

**Hutchison Telecommunications (Hong Kong) Limited (“HTHK”) -  
Comments on the Consultation Paper on 2004 Digital 21 Strategy  
(the "Consultation Paper")**

HTHK welcomes the government's initiative of promoting Hong Kong as a globally advanced e-business community and digital city.

HTHK is in support of the government's role as an effective facilitator to enhance the innovative capability of the industry and the community, and in this process encourage investment in first-rate infrastructures and innovation in information technology. In this regard, it is essential for the government to orientate its policies towards this objective in order to bring about success. Our comments are as follows.

1. Conducive Regulatory and Business Environment

As perceived in the Consultation Paper, first-rate infrastructures and a business friendly environment in Hong Kong are of great importance towards building up Hong Kong as a world-class digital city. Apart from the government's initiatives, private sector will play an important part in providing the investment to build new infrastructures and develop innovative applications. The regulatory and business environment must therefore be conducive to attracting the private sector to commit long-term investment for this purpose.

In telecom sector, the underlying infrastructures and innovative applications are typically made up of intellectual property and technology-based assets. Investments in such infrastructures and the required research and development are of substantial amounts, to be recouped on a long-term basis. Such investments would be encouraged by the government policies that respect and protect the value of such private property, and provide a stable investment environment and reasonable opportunity for investors to recoup their investments through a competitive rate of return.

For a competitive market like the Hong Kong mobile market (which now has eleven 2G licences and four 3G licences), it is appropriate for the government to take a light-handed approach in regulating the industry. It is important for the government to let market forces determine the market development and to avoid over-regulations.

Furthermore, in relation to the government's recent introduction of sector-specific merger and acquisition rules to the telecom industry, it will be important for the government to apply such rules in the context of encouraging private sector infrastructure investment and not to over-regulate such activities. The government should consider favourably the economies of scale that could be achieved as a result of a merger and acquisition transaction, which is always a pre-requisite to increased investment in infrastructure and research and development.

## 2. Technological Development

In comparison with other telecommunications markets in the world, the size of Hong Kong market is relatively small. It will be vital for the government to facilitate the operators to achieve economies of scale to bring about good return to investors, despite the relatively small market size. At the same time, it is necessary for the government to adopt policies that will encourage market players to invest in quality infrastructures and applications, and support investment on research and development of applications. This is conducive to bringing about long-term benefit of consumers and the industry as a whole.

We believe that the successful development of 3G technologies in Hong Kong would be instrumental in promoting Hong Kong as a world-class digital city. The government has in 2001 already granted licences to a suitable number of 3G licencees for the development of the technologies and the market. It is important that the government should avoid over-regulating the emerging 3G market and should let the operators develop the applicable technologies and realise their potentials to provide quality services and products to the consumers.

## 3. Institutional/Regulatory Reform

The Consultation Paper has not yet provided clear details on the scope or extent of the institutional/regulatory reform in relation to the future regulatory authority for the telecommunication and broadcasting industries. We look forward to learning more from the government on its proposal in this regard. We suggest further consultations on this subject matter be conducted. The participation of representatives from the telecommunication and the broadcasting industries would assist the Government in a combined effort to establish a regulatory environment that vigorously considers and balances between long-term consumer interests and reasonable returns to investments.

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