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As the Chairman of the Communications Authority (the Authority), it gives me great pleasure to present our first annual report which covers the period from April 2012 to March 2013. During the first year of its establishment, as the unified regulator overseeing the broadcasting and telecommunications sectors, the Authority has made every endeavour in maintaining Hong Kong's prominent position as the communications centre in the region. This report provides a good opportunity to review the tasks undertaken as well as the challenges that lie ahead.

## **A Thriving Broadcasting Market**

### **Domestic Free Television Programme Services**

Digital terrestrial television (DTT) broadcasting, which offers an improved picture quality, has been generally well received and accepted by the viewing public in Hong Kong since its introduction in December 2007. The coverage of the DTT network reached at least 98% of the population by the end of 2012. The digital take-up rate was about 82% of all households as at April 2013. As at end March 2013, there were a total of eleven digital free-to-air channels, of which six were round-the-clock high definition television (HDTV) channels including a news channel. These digital channels offer more choices for the viewers.

### **Domestic Pay Television Programme Services**

Over the period under review, the domestic pay television market continued to grow in terms of programming variety and service development. Despite a slight decrease (0.4% or approximately 9 000 subscribers) in the aggregate number of subscribers of licensed pay television services, the total number of pay television channels offered

by the three domestic pay television programme service licensees increased by 3.9% from 358 to 372. It has become a general trend for pay television programmes to be produced in HDTV format to enhance viewing pleasure. The total number of HDTV channels offered by the licensees increased by 52% from 23 as at March 2012 to 35 as at March 2013.

### **Roll-out of Digital Audio Broadcasting (DAB) Services**

The three DAB licensees, viz. Digital Broadcasting Corporation Hong Kong Limited (DBC), Metro Broadcast Corporation Limited (Metro) and Phoenix U Radio Limited (Phoenix U Radio) formally launched DAB services in 2012. As at end March 2013, the DAB licensees and Radio Television Hong Kong (RTHK) provided a total of 15 round-the-clock DAB channels. The number of DAB channels will increase to 18 by 2014. The introduction of DAB services has enhanced programming choices and provided better sound quality as compared to analogue broadcasting.

### **Rapid Growth of the Telecommunications Market**

#### **Availability of 4G services has given a further boost to mobile data usage**

Thanks to the promising growth of fourth generation (4G) mobile services, Hong Kong's telecommunications market continues to flourish during the year under review. By March 2013, the number of mobile subscribers rose to almost 16.4 million, among whom over 10 million were users of third generation (3G)/4G services. All mobile network operators are offering 4G services at affordable prices. Mobile data services are available at downlink speeds of up to 100 Mbps using Long

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Term Evolution (LTE) technology. In March 2013, the monthly mobile data usage further surged to 8 983 Terabytes, representing 1.8 times and 3.8 times the monthly usage over the same period in 2011 and 2010 respectively. The average mobile data usage of each 2.5G/3G/4G mobile user rose to 840 Megabytes per month in March 2013, compared with 588 Megabytes in March 2012 and 343 Megabytes in March 2011. The increasing popularity of 4G mobile services has further boosted mobile data usage. The Authority will continue to take the necessary measures to facilitate the robust development of the mobile services market.

## Development of the fixed-broadband service market

The fixed-broadband service market also experienced a steady growth. Broadband access to various applications and content services has become an integral part of the life of Hong Kong people. As of March 2013, there were around 2.3 million residential and commercial fixed broadband subscribers, with a household penetration rate of 86%. Over 90% of fixed broadband subscribers are using broadband services with a speed of 10Mbps or above. Furthermore, broadband services are available at speeds up to 1 Gbps.

## Enhanced Consumer Protection

### Implementation of Trade Descriptions Ordinance (Unfair Trade Practices) (Amendment) Ordinance 2012

One of the Authority's key responsibilities is to enhance consumer protection. With the enactment and implementation of the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012 (Amended Ordinance), the coverage of the Trade Descriptions Ordinance (Cap. 362) (TDO) has been extended from goods to services and specified unfair trade practices are prohibited. Having conferred concurrent jurisdiction with the Customs and Excise Department (C&ED), the Authority is responsible for enforcing the fair-trading sections of the TDO in relation to the commercial practices of licensees for the provision of telecommunications service and broadcasting service under the Telecommunications Ordinance (Cap. 106) (TO) and the Broadcasting Ordinance (Cap. 562) (BO) respectively. The Amended Ordinance came into effect on 19 July 2013.

## Launch of the Customer Complaint Settlement Scheme

From time to time, the Office of the Communications Authority (OFCA) receives complaints about unresolved billing disputes between telecommunications service providers and their customers. To provide a channel for the resolution through mediation of these disputes in deadlock, OFCA sponsors a voluntary Customer Complaint Settlement Scheme (CCSS) for the telecommunications industry with the mediation service provided by an independent service centre operated under the Communications Association of Hong Kong (CAHK). The CCSS has commenced operation since November 2012 for a trial period of two years. The Authority will closely monitor the operation of the scheme and conduct a review in deciding on the way forward upon completion of the trial scheme.

## Review of the Regulatory Regime

### Consultation on Re-assignment Arrangements for the Frequency Spectrum in the 1.9 – 2.2 GHz Band

The frequency spectrum in the 1.9-2.2 GHz band (3G spectrum) was assigned to four mobile network operators in October 2001. As the current assignment for the 3G spectrum will expire in October 2016, the Secretary for Commerce and Economic Development (SCED) and the Authority jointly conducted two rounds of public consultations in March and December 2012 to collect views from the industry and other interested parties on the re-assignment arrangements of the 3G spectrum. After the first consultation, a hybrid option, which offers incumbent 3G operators the right of first refusal for two-thirds of the 3G spectrum and re-auctioning the remaining one-third, was put forward for further consultation. While the Spectrum Utilisation Fee (SUF) of the re-auctioned spectrum would be

determined by the auction outcome, the second consultation paper sought views and comments on the two proposed methods for setting the SUF of the right-of-first-refusal spectrum. We would examine the views and comments received carefully in mapping out the way forward.

## Major Tasks and Challenges in the Coming Year

On the broadcasting side, licence renewal will be a key activity in 2013/2014. The Authority will commence licence renewal exercises in respect of the domestic free television programme service licences of Asia Television Limited (ATV) and Television Broadcasts Limited (TVB), and the domestic pay television programme service licence of PCCW Media Limited (PCCW Media), which will expire in the second half of 2015. The Authority plans to commission opinion surveys and conduct public hearings to gauge the public's views on the television programme services concerned with a view to making recommendations to the Chief Executive in Council (CE in C) around the second half of 2014.

On the telecommunications side, the decision making on the re-assignment arrangements of the 3G spectrum would be another challenge for the Authority. There have been recent developments on the subject the details of which will be reported in the next annual report of the Authority.

Hong Kong's cross-sector competition law, the Competition Ordinance (Cap. 619) (CO), was enacted in June 2012. The Competition Commission (CC) has been established since then to enforce the CO, and concurrent jurisdiction has been conferred on the Authority to enforce the CO in respect of the conduct of telecommunications and broadcasting licensees. In the coming year, the Authority will work closely with the CC regarding the preparatory work required for the implementation of the CO, including drafting the relevant guidelines on enforcement, as well as a memorandum of understanding to coordinate the performance of the functions of the CC and the Authority under the CO.

The work that lies ahead will no doubt be as challenging, interesting and fulfilling as that in 2012/2013. I would like to extend my deepest gratitude to members of the Authority for their expertise and commitment through the inaugural year. I would also like to thank the colleagues in OFCA for their hard work and professionalism in supporting the Authority. With their dedication, the Authority will continue to strengthen Hong Kong's position as Asia's most attractive and competitive communications hub.