

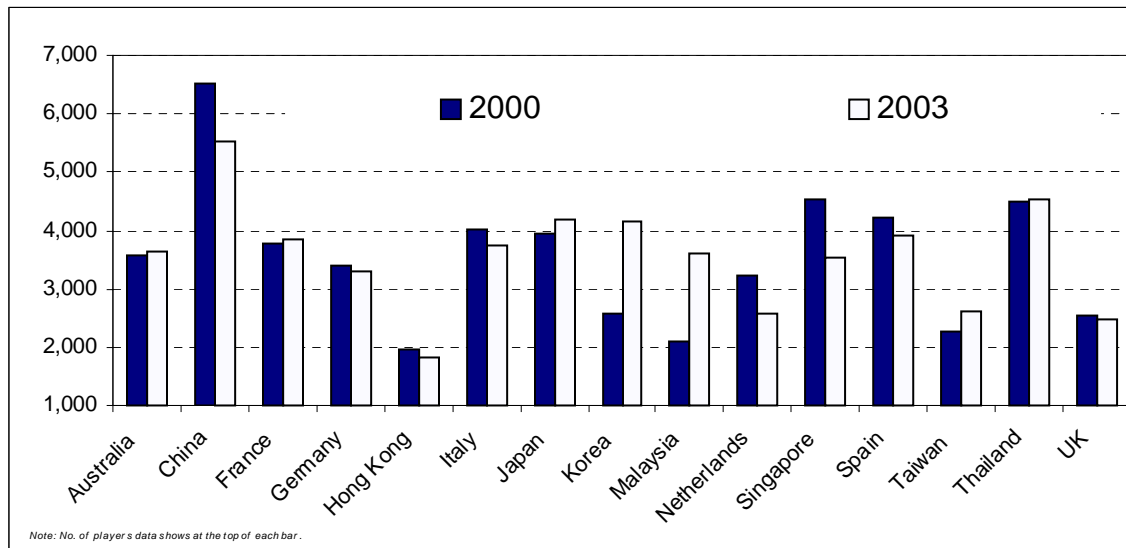
## Licensing of mobile services on expiry of existing licenses for second generation mobile services

We set out below some brief comments on OFTA's second consultation

### Hong Kong, an excessively competitive, wireless market

We have long maintained that the Hong Kong wireless market is one of the most competitive markets in the world. In recent work we have done, we have also noticed that the Hong Kong wireless markets is one of the few where the structure of the industry has show no sign of improvement over the past four years. It is important to lay the framework for the industry at this stage to facilitate the investment decision of the four 3G licensees and if that framework is not clear, then the risk is investment decision could be delayed which will be unfavorable to Hong Kong as a traditional hub for technologies.

We base our opinion on HHI analysis that is widely used by the US Department of Justice in evaluating mergers. We have illustrated on numerous occasions in the past that there is a direct and material correlation between the margins earned by the operators / the profitability of the industry, and the number of operators, defined as the measured by the industry market share split.



### Industry structure is important to encourage investment

In the next 3-5 years, we at DB forecast that the structure of the industry is likely to come to the forefront as we are back at the beginning of yet another cycle, this time more challenging because the established profitability of the voice business is questioned. Ten years ago most would admit that the quantum of investments was much smaller and the competitiveness of the industry was less of a concern. And as recently as three years ago in the developed world, networks had been built and selling, general and administration costs, including costs in the form of handset subsidy or otherwise, was falling.

In our view, the industry has changed in the last six months from skepticism to a realization that 3G can no longer be ignored. At last count, 37 3G networks are regarded as being commercial (including the 1xEVDO networks in Korea). Looking ahead, both capital spending and rising operating expenses will be issues that wireless companies in each market, whether operating on 2G or 3G, will have to deal with. Industry regulators in our view need to outline the landscape clearly and precisely to encourage investment and at the same time create a long-term viable industry structure.

Data spending as a percentage of revenue is bandied about as a sign of the development of a wireless market. We estimate there are numerous other factors that drive data spending, more a function of pricing, content and culture, rather than the presence of a fifth network. We however acknowledge that data/MMS remains probably the only avenue of growth for the HK wireless industry in a saturated voice market. We therefore are supportive of the Government's objectives to drive data usage, but there needs to be a comprehensive strategy. The issue of a fifth 3G license would not necessarily achieve this goal.

We hope you will find our comments useful in our analysis.