

**APPLICATION FOR PRIOR CONSENT UNDER
SECTION 7P OF THE TELECOMMUNICATIONS ORDINANCE
IN RESPECT OF THE PROPOSED ACQUISITION OF
CSL NEW WORLD MOBILITY LIMITED BY
HKT LIMITED**

Public Consultation Paper

23 December 2013

INTRODUCTION

This consultation paper invites representations from all carrier licensees under the Telecommunications Ordinance (Cap 106) and any interested person on the proposed acquisition of 100% of the shares of CSL New World Mobility Limited, the holding company of CSL Limited, a carrier licensee, by HKT Limited, the holding company of Hong Kong Telecommunications (HKT) Limited, also a carrier licensee. The proposed acquisition constitutes “*a change in relation to a carrier licensee*” under section 7P of the Telecommunications Ordinance, which regulates merger and acquisition activities involving a carrier licensee.

GLOSSARY

2. In this consultation paper, unless the context otherwise requires,
- “**Application**” refers to the application submitted by HKT Limited and described in paragraph 3 of this consultation paper;
- “**CA**” means the Communications Authority;
- “**CSL**” means CSL Limited;
- “**CSLNWM**” means CSL New World Mobility Limited;
- “**FNO**” means fixed network operator;
- “**HKT**” means Hong Kong Telecommunications (HKT) Limited;
- “**M&A Guidelines**” means “*The [Communications Authority]*”

Guidelines on Mergers and Acquisitions in Hong Kong Telecommunications Markets” issued on 3 May 2004;¹

“**MNO**” means mobile network operator;

“**MVNO**” means mobile virtual network operator;

“**OFCA**” means the Office of the Communications Authority;

“**Proposed Transaction**” means the proposed transaction referred to in paragraph 7 of this consultation paper;

“**SLC**” means substantially lessening competition;

“**TO**” means the Telecommunications Ordinance (Cap 106); and

“**UCL**” means unified carrier licence.

APPLICATION FOR PRIOR CONSENT UNDER SECTION 7P(6) OF THE TO

3. On 4 October 2013, the CA received an application by HKT, a carrier licensee, seeking the CA’s prior consent of its acquisition of CSL, another carrier licensee. Subsequently, HKT Limited, the parent company of HKT, submitted a revised application clarifying that the acquisition will be of CSLNWM, the parent company of CSL, by HKT Limited. CSLNWM owns 100% of the shares of CSL, whereas HKT Limited owns 100% of the shares of HKT. As the Proposed Transaction would involve the acquisition of CSL, a carrier licensee, by HKT Limited, it constitutes “*a change in relation to a carrier licensee*” under section 7P(16), and as such, section 7P of the TO is applicable. HKT Limited seeks the CA’s prior consent to the Proposed Transaction pursuant to section 7P(6) of the TO.

4. Where the CA receives an application for prior consent under section 7P(6) of the TO, pursuant to section 7P(7), it has to consider whether the proposed change would have, or be likely to have, the effect of SLC in a telecommunications market, or if there would be such an effect, whether the proposed change would have, or be likely to have, a benefit to the public that

¹ The M&A Guidelines is available at http://tel_archives.ofca.gov.hk/en/report-paper-guide/guidance-notes/gn_20040503.pdf

would outweigh any detriment to the public that would be, or would likely to be, constituted by any such SLC effect.

5. Where the CA forms an opinion that the proposed change would not have, or not be likely to have an SLC effect in a telecommunications market, the CA shall decide to give consent; otherwise the CA may decide to refuse to give consent, or give consent subject to the direction that the carrier licensee concerned takes such action as considered necessary by the CA to eliminate or avoid the effect of SLC in connection with the proposed change. If the CA is satisfied that the proposed change would have, or be likely to have, a benefit to the public that would outweigh any detriment to the public that would be, or would likely to be, constituted by any SLC effect, the CA may decide to give consent without issuing a direction. Before forming any opinion, making any decision or issuing any direction under section 7P(7), the CA is obliged under section 7P(8) to give all carrier licensees and any interested person a reasonable opportunity to make representations to the CA, and to consider the representations received.

6. Pursuant to the requirements of section 7P, the CA issues this consultation paper to seek representations from all carrier licensees and any interested person on the Proposed Transaction. A public version of the Application prepared by HKT Limited for the purpose of this consultation is at **Annex A**. Carrier licensees and interested persons may refer to the M&A Guidelines for the approach the CA would take in considering a section 7P(6) application for consent.

THE PROPOSED TRANSACTION

7. According to the Application, the Proposed Transaction will involve the acquisition of all the shares of CSLNWM, the holding company of CSL, by HKT Limited, the holding company of HKT. CSL's major assets include its UCL No.008 and all the spectrum assigned to it thereunder, as well as such other relevant assets as network assets, non-network assets, intellectual property rights, customer contracts, shop leases, goodwill, and certain affiliated (non-licensed) entities. Subject to the CA's consent, on completion of the Proposed Transaction, CSLNWM and CSL will be placed under HKT Limited as shown in the post-transaction group structure in the Application (**Annex A**).²

² See Annex 2A to the Application: *Post-Transaction Group Structure of HKT Limited and the HKT Trust*.

8. While HKT Limited does not consider that the Proposed Transaction raises any significant issues under section 7P, it submits that it and/or HKT is nevertheless prepared to make the following commitments if so required by the CA:

- (a) HKT would continue to provide wholesale services now provided by CSL and HKT (e.g. MVNO, resale and network sharing arrangements);
- (b) HKT/CSL would acquire not more than a total of 2x15 MHz of spectrum in the 1.9 – 2.2 GHz band (“3G Spectrum”) upon expiry of the existing assignment of the 3G Spectrum in October 2016. HKT and CSL would not participate in the auction for the 3G Spectrum. More specifically, HKT and CSL commit that each would not seek to renew the assignment of 2x5 MHz of 3G spectrum respectively in the 1930.2 – 1935.1 MHz paired with 2120.2 – 2125.1 MHz, and 1935.1 – 1940.0 MHz paired with 2125.1 – 2130 MHz upon expiry of the existing assignment in October 2016; HKT further commits that it would not seek to renew the assignment of/acquire 2x5 MHz of 3G spectrum in the 1920.3 – 1925.3 MHz paired with 2110.3 – 2115.3 MHz bands; and HKT and CSL commit that they would not participate in the auction for the 3G Spectrum; and
- (c) HKT would fulfil all CSL’s licence and customer contract obligations.

THE PARTIES

9. CSL, the carrier licensee to be acquired, is one of the five MNOs in the telecommunications market in Hong Kong,³ providing a range of mobile services at both the wholesale and retail levels. It is currently owned by CSLNWM which is ultimately owned by Telstra Corporation Limited (76.4%) and New World Development Company Limited (23.6%).

10. HKT Limited, the acquiring party, is approximately 63% owned by PCCW Limited. Both HKT Limited⁴ and PCCW Limited are listed on

³ The five MNOs are CSL, HKT, Hutchison Telephone Company Limited, China Mobile Hong Kong Company Limited and SmarTone Mobile Communications Limited.

⁴ HKT Limited and HKT Trust are listed on the Hong Kong Stock Exchange by way of the issue of “Share

the Hong Kong Stock Exchange. HKT is a 100% owned subsidiary of HKT Limited. HKT, together with its associated companies, operates both fixed and mobile networks in Hong Kong, providing a range of fixed and mobile services at both the wholesale and retail levels.

11. The telecommunications licences which are respectively held by CSL and HKT, either directly, indirectly, jointly or by their associated companies under the TO are listed at **Annex B** to this consultation paper.

THE CONSULTATION

12. As mentioned in paragraph 4 above, the test that the CA is to apply in considering the Application is **whether the Proposed Transaction would have, or be likely to have, the SLC effect in a telecommunications market, or if there would be such an effect, whether the proposed change would have, or be likely to have, a benefit to the public that would outweigh any detriment to the public that would be, or would likely to be, constituted by any such SLC effect.** In this connection, the CA has identified a number of areas as set out in the paragraphs below on which it would like to seek specific representations.

Possible Competition Scenarios and Relevant Markets

13. Application of the SLC test entails a comparison of the level of competition that is likely to exist in the market without the Proposed Transaction with the likely level of competition in the market if the Proposed Transaction proceeds forward. Such a “with and without” approach usually involves an assessment of alternative competition scenarios. The specific angle is on whether and if so to what extent, the Proposed Transaction might result in higher prices, lower levels of service supply, slower speed of service innovation as well as reductions in the level of service quality.

14. The CA welcomes representations on the possible competition scenarios arising from the consummation of the Proposed Transaction, and on the likely adverse and/or positive aspects of any changes the Proposed Transaction might cause to the competitive process amongst Hong Kong

telecommunications operators in general and MNOs and MVNOs in particular. In this connection, representations are invited on what the relevant market or markets should be upon which a competition assessment of the Proposed Transaction would be based.

Possible Unilateral Effects

15. If the Proposed Transaction is to proceed forward, CSL will cease to exist as an independent competitor to HKT in the Hong Kong mobile market, with its business and assets (including spectrum) taken up by HKT's holding company. There is a need to assess whether the Proposed Transaction would likely confer HKT with market power or with enhanced market power which enables it to act without significant competitive constraints, whether in the retail or wholesale markets. In this regard, it is necessary to identify and assess the constraints that might prevent such outcomes from transpiring, such as whether the remaining MNOs, other service providers or potential new entrants would serve as competitive constraints with the ability to prevent HKT from raising prices above and/or reducing service output below the prevailing level. Consideration should also be given to whether there are any barriers to entry or barriers to expansion in the relevant market that may prevent current and potential competitors from acting as effective constraints on HKT's pricing and output decisions.

16. In particular, an assessment should be conducted on the extent to which any pre-existing competitive rivalry between HKT and CSL as independent competitors prevents them from exercising market power. To the extent that CSL can be considered as an especially close competitor to HKT and vice versa prior to the Proposed Transaction, the removal of such rivalry from the competitive landscape may create or significantly enhance the market power of HKT after the Proposed Transaction is completed.

17. The CA welcomes representations in relation to whether the exit of CSL as an independent competitor from the Hong Kong mobile market may confer or enhance the market power of HKT to the extent that enables it to act without significant competitive constraints.

Possible Coordinated effects

18. If the Proposed Transaction is to proceed forward, the number of MNOs will be reduced from five to four, resulting in a concentration of the market. Higher industry concentration from the prevailing level may, under certain circumstances, facilitate market participants to engage in coordinated conduct resulting in price increases and/or reduction in service output. The CA welcomes representations on the post-transaction market structure, especially whether, and if so in what way the post-transaction market structure would facilitate coordinated conduct.

HKT's Status as Incumbent FNO

19. Given that HKT is also an incumbent FNO in Hong Kong, the Proposed Transaction may have potential impact in terms of conferring on HKT, as an integrated fixed and mobile network operator, market power or enhanced market power in other relevant telecommunications markets. This may include the market power to offer interconnection services or backhaul facility services for MNOs without significant competitive constraints. The CA would like to invite representations on whether any potential competitive concerns may arise in this respect.

HKT's Proposed Commitments

20. To alleviate any potential competition concerns which may arise from the Proposed Transaction, HKT Limited/HKT is prepared to make the commitments as specified in paragraph 8 above, namely to continue to provide those wholesale services which are currently provided by CSL and HKT; HKT and CSL to acquire not more than a total of 2x15 MHz of 3G Spectrum upon expiry of the existing assignment of the 3G Spectrum in October 2016 and not to participate in the auction for the 3G Spectrum; and to fulfil all of CSL's licence and customer contract obligations. Representations are invited on the commitments proposed, as to whether they are adequate and/or proportionate in mitigating any competition concerns that may arise from the Proposed Transaction.

Potential Public Benefits

21. It is incumbent upon the CA to assess whether any benefit to the public may be brought about by the Proposed Transaction, and to weigh such

public benefits against any potential competitive harm which the Proposed Transaction may bring about.

22. In this regard, it is HKT's submission that HKT's customers post-transaction would be able to gain immediate access to CSL's LTE network, its below 1GHz spectrum, and its international roaming arrangements, while CSL's customers might also benefit from access to HKT's extensive WiFi network as well as its innovative applications. In addition, customers of both HKT and CSL might also benefit from a larger set of base stations post-transaction.

23. The CA would like to invite representations on the public benefits, including, as per HKT's submission above, possible benefits to customers of both CSL and HKT arising from the combined business strengths of the two entities that may be realised through the Proposed Transaction and their magnitude. Representations are also invited as to whether the transaction may enable HKT to achieve, post-transaction, scale and scope of economies as well as other efficiencies beneficial to customers, and their magnitude. The CA also welcomes representations on whether such public benefits, if any, as outlined above would be sufficient to outweigh any competitive harm which may result post-transaction, and whether there are alternative means through which such public benefits may also be realised with lesser competition risks.

INVITATION FOR REPRESENTATIONS

24. Representations on the issues raised in this consultation paper, or other issues that carrier licensees and interested persons consider as relevant should be made in writing and reach OFCA on or before the close of business of 24 January 2014. OFCA reserves the right to publish all the representations received and to reveal the identity of each respondent. Accordingly, any part of a submission considered commercially confidential should be clearly marked together with the reasons for such claims. The CA will take such markings into consideration in making its decision as to whether or not to disclose such information. Submission should be addressed to:

Office of the Communications Authority
29/F, Wu Chung House
213 Queen's Road East
Wan Chai

Hong Kong

Attention: Dr. Gary Shiu
Principal Regulatory Affairs Manager
Facsimile: 28035112
Email: s7P@ofca.gov.hk

25. An electronic copy of the submission should be provided by email to the address indicated above.

26. For the avoidance of doubt, all the information set out in the Application including without limitation the statistical data is provided by HKT Limited. The CA has annexed to the consultation paper the Application for the purpose of seeking representations in this consultation which will assist the CA in its consideration of the Application. In publishing the Application and the statistical data contained therein, the CA has not, and should not be treated as having verified or endorsed the information and/or statistical data.

27. For the avoidance of doubt, nothing in this consultation paper is to be construed as indicating that the CA has formed any opinion or reached any decision on whether consent to the Proposed Transaction should be granted or declined and the CA will consider all representations and information duly received in response to this invitation to consult, before taking any decision on the Application.

Office of the Communications Authority
23 December 2013



**Application to the Communications Authority Under Section 7P
of the Telecommunications Ordinance**

Regarding the Acquisition of all the shares in CSL New World

Mobility Limited

by

HKT Limited

4 October 2013

(Public Version)



**Application to the Communications Authority Under Section 7P
of the Telecommunications Ordinance**

Regarding the Acquisition of all the shares in CSL New World

Mobility Limited

by

HKT Limited

Executive Summary

The Proposed Transaction

This Application by HKT Limited (“**HKT**”) seeks the prior approval of the Communications Authority (“**CA**”) under Section 7P(6) of the Telecommunications Ordinance (“**TO**”) in regard to the acquisition of all the shares in CSL New World Mobility Limited by HKT (“the **Transaction**”).¹

HKT Limited owns via certain 100% owned holding companies all of Hong Kong Telecommunications (HKT) Limited (also referred to as “**HKT**” herein). HKT is the smallest Mobile Network Operator (“**MNO**”) and a carrier licensee. CSL New World Mobility Limited owns via a 100% owned holding company all of CSL Limited (“**CSL**”). CSL is the third largest MNO and a carrier licensee.

¹ The acquisition of all of the CSL shares by HKT Limited from CSL New World Mobility Limited may be seen as a “change in relation to a carrier licensee” although neither the purchasing entity nor the selling entity is directly a carrier licensee.

The proposed share Transaction will result in the acquisition of CSL by HKT. CSL's primary assets include without limitation its network, licenses and spectrum, intellectual property rights, customer contracts, shop leases, and goodwill as well as certain affiliated (non-licensed) entities. This acquisition would represent the 'return' of CSL to the HKT group, the situation that existed before the sale of CSL to Telstra in two tranches, in 2001 (60%) and 2002 (40%). The total mobile market share of HKT post acquisition of CSL by subscribers will be about 31% and by revenues will be about 29%.

The proposed Transaction is conditioned upon receiving the required CA approvals.

The Section 7P Test

The proposed Transaction may be seen to represent a "change in a carrier licensee" and thus Section 7P of the TO is engaged. Section 7P(6) allows a licensee to obtain the formal prior approval of the CA and sets out the test for the CA's consideration of a merger or acquisition (ie, whether "the proposed change [in a carrier licensee] would have or likely to have, the effect of substantially lessening competition in a telecommunications market..."). HKT seeks the CA's prior approval under TO Section 7P(7).

Section 7P invites the CA to consider the competitive nature of the market. In this case, that would generally mean taking a look at the mobile market with and without the proposed Transaction, the purpose being to be satisfied that the market remains conducive to competition, that the competitive process remains strong, that consumers continue to have choice and that there is no creation of a dominant position.

The Commercial Objective

The primary commercial objective and the rationale of the Transaction is to enable HKT to compete more efficiently in the Hong Kong market by reducing

its cost base and achieving economies of scale in the mobile sector. This would enhance HKT's ability to serve its customers across all its brands, and increase investment and innovation to the benefit of HKT's consumers and the Hong Kong economy.

The Market

The mobile market in Hong Kong is the relevant market. This market is hyper-competitive. There are currently five facility based licensees vigorously competing. A sixth licensee 21 ViaNet has obtained spectrum and is preparing to enter. Multiple MVNOs and resellers also exist. The highly competitive nature of the market will not change post Transaction: The competitive process will remain strong, consumers will continue to have choice, the market will remain very contestable and there will be no creation of a dominant position. The merged entity will not be able to act in the market without regard to competitors or customers.

The Hong Kong mobile market is widely recognized as one of the most open and competitive markets in the world. It is one of the least concentrated markets with competition re-enforced by requirements as to interconnection, number porting and resale. The financial strength of the market participants, the lack of customer loyalty, high advertising spends, multiple well know brands, entrenched price competition, and the high level of investment/innovation all act to maintain the high levels of facility based and resale competition.

As to the provision of wholesale (eg. MVNO and resale) services, CSL and HKT are significant providers of these services. These services can be (and are) provided by all other licensees.

Based on public data, OFCA statistics and our own analysis of the market (including the due diligence in regard to this proposed Transaction) we have calculated approximate market shares by subscribers, revenue and spectrum holdings as follows:

Operator	Approximate Market Share by Subscribers (6/2013)	Approximate Market Share by Revenue (6/2013)	Market Share by Spectrum (current)
HKT	11-12%	6-8%	15.7%
CSL	19-20%	21-23%	22.6%
<i>HKT/CSL (merged)</i>	<i>31%</i>	<i>29%</i>	<i>38.3%</i>
Hutchison	23-24%	31-33%	22.0%
China Mobile	22.5-23.5%	3-5% (w/o handsets)	17.1%
SmarTone	12-13%	32-34%	17.6%
MVNOs	9-10%	1-3%	-
21 ViaNet	-	-	4.9%

HKT would note that the Merger Guidelines suggest that an acquisition/merger where the resulting market share is less than 40% would unlikely raise competition concerns. This is generally consistent with global best practices.

As a ‘merger’, the proposed transaction would represent a situation where 5 existing operators would decrease to 4 (ie, a ‘**5 to 4**’ merger). With 21 ViaNet considered, it is a ‘**6 to 5**’ merger.

The Precedents

Both Hong Kong and Global precedents would support this ‘merger’. In Hong Kong the precedents are:

Hong Kong Transaction	Approved...Outcome
(a) CSL/Pacific Link (1997)	4 to 3; 40% combined market share
(b) SmarTone/P-Plus (1998)	4 to 3
(c) HKT/Star Internet (1998)	50% combined market share
(d) CSL/New World (2006)	6 to 5; 33% combined market share

Globally:

Transaction	Approved ... Outcome
(a) KPN/Telfort (Neth, 2005)	5 to 4
(b) T-Mobile/tele.ring (Austria, 2006)	4 to 3
(c) T-Mobile/Orange (Neth, 2007)	4 to 3
(d) Vodafone/Hutchison (Australia, 2009)	4 to 3
(e) T-Mobile/Orange (UK, 2009)	5 to 4
(f) Sunrise/Orange (Switz, 2010)	3 to 2
(g) Hutchison/Orange (Austria, 2012)	4 to 3
(h) T-Mobile/Metro (USA, 2013)	5 to 4

No Substantial Lessening of Competition

The Transaction will not have, or be likely to have, the effect of substantially lessening competition in a telecommunications market.² The relevant product market is the supply of mobile services. The relevant geographic market is Hong Kong. Post Transaction, HKT will not have the ability to price above

² This is the statutory test under Section 7P of the Ordinance. As CSL is only a mobile operator there will be no effect to the supply of fixed or other services.

competitive levels and will remain constrained by its competitors and customers.

Based on the facts of the proposed Transaction, Hong Kong and global precedents, the Merger Guidelines and the highly competitive nature of the mobile market, HKT does not believe that any significant competition or market structure issues arise and that the CA's approval under Section 7P is warranted.

While HKT believes that no significant competition concerns arise at the retail or wholesale level, HKT (as the acquiring entity/licensee) would make the following commitments if desired by the CA:

- (a) HKT would continue to provide wholesale services now provided by CSL and HKT (eg, MVNO, resale and network sharing arrangements);
- (b) HKT and CSL would acquire not more than a total of 2 x 15 MHz of spectrum in the 1.9-2.2 GHz band ("3G Spectrum") upon expiry of the existing assignment of the 3G Spectrum in October 2016. HKT and CSL would not participate in the auction for the 3G Spectrum (see Note)³ and
- (c) HKT would fulfill all of CSL's license and customer contract obligations.

Note – In regard to (b), HKT and CSL commit that each would not seek to renew the assignment of 2x5 MHz of 3G spectrum respectively in the 1930.2 – 1935.1 MHz paired with 2120.2 – 2125.1 MHz, and 1935.1 – 1940.0 MHz paired with 2125.1 – 2130 MHz upon expiry of the existing assignment in October 2016; HKT further commits that it would not seek to renew the assignment of/acquire 2x5 MHz of 3G spectrum in the 1920.3 – 1925.3 MHz paired with 2110.3 – 2115.3 MHz bands; and HKT and CSL commit that they would not participate in the auction for the 3G Spectrum.

³ This 3G related commitment would reduce the 'merged' entity's spectrum market share from 38.3% to 33.4%. Excluding HKT's CDMA 2000 spectrum which is not available for use by HKT's customers, this market share would fall to 31.7%.

Consumer Benefits

Both HKT and CSL customers will benefit from the proposed transaction. Post transaction, HKT will be a more efficient competitor as it will combine the HKT and CSL networks and customer bases in order to achieve economies of scale. This will in turn allow HKT to invest more in innovation, enhanced services, network up-grades and service quality. While market forces will drive the exact allocation of benefits to consumers there should be no doubt that post Transaction HKT's expanded customer base will benefit from a merger of HKT's and CSL's networks, customers and services.

These benefits can be demonstrated in part via the following examples. As a result of this Transaction, 'HKT' customers will gain access to CSL's below 1G spectrum. This will allow better indoor coverage, increase service quality and enhance the efficient use of spectrum (including 3G spectrum). HKT's customers will also obtain access to improved international roaming arrangements under CSL's roaming agreements. Further, HKT's customers will gain access to CSL's LTE network immediately. At the same time, 'CSL' customers will gain access to HKT's extensive WiFi network to off-load traffic (including 3G traffic) and improve service quality. HKT has the most extensive WiFi network in Hong Kong with over 12,000 locations which will reach about 25,000 locations in 2016 – this WiFi network extends to dense urban areas in Hong Kong including the MTR stations. CSL customers will also gain access to innovative apps such as "KingKing" which will allow them to manage down their roaming costs substantially. Both 'HKT' and 'CSL' customers will benefit from an increased number of base stations (including 3G base stations), increased investment, enhanced service quality, network up-grades and the faster introduction of new services.

Overall, service continuity and service quality will be ensured (or even enhanced) for the HKT expanded customer base. The transition for CSL customers should be seamless, and certainly HKT has a clear incentive to satisfy CSL customers (including all their contract rights).

To the extent that HKT can become a more efficient and vigorous competitor, other competitors will need to improve their game, which will benefit even non-HKT customers.

The Transition

The proposed Transaction will present HKT with two transition periods. The first transition period will begin post completion (e.g. 4Q 2013 or 1Q 2014) and will focus on smoothly merging the CSL and HKT customer bases. The seamless migration of CSL customers into HKT will require a focus on service quality, customer care, and meeting the expectations of CSL's customers (both contractual and otherwise). At the same time, the process of smoothly integrating the two networks will begin.

The second transition period will occur in 2016 per HKT's commitment to not seek to renew 2 x 15 MHz of 3G spectrum. This transition will focus on more efficiently using the retained 3G spectrums, and migrating 3G customers to 4G services, while also meeting all of HKT's and CSL's 3G wholesale obligations (including MVNO, resale, and network sharing requirements). Indeed, although not at all painless or costless, HKT is confident that it can manage both transitions.

The proposed Transaction will promote competition and enhance customer benefits. Accordingly, HKT requests that the CA grant approval under TO Section 7P. (Sections 7P(6), (7) and (8) are relevant to this Application, with HKT being the acquiring entity, a licensee and/or an interested person).

**Application to the Communications Authority Under Section 7P
of the Telecommunications Ordinance
Regarding the Acquisition of all of the shares in CSL New
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by
HKT Limited**

INTRODUCTION

This application by HKT Limited (“**HKT**”) seeks the prior approval of the Communications Authority (“**CA**”) under Section 7P(6) of the Telecommunications Ordinance (“**TO**”) in regard to the acquisition of all of the shares of CSL New World Mobility Limited by HKT (“the **Transaction**”).

HKT Limited owns via certain 100% owned holding companies all of Hong Kong Telecommunications (HKT) Limited (also referred to as “HKT” herein). HKT is the smallest Mobile Network Operator (“MNO”) and a carrier licensee. CSL New World Mobility Limited owns via a 100% owned holding company all of CSL Limited (“CSL”). CSL is the third largest MNO and a carrier licensee.

CSL’s primary assets include its Unified Carrier License No. 008, its spectrum, its network, non-network assets (such as shop leases, intellectual property rights

and customer contracts), goodwill and as well as certain affiliated (non-licensed) entities.

When this Transaction receives the required CA approval and closes, CSL will be fully integrated into HKT. The proposed Transaction is conditioned upon receiving the required CA approvals.

The proposed Transaction may be seen to engage Section 7P of the TO. Section 7P(6) allows a licensee or any interested party to seek the CA's prior consent to a proposed transaction. Such consent is obtained under Section 7P(7) via a submission as described in the CA's Merger Guidelines.

The information requested under the CA's Merger Guideline is provided herein as reflected in Annex 1. If the CA requires different or additional information, HKT would be pleased to provide such information.

HKT does not believe that the proposed Transaction raises any significant issues under Section 7P. Nevertheless, HKT is prepared to make the following commitments if the CA so requires:

- (a) to continue to provide wholesale services now provided by CSL and HKT (eg, MVNO, resale and network sharing services arrangements);
- (b) to not seek to renew 2 x 15MHz of 3G spectrum when the HKT and CSL licenses for that spectrum expire in 2016; and
- (c) to fulfill all of CSL's license and customer contract obligations.

The remainder of this submission is found in Annex I, which presents information and analysis consistent with the CA's Merger Guidelines. HKT looks forward to working with the CA and OFCA on this important matter, and receiving an early positive response.



Application to the Communications Authority
Under Section 7P of the Telecommunications Ordinance
Regarding the Acquisition of all of the shares in CSL New
World Mobility Limited

by

HKT Limited
4 October 2013

Annex 1: The Submission Based on the Merger Guidelines

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⁴ This Annex follows the Merger Guideline requirements. HKT apologizes for any redundancy.

1. Executive Summary

1.1 Proposed Transaction

The proposed transaction (“the **Transaction**”) will involve the acquisition of all of the shares of CSL New World Mobility Limited by HKT Limited (“HKT”). HKT Limited owns via certain 100% owned holding companies all of Hong Kong Telecommunications (HKT) Limited (also referred to herein as “HKT”) which is the smallest Mobile Network Operator and a carrier licensee. CSL New World Mobility Limited owns via a 100% owned holding company all of CSL Limited (“CSL”) which is the third largest MNO and a carrier licensee.

CSL’s primary assets are its Unified Carrier License (“UCL”) No. 008 and all the spectrum therein as well as network assets, non-network assets, intellectual property rights, customer contracts, shops leases, goodwill, etc as well as certain affiliated (non-licensed) entities.⁵ By subscribers, HKT is the smallest Mobile Network Operator (“MNO”) and CSL is the third largest MNO. The total market share of HKT post acquisition of CSL by subscribers will be about 31% and by revenues about 29%.⁶

1.2 Commercial objectives

The primary commercial objective and the rationale of the Transaction is to enable HKT to compete more efficiently in the Hong Kong market by reducing its cost base and achieving economies of scale in the mobile sector. This would enhance HKT’s ability to serve its customers across all

HKT in this submission also includes both Sunday Holdings (Hong Kong) Corporation and PCCW Mobile Limited.

⁶ This data assumes that all of CSL’s customers will remain CSL customers, including those with the right to terminate or otherwise exit.

its brands, and increase investment and innovation to the benefit of HKT's consumers and the Hong Kong economy.

1.3 No 'Substantial Lessening of Competition'

The Transaction will not have, or be likely to have, the effect of substantially lessening competition in a telecommunications market.⁷ The relevant product market is the supply of mobile services. The relevant geographic market is Hong Kong. Post Transaction, HKT will not have the ability to price above competitive levels and will remain constrained by its competitors and customers.

The Hong Kong mobile market is widely recognized as one of the most competitive and least concentrated mobile markets in the world. Post Transaction this situation will remain. The high intensity of competition will continue post Transaction, as there will still be:

- Four strong, well-resourced, deep pocketed, experienced and aggressive mobile competitors as well as multiple MVNOs and resellers.
- A new facilities based entity i.e. 21 ViaNet Group Limited with 30MHz of capacity at 2.3GHz and potential new entry as OFCA releases new spectrum and/or allows spectrum trading.
- Mobile number porting, a well established interconnection regime, high levels of advertising, limited customer loyalty, resale, and well informed consumers all ensure the sustainability of a competitive mobile market.

⁷ This is the statutory test under Section 7P of the Ordinance. As CSL is only a mobile operator there will be no effect to the supply of fixed or other services.

1.4 Significant public benefits

The Transaction is likely to result in significant public benefits. The benefits to HKT of cost savings and economies of scale will enable it to better compete in the market. This will foster the potential for a lower cost base to be a deflationary force on HKT's prices, the faster introduction of new technologies (such as advanced LTE), enhanced innovation, more efficient network investments, better service quality and/or improvements in customer care. Rationalization of networks over time will reduce unnecessary duplication of infrastructure, resulting in both cost savings and environmental benefits. Of course, to the extent that HKT becomes a more efficient competitor, other market participants will be incented to improve their performance as well, to the benefit of all users.

Both HKT and CSL customers will benefit from the proposed transaction. Post completion, HKT customers will directly benefit from being able to access CSL's below 1G spectrum. This will result in better indoor coverage and increased service quality, as well as enhancing the efficient use of spectrum (including 3G spectrum). HKT customers will also benefit by obtaining improved international roaming arrangements under CSL's roaming agreements. Further, HKT's customers will gain access to CSL's LTE network immediately. At the same time, CSL customers will gain access to HKT's extensive WiFi network to off-load traffic (including 3G traffic) and improve service quality. HKT has the most extensive WiFi network with over 12,000 locations which will reach about 25,000 locations in 2016. This WiFi network extends to dense urban areas, including to MTR stations. CSL customers will also gain access to innovative apps such as KingKing which allows them to better manage and substantially decrease their roaming costs. Both HKT and CSL customers will benefit from an increased number of base stations

(including 3G base stations). Both HKT and CSL customers will also benefit from HKT becoming more efficient and competitive. This will free up resources for investment in innovation, faster introduction of new services, improved service quality, network up-grades, better customer care, etc.

1.5 The proposed Transaction is consistent with past Hong Kong precedent, the CA's Merger Guidelines and global precedents

All 12 previous merger and acquisition proposals brought to OFCA over the past 15 years have been approved. The merger approvals included cases where the market share post transaction exceeded 50% and where the remaining established competitors were as few as three. These CA merger decisions create an important body of precedent and indicate that the proposed '5 to 4' Transaction with a combined market share of about 31% by subscribers (and about 29% by revenues) should be approved. Please see the table in section 10 of this Annex for details on these precedents.

After all of these transactions, competition continued to thrive, investment and innovation flourished, consumer prices continued to decline, efficiency increased, service quality continued to improve and consumer benefits were enhanced. There is no basis to believe that the same result will not apply to the proposed Transaction.

Several of the merger decisions are of particular relevancy to the proposed Transaction.

As to the post merger market shares: In the 1998 Star Internet decision allowing the merger of Star Internet with HKT's internet access business, the post merger market share exceeded **50%**. In the 1997 decision allowing the acquisition of Pacific Link ("Pac Link") by CSL, the market share post acquisition of CSL was about **40%**. In the 2006 decision allowing CSL to merge with New World Mobility the post merger market

share was over **33%**. The post merger market share of the proposed Transaction would be about **31%, which is well below the precedents.**⁸

As to the number of remaining major service providers: In the SmarTone merger with P-Plus the number of major operators was reduced from **4 to 3**. In the CSL merger with Pacific Link, the number of major operators was reduced from **4 to 3**. In the CSL merger with New World Mobility the number of major operators was reduced from **6 to 5**. **The number of major operators under the proposed Transaction would be reduced from 5 to 4, which should be of no concern as the market has been allowed to consolidate to 3 major operators in previously approved mergers** (and with 21 ViaNet's entry the number of facility based operators would soon return to **5** consistent with the **CSL/NWM** merger).

The CA's Merger Guidelines at paragraph 2.13 (safe harbors) indicate that mergers with a post transaction market share of less than 40% would unlikely be investigated. That is generally consistent with global best practices.

Internationally, examples of relevant approved mergers include: (a) 2005 KPN/Telfort (Neth), **5 to 4**; (b) 2006 T-Mobile/tele.ring (Austria), **5 to 4**; (c) 2007 T-Mobile/Orange (Neth), **4 to 3**; (d) 2009 Vodafone/Hutchison (Australia), **4 to 3**; (e) T-Mobile/Orange (UK), **5 to 4**; (f) 2010 Sunrise/Orange (Switzerland), **3 to 2**; (g) 2012 Hutchison/Orange (Austria), **5 to 4**; and (h) 2013 T-Mobile/Metro (USA), **5 to 4**.

Accordingly, based on Hong Kong and global precedent, the Merger Guidelines, the highly competitive nature of the mobile market and the facts of this proposed Transaction, HKT requests that the CA give its prior approval to HKT's acquisition of CSL.

⁸ On a revenue basis, a combined CSL/HKT would have a market share of about 29% (assuming that all the CSL customers remain CSL customers).

2. Introduction

2.1 Proposed Transaction

This submission by HKT seeks the formal prior approval of the CA under Sections 7P(6) and (7) of the TO. The registered office of CSL is Cyberport 3, 100 Cyberport Road, Hong Kong. The registered address of HKT is 39th Floor, PCCW Tower, 979 Kings Road, North Point, Hong Kong.

The proposed transaction will involve the acquisition of CSL by HKT. CSL's major assets include UCL No. 008, including all of CSL's spectrum under that license, as well as other relevant assets such as network assets, non-network assets, intellectual property rights, customer contracts, shop leases, goodwill as well as certain affiliated (non-licensed) entities.⁹ As described further below, HKT is the smallest MNO and CSL is the third largest MNO. The total combined market share by subscribers of HKT and CSL is about 31%; by revenues the combined market share is about 29% (assuming that all of CSL's customers would remain CSL customers).

2.2 Commercial objectives

The primary commercial objectives and the rationale of the Transaction are to:

- Enhance HKT's ability to serve its customers across the full spectrum of mobile service segments;

⁹ CSL is the holder of various licenses including UCL 008, SBO(ETS) 875, SBO (ETS) 1048 and SBO (IVANs) 657. HKT is the holder of various licenses including UCL 025, UCL 003, MCL 099, FCL 014, two SBO class 3 licenses, two SMATV licenses and a Radio Dealers (Unrestricted) License. The price for the acquisition is not included due to its sensitivity.

- Enable HKT to compete more efficiently in the Hong Kong market by reducing its cost base and achieving economies of scale in the mobile sector; and
- Increase innovation to the benefit of HKT's relevant (and expanded) brands and consumers.

2.3 Market definition

The relevant product market in which the Transaction should be assessed is the market for the supply of mobile services. The relevant geographic market is Hong Kong.

2.4 No substantial lessening of competition (the Section 7P test)

The Transaction will not have, or be likely to have, the effect of substantially lessening competition in any telecommunications market for the following key reasons:

- *The intense level of competition will continue:* The Hong Kong mobile market is widely recognized as one of the most competitive and least concentrated mobile markets in the world. Post-acquisition this situation will remain. The high intensity of competition, in conjunction with the absence of any likely adverse impact of the Transaction on the intensity of that competition, should alone give OFCA sufficient comfort that no substantial lessening of competition is likely to occur.
- *No additional market power:* HKT's acquisition of CSL (and relevant assets) will not result in HKT gaining additional market power. HKT will not be able to price above competitive levels, or to reduce output or quality. HKT will very much remain constrained by its competitors and customers. Customer choice will remain high; the highly competitive market will remain. Post acquisition, there would still be:

- four strong, well-resourced, deep pocketed, experienced and aggressive facility based mobile competitors (i.e. Hutchison, China Mobile, SmarTone and HKT/CSL);
 - a new facilities based entity i.e. 21 ViaNet Group Limited with 30MHz of capacity at 2.3GHz;
 - multiple MVNO competitors with potential for significant further MVNO market entry;
 - numerous unlicensed Mobile Value-Added Resellers (“MVAR”) competitors with potential for significant further MVAR market entry; and
 - potential new entry as OFCA releases more spectrum and/or allows spectrum trading.
- *Continuing scope for fierce competition:* Fierce competition will continue after the acquisition. By this acquisition the smallest MNO would acquire the third largest MNO.¹⁰ At the same time, this acquisition would represent the ‘return’ of CSL to HKT, the situation that existed prior to the 2000 acquisition of Cable & Wireless HKT Limited by PCCW and the subsequent acquisition of a 60% stake in CSL by Telstra in 2001 followed by the acquisition of the remaining 40% stake in CSL by Telstra in 2002.
- China Mobile is the world’s largest mobile operator by subscribers and has extremely deep pockets. China Mobile is also the second largest mobile operator in Hong Kong by subscribers. China mobile has the most 4G spectrum, is

¹⁰ After fully subtracting out MVNO and reseller customers, marked sold and inactive pre-paid numbers, Hutchison and China Mobile are larger than CSL in terms of their own subscribers. Hutchison and SmarTone are larger in terms of revenues.

expanding its 4G services in Hong Kong and has substantial 3G capacity under MVNO and network sharing agreements.

- Hutchison is currently the largest mobile operator in Hong Kong by subscribers. It has the ability to leverage its brand '3' (which is one of the largest 3G mobile businesses in the world) with very strong financials. Hutchison is expanding its 4G services in the market.
- SmarTone has an extremely strong and recognized brand. It has made extensive investments in its networks (e.g. 4G) and is a substantially stronger competitor than it was a few years ago. It appears that SmarTone is the most profitable operator in the market.
- Hutchison, SmarTone and China Mobile (HK) are all supported by extremely strong parent companies. Furthermore, Hutchison and SmarTone derive substantial preferential access to key buildings and locations in Hong Kong via their parents and/or property related affiliates whereas China Mobile (HK) benefits greatly by its affiliates' networks in China and preferential roaming arrangements cross-border.
- *High level of market contestability:* The market is highly competitive. Four facility-based MNOs would remain in the market along with a number of MVNOs and resellers. Mobile penetration levels are high, mandatory mobile number porting exists, the interconnection regime is well established, customer loyalty is minimal, substantial investments levels exist, advertising spends are significant and price competition is entrenched. There is no risk of competitive foreclosure or market failure. In addition, the threat of further market entry is real. This includes existing new licensees such as 21 ViaNet and other potential facility based entrants (e.g.

China Telecom and China Unicom. It is noted that China Telecom participated in the last spectrum auction).

- *No material competitive constraint on each other:* HKT and CSL do not exercise material competitive constraints on each other and the existing brands will be retained post-acquisition. This is due in part to HKT's much smaller market share and lack of a significant presence in any market segment. Any impact of the Transaction on competition is therefore de *minimus*.
- *Dynamic nature of mobile market:* The Hong Kong mobile market is dynamic and characterized by rapid innovation. 4G LTE is currently viewed as the future of mobile competition. The industry move to 4G LTE is generating further significant price and non-price competition. At the same time the 3G market sector is extremely competitive.
- *The role of handset manufacturers and content providers:* As users place more and more importance on handsets (e.g. smartphones) and content, the providers of these items (e.g. Apple and Samsung) are playing an increasingly important role (and the MNOs are playing a correspondingly less important role).

The following table represents the approximate market share held by the mobile market participants:

Operator	Approx Market Share By Subscribers (6/2013)	Approx Market Share By Revenue (6/2013)	Market Share by Spectrum (current)
HKT	11-12%	6-8%	15.7%
CSL	19-20	21-23	22.6
<i>HKT/CSL [merged]</i>	<i>31</i>	<i>29</i>	<i>38.3</i>

Hutchison	23-24	31-33	22.0
China Mobile	22.5-23.5	3-5 (w/o handsets)	17.1
SmarTone	12-13	32-34	17.6
MVNOs	9-10	1-3	-
21 ViaNet	-	-	4.9

2.5 Significant potential public benefits

HKT does not consider that the transaction will result in a substantial lessening of competition, but for completeness, HKT also submits that the transaction is likely to result in material public benefits.

- *Greater cost efficiency:* Network efficiencies, cost savings and economies of scale will provide scope for HKT to better compete in the Hong Kong mobile market, to the ultimate benefit of Hong Kong consumers.
- *New mobile technologies:* The larger subscriber base of HKT and CSL will provide economies of scale in relation to the development and implementation of new mobile technologies (e.g. advanced 4G and LTE data applications and technologies), potentially resulting in their earlier and broader introduction to Hong Kong consumers.
- *Higher quality services:* The overall quality of service will be increased via progressive rationalization around the best network sites, technologies and infrastructure; leading to increased quality of services to the benefit of Hong Kong consumers.
- *Wider environmental benefits:* Rationalization of networks over time will reduce unnecessary duplication of infrastructure, resulting in wider environmental benefits.

For CSL and HKT customers: Both CSL and HKT customers will benefit from the proposed transaction. CSL customers will have access to HKT's WiFi facilities in order to off-load traffic (including 3G traffic) which will significantly improve service quality. HKT has the most extensive WiFi network in Hong Kong with over 12,000 locations which will reach about 25,000 locations in 2016. This WiFi network extends to dense urban areas including in the MTR stations. CSL customers will also have access to innovative apps such as KingKing which will allow them to manage their roaming costs. HKT customers will gain access to CSL's below 1G spectrum. This will result in better indoor coverage and increase service quality. HKT customers will also obtain access to improved roaming arrangements under CSL's broad set of international roaming agreements. HKT customers will further gain access to CSL's LTE network. Both CSL and HKT customers will have access to more base stations, improving service quality. As HKT becomes more efficient, the benefits of this will be flowed through to users in terms of greater investments in innovation, network up-grades, new services, better service quality and customer care.

HKT will take particular care to ensure that CSL customers experience a seamless transition. This will begin with a strong commitment to maintaining service continuity and service quality. On the one hand, CSL's network will continue to provide service to these customers as it does today. On the other hand, these customers will have access to HKT's WiFi hot spot facilities as soon as possible, and thus their mobile experience should be enhanced over time. Additional base station access and improved MTR coverage will also occur, enhancing the mobile experience for the CSL customer.

CSL customers will continue to have all the rights and obligations they now enjoy under their CSL customer contracts. These contracts will remain in effect, and HKT commits that these contracts and the license obligations of CSL will be fulfilled by HKT. All of CSL customers will be contacted, assurances given re their contracts and services, questions answered, etc. HKT has the strongest possible incentive to ensure a smooth transition.

Anything less could adversely affect HKT's revenues. HKT is confident that it can manage both the near term transition in 2013/2014 and the 3G transition (although not without pain and additional costs) in 2016 to the benefit of its customers.

2.6 The proposed Transaction is consistent with past Hong Kong precedent, the CA's Merger Guidelines and global best practices

Previous acquisition and/or merger proposals brought to OFCA have all been approved. These include several merger cases which are very useful precedents. These include the:

- (a) 1997 CSL merger with Pacific Link;
- (b) 1998 SmarTone merger with P-Plus;
- (c) 1998 HKT merger with Star Internet (for internet access services);
- (d) 2006 and 2007 Asia Netcom mergers with C2C and Pacnet (respectively); and
- (e) 2006 CSL merger with New World Mobility.

After all of these transactions, competition continued to thrive, investment and innovation flourished, consumer prices continued to decline, efficiency increased and consumer benefits were enhanced. There is no basis to believe that the same result will not apply to the proposed transaction.

Several of the above cases deserve additional comments. In the 1997 decision allowing the acquisition of Pacific Link ("PacLink") by CSL, the market share post merger of CSL was about **40%**. In that case, the CA decided that the market could not be considered to be concentrated (and thus the transaction was approved). The CA noted the presence of **three** well established competitors and four new licensees.

In the 1998 decision allowing SmarTone to merge with P-Plus, the CA approved the merger and noted that the market would still have **three** major competitors.

In the 1998 Star Internet merger decision, the CA approved a merger where the post merger market share exceeded **50%**.

In the 2006 decision approving the CSL and New World Mobility merger the CA noted the highly competitive nature of the mobile market and that five operators would remain in the market. The post merger market share of CSL was over **33%**.

The above precedents as to market share and number of remaining major competitors should be followed here where: (a) the combined entity will have a market shares by subscribers (assuming that all of CSL's customers remain CSL customers) of about **31%**, well below the 50%, 40% and 33% cases noted above; and (b) there will be **four** major competitors remaining in the market along with numerous MVNOs and MVARs. 21 ViaNet (which has spectrum and a license to become a full fledged facility based operator) will bring the number of facilities-based MNOs back to **five**. The proposed Transaction is therefore well within the above precedents. **The table in section 10 below contains further merger and acquisition data.**

In short, the regulatory environment has worked. It has promoted competition by lowering entry barriers, auctioning new spectrum, readily issuing new licenses, removing barriers to switching (ie, mandatory number porting), and enabling market exits (as evidenced above) thereby allowing the market and consumers to benefit. At the same time, the market has been characterized by full facility and resale competition, the lack of any foreclosure effects, high advertising spends, low customer loyalty, price competition, high levels of investment and innovation, substantial efficiency levels and world best consumer benefits.

The CA's merger Guidelines at paragraph 2.13 (safe harbors) indicate that mergers with a post transaction market share of less than 40% would unlikely be investigated.

Internationally, the proposed Transaction is consistent with recent cases, including: 2005 KPN/Telfort (Neth) '5 to 4'; 2006 T-Mobile/tele.ring (Austria) '5 to 4'; 2007 T-Mobile/Orange (Neth) '4 to 3'; 2009 Vodafone/Hutchison (Australia) '4 to 3'; 2009 T-Mobile/Orange (UK) '5 to 4'; 2010 Sunrise/Orange (Switz) '3 to 2'; 2012 Hutchison/Orange (Austria) '5 to 4'; and 2013 T-Mobile/Metro (USA) '5 to 4'.

3. Details of the Licensees

3.1 Description of CSL's business

CSL is a telecommunications licensee and the holder of a number of telecommunications licenses, including UCL No. 008 under which it holds its spectrum and provides mobile services. CSL is the third largest MNO based on its 'own subscribers' data (which excludes MVNO and reseller subscribers as well as inactive pre-paid users).

- *CSL's background:* Historically CSL (then known as Hong Kong Telecom CSL Limited) was the first mobile operator in Hong Kong, launching its mobile service in Hong Kong in the 1980's. A dualband GSM network was subsequently launched in 1998, integrating the GSM 900 MHz network with a GSM 1800 MHz (PCS) network acquired from Pacific Link Communications Limited.
- *The Telstra acquisition:* In 2001, in the context of the takeover of Cable & Wireless HKT Limited by PCCW and the formation of a subsequent joint venture with Telstra, Telstra acquired 60% of CSL. Telstra subsequently acquired 100% ownership of CSL from PCCW in June 2002. In 2006 CSL merged with New World Mobility and thus eliminated a weak industry player and allowed its assets, network

and customers to be consolidated within a stronger industry player. The proposed Transaction would return CSL to its 'original' owner, ie HKT.

- *CSL's networks:* Today CSL operates an integrated 2G/3G/4G mobile network.
- *CSL's services:* CSL's 3G services were commercially launched in December 2004. 4G services were launched in late 2010. At the wholesale level CSL supplies mobile interconnect terminating services, MVNO services and MVAR resale services to a number of other market participants.¹¹ At the retail level CSL supplies post-paid mobile services, international roaming services and pre-paid mobile services. CSL is active in the mass sector via its New World Mobility and one2free brands. CSL is active in the premium sector via its 1010 brand.

3.2 Description of HKT's business

HKT is a telecommunications licensee and the holder of a number of telecommunications licenses, both fixed and mobile. HKT is the smallest mobile telecommunications network operator and service provider in the Hong Kong market. HKT provides retail mobile services via PCCW Mobile which operates under a reseller's license.

- *HKT's fixed network:* HKT is the primary fixed network service provider in Hong Kong. It provides a broad range of voice and data services (both local and international) over a pre-dominantly fiber network (e.g. FTTB and FTTH) to both consumers and business customers.

¹¹ HKT will continue post acquisition to provide unchanged these MVNO, resale and wholesale services.

- *HKT's mobile networks:* Today HKT operates an integrated 2G/3G/4G network.
- *HKT's services:* At the wholesale level HKT provides mobile interconnect terminating services, MVNO services and MVAR resale services to a number of other market participants. It provides 3G capacity to China Mobile under a network sharing agreement.¹² At the retail level, HKT supplies post-paid mobile services, international roaming services and pre-paid mobile services. HKT is active in the mass market and the premium sectors, although as the smallest MNO it is not a market leader or price setter in any sector.

3.3 The mobile services described above are provided by all the mobile licensees, as well as multiple MVNOs and mobile resellers (although there are of course some differences as to the market segments and a licensee's focus). Both demand side and supply side substitution is substantial. The market is more fully described in sections 6 to 12 below. OFCA is well informed as to the mobile market and will have the contact details of each of the other mobile licensees.

4. Details of the Transaction

4.1 Description of the Transaction

The Transaction involves the acquisition of all of the shares in CSL New World Mobility Limited by HKT. The proposed Transaction will, at the licensee level, therefore involve all of CSL's assets including its UCL (and related spectrum) as well as network assets, non-network assets, intellectual property rights, customer contracts, shop leases, goodwill, employment contracts, etc, including certain affiliated (non-licensed) entities.¹³

¹² HKT will continue post acquisition to provide unchanged these MVNO, resale, wholesale and network sharing services.

¹³ No directors of CSL are currently HKT board members. No directors of HKT are currently CSL board members. The transaction need not be notified for approvals in other countries. No steps have been taken to publicize this proposal other than as required by law.

4.2 Pre-Transaction structure of HKT

- Please see Annex 2. In addition to the HKT group licensees, HKT has a 50% ownership share in the Genius Brand joint venture with Hutchison (UCL No. 007) which will not be effected by this Transaction. HKT also has a 50% ownership share in the Reach Networks joint venture with Telstra (UCL No. 014) which will not be effected by this Transaction.
- HKT is wholly owned by the HKT Trust and HKT Limited which in turn is approximately 63% owned by PCCW Limited. Both the HKT Trust and PCCW Limited are listed on the Stock Exchange of Hong Kong.

HKT's pre-Transaction structure will continue post Transaction with CSL New World Mobility Limited and CSL being placed under HKT Limited.

4.3 Pre-Transaction structure of CSL

This is found in Annex 3.¹⁴

4.4 Ownership structure after the Transaction

HKT Limited will acquire CSL New World Mobility Limited, the relevant holding company and CSL as represented in Annex 2A.

4.5 Timing of Transaction

HKT would like to complete the Transaction as soon as possible. This would include obtaining all required regulatory and shareholders approvals. The desired regulatory approval from OFCA would be an approval under Sections 7P(6) and (7) per the highly competitive nature of

¹⁴ Annex 3 has been up-dated to reflect the current ownership structure of CSL Limited.

the market, the sustainability of that competition, the lack of any harm to the competitive process, Hong Kong and global precedent, the facts of this case, the safe harbor of the post-Transaction market share being well below 40% (please see section 2.13 of the CA Merger Guidelines) and the discussion herein.

✂

5. **Rationale and Efficiencies**

5.1 **Commercial rationale**

The commercial rationale for the transaction is as follows:

- *Competitive and strategic positioning:* The Transaction will enhance HKT's market and strategic position in the highly competitive Hong Kong mobile sector. The transaction will create (or re-create) an entity with strong brand recognition, allowing HKT to better serve its customers across the full spectrum of customer segments.
- *Cost-savings and efficiencies:* The Transaction will enable HKT to compete in the Hong Kong market from a position of greater efficiency. HKT will realize operating cost savings via economies of scale and rationalization of assets and activities. While the networks of CSL and HKT utilize different vendors, the transaction will over time reduce the need for duplicative capital and operating expenditure.
- *Investment and Innovation:* The Transaction will enable greater and more efficient investment and innovation.
- *HKT and CSL customers will both benefit:* As noted above, both customer sets will benefit from the proposed Transaction in the short term and, as efficiencies occur, in the long term. A more efficient HKT will be a more sustainable competitor.

5.2 Efficiencies and synergies from the Transaction

The Transaction will enable HKT over time to realize operating cost savings via economies of scale and rationalization of assets and activities. HKT intends to progressively achieve post-transaction operating cost savings, efficiencies and synergies in the following manner:

- *Rationalization of network assets:* While the HKT and CSL networks do not use the same network vendor, a significant benefit of the Transaction from a cost savings perspective arises from the ability to rationalize the HKT and CSL radio access network and associated transmission assets post completion (including cell sites).
- *Realizing economies of scale:* Economies of scale could be realized in both capex and opex.
- *Access benefits:* Access to CSL's below 1G spectrum and LTE network, 3G and a comprehensive set of roaming agreements is a plus for HKT's customers. Access to HKT's WiFi facilities to off load traffic and usage of innovative apps such as KingKing is a plus for CSL's customers. Both sets of customers gain from additional base stations and HKT ultimately being a more efficient and sustainable competitor in the mobile market.

There will also be synergies and efficiencies arising from the rationalization of the "back end" of the respective businesses of CSL and HKT.

6. Market Definition

6.1 Mobile Market

The relevant market in which the Transaction should be assessed is the Hong Kong market for the supply of mobile (voice and data) services. The market encompasses both wholesale and retail supply of mobile services. This approach would be consistent with past practice (ie the CSL/NWPCS merger and the PCCW acquisition of Sunday). HKT, CSL, SmarTone, China Mobile, and Hutchison as well as multiple MVNOs and resellers currently participate in this market. 21 ViaNet has acquired spectrum and will per its license be providing service to at least 50% of the population within a few years. Entry by other entities is possible. Fixed services are not considered to be good substitutes for mobile services.

6.2 International precedent on mobile market definition

International precedent indicates that 2G and 3G services are considered to co-exist in the same product market, with voice and data co-existing in the same market. There is no precedent for defining separate pre-paid or post-paid markets. There is similarly no precedent for defining a market based on low, mid or high-level customer demographics, or on fixed/mobile convergence. The geographic dimension is usually considered to be national in scope, particularly in a market the size of Hong Kong.¹⁵

6.3 Innovation and market evolution

HKT would note that the mobile market is dynamic and characterized by rapid innovation. Just a few years ago, 3G was viewed as the future of mobile competition and the industry moved to 3G. Then the market moved to higher bandwidth services, employed off-loading strategies such as WiFi, and now the market is moving toward broader 4G adoption.

¹⁵ There are no 4G only merger examples yet, although the approach would not likely diverge from the mobile precedents of looking at technologies in a neutral fashion.

The current rollout of 4G services in Hong Kong further increases the likelihood that competition in the Hong Kong mobile voice and data market is likely to intensify in the future. Furthermore, the evolution of new technology means that Greenfield operators could enter the market with networks capable of transmitting higher bandwidths at significantly lower cost than the networks of existing 3G network operators (depending on the evolution of 4G technology). More specifically, OFCA's decisions to auction new spectrum at 2.3GHz in 2012, to license new operators such as 21 ViaNet to employ TD-LTE and to auction more spectrum at 2.6GHz for TD-LTE earlier in 2013, have established the pre-conditions for a further competitive cycle. Importantly, neither HKT nor CSL own spectrum at 2.3GHz and therefore the combination of HKT and CSL would still leave the combined entity at a competitive disadvantage with regard to TD-LTE technology and services, allowing the opportunity for other licensees to extend their aggressive LTE deployment into higher frequency bands. HKT owns no spectrum below 1000MHz (other than CDMA 2000, and that spectrum is not used by HKT's customers). As to 4G spectrum, China Mobile has the most 4G spectrum and is well positioned to be the market leader (and has already become the second largest MNO in the market by subscribers).

The market is also witnessing the rise in importance of handset providers (such as Apple and Samsung) and content providers (such as sports rights holders and OTT providers). Both of these trends lessen the market power of the mobile service providers.

7. Competitive Overlap

7.1 Market segmentation

The Hong Kong market for the supply of mobile telephony services may be seen to have a number of market segments which roughly indicate a consumer trade-off between price and quality, and between voice and

data. Three segments are: (a) the low end consumer segment where price is the driver and pre-paid services exist; (b) the mid-tier segment in which consumers (including some businesses) balance price and quality; and (c) the high end segment which includes the corporate users and top end consumers. These market segments have the following key characteristics:

- *Low end and prepaid market segment:* This is the most price sensitive segment and includes most of the pre-paid market. Consumers are more often than not focused on voice calls, SMS messaging and some data uses as the main applications. Competition in the pre-paid market is characterized by intense price competition with less scope for product differentiation. Historically, network operators have successfully targeted different market niches, such as youth, teenagers, tourists, and foreign domestic workers (and more recently mainland immigrants). This market has declined in size over time, especially with the growing appeal of data applications and smartphones.
- *“Mid-tier” consumer market segment:* Consumers have a degree of price sensitivity, but also seek enhanced value-added services with innovative technology including 3G (and most recently some 4G). These customers are progressively shifting their spend from voice to data (particularly video-centric services).
- *“High-end” consumer and corporate market segment:* Consumers are less price sensitive and more focused on personalized service, advanced technologies and applications, quality and reliability. Consumers in this segment seek 3G and now 4G services to support mobile devices such as tablets and smartphones. Most large corporate consumers exist in this category as well as high usage residential customers.

7.2 Minimal overlap of businesses of HKT and CSL

The degree of competition between CSL and HKT is minimal and at the margins. CSL's business focus is broader and its market share substantially greater. In contrast, HKT is more focused on the mid-tier market although it does have some presence in the high end customer segment (but not generally in the low end segment). CSL sees SmarTone and Hutchison as its major competitive threats rather than HKT because of their stronger brands, extensive networks (particularly in exclusive in-building residential and commercial coverage), established presence in the business/commercial sector and relationships with their property-company affiliates and their roaming partners. As to roaming, the well established roaming relationships have given them a superior position to obtain roaming agreements and to obtain preferential roaming agreements for voice and data services. In all of the above areas HKT started from the weak base of Sunday and still is not a direct or significant competitor to CSL.

8. Constraints from Competitors

8.1 Recognized intensity of competition

The Hong Kong mobile telephony market is internationally recognized as one of the most competitive markets in the world. This is recognized in international reports as well as the research of OFTA/OFCA. This is well known and pages of quotes and examples will not be provided here. The level of competition in the Hong Kong market is further intensified by the following sustainable market characteristics:

- *Mobile number portability reduces barriers to switching/churn: Mobile number portability ("MNP") was introduced into the Hong Kong mobile market in the 1990's, further intensifying the level of mobile competition. MNP removes barriers to customers migrating between*

mobile operators associated with the inherent “stickiness” of telephone numbers. Churn is unusually high in the Hong Kong market relative to other markets. Furthermore, Hong Kong consumers tend to be more willing to adopt new technologies, respond to new consumer brands, and proactively take advantage of price differences.

- *Low barriers to entry for MVNO and MVARs:* Wholesale services are provided by all operators. Importantly, both HKT and CSL are wholesale providers and these wholesale services and capacity arrangements will not change post Transaction.
- *Advent of 4G services:* 4G has shifted the dynamics of the market by emphasizing diverse consumer requirements, the changing nature of the market and the speed at which change may occur in the market. All operators now provide 4G services, with China Mobile having the most 4G spectrum.
- *Level of advertising:* The significant rivalry among the mobile competitors is demonstrated by frequent advertising programs and the high level of brand knowledge in the market. Consumers are keenly aware of alternative mobile operators and their ability to switch providers. MNOs, are as a group one of the major sources of advertising spend. Furthermore, there is a vast amount of comparison shopping conducted by a number of magazines and on-line media with large followings – therefore consumers and the market generally are very well informed by independent sources.
- *Customer loyalty:* Customer loyalty is not particularly high.

8.2 Competition from network competitors

There are currently five network-based mobile telephony competitors in the Hong Kong market. The Transaction would reduce that to four (ie ‘5 to 4’). However, 21 ViaNet has acquired a license with build out obligations and thus the total number of facilities based licensees is six. In any event, once 21 ViaNet begins operating the number of facility based MNOs would return to **five**.

8.3 Competition from China Mobile¹⁶

China Mobile is currently the world’s largest mobile operator (with over 700 million customers) and enjoys corresponding synergies related to expertise and purchasing power. As of year end 2012 it had cash on its balance sheet in excess of US\$ 30 billion. In Hong Kong, it is now the second largest MNO and has a market share of about 23%.

- *Price leadership:* China Mobile is a very strong and aggressive competitor that has historically competed largely on the basis of price and is often a price leader.
- *Large number of retail outlets:* China Mobile operates a large group of wholly owned sales outlets in Hong Kong giving it a strong distribution network.
- *China Mobile Services:* China Mobile has now moved up the value chain from 2G to 3G and 4G services, becoming more of a direct and substantial competitor to CSL (and HKT). China Mobile has the largest amount of 4G spectrum and access to a significant amount of 3G spectrum via MVNO and its network sharing arrangement with HKT.

¹⁶ Market share in terms of total subscribers is based on June 2013 data, OFCA statistics, company releases and market estimates.

- *Cross border services:* China Mobile is the market leader in the Mainland with both unparalleled market share and coverage. For Hong Kong customers with roaming needs, and for other Hong Kong operators, China Mobile is able to leverage its local and Mainland presence to its advantage in ways other Hong Kong licensees cannot match.
- Of all the MNOs in Hong Kong, China Mobile seems to have made the most ‘progress’ lately in terms of market share (and possibly APRU) as it migrates customers from 2G to 3G and to 4G using its own network, MVNO and network sharing arrangements with HKT.

8.4 Competition from Hutchison¹⁷

Hutchison is currently the largest mobile operator in the Hong Kong market with a market share of about 24%. Hutchison offers “3” branded mobile services over its various networks. Hutchison is a particularly strong competitor in the mobile market at all levels. Of particular relevance:

- *Multinational power and global scale:* As OFCA will be aware, Hutchison Whampoa Limited is one of the largest companies listed on the Hong Kong Stock Exchange and controls Hutchison. The company has interests in Hong Kong and around the world, and has the ability to leverage these global relationships to gain or retain business in Hong Kong.
- *A major 3G and 4G mobile operator with economies of scope and scale:* Hutchison is one of the world’s largest 3G mobile operators, has invested billions of dollars acquiring 3G licenses, and has built and operates 3G networks in Hong Kong and around

¹⁷ HKT does not anticipate that this Transaction will impact its 50/50 Genius Brand joint venture with Hutchison which is solely for the purposes of sharing a 4G radio network. ☒.

the world. Hutchison can use this to derive economies of scope and scale. It is now expanding its 4G networks globally and in Hong Kong in both 1.8GHz and 2.6GHz, and has acquired spectrum at 2.3GHz for TD-LTE.

- *First-mover advantage and global procurement power:* Given the scale of Hutchison's global mobile operations and its extensive experience, Hutchison is in a unique position to leverage its global procurement power, and obtain a "first mover" advantage in relation to 4G services, content and handset arrangements. ✕
- *Large number of retail outlets:* Hutchison operates a large group of wholly-owned sales outlets in Hong Kong, giving it a strong distribution network. Hutchison also has a large network of affiliate relationships (eg, Fortress, Watsons, Park N Shop) which it can leverage to promote and bundle its services. Hutchison may also leverage its property portfolio (ie HWL and Cheung Kong) in regard to preferential building access, cell site locations, sales activities, etc.

8.5 Competition from SmarTone

SmarTone is the fourth largest mobile operator in the Hong Kong telephony market with a market share of about 13%.

- *Highly aggressive competitor and price leader:* SmarTone is an example of an aggressive and innovative competitor. It has invested heavily in its network, is a vigorous competitor, is often a price leader and was Apple's first iPhone 5 partner in Hong Kong. To some degree it is a bit of a maverick in the market.

- *Premium branding:* SmarTone has built a strong brand as a premium service provider and is the industry leader in terms of profitability. SmarTone also leverages the property portfolio of its parent and has exclusive access to prime locations such as IFC, ICC, Four Seasons Hotel, Ritz Carlton Hotel and several shopping malls.
- *Innovative 3G offerings:* SmarTone has rolled out 3G services with innovative offerings. It is now well positioned to do the same with 4G where it has built an extensive LTE network in the 1.8GHz band.
- *Most profitable:* SmarTone has excelled at focusing on ARPU and profitability, often being a leader in both market metrics.

8.6 Competition from MVNOs and resellers

As OFCA will be aware, MVNOs do not own radio spectrum or their own Radio Access Network (“**RAN**”), but rather lease capacity in the spectrum and RAN infrastructure from a mobile network operator. Each MVNO operates its own upstream switching infrastructure as well as billing, database, and IT systems. While MVNOs need to achieve a minimum efficient scale, they can potentially be very low cost niche operators. To be clear, MVNOs (and resellers) ‘own’ their customers and have their own customer bases.

MVNOs are able to integrate their own value added platforms into their retail offering by interfacing such platforms with their core network. This enables the MVNOs to differentiate themselves in the market by providing functionality that appeals to their target demographics. MVARs are pure resellers, adding or not adding substantial value.

China Unicom, China Mobile, China Motion, Telecom Digital (Rabbit), Trident, etc are among the MVNOs/MVARs in Hong Kong. In total, we estimate that MVNOs and MVARs have about 9-10% subscriber market share.

8.7 In sum, post transaction HKT will be constrained by its competitors (ie by facility based MNOs as well as MVNOs/resellers).

9. Market Concentration

The Hong Kong mobile telephony market is one of the least concentrated mobile markets and is currently rather fragmented. Substantial efficiencies could be realized by industry consolidation, thereby reducing the costs of supplying mobile services to the benefit of consumers.

9.1 As OFCA will be aware, there has been considerable comment over the years regarding a need for industry consolidation of mobile network operators in Hong Kong. Market consolidation seems to be desirable as the current number of mobile network operators is unsustainable in the long-run given the size of the Hong Kong economy and population, and the level of infrastructure investment needed to provide current (and future) bandwidth hungry services/applications such as 4G and 4G follow on services/applications.

9.2 Market shares of network operators and MVNOs/resellers as of June 2013 based on OFCA, HKT and public data by subscribers and revenues (estimated/rounded). Spectrum market share is current.

Operator	Subscriber Market Share	Revenue Market Share	Spectrum (610MHz) Market Share
HKT	11-12%	6-8%	15.7% (96MHz)

CSL	19-20%	21-23%	22.6% (137.6MHz)
<i>HKT/CSL</i> (merged)	31%	29%	38.3% (233.6MHz)
Hutchison	23-24%	31-33%	22% (134.4MHz)
China Mobile	22.5-23.5%	3-5% (without handsets)	17.1% (104.4MHz)
SmarTone	12-13%	32-34%	17.6% (107.6MHz)
MVNO/reseller	Aggregated 9-10%	1-3%	-
21 ViaNet	-	-	4.9% (30MHz)
Total	Approx 100% (14.255m subscribers) ¹⁸	Approx 100%	Approx 100% (610 MHz)

9.3 Market Share by spectrum. OFCA has over the years allocated spectrum to the MNOs. At the present time the MNOs have a total of 610 MHz of spectrum which is reflected in the Table above. CSL and HKT together would have 233.6 MHz (137.6MHz plus 96MHz, 38.3%) of the total allocated spectrum. Excluding the CDMA 2000 spectrum (15MHz) from the analysis, which is only used by inbound roamers and not HKT customers, the percentage of CSL/HKT spectrum would fall from 38.3% to 36.7% (218.6/595). Excluding 2 x 15 MHz of 3G spectrum (ie, 30MHz) per HKT's offered commitment, the percentage of CSL/HKT spectrum would fall from 38.3% to 33.4% (203.6/610). Excluding both the 2 x 15MHz of 3G spectrum and the CDMA2000 spectrum, the percentage of CSL/HKT spectrum would fall from 38.3% to 31.7% (188.6/595). This percentage is consistent with the post Transaction

¹⁸ The subscriber numbers are based on 6/2013 OFCA and public data, and our attempt to subtract out from the MNOs both MVNO and reseller numbers, and thus represent post-paid plus activated pre-paid.

combined CSL/HKT market share of about 31%, and well below the 40% threshold.

9.4 It is also important to look at spectrum in terms of relevant blocks as not all spectrum is equal. Spectrum today can be divided into three distinct blocks: below 1 G, 3G and 4G. (2G spectrum has now been re-farmed for higher speed services). Below 1G spectrum is the most valuable due to its superior indoor coverage abilities. 3G and 4G spectrum are used for different services and are accordingly differentiated.

9.5 Below 1 G. HKT and has no spectrum (other than CDMA 2000) in the coveted below 1G range where SmarTone and Hutchison each have 26.6 MHz, and CSL has 16.6MHz. Post transaction, HKT/CSL would have 16.6MHz of below 1G spectrum, or 23.8% of the usable spectrum below 1G, a figure below the combined CSL/HKT post transaction market share of about 31% and well below the 40% threshold. It is also less than the below 1G spectrum held by SmarTone and Hutchison.

9.6 3G. In the 3G band, per the offered commitment, the market share of 3G spectrum of HKT would be 25%. ✕

9.7 4G. As to 4G spectrum, CSL and HKT have no spectrum in the 2.3 GHz band. China Mobile has more 4G spectrum than either HKT or CSL. Post transaction, HKT's 4G spectrum amount would be about 35% of available 4G spectrum, an amount not inconsistent with its approximate market share (about 31%) and allows sufficient spectrum for the provision of wholesale, resale and network sharing services. This does not raise any concentration or hoarding concerns as there is ample 4G spectrum, and it is well below the 40% figure used as a concentration threshold.

9.8 Merger safe harbours (CR4 and HHI)

OFCA identified two safe harbours that may be applied concurrently in order to provide an initial screening device for mergers. See paragraphs 2.8 to 2.12 of the Guidelines. The Transaction does not directly fit within either safe harbor.¹⁹

9.9 Importantly, the Guidelines at paragraph 2.13 (which summarizes the safe harbour sector) state:

While the TA is unlikely to further assess any mergers which fall below these [safe harbor] thresholds, he does not categorically rule out intervention. Occasionally, but not often, such mergers may still raise competition concerns, for example where it involves a firm with vertical relationships into another market where the firm has market power. In any event, where the post-merger market share of the parties to the transaction is 40% or more, it is likely that the TA will wish to make a detailed investigation of the transaction.

HKT interprets the last sentence of the above quote to logically mean that a merger below 40% would not likely raise competition issues and would not likely be subject to a detailed investigated. As the proposed Transaction would result in an entity with a subscriber market share of about

¹⁹ Over the last decade the application of competition rules such as concentration ratios, (ie CR4 and HHI) to smaller economies has been called into question. For example, the publication by Michal Gal of her book *Competition Policy in Small Market Economies* in 2002. Hong Kong falls well within the definition of a “small economy” used in that literature. In short, Gal concludes that a direct application of the United States’ HHI thresholds is not appropriate for smaller economies and may cause economic harm by preventing mergers that may otherwise realise significant efficiencies in those smaller economies for the benefit of consumers.

In reality, telecommunications (ie networked) markets are almost always concentrated due to cost, the long term nature of the investments, spectrum and other factors. This is why competition regulators (including OFCA) have consistently approved mergers in this sector with “higher” CR4 and HHI numbers. In any event, Hong Kong is among the least concentrated mobile markets.

31%, and revenue market share of about 29%, it is clear that the Transaction does not raise significant market structure or market concentration concerns.

10. The proposed Transaction is consistent with Hong Kong and Global Precedents

10.1 All 12 previous merger and acquisition proposals brought to OFCA over the past 15 years have been approved. The merger approvals included cases where the post market share exceeded 50% and where the remaining established competitors were as few as three.

These CA merger decisions create an important body of precedent and indicate upon analysis that the proposed Transaction should be approved. After all of these transactions, competition continued to thrive, investment and innovation flourished, consumer prices continued to decline, efficiency increased and consumer benefits were enhanced. There is no basis to believe that the same result will not apply to the proposed Transaction. These decisions are summarized in the table below.

Transaction	Year	TA Decision	Comment
CSL merges with Pacific Link	1997	Approved	Market goes from '4 to 3' major operators, 40% market share post merger
SmarTone merges with P-Plus	1998	Approved	'4 to 3' major competitors
HKT merges with Star Internet (internet access businesses)	1998	Approved	Combined market share of over 50% post merger
PCCW acquisition of C&W HKT	2000	Approved	
China Netcom investment in PCCW	2005	Approved	
PCCW acquisition of	2005	Approved	

Sunday			
China Mobile acquisition of Peoples	2005	Approved	
Asia Netcom merger with C2C	2006	Approved	
CSL merger with New World Mobility	2006	Approved	'6 to 5' major competitors, 33% market share post merger
Asia Netcom merger with PacNet	2007	Approved	
GECC acquisition of AsiaSat	2007	Approved	
Privatization of PCCW	2009	Approved	Not implemented

10.2 Several of the merger cases are of particular relevancy to the proposed Transaction.

As to the post merger market shares: In the 1998 Star Internet decision allowing the merger of Star Internet with HKT's internet access business, the post merger market share exceeded **50%**. In the 1997 decision allowing the acquisition of Pacific Link ("PacLink") by CSL, the market share post acquisition of CSL was about **40%**.²⁰ In the 2006 decision allowing CSL to merge with New World Mobility the post merger market share was over **33%**. The post merger market share of the proposed Transaction would be about **31% (subscribers) and about 29% (revenue) (assuming that all of the CSL subscribers remain CSL subscribers), which is well below the market precedents.**

As to the number of major remaining competitors: In the SmarTone merger with P-Plus the number of major operators was reduced from **4 to 3**. In the CSL merger with Pacific Link, the number of major operators was reduced from **4 to 3**. In the CSL merger with NWM the number of

²⁰ Importantly, the 40% market share was stated to reflect a market that **"cannot be considered to be too concentrated."**

major operators was reduced from **6 to 5**. The current number of spectrum holding UCL holders is again now 6 with 21 ViaNet. Thus the proposed Transaction represents a **6 to 5** arrangement. If 21 ViaNet were not counted, the number of operators under the proposed Transaction would be reduced from **5 to 4**, which should still be of no concern as the market has been allowed to consolidate to 3 major operators in previously approved mergers, and as 21 ViaNet builds out a network the number of facility based operators will revert to **5**. It is also noteworthy that this Transaction involves the smallest and the third largest (which is also the third smallest) of the 5 MNOs.

10.3 Finally, HKT would note that it is not aware of any market where a ‘5 to 4’ transaction/merger has not been approved. Indeed, there are many examples of ‘4 to 3’ and even ‘3 to 2’ mergers being allowed. And looking forward, with 21 ViaNet, this proposed Transaction is actually a ‘6 to 5’ merger comparable to the CSL/NW Mobility transaction which the CA approved in 2006. Further, the proposed Transaction involves the smaller and not the larger MNOs.

10.4 International merger activity is also relevant as a precedent. Examples of relevant approved mergers include: (a) 2005 KPN/Telfort (Neth) 5 to 4; (b) 2006 T-Mobile/tele.ring (Austria) 5 to 4; (c) 2007 T-Mobile/Orange (Neth) 4 to 3; (d) 2009 Vodafone/Hutchison (Australia, 4 to 3; (e) T-Mobile/Orange (UK) 5 to 4; (f) 2010 Sunrise/Orange (Switzerland) 3 to 2; (g) 2012 Hutchison/Orange (Austria) 5 to 4; and (h) 2013 T-Mobile/Metro (USA) 5 to 4.

The importance of precedents is that they provide a high degree of certainty to investors and licensees as to how a regulator will respond in similar situations. They directly impact investment decisions because they can provide a roadmap for possible future market exits without stranding investment. The importance of precedents and acting consistent with precedents can therefore not be over-emphasized. The proposed

Transaction is consistent with Hong Kong and global precedents, and the CA's Merger Guidelines, and should be approved.

11. Scope for Market Entry

11.1 Scope for market entry at the network level

There are a number of factors indicating that market entry at the network level is a real and credible possibility:

- *CA will release further spectrum:* This is a matter within the CA's control. Some spectrum exists which could be allocated for mobile usage. New spectrum may also be released in 2015 per the Digital Dividend.
- *CA could and should adopt spectrum trading:* This would allow the market to efficiently and quickly allocate spectrum.
- *Greenfield entry by new operators:* 21 ViaNet has entered (which demonstrates actual new entry). Others could too, ranging from existing FNOs to MVNOs, or additional operators from the Mainland. China Telecom has roaming arrangements with HKT to use its CDMA2000 network for its Mainland customers. It is possible that China Telecom could migrate to become a full fledged MNO in Hong Kong as it has both the financial strength and customer base to implement such a strategy. China Telecom unsuccessfully participated in OFCA's last auction.
- *Dynamic nature of the market:* The mobile telephony market is highly dynamic. The costs of new technologies are declining over time while the functionalities of the technologies are increasing. In this manner, market entrants can roll out superior quality networks.

- *MVNO and resale opportunities exist.* Indeed, HKT sees MVNO and resale opportunities as important entry options.
- *Future M&A activity may occur.*

12. Competition Analysis (Section 4 of the CA Guidelines)

12.1 Conclusions from the “with and without” analysis

Paragraph 4.26 of the CA’s Merger Guidelines indicates that to assess whether competition has been or would be substantially lessened by a merger, the CA will employ a “with-and-without” test. That is, the level of competition that exists and would be likely to exist in a market without the merger will be assessed and compared with the likely level of competition in the future were the merger to proceed.

12.2 Factors indicating no substantial lessening competition

Summarizing the various issues identified earlier in this submission, HKT submits that the proposed Transaction will not have, or be likely to have, the effect of substantially lessening competition in any telecommunications market for the following key reasons:

- *High intensity of competition:* The Hong Kong mobile market is widely recognized as one of the most competitive and least concentrated mobile markets in the world. Post-Transaction this situation remains. The high intensity of competition, in conjunction with the absence of any likely material adverse impact of the proposed Transaction on the intensity of that competition, should alone give OFCA sufficient comfort that no substantial lessening of competition is likely to occur.

- *No additional market power:* HKT will gain no additional market power from the proposed Transaction. HKT will not be able to price above competitive levels, or reduce output or quality. HKT will be very much constrained by its competitors and customers. Post Transaction, there would still be:
 - four strong, well-resourced, experienced and aggressive facility based 3G/2G/4G competitors (ie Hutchison, HKT, SmarTone and China Mobile).
 - multiple licensed MVNO competitors with potential for significant further MVNO market entry.
 - numerous MVAR competitors with potential for significant further MVAR market entry.
 - 21 ViaNet which has acquired 30MHz of TD-LTE spectrum at 2.3 GHz and has a license obligation to roll out a network.
 - potential new entry as OFCA releases more spectrum and/or allows spectrum trading (eg, China Telecom).

- *Continuing scope for fierce competition:* Fierce competition will continue after the Transaction, as all four facility based competitors are well established and financially committed to the market. By this Transaction, the smallest MNO would acquire the third largest/smallest MNO.

- China Mobile is the world's largest MNO and second largest MNO in the market, has extremely deep pockets and is expanding its market efforts (and market share). China Mobile has the most 4G spectrum and it is now moving up the value chain.
 - Hutchison is the largest MNO in the market, has very strong financials, has the ability to leverage its brand and ties one of the largest 3G/4G mobile businesses in the world. It is active in all market sectors.
 - SmarTone has become in recent years a vigorous competitor focused on the mid and high end segments. It has made extensive network investments and has become a frequent market leader in both ARPU and profitability.
 - And 21 ViaNet will operate a fifth network.
- *High level of market contestability*: Existing competitive levels from facility based operators are extremely high. Number porting, high advertising spends, low customer loyalty, high penetration rates, substantial investment levels and strong price competition all combine to make the high levels of competition sustainable. The threat of further market entry is also real. This includes new facility based entrants such as 21 ViaNet as well as MVNO and MVAR competitors.
 - *No material competitive constraint on each other*: HKT and CSL are generally not price leaders and have brands that are generally targeted at different customer demographics, resulting in minimal competitive overlap between them. They do not exercise material competitive constraints on each other. Any impact of the Transaction on competition is therefore *de minimus*.

- *Dynamic nature of mobile market:* The market is dynamic and characterized by rapid innovation. The 3G market is extremely competitive. 4G is currently viewed as the future of mobile competition. Led by SmarTone, the industry move to 4G is generating further significant price and non-price competition.
- *The proposed concentration is acceptable:* International precedent indicates that the proposed post-Transaction level of market concentration will still result in a highly competitive market. ‘6 to 5’ (with 21 ViaNet) and ‘5 to 4’ (without 21 ViaNet) transactions as proposed here have been approved in a range of other jurisdictions. Indeed, many commentators consider that market consolidation in Hong Kong is inevitable given the excessive number of mobile network operators relative to the size of the Hong Kong economy and population, and needed investment levels in the future.

Hong Kong precedent also supports the proposed Transaction which represents a ‘6 to 5’ or ‘5 to 4’ merger (with or without 21 ViaNet, respectively). The CSL/PacificLink and SmarTone/P Plus approved merger cases in Hong Kong both represented ‘4’ to ‘3’ mergers.

Market share data by revenues, subscribers and spectrum holding do not raise significant concentration concerns. With the proposed commitments any concerns are fully addressed.

12.3 In addition, the proposed Transaction would not remove a maverick from the market. There is also no basis to conclude that prices would increase or that collusive behavior would occur. (Indeed, OFCA will be aware that HKT has been a whistleblower as to alleged collusive behavior).

12.4 Neither HKT nor CSL enjoy affiliate relationships that bestow market power (unlike Hutchison and SmarTone that do derive substantial tangible benefits from their affiliates – in particular with regard to access to key real estate locations for network coverage). China Mobile’s advantages from its powerful Mainland operations are obvious. HKT post Transaction would still lack market power to counter these well connected, deep pocketed and entrenched competitors. Furthermore, HKT would not have the financial clout to match that available to Hutchison, SmarTone or China Mobile from their parents. These licensees are determined to survive and compete for the long haul.

12.5 Market share in terms of subscribers, revenue and spectrum do not raise competition concerns. In any event, the offered commitments would meet any concerns.

12.6 HKT does not see any negative impact in any telecommunications market. The impact on the mobile market has been described above. As to other markets: CSL is not in the fixed market and the status quo will simply continue. HKT has given commitments as to the wholesale market, retaining wholesale, resale, MVNO and network sharing arrangements. As to interconnection arrangements, these are generally well settled and do not raise any issues. For example, mobile to mobile interconnection has never been regulated and the licensees employ a Bill and Keep (BAK) approach. HKT does not see that changing. As to fixed/mobile interconnection, this was deregulated in 2007 and BAK has now been adopted among the licensees. HKT does not see this changing. As to fixed to fixed interconnection, this has not been contentious for almost a decade. The traffic is essentially balanced and the arrangements have recently been deregulated by the CA. HKT does not see this matter as becoming contentious. As to international traffic, the LAC regime has

been extended to the mobile licensees and the fixed and mobile licensees have recently reached a consensus among themselves and the ETS operators as to the way forward. (ie, rate structure and rate levels). This consensus (and recently signed commercial agreements) will eliminate any issues in this area. Overall, HKT does not see any market structure or other issues arising other than those described herein.

13. Public Benefits

HKT does not consider that the Transaction will result in a substantial lessening of competition in any telecommunications market. Indeed, the Transaction is very likely to result in material public benefits. The public benefits include the substantial benefits to CSL and HKT customers as noted elsewhere in this Application are summarized below.

13.1 HKT customers will benefit via access to 1G spectrum, better roaming agreements, and CSL's LTE network. CSL customers will benefit from access to better WiFi and MTR coverage as well as more innovative apps. Both HKT and CSL customers will benefit from access to a greater number of base stations, and from HKT becoming a more efficient and effective competitor.

13.2 Lower cost services

Network efficiencies, cost savings and economies of scale will provide scope for HKT to compete from a lower overall cost base which can be flowed through to consumers either in terms of a deflationary pressure on prices and/or further investments to enhance innovation, improve service quality and introduce new services.

13.3 Innovation and new mobile technologies

The larger subscriber base will provide HKT economies of scale in relation to the faster development and implementation of new and innovative mobile technologies.

13.4 Higher quality services

The overall quality of both networks will be increased via rationalization around the best sites, technologies and infrastructure, leading to increased quality of services to the benefit of Hong Kong consumers.

13.5 All licensees will become more competitive

As HKT becomes more innovative and efficient, its competitors will be encouraged to do the same, creating a win-win situation for consumers and the economy.

13.6 Wider environmental benefits

Rationalization of base stations will reduce unnecessary duplication of infrastructure and be a positive result for the environment.

13.7 The above benefits would be quickly passed onto consumers. Such benefits (in terms of innovation, service quality and environmental improvements) should be reflected in the market within the short to medium term.

14. CONCLUSIONS

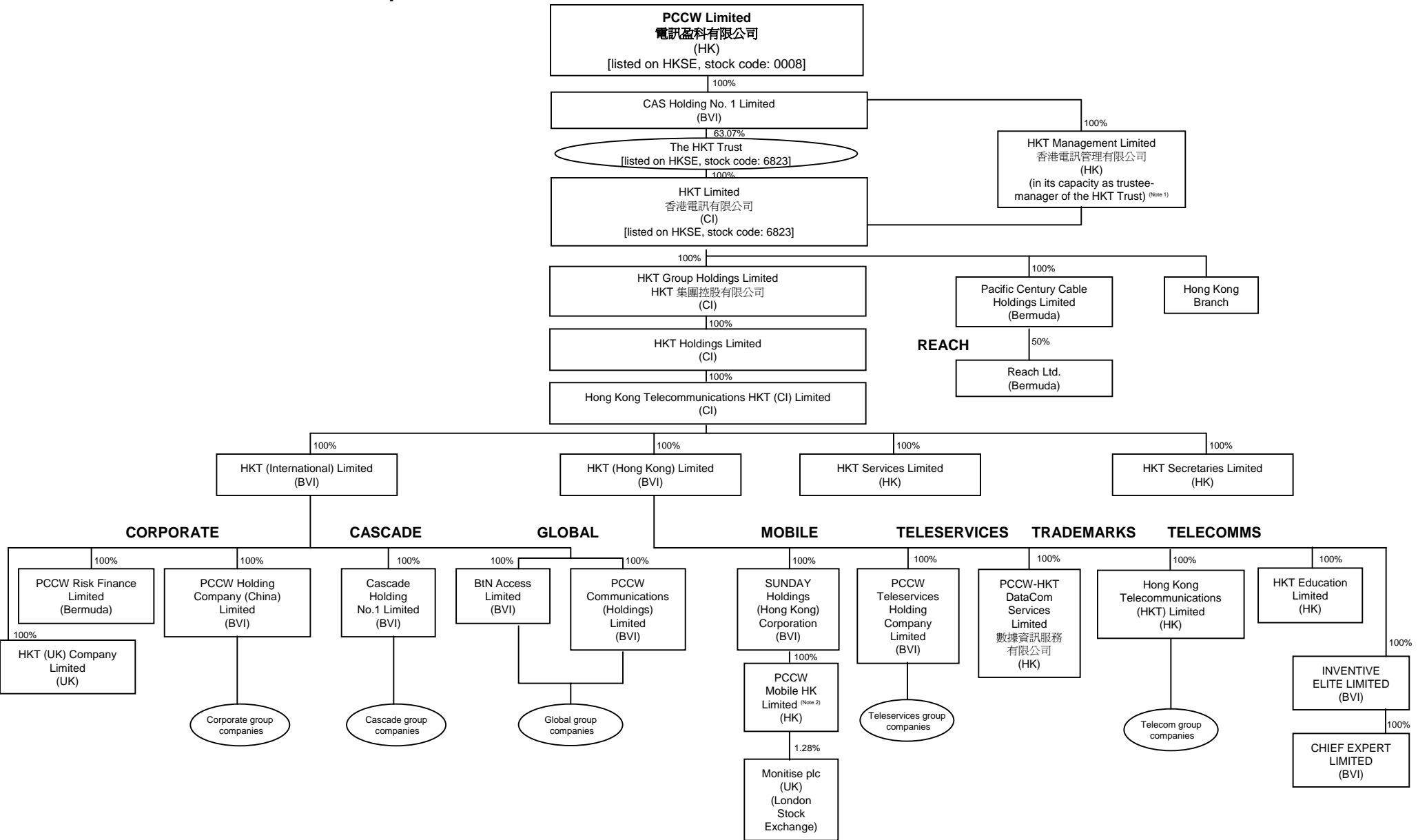
The mobile market is extremely competitive. Competition is both robust and built on a solid foundation of investment and innovation, and is primarily facility based. This will not change. HKT's market shares post Transaction by subscribers, revenues and spectrum do not raise competition or concentration concerns. Past mergers have resulted in greater competition and consumer benefits. This proposed Transaction will have the same result.

- HKT's proposed acquisition of CSL would not substantially lessen competition. The mobile market is hyper competitive and will remain so.
- Permitting a '6 to 5' (or '5 to 4') transaction as proposed here is consistent with both Hong Kong and global precedent, and will provide substantial benefits to consumers.
- The proposed acquisition would be consistent with the CA's merger guidelines. The combined market share by subscribers, revenues and spectrum is well under 40%.
- The Transaction will not increase the risk of co-ordinated conduct in the future (compared to a situation where the Transaction did not occur).
- There are no factors which would indicate that HKT (with this Transaction) could act independently of its competitors or customers in regards to prices, quality or output.
- HKT and CSL customers will benefit from the proposed Transaction.
- The offered commitments would meet any competition concerns. HKT will be a strong competitor in the mobile market, to the benefit of its own customers, the market generally and the economy.

Accordingly, HKT requests that this Application be granted per TO Section 7P(6). HKT appreciates the CA's timely attention to this matter.

Respectfully submitted by
HKT Limited

Annex 2: Pre-Transaction Group Structure of HKT Limited and the HKT Trust



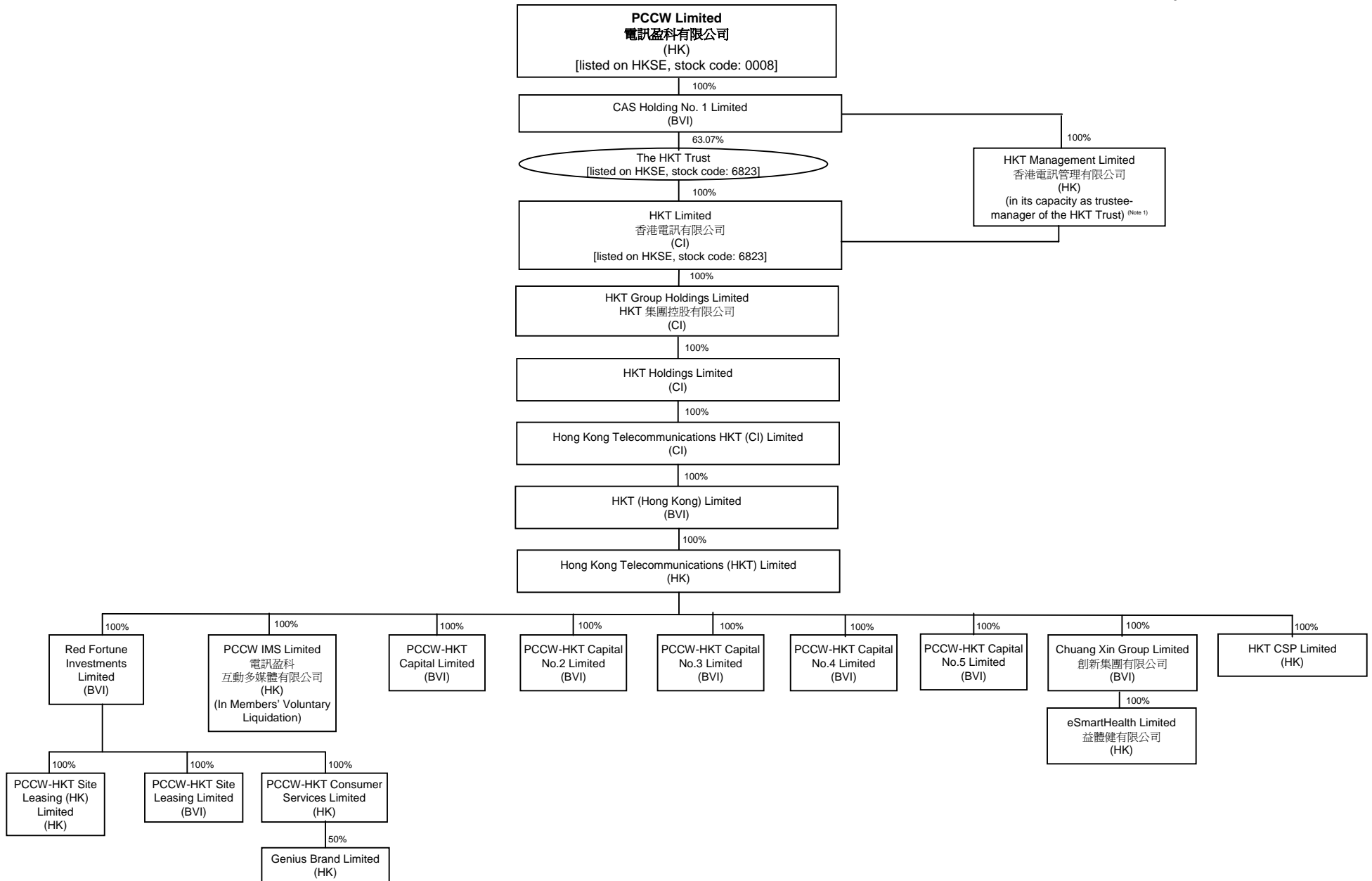
Notes:

(1) The Trustee-Manager holds all of the issued ordinary shares of HKT Limited in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

(2) PCCW Mobile HK Limited has two classes of shares: (i) ordinary shares which are held 100% by HKT Trust and HKT Limited; and (ii) non-voting deferred shares which are held 100% by untraceable shareholders dating from prior to the acquisition of SUNDAY.

Annex 2: Pre-Transaction Group Structure of HKT Limited and the HKT Trust

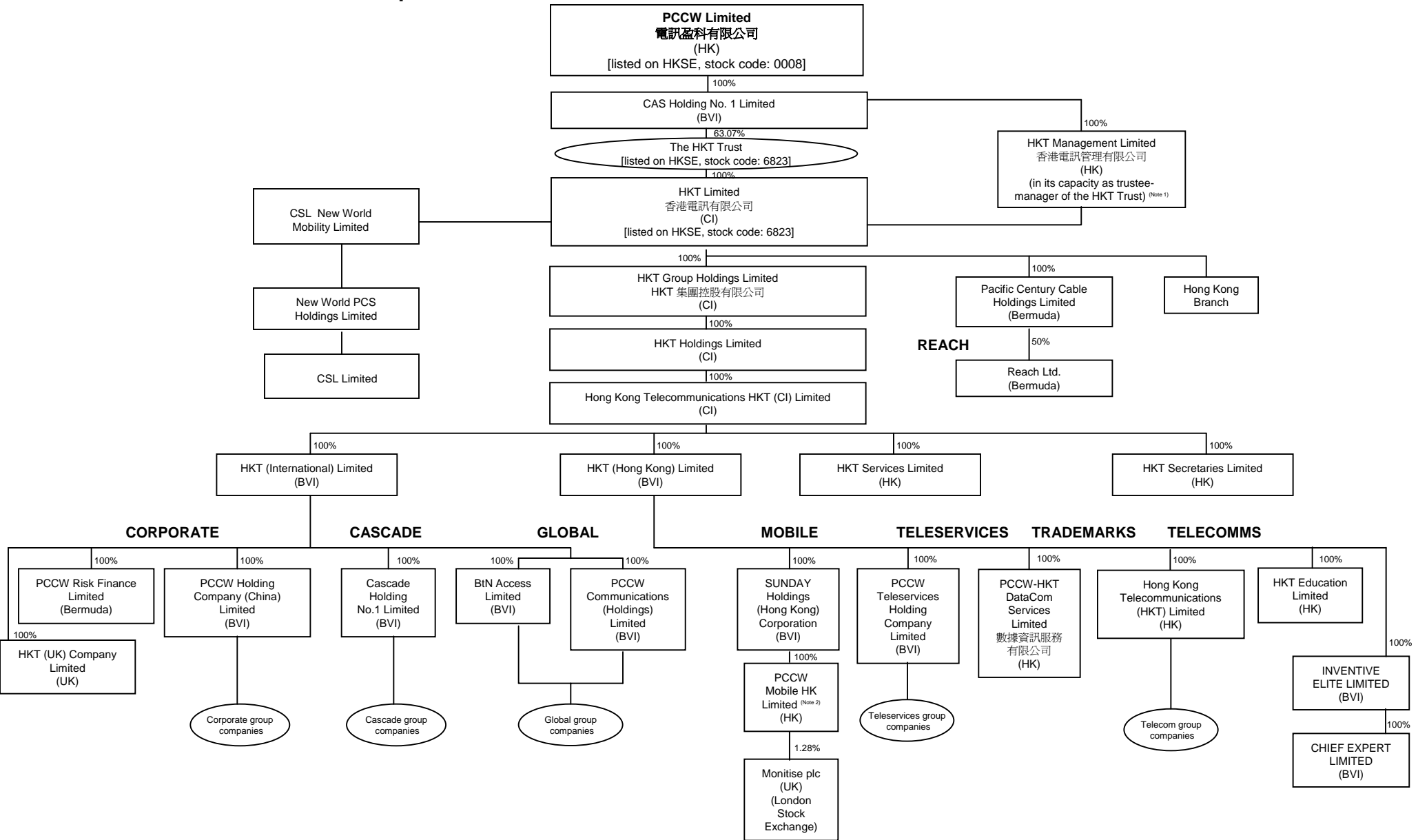
Telecom Group



Note:

(1) The Trustee-Manager holds all of the issued ordinary shares of HKT Limited in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

Annex 2A: Post-Transaction Group Structure of HKT Limited and the HKT Trust



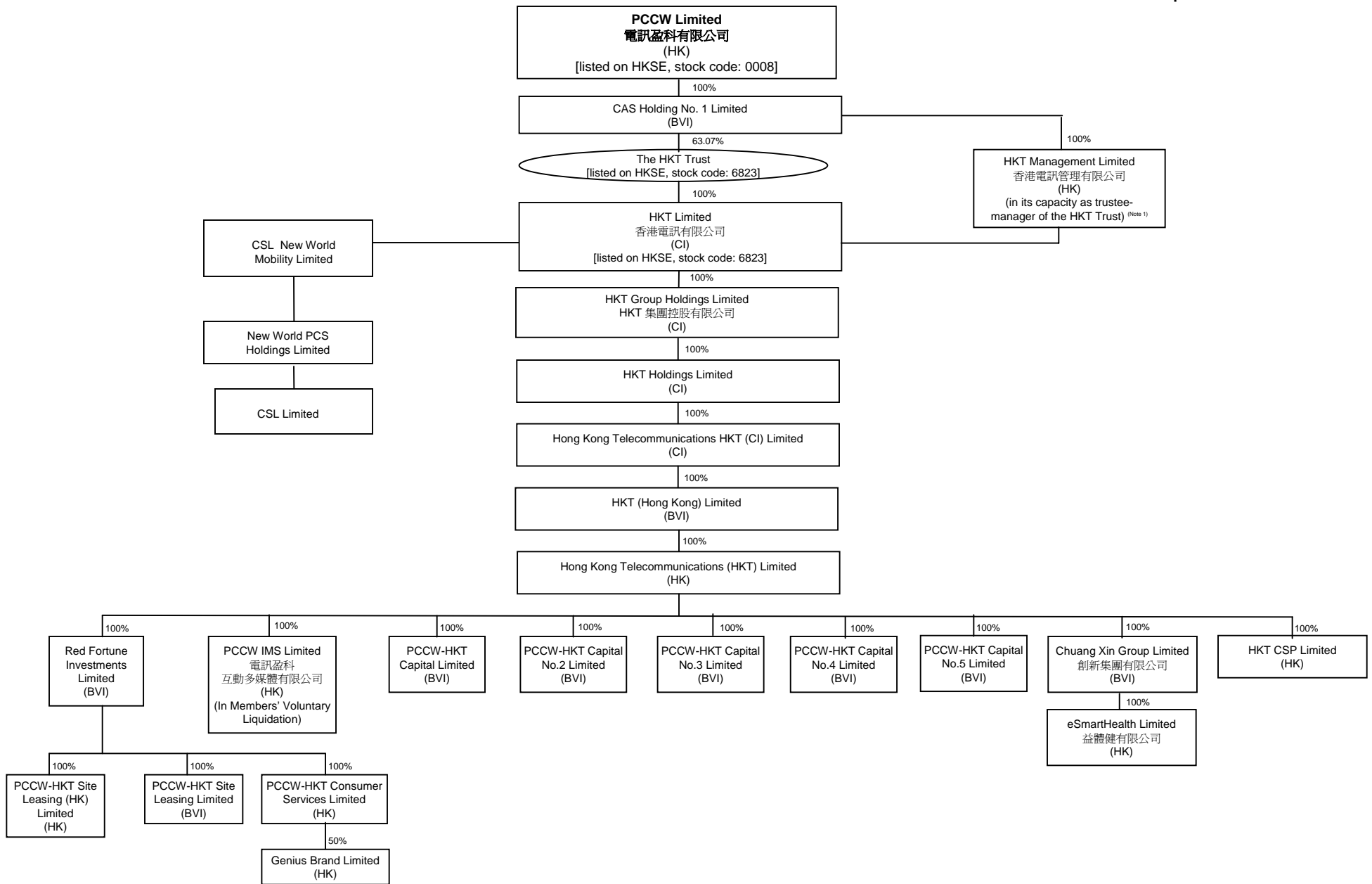
Notes:

(1) The Trustee-Manager holds all of the issued ordinary shares of HKT Limited in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

(2) PCCW Mobile HK Limited has two classes of shares: (i) ordinary shares which are held 100% by HKT Trust and HKT Limited; and (ii) non-voting deferred shares which are held 100% by untraceable shareholders dating from prior to the acquisition of SUNDAY.

Annex 2A: Post-Transaction Group Structure of HKT Limited and the HKT Trust

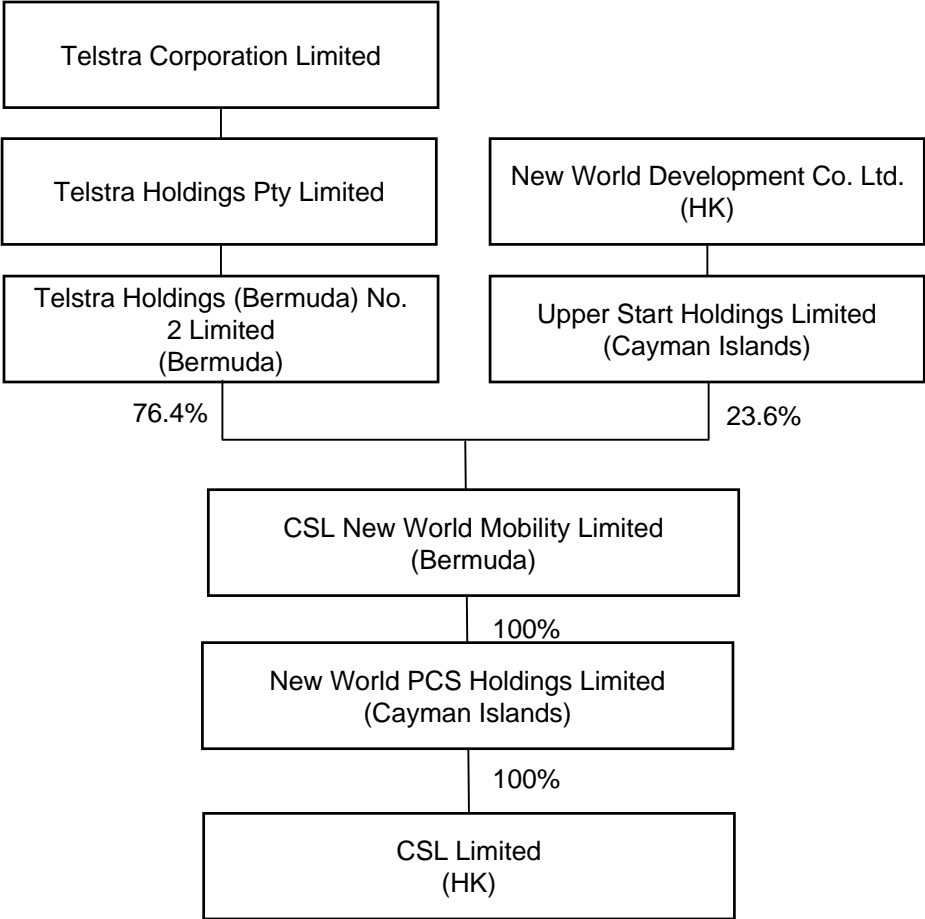
Telecom Group



Note:

(1) The Trustee-Manager holds all of the issued ordinary shares of HKT Limited in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

Annex 3: Pre-Transaction structure of CSL Limited



**INFORMATION PROVIDED PER THE ANNEX TO THE MERGER
GUIDELINES**

INFORMATION REQUIRED – LIST A		RESPONSE BY APPLICANTS
1.	State the name and address (registered office) of the carrier licensee or “interested person” on whose behalf this application is submitted.	Please see section 2.1 of Annex 1
2.	If a representation has been appointed to act on behalf of the applicant, please state the name and address of the representative.	N/A
3.	Provide details of the person to whom OFCA should send all correspondence relating to this application: Name Address Telephone number Fax number E-mail address	Stuart Chiron 39 th Floor PCCW Tower 979 Kings Road North Point Hong Kong Telephone: 28881210 Fax number: 29625111 Email address: Stuart.Chiron@pccw.com
4.	State the name and address (registered office) of the acquiring company and the target company.	Please see section 2.1 of Annex 1
5.	State the type of transaction (for example, whether it is an agreed bid, a full takeover or the acquisition of a minority shareholding or a joint venture).	This is an acquisition of 100% of the shares of CSL New World Mobility Limited (“CSLNWM”), the holding company of CSL Limited (“CSL”) by HKT Limited (“HKT”) from Telstra Corporation Limited (and Telstra Holding Pty Limited and Telstra Holdings No 2 Limited) and New World Development Co Ltd (and Upper Start Holdings Limited). Telstra holds 76.4% and New World holds 23.6% of CSLNWM.
6.	Given details of the ownership and control of the acquiring company, and the target: (a) before the merger; and (b) following the merger	Refer to section 4 of Annex 1 as well as Annexes 2, 2A and 3.
7.	Provide full and complete details of the proposed change in the carrier licensee. This will include share acquisitions, changes of directorships etc and any factors upon which the completion of the merger is conditional.	Refer to section 4 of Annex 1. The merger is conditional on obtaining CA and PCCW and HKT shareholders approval. PCCW will need to call an EGM to approve the acquisition as this would be a major transaction under the Listing Rules. Approval at the HKT level would be by way of a PCCW Board resolution as PCCW holds more than 50% of the share stapled units of HKT.
8.	State the expected time scale for (i) exchange of contracts; and (ii) completion of the merger.	Refer to section 4 of Annex 1.
9.	Provide a brief description of each product or service of the acquiring company and the target in the	Refer to sections 3 and 7 of Annex 1

	telecommunications sector and identify any areas of overlap.	
10.	State the commercial rationale for the merger.	Refer to section 5 of Annex 1.
11.	In the event that the applicant wishes to propose any conditions to the address possible competition concerns arising from the merger, please attach a separate statement describing the proposed conditions and the way in which they will address these competitive concerns.	If the CA has specific concerns, then HKT would be willing to consider how to best address them. As to wholesale, resale, MVNO and network sharing arrangements, HKT would commit to continue them. HKT would also commit to fulfil all of CSL's license and customer contract obligations. As to total spectrum holdings, HKT and CSL would acquire not more than a total of 2 x 15 MHz of spectrum in the 1.9-2.2 GHz band ("3G Spectrum") upon expiry of the existing assignment of the 3G Spectrum in October 2016. HKT and CSL commit that each would not seek to renew the assignment of 2x5 MHz of 3G spectrum respectively in the 1930.2 – 1935.1 MHz paired with 2120.2 – 2125.1 MHz, and 1935.1 – 1940.0 MHz paired with 2125.1 – 2130 MHz upon expiry of the existing assignment in October 2016; HKT further commits that it would not seek to renew the assignment of/acquire 2x5 MHz of 3G spectrum in the 1920.3 – 1925.3 MHz paired with 2110.3 – 2115.3 MHz bands; and HKT and CSL commit that they would not participate in the auction for the 3G Spectrum.
12.	Provide a description of any efficiencies that you believe the merger will bring (attach any appropriate supporting documentation).	Refer to section 5 of Annex 1.
13.	Provide details of any benefit to the public which you believe will result from the merger, including but not limited to what the claimed public benefit is, the likely magnitude and timing of the benefit and detailed and verifiable evidence of such benefit. Please explain whether, and if so, how any such benefit might outweigh any detriment to the public which would result from any substantial lessening of competition.	Refer to sections 5 and 13 of Annex 1.
14.	The applicant should sign and enclose the declaration attached to this form when submitting an application.	Submitted.
List B Information Requirement		Response by Applicants
15.	Explain how the transaction qualifies a	All shares of the holding company of CSL

	change in relation to a carrier licensee as defined in subsection 7P(16) of the Telecommunications Ordinance.	Limited are being acquired by HKT Limited.
16.	Provide details of the group structure of the acquiring company and the target (including the ultimate holding company and all subsidiaries in the telecommunications sector). This could be illustrated by the use of organisation charts or diagrams.	Refer to section 4 of Annex 1 as well as Annexes 2, 2A and 3.
17.	List all the other companies in the telecommunications sector in which either the acquiring company of the target hold more than 5% of the voting rights, issued share capital or other securities, and state the percentage held.	Refer to section 4 of Annex 1 as well as Annexes 2, 2A and 3.
18.	List any members of the board of the acquiring company or the target who are also members of the boards of any other companies in the telecommunications sector, and identify the other companies, and the position held.	Mr Alex Arena (HKT, Reach and Genius) Ms Susanna Hui (HKT, PCCW-HKT Telephone Limited, PCCW Global Limited and Genius) All the above, directors
19.	List all the telecommunications licenses held by the acquiring company, the target and their affiliated companies.	Refer to footnote 10 of Annex 1.
20.	State whether the transaction has been notified for approval in any other countries.	No
21.	Briefly describe the steps taken to publicise the proposal and enclose a copy of any press release or report (including those in specialist or trade journals) and details of any notifications to listing authorities.	No steps have been taken to publicise the proposal. The requirements of any listing rules (eg, in Hong Kong) will be fully met.
22.	Provide two copies of the most recent annual report of the acquiring company and the target. If annual reports are not available, please provide the audited financial accounts (including a profit and loss account; and pro forma balance sheet showing total turnover and profit before tax).	CA has Telstra, HKT and PCCW annual reports
23.	Provide the business plans for the acquiring company and the target for the current and previous year and any business plan prepared for the post-merger entity.	The CA has the annual and Interim reports of HKT, PCCW and Telstra. The strategy of providing a high quality mobile service at market prices will continue, which opportunities to reduce costs via efficiencies will be taken where possible. The next annual budget cycle would produce a 'merged' going forward approach. Both entities are existing operators and are viable players, the merged entity will be equally viable.

24.	Supply a copy of the final or most recent version of the contract(s) giving effect to the merger, or a copy of the offer document in a public bid.	The Sales and Purchase Agreement will be made available to OFCA upon signing and stock exchange announcements.
25.	Provide a definition of the relevant product and geographic markets for the purposes of this application (that is, the market or markets in which the carrier licensee(s) will operate).	Refer to sections 2.3 and 6 of Annex 1.
26.	<p>For products or services identified in question 9 above, please provide:</p> <ul style="list-style-type: none"> (a) a brief description in terms of characteristics/price differences, of any product(s) or service(s) that might be considered close substitutes, on the demand or supply side; (b) the market share (in terms of monetary value, volume/capacity and subscriber base) of the acquiring company, the target and all affiliated companies in the telecommunications sector; (c) the contact details (to include contact address, e-mail addresses, fax and telephone numbers) and market shares of the acquiring company's and the target's top five customers (including overseas customers where appropriate) for each product or service. 	<p>26 (a) Refer to sections 3, 6 and 12 of Annex 1. 26 (b) Refer to section 9 of Annex 1. As to market share in terms of mobile revenue, for the year 2012, the CSL plus HKT recorded total mobile revenue of US\$1261m as compared to the mobile revenue of Hutchison (US\$1588m) or SmarTone (US\$1382m). No exact services and handset revenue data is available for China Mobile HK which has about a 23% market share by subscribers or the various Manos. Nevertheless, a good estimate would place the merged entity's market share by revenue of about 29%.</p> <p>Market share by subscriber base, revenues and spectrum is found in section 9.2 of Annex 1.</p> <p>26 (c) Other than corporate and carrier customers (who are well known to OFCA) who may have multiple accounts, the bulk of each entity's customers are individual end users. Neither company is reliant on any one customer.</p>
27.	<p>For the product and geographic market(s) identified in question 25 above, please provide:</p> <ul style="list-style-type: none"> (a) an assessment of the level of competition in the market and a description of how competition works in the market; (b) an estimate of the capital expenditure required to enter the market on a scale necessary to gain a 5 per cent market share, both as a new entrant, and as a company which already has the necessary technology and expertise. 	<p>27 (a) Refer to sections 6 to 12 of Annex 1. 27 (e) Exit would be primarily via M&A or license/asset sale activity. 27 (b) (c) and (d): There are simply too many variables involved in these questions to provide a defensible answer. For example, is the entry facility based with spectrum acquired via auction or is entry via MVNO. Vendor choice, cell site rentals, backhaul, license fees and other costs may vary substantially. In order to gain market share, competitors' responses in terms of advertising, price cuts, handset subsidies have to be considered along</p>

	<p>Please estimate the extent to which this cost is recoverable should the firm decide to exit the market.</p> <p>(c) an estimate of the ratio of annual expenditure on advertising/promotion relative to sales required to achieve a market share of 5 per cent;</p> <p>(d) details of any other factors affecting entry, e.g. licensing requirements, technology or R&D requirements, length of contract etc including, where possible, an estimate of the time and resources necessary to overcome these factors, citing any relevant examples; and</p> <p>(e) an assessment of the ease of exit from the market citing any relevant examples.</p>	<p>with the entrants' strategy. Advertising spends tend to be in the area of 1-2% of revenue. For new entrants, this may need to be higher. The CA may want to look at 21 ViaNet's business plan. Overall, 21 ViaNet shows that other new entry is very possible. CT's bidding at the last auction would re-inforce this.</p>
28.	Provide details of any shareholding agreement or joint ventures with other operators in the telecommunications sector.	HKT: Reach Networks (with Telstra) Genius Branch (with Hutchison) OFCA is familiar with these Joint Venture Agreements
29.	Provide a brief assessment of any other features of the market that the CA should take into account in considering the effect of the merger.	Refer to sections 8 to 11 of Annex 1 and especially Hong Kong and global precedents.
30.	Provide copies of analyses, reports, studies and surveys submitted to or prepared for any member(s) of the board of directors or the shareholders' meeting for the purpose of assessing or analysing the proposed transaction with respect to competitive conditions, competitors (actual and potential), and market conditions. Please indicate the date of preparation of these documents.	No analyses, reports, studies or surveys have been submitted to or prepared for any member of the board of directors or for any shareholders' meeting for the purpose of assessing or analysing the proposed transaction with respect to competitive conditions, competitors (actual or potential), and market conditions. The relevant market is hyper-competitive and will remain so; we have addressed these issues in the formal application.

Telecommunications licences held directly/indirectly by CSL and its associated companies

Licensee	Licence	Scope of the Service
CSL Limited	UCL No.008	Public mobile radiocommunications services and public internal fixed telecommunications services
CSL Limited	SBO Licence (Class 3) No.0657	International value-added network services (“IVANS”)
CSL Limited	SBO Licence (Class 3) No.0875	External telecommunications services (“ETS”)
CSL Limited	SBO Licence (Class 3) No.1048	ETS
CSL Limited	Wide Band Link and Relay Station Licence No. WB00171	Establishing a wide-band link/relay station
CSL Limited	Radio Dealers Licence (Unrestricted) No. RU7640	Radiocommunications apparatus dealing
New World Mobility Limited	SBO Licence (Class 3) No.1445	Mobile virtual network operator (“MVNO”) service

Telecommunications licences held directly/jointly/indirectly by HKT and its associated companies

Licensee	Licence	Scope of the Service
Hong Kong Telecommunications (HKT) Limited	MCL No.099	Public mobile radiocommunications service
Hong Kong Telecommunications (HKT) Limited	UCL No.003	Public mobile radiocommunications service and MVNO service
PCCW-HKT Telephone Limited and Hong Kong Telecommunications (HKT) Limited	UCL No.025	Public internal and external fixed telecommunications services
Genius Brand Limited	UCL No.007	Public mobile radiocommunications service
Reach Networks Hong Kong Limited and Reach Cable Networks Limited	UCL No.014	Public internal and external fixed telecommunications services
PCCW Global (HK) Limited	FCL No. 014	Public external fixed telecommunications services
PCCW Global Limited	SBO (Class 3) No. 901	ETS and IVANS
PCCW-HKT Network Services Limited	SBO (Class 3) No. 984	ETS and IVANS
Reach Cable Networks Limited	SBO (Class 3) No. 688	IVANS
Hong Kong Telecommunications (HKT) Limited	Radio Dealers Licence (Unrestricted) No. RU1324	Radiocommunications apparatus dealing
Hong Kong Telecommunications (HKT) Limited	Satellite Master Antenna Television Licence No. SA00001367-S A	Establishing and maintaining satellite master antenna television systems

Hong Kong Telecommunications (HKT) Limited	Class Licence for Provision of Public Wireless Local Area Network Services	Public wireless local area network services
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