Taiwan Mobile 2Q08 Results Conference Call

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Harvey Chang, CEO & President: Good afternoon, everyone. Welcome to our 2Q conference call. I am Harvey Chang. Today, we are going to go through a brief presentation on the result of the 2Q. And then we'll take some questions from you. As you can see from the slides, what we are going through are outline of our P&L, divisional performance, mobile operational analysis, balance sheet, and then the forecast for the 3Q and some event update. Before I begin the presentation, let me still go through this:

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Results Summary

With the disclaimer out of the way, let's go to page 4 of result of 2Q. Our 2Q results, basically we are slightly behind our revenue target primarily due to the shortfall of the overall mobile service market. However, 2Q EBIT came in 3% higher than guidance due to lower selling expenses arising from less-than-expected new sub acquisitions.

On the non-operating front, interest expense in 2Q was lower than forecast due to reduced short-term borrowings. Our asset write-off loss in 2Q was in line with our guidance, close to NT$0.4bn.

As a result of all this, our net income surpassed guidance by 6% in 2Q08.

2Q Divisional Performance

Our next page is a breakdown of different business groups on their performances. In terms of the revenue performance by different business groups, our cable TV has reflected a relative stable growth in revenue. On the fixed-line side, if you exclude group related business, our fixed-line revenue was still up 13% YoY basis, contributed mainly by growth in data related revenue. Our mobile service, accounting for the majority of our revenue, was a little bit under pressure. And, on YoY basis, was 1% lower than last year same period.

On the profitability front, our increased subsidies on handsets and data cards sold, and also we are now required to expense our employee bonuses and also the increased contract renewals in 2Q08, that has put a little bit squeeze on our EBITDA margin.

Benefited from integration synergies, our fixed-line business showed the highest profit growth among the three main business divisions.

For cable business, the reverse of content cost in 2Q08 and changing revenue mix in the wake of more broadband service led to a lower blended margin, compared to a year ago. But our CATV's EBITDA still grew by 2% YoY.

That's sort of a quick summary of the performances by different business groups.

<u>Wireless Peer Comparison</u>

If we come back to the mobile side and if we compare to the performances of our peers, as you can see that overall mobile market 2Q actually shrink by 2% during the 2Q YoY basis. Ours was 1% less, FET was 1% less, and CHT was 3% less. So, in service revenue market share, both ours and FET's grew a little bit while CHT lost a little bit market share.

And then, on the right-hand corner is the postpaid vs. prepaid. You can see compared to our competitors our prepaid revenue actually grew 20% on YoY basis while our monthly paid revenue was a reduction of 3% on YoY basis.

<u>VAS and 3G</u>

If you go to the next one talking about non-voice VAS services and 3G, the 1st chart on the upper half part, basically talk about that during the 2Q our VAS service grew by 17% on YoY basis compared with 16% by FET and 37% of CHT. However, that 37% was a distorted number. There's a footnote there telling you that CHT is starting this year now include the Short Messages revenue into this. While the basis for comparison, it was not on the same basis, that number appears to be a bit higher, 37%.

Overall basis, the VAS revenue now accounts for 9% of total revenue.

And then, on the 3G, you go to the lower half part, right now we have roughly 1.7 mn subscriber that are holding 3G SIM card. This is about 73% up on YoY basis. Out of those people, those who actually also using 3G device is 23% out of those holding 3G SIM. But, this is also 1.3x up YoY basis. Our 3G data revenue is 1x up on YoY basis. Our primary VAS revenue growth engine came from mobile internet, which grew 73% YoY basis. Mobile internet now accounts for a little over 30% of our total VAS revenue, which I think is a pretty healthy (inaudible).

I will turn it over to Rosie to talk about the balance sheet and cash flow.

<u>Balance Sheet Analysis</u>

Rosie Yu, Finance VP & Spokesperson: Good afternoon. Let me talk about the balance sheet analysis on page 8. Our gross debt balance fell to NT$21.85bn at the end of 2Q as a result of NT$10.25bn reduction in short-term debt.

Other current liabilities increased QoQ in 2Q which came largely from the NT$7.6bn dividend payable which was paid on July 24.

As cash level dropped after paying down some short-term debt and payable increase for cash dividend payment, current ratio decreased to 34% in 2Q end.

At the same time, our interest coverage improved from last quarter with net debt to EBITDA dropping to 0.56x. Our ROE remained high at 42% at the end of the 2Q.

<u>Cash Flow Analysis</u>

Now, let's turn to cash flow analysis on page 9. The noticeable decrease in cash flow from operations from a year ago level was due to some cash inflows from liquidation of money market funds to finance TFN acquisition in 2Q last year.

Investing cash flows decreased from previous quarter due the lack of divestment of Fubon Financial Holdings, which contributed to around NT$2 bn in the previous quarter in investing cash inflows. Compared to last year, 2Q had quite substantial cash outflows due to TFN acquisition.

And, for the financing activities, we take down NT$10.25 bn in short-term debt to save the interest expense in the 2Q. And, at the same time, we drew down under the syndication loan for NT$0.9bn in 2Q to reduce the reliance on short-term debt.

Group capex in 2Q was on track and accounted for only 8% of total service revenue.

And, with good core business cash earnings and stable cash capex, our1H08 free cash flow yield was at 11% on annualized basis.

Let me turn it back to Harvey for 3Q guidance.

3Q08 Forecast

Harvey: Let's take a look at our forecast for this coming quarter.

We forecast 3Q revenue YoY growth for cable to be 7%; 26% for fixed-line and -2% for mobile.

On the margin side, margin contraction from a year ago level would be largely due to expensing employee bonus and increasing handset costs on higher sales volume. Margin drop from 2Q will result from higher selling expenses and base station electricity price hike due to seasonal factors.

Our asset write-off loss is forecast to be NT$420m, up from NT$373m in the previous quarter. Our full-year asset write-off loss has been revised downward to NT$1.3bn, down from NT$2bn, due to delay in the regulator's approval on our network integration.

EPS in 3Q is expected to grow 23% YoY basis, benefiting from a stable net income and fewer share counts arising from capital reductions.

I think the rest of numbers are pretty clear on the table. You can see yourself.

Event/ Regulatory Update

And then, on the regulatory update side, primarily is the new NCC member. Our Legislative Yuan has approved the appointment of the second term of the NCC commissioners. Out of the seven newly approved commissioners, 6 of them are newly appointed. Only one is pre-existing. The new commissioners will take office tomorrow, Aug 1.

And then, also, a couple of new events to be reported. These are events to be taking place. In our today's board meeting, the board has approved that TFN Investment, which is one of our wholly owned subsidiaries, will sell 750 mn shares of Taiwan Mobile (TWM) shares to our employees in three different tranches, which will take place in the intervals of every six months from December 2008 until December 2009. The disposal price is based on 10% average closing prior to today or intraday low, so the price will be NT$55.2 for the disposal price. This is primarily a mechanism to continue the treasury share that we have been awarding to our employees. During the past three or four years, we have been granting treasury shares to our employees. I think each grant in the range a bit over 20 mn shares, this time we go up to a little bit 25 because the number of employees have been going up rapidly. So, this is the treasury share disposal.

The other event is that the board today has also approved for TWM to issue NT$8 bn straight bond. This bond will be issued after October 17, which is one year after the previous capital reduction approval date. This is a regulatory requirement. The bond will be issued after that and will be issued at a fixed rate with duration of no more than five years. After we get this approval, we will start to talk to the financial institutions interested in underwriting this bond. So, right now, we don't have more specific terms right now for the bond issuance. It will be in alignment with some of the recent market practice.

So, that's two new events that have been approved by the board.

Key Message

The last page is our key message. Our 1H results came in better than expected, despite pressure on mobile revenue. The worldwide inflationary pressure, however, has already loomed largely for a slower economic growth, which will inevitably weigh on private consumption. However, we faced many challenges in the past and we will be bracing for the challenge ahead. We will our best to deliver satisfactory results for our shareholders.

That wraps up our presentation. I will happy to take questions.

Q & A

Anand Ramachandran, Citicorp HK*: I have three questions. Firstly, if I look at your CAPEX for the 1H, it's approximating about 8% of sales. Should I expect that to change for the full year or should we expect the full year number to be about the same as a proportion?*

Secondly, on the guidance, your track record in 1Q and 2Q has been to guide low and deliver up. 3Q seems to follow that trend or is there's something specifically off this time that you expect depressed margins. I know you talk about inflation and economic slowdown, but your MOU are actually up QoQ the 2Q, is there something in July that has come through to reflect this question?
Last question, you're raising debt after October 17, is this for refinancing or is there any specific use for that debt?

Harvey: I think I'll let Rosie talk about the CAPEX. On the guidance, I think you got to realize we're in a really dynamic world. Nobody knows if we're going to repeat history or not. I think certainly hope that you're not undermining our efforts in terms of trying to deliver a better-than-expected results. MOU goes up because we tried harder. But, at the same time, you need to notice that the pricing pressure is certainly there. It's just inevitable that our ARPM continue to fall. Hopefully, it will not fall too fast of a pace.

And, then on the October bond issuance, basically you can say it's a refinancing. Primarily, right now, still a lot of our financing are coming from short borrowing. The only long term financing we have is this NT$10 bn straight bond issued a few years ago. That will be due in about a year. We do need some long term financing. It's a restructure of our debt structure.

So, Rosie, will you talk about the CAPEX?

Rosie: Anand, the CAPEX for the full year will be somewhere around 11% of our total revenue based on our current CAPEX plan.

Terry Chan, Credit Suisse HK: ***I have two questions. The first one is there any capital gains from the disposal of treasury shares? Will it go to capital service and, if you go to capital service, what is your plan with that capital service? Are you going to do capital reduction in coming two years?***

The second question is do you have any update on your cable acquisition? Are you still considering buying more cable?

Harvey: There still will be some capital gain; however, you got to be aware that basically we have a fixed mechanism here to make this happen. However, they are going to be done in three different tranches, so even if there are capital gains, they only book after each tranche have been disposed. So, the capital gain will not be that high. It's not going to be significant money that is going to trigger our thinking of capital reduction. And, secondly, on the acquisition of other cable operators, we are still looking and also we are in preliminary conversations with some of the operators, but right now, we have much to report.

Eleanor Ro, CSLA: ***I have two questions. Can you comment on the performance of the integrated packages that you launched in 2Q? How many subscribers do you have for that integrated package?***

Second question is what do you see the impact of the change of the NCC members going forward in the industry as well as on the operators?

Harvey: We really don't know what to expect from the new NCC members. Certainly we try to be more optimistic. Hopefully, they will set a new direction and help the industry grow. But, right now, since they're not in office, they haven't made a statement. We don't really know. It's a wait and see.

On the integrated package, are you talking about the integrated package for cable subscribers or what are you talking about here?

Eleanor*:* *Is the bundled packages of your cable TV, broadband, mobile -*

Harvey: We're talking about the integrated package that we are offering to primarily our cable TV subscribers offering to them the broadband services, some of the broadband will be high megaband. We also throw in the mobile services. I think for some of the people, they are taking a combination of both broadband and cable TV. The response actually is quite good. We are able to lure some of the existing broadband subscribers from other service providers to us through these integrated packages. But, in terms of mobile users, right now the consumer probably has not really found the relevancy among the three. We haven't been able to successful in terms of attracting more; we only attract a small faction of new mobile users.

John Kim, Merrill Lynch: ***I have two questions. I apology if you already addressed my first question. I might have missed it. First question, as you know one of your peers, ChungHwa Telecom, has announced revamped capital reduction plan. If you successfully complete forming a cable alliance by the end of the year,***

how would this influence your thoughts on capital reduction, if any, by TWM?
Second question, from the management perspective, what are the biggest risks facing your business in the 2H? How would you assess the probability of such risk materializing and what contingency plans do you have in place to address it?

Harvey: We really haven't made any comment on our future capital reduction plan. Right now, we don't have a plan in our drawer and don't want to share with you because, right now, as you can see that we're in quite a bit of debt. This potential acquisition of other CATV operators is a strategy for us to further penetrate. I think if we end up not doing anything, we don't necessarily need to have the reduction. The shareholders are benefitting from the treasury shares anyway because they're enjoying the cash dividends not collecting by TFN and TFN Investments.

On the risk, everywhere is risk. I would tend to think that the biggest risk is on the oil price and inflation. If the oil price went through the ceiling and cause hyperinflation and then you will probably jack up the interest rates substantially. And you would slow down the total economic activity and that really hurts, that will hurts everyone. Right now, I don't think we really have a fix for that.

Nei Han, Lehmen Brothers: ***I have two questions. First, after the shares sold to the employees, can you provide us with an update on the remaining treasury shares?***
Second question is we can see the prepaid revenue has been growing quite healthy; can you share with us your business strategy in growing the prepaid segment?

Harvey: We have roughly 21.4%. This treasury shares set aside for employees is less than 2%, so we still have something like 19.4% left. But, actually, even for these, if we implemented the 1st tranche at the end of the year, that is only roughly 0.6%, so we still have 21% treasury shares left. So, no, for the short-term, there will be impact. It's really not that much. And your other question? Any other questions?

Oh, prepaid strategy, we have been growing our prepaid business quite successfully. The unique side of the prepaid business in this market is a big majority of the prepaid service users are foreign laborers; these are low-income people. They came from countries that have active laborers that try to make a better wages here so that can send the money back and support the family back home. Most of them also have a need to be in regular communication with their family, so what we try to do here is to try to offer attractive oversea call rates. We have different package tailored for foreign laborers coming from different countries. We have special packages, for example, for laborers from Thailand, from Indonesia, from Philippines. So, if you buy this particular card, if you are from, for example, the Philippines, this card will allow you to enjoy a particularly low rate calling back to the Philippines. For Indonesia laborers, there is another different package. And we have been very successful in terms of doing that and not only our prepaid market share gone way up, we also made an impact on the overall market profile of the IDD call, which I think will become a threat to our incumbent, Chunghwa Telelcom.

Shirley Tse – UBS: ***I have a couple of follow-up questions. First, on the prepaid strategy, I know that it's been extremely successful. I was wondering if FET's push into the MVNO for the 7-11 chain stores, will that have an impact on your prepaid business and also are you considering doing some sort of JV with other convenience stores in Taiwan as well?***
Secondly, I was wondering if you can give some EBITDA margin by division for the 3Q guidance?
And, thirdly, you did mention you still have quite a bit of debt, what would be a comfortable net debt-to-EBITDA or gearing level for you on longer term basis?

Harvey: Right now, we don't see that MVNO will become a threat on the prepaid business side. As I just explained, the way we market our prepaid cards, we have tailored them toward very specific segment and most of these channels are not convenience stores. These are so many of the smaller retail shops particularly for the foreign laborers living here. Also, in terms of JV with other outlets to provide MVNO, right now we don't have much to talk about. It's a thought, but it's not that easy.

On the gearing ratio, I guess that our current gearing ratio, I think it's a comfortable level. We really don't want to gear up too much. We need to have a plan later on to recover to the current gearing ratio, which is the net debt over the EBITDA is roughly 0.5 as of the 1H. That's the comfortable where we are. Of course, we need to be a little bit flexible. It might go up a little bit. We'll try to manage that and also it depends on the environment. In the past, the interest rate are on the low side and right now there's certainly risk that interest rate will go up. Hopefully, it will not go way up. Because of my background, I still can remember back in the late '70s, early '08, at that time, the overnight interest rate was 20%, so that was not a lot of fun for those who borrowed a lot from the market. So, we need to be cautious about that as well.

The other thing, maybe Rosie can talk about this.

Jimmy Cheong, JP Morgan HK: ***Three questions. The cable discussions happening right now, are you getting a sense that cable valuations have come up, down or stayed fairly stable since two years ago? Two years ago, the private equity guys were reported to be paying 10 to 15x EBITDA.***
Question #2, can you explain to me the thought process of bundling bicycles with mobile phones in the 2Q? Is that a new trend, something targeted at the youth market or something like that? That would be helpful.
Final question is what do you see as long-term fixed-line EBITDA margin? What would you view as being a long-term sustainable margin for the fixed-line business?

Harvey: Of course, you know who owns these cable operators. I don't really want to say any bad thing about them. So, the discussion was really simple. They try to get as high as they can in terms of EBITDA multiple and we're telling it's not going to work. It's not going to fly. So, that's why the discussion took so long. We have to get to where we should be. I really can not tell how this is going to proceed. Sorry, that's all the light I can shed right now.

As to bicycles, as you know, if the oil price, gas price continues to go up, I might even have to give up my driver and ride a bicycle to work. I guess that goes to many people as well. In Taiwan, these days bicycling become sort of fashion force. A lot of people are interested in that. Of course, I think the bicycles we are giving out are no comparison to those who are really a fan of bicycles. These are fairly basic bicycles. But, still, I think people would like to own one. If they can get it, particularly when they first get started, they get it for free, why not? But it is a really hot hit to the market. For those bundle with bicycles, they are selling like hot cakes. And then, of course, some of amicable competitors immediately tried to follow suit.

One more thing? The fixed-line. The fixed-line, I really can not get too greedy on that. Right now, we're operating at close 20%. The fixed-line business is sort of complimentary business, together with our cable, broadband business and also supporting our mobile. It might go up a little bit. I don't think it won't go up dramatically. And then, of course, we constantly review their business strategies and we are actually making tunings on composition of their revenues. Hopefully, we will see some progress. But, it is not the most significant part of our business. It's something nice to compliment our other services.

May Ling, Yuanta Securities Taiwan: ***I have a quick question about regulation risk on cable TV, can you add more color on this part?***

Harvey: The regulatory risk primarily right now cable TV, the operating area is divided into 50 something different areas. Each area must be reviewed by their local government. So, there are a lot of local government PRs we have to do to protect our margins. Since this is not one regulatory body, each regulatory agency has a different emphasize so sometimes it takes a lot of effort for our cable TV guys to communicate to them, to interact with them, to convince them that what we're charging is reasonable rate. That's one side. The other is, of course, I think we do not like the way they are governing. The cable industry divided into 50 something areas while the CHT MOD is island-wide service. So, that is other subject under discussion right now. If you ask me what are the things that I will hope the new NCC members, the commissioners, looking to, this is certainly one area: more level playing field on all these video services is very important to us.

Kathy Chen, Goldman Sachs HK: ***I have some follow-up on the guidance numbers. Firstly, in terms of the 3Q guidance for mobile revenue to decline 2% YoY, would you say this is a conservative or realistic assumption? Some color on what's driving that decline.***
Also, for the fixed-line side, what is the drivers for YoY growth? If you adjusted out TTN being consolidated in September of last year, what is the comparable YoY that you expect for fixed-line?
On the margin side, actually I just wanted to follow up on Shirley's question about giving us the breakdown on margin for the different segments. And if you can also share what's the difference on cable broadband margins vs. cable TV margins? Because you mentioned that overall cable EBITDA margin will be pressured by the increased mix in the cable broadband revenue side.
And, lastly, on the asset impairment revision, what does the delay mean for the potential asset impairment size in 2009?

Rosie: Kathy, on your 1st question, we only disclosed the mobile EBITDA margin. For the 3Q, the mobile EBITDA margin is expected to be somewhere around 43.5%.

On your second question of the margin for cable product, one is cable broadband, the other one is cable TV, you know that our cable TV margin is over 50%, our cable broadband margin is slightly below 30%. So, that's the difference and that's slightly dragging down our EBITDA margin for the overall cable operation as we are growing the cable broadband business aggressively. The growth rate for cable broadband is in the range of 40%. So, that hopefully will answer your question on the margins.

On the fixed-line side, after inclusion of TTN, the revenue increased about NT$70-80 mn per month. And, you know that it has been included only since September last year.

Kathy: *Ok, how about more color on the mobile revenue outlook?*

Rosie: Mobile revenue will be slightly under pressure just as Harvey mentioned to you earlier.

Harvey: Mobile revenue primarily, as I explained, because the ARPM, the pricing will go gently downward. I don't think anyone can stop that trend.

Kathy: *So, it's essentially probably more people on packages that have lower effective revenue per minute. Is that right?*

Harvey: That's one thing, the other is, as we have explained, the overall revenue from monthly subscribers are on downward trend and is offset by the prepaid. But then again the prepaid ARPU are much lower. So, overall revenue, I think we will be very lucky to keep it flat. Or extremely lucky to keep it flat.

Kathy: *Ok, thanks. And then on the asset impairment for 2009?*

Rosie: 2009, we haven't had a concrete number yet. But part of the delays in this year will be carried forward into next year, but not as much as the exact difference. As you know, for the part that hasn't been written off or treated as asset write-downs, they will be under depreciation, right? So, the exact difference between NT$2 bn and NT$1.3 bn expected for 2008 will not be entirely carried forward, but part of it will be carried forward into 2009.

Calvin Ho, Nomura: ***I just have one question. Can you help me understand the rationale of the employee treasury shares plan? If I am an employee, what is the benefit to me if I can buy the stock from the market? Does it mean there will be***

some new (unintelligible) that will happen and will benefit me as an employee?

Harvey: Basically, the employee treasury shares is a mechanism for the company to have some shares ready at a fixed cost. So, that if the market price goes up, there will be some differential on the price. There will create some incentive for the employees. We have been practicing that for that past 4-5 years. This year, the only difference is that in the past, most of those shares were acquired from the market and they were held on our balance sheet and then will be distributed later. But this time because we already holding a significant number of shares on our balance sheet, so we decided instead of buying from the market, we allocated a small portion of it and use it for the employee incentive purposes. However, in order to make all this happen, we have to have a mechanism, we have to have a pricing benchmark. Our cost of getting those shares on the balance sheet is only slightly over NT$40 per share. But we are using that as -, we are re-benchmarking that to the most recent price, which right now is a little over NT$55. This is what we're doing right now. So, using today or the most recent price as a benchmark and set the mechanism and then after the board approve it, then trigger the process. But then again, we will hold on to it until the year end, if the share price goes up, hopefully the employee will also share some of the benefit of the market cap growth.

Henry Cobbe, Nevsky: ***Just two follow-up of a previous question. I think you were asked about capital repayment, capital distribution following a cable acquisition. I can understand that you're reluctant to talk hypothetically in the future about deals that may or may not happen and how that may or may not impact your capital return policy, but would it be fair to assume that as you maintain the 90% dividend payout ratio, were you to acquire a cable operator, the quantum of dividend would be maintain or increase off the higher base? Just to clarify that because I think the way the question was asked suggested that would be somehow lower capital return whereas my understanding is that it depends on the outcome of a deal as to whether there are cash dividends or capital restructuring.***

And, secondly, just on the mobile EBITDA margin, 43.5% is quite low relative to where you're tracking in the 2Q and the 1Q. I know that June was quite a low margin. Is that really from marketing expenses or was it also just a problem that you can't reduce the cost base as fast as the RPM is declining?

Harvey: I certainly disagree with you that 43.5% margin is a low margin. I certainly can not disagree more than that. You go look around, how many companies are making 43.5% EBITDA margin –

Henry: *No, I agree, but relative to the 1Q and 2Q, it's lower.*

Harvey: Yeah, don't you think that we deserve some applause because of we did in the 1Q and 2Q?

Henry: *Certainly.*

Harvey: Yeah, so I think we certainly will try our best. But we also have to tell what might be the most likely scenario. We are not playing around with the numbers, try to give you something low. The fact is this environment is extremely competitive and we are under a lot of pressure. It's very likely that's how we need to end up. While we are in this dynamic environment, our day-to-day business, if there are ways that we can keep our expenses low, we will certainly try to make that happen. That is what is. Certainly, I think that's all we can do on this.

Henry: *I understand.*

Harvey: On the dividends, it is certainly intent on our side to maintain attractive dividend cash yield. On the other hand, if we somewhat end up with a very special year, we still going to pay most of those dividends out. We are not going to try to keep them in our reserve. There are still a few clauses in our corporate law to prevent us to pay more than what we make. Of course, we can take some of those out of our retain earnings. That's the only source. We have actually a little less flexibility than some of the companies incorporated outside of Taiwan. As I've already stated in the beginning, we certainly would like to provide a stable cash dividend yield to our investors.

Henry: *Yes, I think that was the purpose of the question that was asked by the Merrill analyst. I think he wanted some kind of indication as to whether the timing of any transaction with a cable TV operator whether that would impact your return policy. My understanding is that it may change the mix in terms of capital restructuring and cash dividends, but the overall return targets would be maintain. Is that correct?*

Harvey: Yeah, you may say that. Certainly, I think when we look at these types of transaction, one of the important parameters in our mind is that can we continue to pay attractive cash dividends to our shareholders. That's a very important parameter.

Mitchell Kim, Morgan Stanley HK: ***I have three questions. The 1st one is on, that was very interesting hearing, Harvey, your comment on inflation and I just was wondering which area of your business did you actually see most impacted by your concerns about inflation? Obviously, you think this will continue. And which areas will show impact coming from inflation?***
My 2nd question is on your 2Q performance, what do you think your management did well in order to over-achieve your target and whether there is any kind of change in that strategy? Is there anything that can change in 3Q that you think would result in lower margins?
And 3rd question, a quick one on your June margins, I know Henry Cobbe mention that perhaps it was a raise in marketing cost that led to June margins dropping sharply. Do you think this June margin is that more representative of how things will be in 2nd half or do you think that's more of a one-time occurrence in June? And how is it looking in July?

Harvey: Well, let me say the June margin is not a one-time thing, but also doesn't mean it's going to continue. It's just that, I think I've stated many times, we are in a very dynamic environment. Each week, each month, it's different. It all depends on what our competitors are doing. If our competitors get too aggressive in the acquisitions, we have to respond and an acquisition costs a lot of money. That's one area. If your competitors appear to be more rational, I don't see the need for us to spend that much money in terms of on acquisitions, on promotions, on advertisements. So, we really don't know. We have to have a plan, a reasonable plan. And then we will see how the other players are doing and to decide whether we're going to go full speed or we can cut back a little on our expenses. And that actually basic driver on whether our margins will end up 2% higher or lower. And then also the other very important thing is the churn rates. I think our 2Q churn rate end up slightly better than our plan, which is extremely important to us. In terms of how we'll retain our customers, sometimes it depends on to what extent our competitors want to use their incentives to steal them. So, this is something not entirely in our hands. It's something that, in a way, a reactive mode.

And then on the inflation. The inflation, of course, is a very complicated subject. I really wish I can tell you a lot more. But certainly, of course, our impact has most, to begin with, is in electricity price, the cost of energy that we operating in the thousands of base stations and using a lot of electricity has impact on us. And then certainly, I think, it's really the consumer's confidence. To what extent they are willing to add on new services and want to replace the handset. It only takes a rocket scientist to figure that out. But we are not paid as high as the Wall Street, so we can't afford that.

Mitchell: *Are you already seeing that impact? Did you already see that in 2Q?*

Harvey: We feel that on the electricity bill. On the consumer side, so far it's not that obvious.

Rosie: Sorry, we only have the time to entertain the last question.

Moderator: Ms. Yu, there seems to be no further questions at this time.

Harvey: Ok, just want to thank you all for attending this conference call. And just wish us luck that next conference call we end up with the thing as we did this quarter. Thank you again. Bye.

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