



June 17, 2004

Office of the Telecommunications Authority
29/F Wu Chung House
21 Queen's Road East
Wanchai
Hong Kong

Attention: Senior Telecommunications Engineer (Technical Regulation) 2

Dear Sir,

Re: Further consultation on "Licensing of Mobile Services on Expiry of Existing Licenses for 2nd Generation Mobile Services"

We refer to the "Analysis of comments received, Preliminary Conclusions and Further Consultation" dated March 29, 2004 (hereinafter the "Paper").

As one of the leading financial advisors and lenders to Asian and global telecom companies, we have the following broad observations:

1. Given the dominance of GSM in Hong Kong, high competition, seamless MNP and the importance of handset pricing as a marketing tool, it is highly unlikely that a new CDMA operator could have a material impact on the market as compared to the existing licensees.
2. While the number of CDMA subscribers is small, CDMA provides a valuable inbound roaming service for visitors from several key destinations to Hong Kong, and likewise, provides Hong Kong customers with outbound roaming facilities when they travel to these countries. These arrangements may be materially disrupted when a new operator is in the project implementation phase.
3. In our view, the new licensing procedure will impose a higher cost in terms of license fee and infrastructure cost. The case for a new operator in Hong Kong is not likely to be easily bankable.

Our specific comments are as follows:

1. Paragraph 22, of the Paper states: "... CDMA and TDMA licensees had not actively developed and marketed their services." Paragraph 25 states: "... in stark contrast with the continuous growth of the GSM and PCS services, the number of subscribers of CDMA and TDMA services has been declining steadily over the years."

We believe that such an outcome is not surprising due to the following reasons:



- 9 of the 11 licenses are GSM/PCS;
- The highly competitive environment and full MNP have resulted in handset price bundling becoming a potent marketing tool. The incompatibility of CDMA/TDMA handsets with GSM/PCS handsets is a severe marketing handicap for the operators operating these networks
- MNP and handset incompatibility keep the non-GSM operators away from the prepaid market. Yet 67% of the total subscriber growth in the market since March 1999 has arisen from prepaid subscribers.

In view of the above, it is doubtful if the mere act of introducing new operator(s) to replace the existing operators will result in a marked change in the fortunes of CDMA or any other non-GSM technology in Hong Kong.

2. In the same paragraph 27, it is stated that “... *these two licensees should have little difficulty in devising a smooth “migration” arrangement for these customers by migrating them to their GSM or PCS networks Any disruption that may be caused to the customers should be minimal.*”

While it is true that there are a very few subscribers on these systems, it should be noted that the presence of a CDMA network in Hong Kong helps travelers from Japan, Korea, the US and recently, from China, to roam in Hong Kong without having to change their numbers or handsets. Likewise, frequent travelers from Hong Kong to Korea and Japan have the advantage of retaining their Hong Kong mobile number when traveling in these countries.

It is worth noting that there may be dislocation for these classes of users, and such dislocation may not be “minimal” as has been stated.

3. According to the method of awarding new licenses specified in Section 53 to Section 60 of the Paper, an auction will be conducted. In this context, it should be noted that:
 - The auction will increase the project cost of the successful bidder
 - The existing non-GSM infrastructure that is already deployed in Hong Kong cannot be used if the new licensee is not an existing licensee; this will create infrastructure duplication. The only beneficiary of such duplication will be equipment vendors.

Due to these two factors, the cost of providing “advanced” services will be higher than if the existing operator(s) were required to provide such services. The higher costs will translate either into a less “bankable” business cases, or alternatively, to customer rejection in this highly competitive market. In this context, one may look to the experience of new pay-TV licensees in Hong Kong.



4. In our opinion if OFTA finds that the non-GSM operators have not made efficient use of scarce spectrum, OFTA should impose additional conditions on these licensees to rectify the situation. This will help in reducing costs to consumers much faster than a new licensee can. OFTA may also recognize that a small market such as Hong Kong is not a natural market for developing mobile data services akin to Korea or Japan, which have (i) very large customer bases; (ii) a strong historical non-GSM culture; and (iii) a very few operators, who, while they compete fiercely on price and features, have big existing customer bases to subsidize mobile data development.

Thank you for your attention.

Yours faithfully,

A handwritten signature in black ink that reads "Ananda Chakravorty". The signature is written in a cursive style with a long horizontal stroke at the end.

Ananda Chakravorty
Head, Telecommunications Investment Banking
J.P. Morgan Securities (Asia-Pacific) Limited