2009	2010
Total asset turnover	0.60	0.63	0.63	0.60	0.56

Through table 4.12, we see that the company's total asset turnover rate is lower and keep this situation for long-term. The company should take measures to improve the efficiency of usage of every asset and the idle capital, improve the sales revenue.

D) Working capital turnover

(Table 4.13)

Year	2006	2007	2008	2009	2010
Total current Assets	171,345	207,620	240,170	287,355	321,882
Total current liabilities	140,476	154,943	180,573	209,805	255,630

According to table 4.7, 4.13 and formula 2.6, we can see the results of working capital turnover during the 5 selected years as follows.

(Table 4.14)

Year	2006	2007	2008	2009	2010
Working capital turnover	9.6	6.8	6.9	5.8	7.3

As we see the results of working capital turnover in table 4.14, we know that the rates of working capital turnover are higher in 2006 and 2010, it means that the company has higher usage efficiency of each input and ability to convert into sales revenues.

E) Number of days of payables

(Table 4.15)

Year	2006	2007	2008	2009	2010
Accounts payable	57, 240	63, 927	79, 606	95, 985	111, 646
Cost of revenue	21, 214	23, 826	24, 905	24, 853	25, 783
Inventories	3, 005	3, 294	3, 494	3, 847	4, 249

According to table 4.15 and formula 2.7, we can calculate the number of days of payables from 2007 to 2010.

(Table 4.16)

Year	2007	2008	2009	2010
Number of days of payables	991. 3479	1176. 126	1429. 981	1605. 563

In table 4.16, we can see that the number of days of payables are increasing from 2007 to 2010 and relatively high. It indicates that the company is paying its creditors relatively slowly and has low ability to make payments.

In table 4.9, 4.11, we can see that comparing the number of days of payables, the number of days of inventory and the number of days of receivables are

quite low. It indicates that the company uses the accounts offered by creditors for early payments, investments or inventories.

F)   Operating cycle

Through number of days of inventory and receivables in table 4.9, 4.11 and formula 2.8, we can calculate the operating cycle as follows.

(Table 4.17)

Year	2006	2007	2008	2009	2010
operating cycle	61	58	57	62	66

In the table 4.17, we see that they are all around 60, it depends on both of number of days of inventory and number of days of receivables.

From the inventory turnover rate in table 4.9, we know that the lower the inventory turnover that takes longer to convert inventory into cash, the higher its operating cycle is that hence the more investment in current assets needed, the more working capital is needed.

(Chart 4.4)
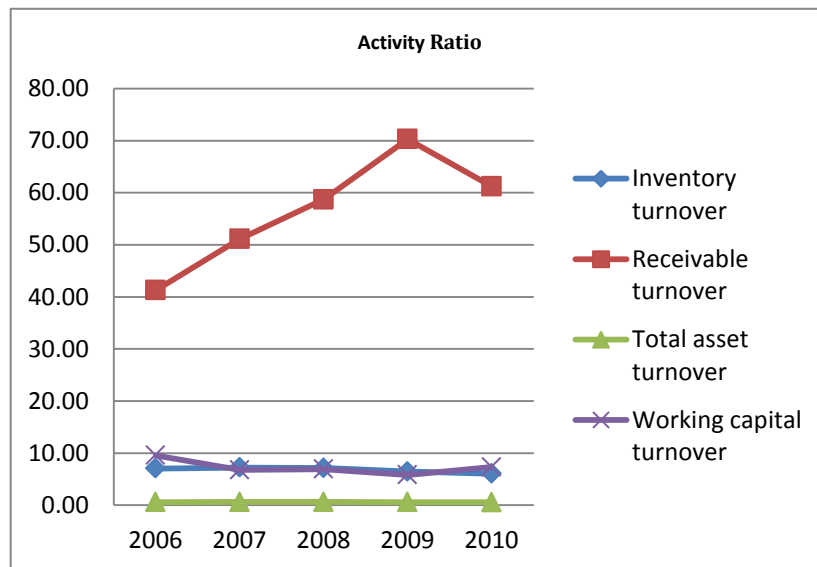
In chart 4.4, we see that receivable turnover is relatively high and total asset turnover is relatively low. China Mobile Ltd. is able to get receivables quickly and use funds available into assets or investment.

4.2.2   Liquidity Analysis

A)   Current Ratio

We can use table 4.13 and formula 2.9 to calculate the current ratio.

(Table 4.18)

Year	2006	2007	2008	2009	2010
current ratio	1.22	1.34	1.33	1.37	1.26

From table 4.18, we can see that from 2006 to 2010, these ratios are all more than 1 and less than 2, it means that China Mobile Limited has the ability to repay debt, not strong, but from the inventory turnover in table 4.9 in 2006 and 2007, the rate is relatively high, so the liquidity is high.

B)   Quick Ratio

(Table 4.19)

Year	2006	2007	2008	2009	2010
Cash and Short Term Investments	71,097	78,855	87,436	79,864	90,762
Receivables	7,149	6,983	7,022	6,430	7,925
Total current liabilities	140,476	154,943	180,573	209,805	255,630

According to table 4.19 and formula 2.10, the quick ratio can be calculated as follows.

(Table 4.20)

Year	2006	2007	2008	2009	2010
quick ratio	0.56	0.55	0.52	0.41	0.39

From table 4.20, we see that quick ratios are decreasing over years and around 0.5, China Mobile Limited is in the middle level of high liquidity and short-term solvency.

In table 4.19, we can see that total current liabilities are increasing larger than other two selected items, so in table 4.20 the rates of quick ratio are

decreasing. China Mobile Ltd. should regulate its current liabilities to make quick ratio keep balance instead of decreasing.

C) Cash Ratio

As we know the relevant data which is cash and short term investments and total current liabilities in table 4.19, we can calculate the cash ratio as follow. (Table 4.21)

Year	2006	2007	2008	2009	2010
cash ratio	0.51	0.51	0.48	0.38	0.36

According to table 4.21, we see that these cash ratios in the selected years are around 0.5, its real short-term solvency is relatively high, and according to the current ratio and quick ratio, we see that China Mobile Limited has better ability to convert current assets into cash and its overall short-term ability to repay debt is relatively strong.

(Chart 4.5)
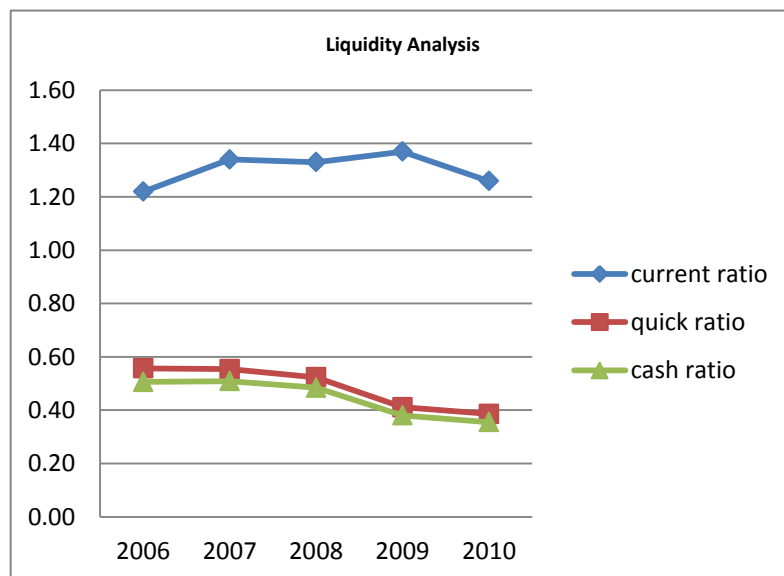
In chart 4.5, we see that these three ratios are stable, It indicates that the company has the ability to repay debt in short term and its short term solvency is stable.

4.2.3 Solvency Analysis

A) Component-Percentage Solvency Ratios

Debt-to-assets ratio

We can calculate debt- to assets ratio through table 4.7 and formula 2.12.

(Table 4.22)

Year	2006	2007	2008	2009	2010
debt-to-assets ratio	0.36	0.34	0.33	0.33	0.33

As we see from table 4.22, we know that these ratios during the period are all less than 0.5, it indicates that China mobile Limited had strong long-term solvency, creditors got protection and had less risk.

Long-term debt-to-assets ratio

(Table 4.23)

Year	2006	2007	2008	2009	2010
Long-term liabilities	33,539	33,577	33,553	33,551	28,615

According to table 4.23 and formula 2.13, we can get the long-term debt-to-assets ratio as follows.

(Table 4.24)

Year	2006	2007	2008	2009	2010
long-term debt-to-assets ratio	0.07	0.06	0.05	0.04	0.03

In table 4.24, the ratios were decreasing year by year, so investors invested capital higher, the stability of China Mobile Limited's financial position is better and its strong long-term ability to repay debt. Meanwhile, the long-term debt-to-assets ratio is relatively low, it indicates that China Mobile Ltd. has relatively large proportion of short-term debt comparing long-term debt.

Debt-to-equity ratio

We can calculate debt-to-equity ratio by table 4.7 and formula 2.14.

(Table 4.25)

Year	2006	2007	2008	2009	2010
debt-to-equity ratio	0.55	0.51	0.49	0.48	0.50

In table 4.25, they are less than 1, it means equity is higher than debt, the shareholders' equity of China Mobile Ltd. can stand the risk of repaying debt.

Financial leverage

(Table 4.26)

Year	2006	2007	2008	2009	2010
financial leverage	1.55	1.51	1.49	1.48	1.50

According to table 4.7 and formula 2.15, we can get the result of financial leverage in table 4.26. Financial leverage depends on the debt-to-assets ratio, we can see that in 2006 the debt-to-assets ratio is the highest, so the financial leverage is the highest. It indicates that in 2006 China Mobile Limited had a high degree of debt and got more earnings, but had more risk; the lower degree of debt, the interests of creditors can get greater protection.

B) Coverage Ratios

Interest coverage ratio

(Table 4.27)

Year	2006	2007	2008	2009	2010
Interest expense	1,506	1,826	1,550	1,243	902
Income before taxes	96,814	129,232	149,743	153,836	159,071

(Table 4.28)

Year	2006	2007	2008	2009	2010
interest coverage ratio	65.29	71.77	97.61	124.76	177.35

According to table 4.27 and formula 2.16, we can get the result of interest coverage ratio in table 4.28. We see that it is increasing year by year, high net earnings created by the production and operating activities of China Mobile Limited; it means that China Mobile Limited has the ability to repay long-term interest payments and guarantee its debt servicing capacity.

Cash flow coverage ratio

(Table 4.29)

Year	2006	2007	2008	2009	2010
Interest Expense	1,506	1,826	1,550	1,243	902
Provision for income taxes	30,768	42,057	36,789	38,413	39,047
Cash from Operating Activities	149,346	168,612	193,647	207,123	231,379

We can use table 4.29 and formula 2.17 to calculate cash flow coverage ratio as follows.

(Table 4.30)

Year	2006	2007	2008	2009	2010
cash flow coverage ratio	120.60	116.37	149.67	198.53	300.81

In table 4.30, they are all higher than 100, it reflects that there are large funds available in China Mobile Ltd. to satisfy interest.

Cash flow-to-debt ratio

(Table 4.31)

Year	2006	2007	2008	2009	2010
Cash from Operating Activities	149,346	168,612	193,647	207,123	231,379
Total Liabilities	175,513	189,725	215,419	244,620	285,778

(Table 4.32)

Year	2006	2007	2008	2009	2010
Cash flow-to-debt ratio	0.85	0.89	0.90	0.85	0.81

According to table 4.31 and formula 2.18, we can know cash flow-to-debt ratio in table 4.32, they were all around 0.85, China Mobile Limited could pay off 85% of its debt obligation, it also means that China Mobile Limited could pay off its debt in almost 1 year.

In chart 4.6, we see that the most obvious changes among these selected ratios are cash flow coverage ratio and interest coverage ratio. It reflects that

China Mobile Ltd. has ability to use funds available to satisfy its interest payments.

(Chart 4.6)
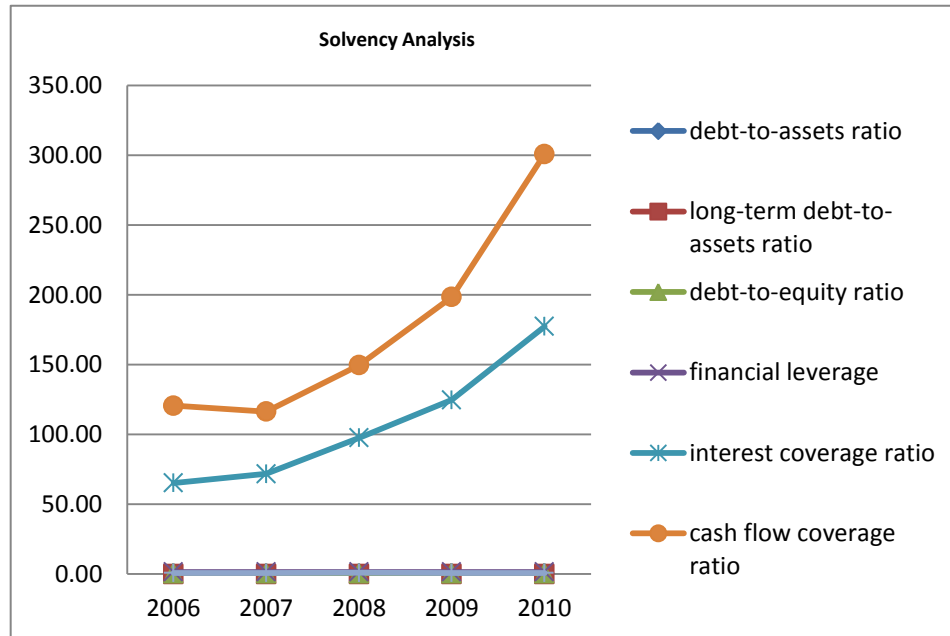
4.2.4 Profitability Analysis

A) Margins

Gross profit margin

(Table 4.33)

Year	2006	2007	2008	2009	2010
Gross Profit	273,865	333,113	387,438	427,250	459,448

According to table 4.7, 4.33 and formula 2.19, we can get the result of gross profit margin.

(Table 4.34)

Year	2006	2007	2008	2009	2010
Gross profit margin	92.8%	93.3%	94.0%	94.5%	94.7%

In table 4.34, it increases every year and is high, we see that China Mobile Limited gains large profit, from the trend, we can expect that it would continue gain profit, with less cost of goods sold, gains large profit.

Operating profit margin

(Table 4.35)

Year	2006	2007	2008	2009	2010
Operating Income	91,834	124,061	142,615	147,008	150,754

(Table 4.36)

Year	2006	2007	2008	2009	2010
Operating profit margin	31.1%	34.8%	34.6%	32.5%	31.1%

According to table 4.7, 4.35 and formula 2.20, we can calculate the operating profit margin in table 4.36, it is a measure of business efficiency indicators, reflecting the ability of creating operating profit by company managers without considering non-operating costs. We see that the trend is stable, constant.

Net profit margin

(Table 4.37)

Year	2006	2007	2008	2009	2010
Net Income	65,961	87,058	112,793	115,166	119,640

According to table 4.7, 4.37 and formula 2.21, Net profit margin can be calculated as follows.

(Table 4.38)

Year	2006	2007	2008	2009	2010
Net profit margin	22.4%	24.4%	27.4%	25.5%	24.7%

In table 4.38, it measures the ability of China Mobile Limited obtains the revenues in a certain period; we see that the net profit margin is lower in 2006 and 2007 than it in other years, it's caused by sales, general and administrative expenses, there are large sales, general and administrative expenses in 2006 and 2007; it is proportional to the net income and there is inverse relation between net profit margin and revenues, in stable 4.7, 4.37, we see that revenue was increasing year by year with net income increased over years, make the net profit margin remain unchanged or improved.

Pretax profit margin

(Table 4.39)

Year	2006	2007	2008	2009	2010
Income Before Taxes	96,814	129,232	149,743	153,836	159,071

According to table 4.7, 4.39 and formula 2.22, we can calculate the pretax profit margin.

(Table 4.40)

Year	2006	2007	2008	2009	2010
Pretax profit margin	32.8%	36.2%	36.3%	34.0%	32.8%

In table 4.40, it's a company's earnings before tax as a percentage of total sales or revenues, the higher the pre-tax profit margin is, the more profitable the company is; we see that the trend is stable.

B) Return-on-Investment Ratios

Operating return on assets

(Table 4.41)

Year	2006	2007	2008	2009	2010
Operating Income	91,834	124,061	142,615	147,008	150,754

Operating return on assets is affected by two factors, operating income and total assets. According to table 4.7, 4.41 and formula 2.23, we can get the result of operating return on assets as follows.

(Table 4.42)

Year	2006	2007	2008	2009	2010
Operating return on assets	18.6%	22.0%	21.7%	19.6%	17.5%

In table 4.42, the purpose of identifying the current operating return on assets is to provide some insight into how well the company is managing its expenses; we see that in 2007 and 2008, operating return on assets are higher comparing other selected years.

Return on assets

According to table 4.7, 4.37 and formula 2.24, we can calculate the ratio of return on assets.

(Table 4.43)

Year	2006	2007	2008	2009	2010
Return on assets	13.3%	15.5%	17.1%	15.3%	13.9%

In table 4.43, we see that in 2008, there is a largest ratio of return on assets comparing with other four selected years; China Mobile Ltd. has get large earning from its investment. Return on assets has been decreasing since 2008.

(Chart 4.7)
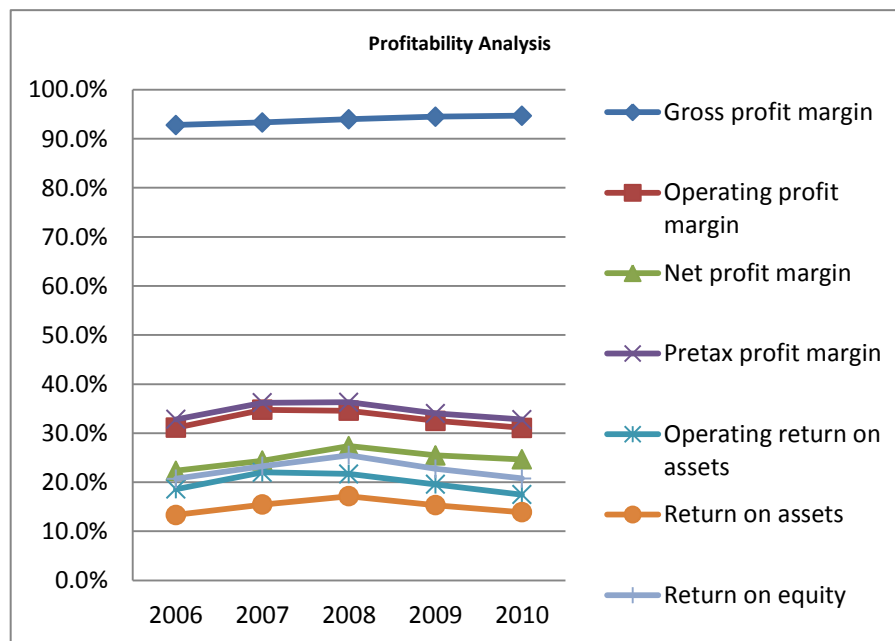
Main ratios of profitability analysis are shown in chart 4.7. We can see that except gross profit margin which is between 90% and 100%, other selected ratios are all between 10% and 40%. The trends are relatively stable.

4.3 DuPont Analysis

We use the formula 2.26, 2.27 to calculate the items in table 4.44.

(Table 4.44)

Year	2006	2007	2008	2009	2010
Operating profit margin (1)	0.311	0.348	0.346	0.325	0.311
Effect of non-operating items (2)	1.054	1.042	1.050	1.046	1.055
Tax effect (3)	0.682	0.675	0.754	0.750	0.755
Net profit margin (4)=(1)·(2)·(3)	0.224	0.244	0.274	0.255	0.247
Total asset turnover (5)	0.597	0.633	0.627	0.602	0.563
Return on assets (6)=(4)·(5)	0.134	0.155	0.172	0.154	0.139
Financial leverage (7)	1.551	1.508	1.487	1.483	1.496

According to table 4.44 and formula 2.26, we can calculate the return on equity and know the relationship between these data.

(Table 4.45)

Year	2006	2007	2008	2009	2010
Return on equity (8)=(6)·(7)	0.207	0.233	0.255	0.228	0.208

In table 4.45, the return on equity of China Mobile Limited company was increasing at a certain degree from 2006 to 2008, going from 0.207 to 0.255, it indicated that the business owners invested capital can get high profitability and high efficiency of financial and management activities which are including corporate financing, investment, asset operation; however, from 2009 to 2010,it dropped, the company should strengthen the management of capital investment to get high profit for business owners.

As return on equity can be explained by two parts which are return on assets and financial leverage, in table 4.44 we see that financial leverage has a big affect on return on equity and decreased over the years compared with 2006.

Financial leverage depends on the debt-to-assets ratio, in table 4.22 we can see that in 2006 the debt-to-assets ratio is the highest, so the financial leverage is the highest, it indicates that in 2006 China Mobile Limited had high degree of debt and got more earnings, but had more risk; the lower degree of debt, the interests of creditors can get greater protection.

In table 4.44, return on assets increased from 2006 to 2008, decreased from 2009 to 2010, the same trend with return on equity. From the return on assets, we see that from 2006 to 2008, both of total assets turnover and net profit margin have improved, it means that the use of assets is better controlled, shows the better effect than the previous year, indicates that the China Mobile Limited company used the efficiency of its total assets to generate the sales revenue is increasing.

Influence quantification

(Table 4.46)

Year	2006	2007	2008	2009	2010
Return on equity	0.207	0.233	0.255	0.228	0.208
absolute change	x	3%	2%	-3%	-2%
Index of change	x	1.13	1.09	0.89	0.91

In table 4.46, we can know the absolute change of ROE is negative in 2009 and 2010 and index change of ROE decreased from 2007 to 2009.

Using each method of influence quantification, we should divide the calculations into 4 parts.

A) Method of gradual changes

According to formula 2.28 and table 4.44, we can calculate the change of component ratios in each period as follows.

In table 4.47,from 2006 to 2007, net profit margin increased by 0.02, total assets turnover increased by 0.036, while financial leverage decreased by 0.043. Net profit margin and total assets turnover had positive influence on ROE, while financial leverage had negative influence in ROE. Net profit margin has the biggest impact of changes in component ratios on the basic ratio. It contributed to 1.85% in the ROE ratio of 3%. Total assets turnover is the second influential factor, contributing to 1.36%. Financial leverage is the least factor, just 0.66% negative change.

(Table 4.47)

	a_{2006}	a_{2007}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.224	0.244	0.02	1.85%	1
a_2=Total assets turnover	0.597	0.633	0.036	1.36%	2
a_3=Financial leverage	1.551	1.508	-0.043	-0.66%	3
sum	-	-	-	3%	-

(Table 4.48)

	a_{2007}	a_{2008}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.244	0.274	0.03	2.86%	1
a_2=Total assets turnover	0.633	0.627	-0.006	-0.25%	3
a_3=Financial leverage	1.508	1.487	-0.021	-0.36%	2
sum	-	-	-	2%	-

In table 4.48, from 2007 to 2008, net profit margin increased by 0.03, total assets turnover decreased by 0.006 and financial leverage decreased by 0.021. Net profit margin had positive influence upon ROE, total assets turnover and financial leverage had negative influence on ROE. Net profit margin still had a biggest effect on ROE, contributing 2.86% in total 2% annual ROE change. Financial leverage contributed -0.36% in ROE change as a second

influential factor. Total assets turnover is the least influential factor which contributed -0.25% in ROE change.

(Table 4.49)

	a_{2008}	a_{2009}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.274	0.255	-0.019	-1.77%	1
a_2=Total assets turnover	0.627	0.602	-0.025	-0.95%	2
a_3=Financial leverage	1.487	1.483	-0.004	-0.06%	3
sum	-	-	-	-3%	-

In table 4.49, from 2008 to 2009, net profit margin decreased by 0.019, total assets turnover decreased by 0.025 and financial leverage decreased by 0.004. The three component ratios all had negative effects on ROE. Meanwhile net profit margin has a biggest affect on ROE, contributing -1.77% in total -3% annual ROE change. Total assets turnover contributed -0.95% in ROE change as a second influential factor. Financial leverage is the third influential factor.

(Table 4.50)

	a_{2009}	a_{2010}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.255	0.247	-0.008	-0.71%	2
a_2=Total assets turnover	0.602	0.563	-0.039	-1.43%	1
a_3=Financial leverage	1.483	1.496	0.013	0.18%	3
sum	-	-	-	-2%	-

In table 4.50, from 2009 to 2010, net profit margin decreased by 0.008, total assets turnover decreased by 0.039 and inancial leverage increased by 0.013. Total assets turnover had biggest influence upon ROE and contributed -1.43% in total -2% annual ROE change. Net profit margin contributed -0.71% in ROE change and is the second influntial factor. Financial leverage had smallest influence on ROE, contributing 0.18% in ROE change.

B) Logarithmic decomposition method

According to formula 2.29 and table 4.44, we can calculate the change of component ratios in each period as follows.

(Table 4.51)

	a_{2006}	a_{2007}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.224	0.244	1.089	1.88%	1
a_2=Total assets turnover	0.597	0.633	1.060	1.26%	2
a_3=Financial leverage	1.551	1.508	0.972	-0.61%	3
sum	-	-	-	3%	-

In table 4.51, from 2006 to 2007, net profit margin had a biggest and positive effect on ROE which contributed 1.88%. Total assets turnover had positive influence on ROE and is the second influential factor. Financial leverage had a negative effect on ROE and is the least influential factor.

(Table 4.52)

	a_{2007}	a_{2008}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.244	0.274	1.123	2.88%	1
a_2=Total assets turnover	0.633	0.627	0.991	-0.24%	3
a_3=Financial leverage	1.508	1.487	0.986	-0.35%	2
sum	-	-	-	2%	-

In table 4.52, from 2007 to 2008, net profit margin had a positive effect on ROE, while total assets turnover and financial leverage had negative effects on ROE. Net profit margin is still the most influential factor in ROE and total assets turnover is the least influential factor

In table 4.53, from 2008 to 2009, the three component ratios all had negative effects on ROE. However, net profit margin is the most influential factor and financial leverage is the least influential factor.

(Table 4.53)

	a_{2008}	a_{2009}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.274	0.255	0.931	-1.75%	1
a_2=Total assets turnover	0.627	0.602	0.960	-0.99%	2
a_3=Financial leverage	1.487	1.483	0.997	-0.07%	3
sum	-	-	-	-3%	-

(Table 4.54)

	a_{2009}	a_{2010}	$\triangle a$	$\triangle X_{ai}$	order
a_1=Net profit margin	0.255	0.247	0.969	-0.70%	2
a_2=Total assets turnover	0.602	0.563	0.935	-1.47%	1
a_3=Financial leverage	1.483	1.496	1.009	0.19%	3
sum	-	-	-	-2%	-

In table 4.54, from 2009 to 2010, financial leverage had a positive effect on ROE, while net profit margin and total assets turnover had negative effects on ROE. Total assets turnover is the most influential factor in ROE and financial leverage is the least influential factor.

(Table 4.55)

	2006-2007		2007-2008		2008-2009		2009-2010	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
a1=Net profit margin	1	1	1	1	1	1	2	2
a2=Total asset turnover	2	2	3	3	2	2	1	1
a3=Financial leverage	3	3	2	2	3	3	3	3

In table 4.55, from 2006 to 2009, net profit margin is the most influential factor in ROE, while from 2009 to 2010, it's the second influential factor.

From 2009 to 2010, total assets turnover is the most influential factor in ROE.

In the period of 2006 to 2007 and 2008 to 2009, total assets turnover is the

second influential factor and from 2007 to 2008, it is the least influential factor in ROE.

From 2007 to 2008, financial leverage is the second influential factor in ROE, while in the period of 2006 to 2007 and 2008 to 2010, it is the least influential factor in ROE.

It indicated that net profit margin had relatively large influence on ROE and financial leverage had relatively small influence on ROE.

5 Conclusion

China Mobile Limited, an investment holding company, provides mobile telecommunications and related services primarily in the Mainland China. It offers various services comprising local calls, domestic long distance calls, international long distance calls, domestic roaming, and international roaming. Through the financial analysis of China Mobile Limited, we can understand its financial position and performance.

From its common-size analysis, we understand that the total operating expenses have large proportions to the revenue, however, the company is able to generate relatively stable net income, which achieves approximately 25 % of company's total revenue. China Mobile Ltd. has large cash and short term investments, cash in the bank and property, plant and equipment over the whole period 2006-2010 relative to total assets; it also has large reserve accounts on liabilities and shareholders' equity. China Mobile Ltd. has large equity that mainly affect its liabilities and shareholders' equity.

Based on results of the financial ratio analysis, we can understand that China Mobile Ltd. is able to collect reveivables and funds availabe into assets.

China Mobile Ltd. has the ability to repay its short-term and long-term debt and interest payments. It has relatively high liquidity, can manage its expenses well and get large earnings from its investment.

In dupont analysis, through evaluating the return on equity, each related ratio can be considered too. We see that the business owners invested capital can get high profitability and high efficiency of financial and management activities which including corporate financing, investment, asset operation, meanwhile the company should strengthen its management of capital investment to get high profit for business owners.

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List of Abbreviations

ROA   Return On Assets

ROE   Return On Equity

PIM   Personal Information Manager

NYSE   New York Stock Exchange

HKEx   Stock Exchange of Hong Kong Limited

DJSI   Dow Jones Sustainability Index

GSM   Global System For Mobile Communications

WCDMA   Wideband Code Division Multiple Access

CDMA   Code Division Multiple Access

CNY   China Yuan

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List of annexes

Annex 1 Income statement

Annex 2 Balance sheet

Annex 3 Cash flow statement

Annex 1 Income statement of China Mobile Ltd.

Income Statement	Amount(CNY in Million)				
Year	2006	2007	2008	2009	2010
Revenue	295,080	356,939	412,343	452,103	485,231.00
Cost of Revenue	21,214	23,826	24,905	24,853	25,783
Gross Profit	273,865	333,113	387,438	427,250	459,448
Sales, General and Administrative Expenses	117,514	137,822	159,350	181,390	194,333
Other Operating Expenses	64,517	71,230	85,473	98,852	114,361
Total operating expenses	182,031	209,052	244,823	280,242	308,694
Operating Income	91,834	124,061	142,615	147,008	150,754
Interest Expense	1,506	1,826	1,550	1,243	902
Other income (expense)	6,486	6,997	8,678	8,071	9,219
Income Before Taxes	96,814	129,232	149,743	153,836	159,071
Provision for income taxes	30,768	42,057	36,789	38,413	39,047
Other income	-86	-117	-161	-257	-384
Net Income	65,961	87,058	112,793	115,166	119,640

Annex 2 Balance sheet of China Mobile Ltd.

Balance Sheet	Amount(CNY in Million)				
Year	2006	2007	2008	2009	2010
Assets					
Cash and Short Term Investments	71,097	78,855	87,436	79,864	90,762
Receivables	7,149	6,983	7,022	6,430	7,925
Inventories	3,005	3,294	3,494	3,847	4,249
Prepaid Expenses	4,605	5,683	7,641	9,064	10,151
Cash in the bank	85,489	112,805	134,577	188,150	208,795
Total Current Assets	171,345	207,620	240,170	287,355	321,882
Property,Plant and Equipment	218,274	257,170	327,783	360,075	385,296
Equity and other investments	-	-	7	6	40,260
Goodwill	36,856	36,893	36,894	36,894	36,894
Intangible assets	702	467	298	727	813
Deferred income taxes	7,103	5,442	6,884	8,939	9,720
Other Long Term Assets	59,931	55,864	45,661	57,372	67,070
Total non-current assets	322,866	355,836	417,527	464,013	540,053
Total Assets	494,211	563,456	657,697	751,368	861,935
Liabilities and Shareholders' Equity					
Other current liabilities	3,203	214	124	123	5,031
Accounts Payable	57,240	63,927	79,606	95,985	111,646
Accrued liabilities	46,130	50,860	61,292	69,335	85,716
Capital Leases	68	68	68	68	68
Tax payable	9,823	14,261	11,283	8,079	9,178
Deferred revenues	21,800	23,760	26,089	35,573	43,489
Note payable	2,212	1,853	2,111	642	502
Total current liabilities	140,476	154,943	180,573	209,805	255,630
Long-term liabilities	33,539	33,577	33,553	33,551	28,615
Deferred taxes liabilities	195	124	80	61	39
Deferred revenues	937	592	584	317	248
Minority Interest	367	489	629	886	1,246

Total non-current liabilities	35,037	34,782	34,846	34,815	30,148
Total Liabilities	175,513	189,725	215,419	244,620	285,778
Capital Stock	2,131	2,133	2,138	2,139	2,139
Reserve	316,567	371,598	440,140	504,609	574,018
Total Equity	318,698	373,731	442,278	506,748	576,157
Total Liabilities & Shareholders' Equity	494,211	563,456	657,697	751,368	861,935

Annex 3 Cash flow statement of China Mobile Ltd.

Cash Flow	Amount (CNY in Million)				
Year	2006	2007	2008	2009	2010
Net Income/Starting Line	96,176	129,238	149,523	153,836	159,071
Depreciation/Depletion	64,574	67,354	71,509	80,179	86,230
Amortization	379	580	483	317	360
Non-Cash Items	8,098	5,256	3,414	4,297	1,530
Unusual Items	6,755	6,649	7,627	9,007	6,782
Equity in Net Earnings (Loss)	-	-	-	8	-540
Other Non-Cash Items	1,343	-1,393	-4,213	-4,718	-4,712
Changes in Working Capital	-19,881	-33,816	-31,282	-31,506	-15,812
Accounts Receivable	-4,865	-3,772	-4,070	-3,734	-5,330
Inventories	-626	-288	-199	-353	-457
Prepaid Expenses	-1,030	-1,067	-1,961	-1,423	-1,087
Accounts Payable	6,413	647	3,229	2,621	5,714
Accrued Expenses	6,033	4,730	10,031	11,946	16,369
Other Liabilities	4,455	1,606	2,847	2,376	7,847
Other Operating Cash Flow	-30,261	-35,672	-41,159	-42,939	-38,868
Cash from Operating Activities	149,346	168,612	193,647	207,123	231,379
Capital Expenditures	-77,611	-99,579	-122,851	-117,159	-114,500
Purchase of Fixed Assets	-76,969	-98,523	-120,816	-115,314	-113,203
Purchase/Acquisition of Intangibles	-642	-1,056	-2,035	-1,845	-1,297
Other Investing Cash Flow Items, Total	-41,230	-23,460	-16,175	-48,768	-57,072
Acquisition of Business	-3,410	-	-	-	-
Sale of Fixed Assets	80	20	22	13	12
Purchase of Investments	-	-	-7	-7	-39,637
Other Investing Cash Flow	-37,900	-23,480	-16,190	-48,774	-17,447

Cash from Investing Activities	-118,841	-123,039	-139,026	-165,927	-171,572
Common stock issued	4,090	1,614	465	132	93
Dividend paid	-26,139	-34,088	-20	-48,614	-50,225
other financing activities	-1,514	-4,799	-46,129	-1,292	-919
Cash from Financing Activities	-23,564	-37,273	-45,684	-49,774	-51,051