THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this composite offer document or the Offer contained herein, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in SUNDAY Communications Limited, you should at once hand this composite offer document and the accompanying form of acceptance and transfer for the Offer Shares to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO A MANDATORY UNCONDITIONAL CASH OFFER

by

CITIGROUP GLOBAL MARKETS ASIA LIMITED

for and on behalf of

PCCW MOBILE HOLDING NO. 2 LIMITED

(Incorporated in the British Virgin Islands with limited liability)

a wholly-owned subsidiary of

PCCW®

PCCW Limited

電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0008)

TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF SUNDAY COMMUNICATIONS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY PCCW MOBILE HOLDING NO. 2 LIMITED) AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF

SUNDAY

SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0866)

Financial adviser to PCCW Limited and PCCW Mobile Holding No. 2 Limited

citigroup

Citigroup Global Markets Asia Limited

Independent financial adviser to the Independent Board Committee of SUNDAY Communications Limited

ING WHOLESALE BANKING

A letter from Citigroup containing, among other things, details of the terms of the Offer is set out on pages 7 to 17 of this composite offer document.

A letter from the Board is set out on pages 18 to 22 of this composite offer document.

A letter from the Independent Board Committee to the Independent Shareholders and the Option Holders is set out on pages 23 to 24 of this composite offer document. A letter of advice from ING containing its opinion and advice to the Independent Board Committee is set out on pages 25 to 50 of this composite offer document.

The procedure for acceptance and settlement of the Offer is set out in Appendix I to this composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Outstanding Share Options. Acceptances of the Offer in respect of the Offer Shares must be received by Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on 29 July, 2005, or such later time as the Offeror may determine and announce. Acceptances of the Offer in respect of the Outstanding Share Options must be received by the Company at 13th Floor, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong by no later than 4:00 p.m. on 29 July, 2005, or such later time as the Offeror may determine and announce.

8 July, 2005

CONTENTS

Opening date of the Offer . . . . .Friday, 8 July, 2005

Latest time and date for acceptance of the Offer *(Note 1)* . . . . .4:00 p.m. on Friday, 29 July, 2005

Closing date of the Offer . . . . .Friday, 29 July, 2005

Announcement in respect of the closing of the Offer and acceptances under the Offer to appear in at least one Chinese newspaper and one English newspaper on . . . . .Monday, 1 August, 2005

Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances *(Note 2)* . . . . .Monday, 8 August, 2005

Notes:

1. The Offer, which is unconditional, will be closed on Friday, 29 July, 2005 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. Acceptances tendered after 4:00 p.m. on Friday, 29 July, 2005 will only be valid if the Offer is revised or extended. If the Offeror decides to extend the Offer, at least 14 days' notice in writing will be given, before the Offer is closed, to those Shareholders and Option Holders who have not accepted the Offer.

2. Remittances in respect of the consideration payable for the Offer Shares and the Outstanding Share Options tendered under the Offer will be posted to Shareholders and Option Holders as soon as practicable, but in any event within ten days after the receipt by the Registrar or the Company (as the case may be) of the valid requisite documents from the accepting Shareholders or Option Holders (as the case may be).

3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

All time references contained in this composite offer document refer to Hong Kong time.

In this composite offer document, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"acting in concert"	shall have the meaning set out in the Takeovers Code, except that class (2) of the relevant presumptions referred to in the Takeovers Code shall be modified to exclude the directors (and their close relatives, related trusts and companies controlled by any of the directors, their close relatives or related trusts) of the subsidiaries of PCCW, as per the ruling of the Executive in respect of the Offer upon an application made on behalf of PCCW;
"ADSs"	American depositary shares of SUNDAY, evidenced by American depositary receipts ("ADRs"), each ADS representing 100 Shares;
"Agreements"	the First Agreement and the Second Agreement;
"Announcement"	the announcement dated 13 June, 2005 made by PCCW in connection with the entering into of the Agreements and the possibility of making the Offer;
"associate(s)"	shall have the meaning set out in Rule 1.01 of the Listing Rules;
"Board"	the board of Directors;
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
"Citigroup"	Citigroup Global Markets Asia Limited (a subsidiary of Citibank Inc.), a company incorporated in Hong Kong with limited liability, which is a deemed licensed corporation under the Securities and Futures Ordinance licenced to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities, being the financial adviser to PCCW and the Offeror in respect of the Offer;
"Companies Law"	the Companies Law (2004 Revision) of the Cayman Islands;
"composite offer document"	this composite offer and response document dated 8 July, 2005 relating to the Offer;

"DCL"	Distacom Communications Limited, a private company incorporated in Hong Kong with limited liability and the direct registered and beneficial owner of the entire issued share capital of Distacom HK;
"Director(s)"	director(s) of SUNDAY;
"disinterested Share(s)"	Share(s) other than those which are owned by the Offeror or persons acting in concert with it, and "disinterested Shareholder(s)" shall be construed accordingly;
"Distacom HK"	Distacom Hong Kong Limited, a company incorporated in Hong Kong with limited liability and the seller of an aggregate of 1,380,000,000 Shares under the First Agreement;
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates;
"First Agreement"	the conditional sale and purchase agreement dated 13 June, 2005 between Distacom HK, DCL and PCCW in relation to the sale and purchase of an aggregate of 1,380,000,000 Shares, representing approximately 46.15 percent of the issued share capital of SUNDAY;
"Group"	SUNDAY and its subsidiaries, and "Group Company", "Group Companies" and "member(s) of the Group" shall be construed accordingly;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Huawei Tech."	Huawei Tech. Investment Co., Limited, a shareholder of SUNDAY;
"Independent Board Committee"	a committee of the Board comprising Mr. Hongqing Zheng, a non-executive Director, and Mr. John William Crawford, Mr. Henry Michael Pearson Miles and Mr. Robert John Richard Owen, the three independent non-executive Directors, constituted to advise the Independent Shareholders and the Option Holders in connection with the Offer;
"Independent Shareholders"	the Shareholders other than the Offeror and parties acting in concert with it;

"ING"	ING Bank N.V., the independent financial adviser to the Independent Board Committee and a registered institution, under the Securities and Futures Ordinance, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities;
"Latest Practicable Date"	4 July, 2005, being the latest practicable date prior to the printing of this composite offer document for ascertaining certain information referred to in this composite offer document;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Offer"	the mandatory unconditional cash offer for all the issued Shares (including any Shares that may fall to be issued under any Share Option prior to the close of such offer), other than those Shares already owned by the Offeror, at the Offer Price, and for all the Outstanding Share Options for the consideration specified in this composite offer document, made by Citigroup for and on behalf of the Offeror in accordance with the Takeovers Code;
"Offer Period"	the period from 13 June, 2005, the date when the Announcement was made by PCCW to 4:00 p.m. on Friday, 29 July, 2005, unless the Offer is revised or extended;
"Offer Price"	HK$0.65 per Offer Share;
"Offer Share(s)"	the Share(s) subject to the Offer;
"Offeror"	PCCW Mobile Holding No. 2 Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of PCCW;
"Offeror Group" or "PCCW Group"	PCCW and its subsidiaries;
"Option Holders"	holders of the Outstanding Share Options;
"Outstanding Share Options"	27,515,831 Share Options granted pursuant to the Share Option Scheme and outstanding as at the Latest Practicable Date, conferring rights to subscribe for 27,515,831 Shares at prices of HK$1.01 or HK$3.05;
"PCCW"	PCCW Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange;

"PRC"	the People's Republic of China, which for the purposes of this composite offer document shall exclude Hong Kong, Macau and Taiwan;
"public"	shall have the meaning set out in Rule 1.01 of the Listing Rules;
"Registrar"	Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, being the branch share registrar of SUNDAY in Hong Kong for receiving and processing acceptances of the Offer in respect of the Offer Shares;
"Relevant Period"	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date;
"SEC"	United States Securities and Exchange Commission;
"Second Agreement"	the conditional sale and purchase agreement dated 13 June, 2005 between Townhill, USI and PCCW in relation to the sale and purchase of an aggregate of 410,134,000 Shares, representing approximately 13.72 percent of the issued share capital of SUNDAY;
"Securities and Futures Ordinance"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"SFC"	the Securities and Futures Commission of Hong Kong;
"Share Option Scheme"	the share option scheme of SUNDAY approved and adopted on 1 March, 2000;
"Share Option(s)" or "Option(s)"	the share option(s) granted under the Share Option Scheme;
"Shareholder(s)"	holder(s) of Share(s);
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of SUNDAY, trading in board lots of 1,000 on the Main Board of the Stock Exchange, and a "Share" or "Shares" shall be construed accordingly;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"SUNDAY" or "Company"	SUNDAY Communications Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange and (in the form of ADSs) on NASDAQ National Market in the United States;

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers in force from time to time;
"Townhill"	Townhill Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and the seller of an aggregate of 410,134,000 Shares under the Second Agreement;
"United States"	United States of America;
"US Holder(s)"	means any security holder(s) in the United States; and
"USI"	USI Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, and the direct or indirect owner of the entire issued share capital of Townhill.

citigroup

8 July, 2005

To the Shareholders and the Option Holders of SUNDAY

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
SUNDAY COMMUNICATIONS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR)
AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
SUNDAY COMMUNICATIONS LIMITED**

INTRODUCTION

It was announced by PCCW that on 13 June, 2005 it had entered into the First Agreement with Distacom HK and DCL and the Second Agreement with Townhill and USI. Pursuant to the First Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Distacom HK conditionally agreed to sell an aggregate of 1,380,000,000 Shares, representing approximately 46.15 percent of the then issued share capital of SUNDAY, for the consideration of HK$897,000,000 in cash, being a price of HK$0.65 per Share. Pursuant to the Second Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Townhill conditionally agreed to sell an aggregate of 410,134,000 Shares, representing approximately 13.72 percent of the then issued share capital of SUNDAY, for the consideration of HK$266,587,100 in cash, being a price of HK$0.65 per Share.

Completion of the Agreements took place on 22 June, 2005 whereby the Offeror as a wholly-owned subsidiary of PCCW became the beneficial owner of a total of 1,790,134,000 Shares, representing approximately 59.87 percent of the total issued share capital of SUNDAY as at the Latest Practicable Date. The Offeror is therefore obliged under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer to acquire all the issued Shares, other than those already owned by the Offeror. In addition, pursuant to Rule 13 of the Takeovers Code, an unconditional cash offer to cancel all Outstanding Share Options granted by SUNDAY under the Share Option Scheme is also being made. Accordingly, Citigroup is making the Offer for and on behalf of the Offeror.

As at the Latest Practicable Date, there were 2,990,000,000 Shares in issue and 27,515,831 Outstanding Share Options. Accordingly, there are 1,199,866,000 Shares (or approximately 40.13 percent of the total issued share capital of SUNDAY) and 27,515,831 Outstanding Share Options (assuming that none of these Outstanding Share Options will be exercised on or after the Latest Practicable Date) subject to the Offer.

In addition to the 1,790,134,000 Shares acquired by the Offeror under the Agreements, as at the Latest Practicable Date a wholly-owned subsidiary of Cheung Kong (Holdings) Limited and a private company controlled by Mr. Li Ka Shing, each of which is presumed under the Takeovers Code to be acting in concert with the Offeror, held respectively 19,854,000 Shares (representing approximately 0.66 percent of the existing issued share capital of SUNDAY) and 5,127,000 Shares (representing approximately 0.17 percent of the existing issued share capital of SUNDAY), which were acquired by them between April 2000 and February 2003. Shareholders and Option Holders should note that (although there is no agreement or understanding between the Offeror and either of the relevant companies at the date of this composite offer document) the wholly-owned subsidiary of Cheung Kong (Holdings) Limited and the private company controlled by Mr. Li Ka Shing may sell the Shares respectively held by them to the Offeror during the Offer Period, either by accepting the Offer in respect of those Shares or otherwise.

This letter sets out the detailed terms of the Offer, together with the information on the Offeror and the intentions of PCCW and the Offeror regarding the Group. Further details of the Offer are also set out in Appendix I to this composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Outstanding Share Options. Your attention is also drawn to the letter from the Board, the letter from the Independent Board Committee to the Independent Shareholders and Option Holders and the letter from ING to the Independent Board Committee contained in this composite offer document.

THE OFFER

Citigroup is making the Offer for and on behalf of the Offeror, subject to the terms set out in this composite offer document (including, without limitation, those in Appendix I) and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Outstanding Share Options, to acquire all the issued Shares not already owned by the Offeror, at the Offer Price, and to offer to pay a cash amount to the Option Holders for each Outstanding Share Option held by them in consideration of their agreeing to cancel their Outstanding Share Options, on the following bases:

For each Offer Share . . . . HK$0.65 payable in cash

For each Outstanding Share Option . . . . HK$0.001 payable in cash

The Offer Price of HK$0.65 per Offer Share represents:

(a) a premium of approximately 22.64 percent over the closing price of HK$0.53 per Share as quoted on the Stock Exchange on 10 June, 2005, being the last trading day before the Announcement;

(b) a premium of approximately 28.97 percent over the average closing price of HK$0.504 per Share for the last 5 trading days up to and including 10 June, 2005;

(c) a premium of approximately 29.61 percent over the average closing price of HK$0.5015 per Share for the last 10 trading days up to and including 10 June, 2005;

(d) a premium of approximately 35.84 percent over the average closing price of HK$0.4785 per Share for the last 30 trading days up to and including 10 June, 2005;

(e) a premium of approximately 176.24 percent over the audited consolidated net asset value of SUNDAY of approximately HK$0.2353 per Share as stated in the annual report of SUNDAY as at 31 December, 2004; and

(f) a premium of approximately 1.56 percent over the closing price of HK$$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.65 per Share (from 22 June, 2005 to 24 June, 2005 and 28 June, 2005) and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.40 per Share (on 12 January, 2005).

The Offer Price in respect of the Offer Shares, of HK$0.65 per Offer Share, is the same as the price per Share paid by the Offeror under the Agreements to acquire an aggregate of 1,790,134,000 Shares from Distacom HK and Townhill.

By accepting the Offer in respect of their Shares, Shareholders will sell their Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions, if any, declared, made or paid on or after 13 June, 2005, being the date of the Announcement. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Seller's ad valorem stamp duty at the rate of HK$1.00 for every HK$1,000 or part thereof of the greater of (i) the amount payable or (ii) the market value of the relevant Shares in respect of relevant acceptances of the Offer for the Offer Shares will be payable by the accepting Shareholders. The Offeror will pay such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to the accepting Shareholders on acceptance of the Offer.

As at the Latest Practicable Date, there were in total 27,515,831 Outstanding Share Options held by the Option Holders under the Share Option Scheme entitling the holders thereof to subscribe for 27,515,831 new Shares at prices of HK$1.01 or HK$3.05 per Share. As at the Latest Practicable Date, there were no share options outstanding under the share option scheme adopted by SUNDAY on 22 May, 2002. Further details of the Outstanding Share Options are set out in the letter from the Board as contained in this composite offer document.

An unconditional cash offer is made to all Option Holders in accordance with the requirements under the Takeovers Code, in consideration for the surrender to the Company by the relevant Option Holders of all of their existing rights in respect of the Outstanding Share Options respectively held by them, following which such Outstanding Share Options will be cancelled and extinguished.

The consideration of HK$0.001 for the cancellation of each Outstanding Share Options is nominal, since exercise prices of the Outstanding Share Options of HK$1.01 and HK$3.05 exceed the Offer Price of HK$0.65 per Offer Share.

By accepting the Offer in respect of their Outstanding Share Options, the Option Holders will agree to cancel their Outstanding Share Options for the consideration set out above.

Total consideration and financial resources

As at the Latest Practicable Date, there were 2,990,000,000 Shares in issue. Based on such number of Shares in issue and the Offer Price of HK$0.65 per Offer Share, the entire issued share capital of SUNDAY is valued at HK$1,943,500,000 under the Offer (assuming that no Outstanding Share Options would be exercised). Apart from the 27,515,831 Outstanding Share Options referred to above, there were no other options, warrants or conversion rights affecting the Shares outstanding as at the Latest Practicable Date. Assuming the Offer is accepted in full by the Shareholders and the Option Holders and none of the Outstanding Share Options as at the Latest Practicable Date will be exercised and accordingly no further Shares will be issued pursuant thereto, at the Offer Price of HK$0.65 per Offer Share and on the basis of consideration of HK$0.001 payable for cancellation of each Outstanding Share Option, the total amount payable by the Offeror under the Offer will be HK$779,940,416.

Citigroup is satisfied that there are sufficient financial resources available to the Offeror to meet full acceptance of the Offer and for the cancellation of all the Outstanding Share Options. PCCW intends to finance the Offer from its internal resources.

Unconditional Offer

The Offer is unconditional and is not subject to the attainment of any particular level of acceptances in respect of the Offer.

INFORMATION ON THE OFFEROR AND PCCW

The Offeror is a company incorporated in the British Virgin Islands on 17 June, 2005 and having its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Offeror is an investment holding company established for the purpose of making the Offer and has not conducted any business or acquired any assets, other than the acquisition of the 1,790,134,000 Shares pursuant to the Agreements. The directors of the Offeror are Winnie King Yan Siu Morrison and Lim Beng Jin.

The Offeror is a wholly-owned subsidiary of PCCW. The principal activities of the PCCW Group are the provision of local and international telecommunications services, internet and interactive multimedia services, the sale and rental of telecommunications equipment and the provision of computer, engineering and other technical services, mainly in Hong Kong; investment in, and development of, systems integration and technology-related businesses; and investment in, and development of, infrastructure and properties in Hong Kong and in the PRC.

REASONS FOR THE ENTERING INTO OF THE AGREEMENTS

PCCW believes that entering into the Agreements is an important strategic step in PCCW's future development and will allow the PCCW Group to enter the wireless communications, data services and 3G market in Hong Kong. It would also allow the PCCW Group to expand its product and service offerings into the mobile market, and cross sell such products and services so as to improve its ability to serve customer needs. This would diversify the PCCW Group's existing business and enhance growth prospects. PCCW believes it would also enable it to progress its planning towards the convergence of fixed and mobile services in the future; and cements its ability to be China Netcom Group's preferred mobile partner in the PRC.

The PCCW Group anticipates that substantial operating synergies can be achieved in various areas including and without limitation the costs of operating retail shops, back office administration, call centres and corporate overhead. It also anticipates that the customer base of SUNDAY would be complementary to the customer base of the PCCW Group.

This development would require substantial effort as the PCCW Group moves forward as an integrated telecommunication provider offering both fixed and mobile services and to add value to shareholders of PCCW through the Agreements and the Offer.

INTENTIONS OF PCCW AND THE OFFEROR

PCCW and the Offeror intend that the Group will continue with its existing core business of development and provision of wireless communications and data services in Hong Kong. In addition, PCCW and the Offeror will conduct a review of the financial position and operations of the Group in due course with a view to strengthening its operations and future development.

Subject to a review by PCCW and the Offeror of the financial position and operations of the Group, PCCW and the Offeror have no intention to re-deploy the fixed assets of the Group.

COMPULSORY ACQUISITION OR MAINTAINING THE LISTING STATUS OF SUNDAY

If the Offeror acquires the prescribed percentage of Shares (being not less than 90 percent of the Shares affected by the Offer) as required by Section 88 of the Companies Law and is permitted to do so under Rule 2.11 of the Takeovers Code, the Offeror intends to consider availing itself of the powers of compulsory acquisition under Section 88 of the Companies Law.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize SUNDAY by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Law, acceptances of the Offer and purchases (in each case of the disinterested Shares) made by the Offeror and persons acting in concert with it during the period of four months after posting of this composite offer document total 90 percent of the disinterested Shares.

According to Rule 15.6 of the Takeovers Code, since the Offeror intends to consider availing itself of the powers of compulsory acquisition under the Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Offer, the Offer may not remain open for acceptance for more than four months from the posting of this composite offer document, unless the Offeror has by that time become entitled to exercise the powers of compulsory acquisition available to it under the Companies Law, in which event the Offeror must do so without delay.

If the level of acceptances reaches the prescribed level (being not less than 90 percent of the Shares affected by the Offer) under Section 88 of the Companies Law and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatization of SUNDAY and withdrawal of listing of Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, SUNDAY will apply for a suspension of dealings in the Shares from the close of the Offer up to the withdrawal of listing of Shares from the Stock Exchange.

In the event that the Offeror does not effect the compulsory acquisition of the remaining Shares, whether by reason of not having acquired the requisite percentage as required under the Companies Law or otherwise, the Offeror may either:

(a) seek a withdrawal of listing of Shares from the Stock Exchange in accordance with the requirements of Rule 6.12 of the Listing Rules and Rule 2.2 of the Takeovers Code; or

(b) take such steps as are necessary to ensure, or procure SUNDAY to take such steps as are necessary to ensure, that SUNDAY maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules.

The requirements of Rule 6.12 of the Listing Rules referred to in (a) above include the approval of the withdrawal of the listing by the independent shareholders of SUNDAY (being shareholders of SUNDAY other than any controlling shareholder, director or chief executive of SUNDAY or their respective associates) by way of a resolution passed by a majority of at least 75 percent of the votes cast at the relevant shareholders' meeting, and not voted against by more than 10 percent of the votes attaching to the Shares permitted to vote at such meeting. Rule 2.2 of the Takeovers Code provides that neither the Offeror nor any persons acting in concert with the Offeror may vote at the meeting of SUNDAY's shareholders convened in accordance with the Listing Rules. Rule 2.2 of the Takeovers Code further requires that the resolution to approve the delisting must be subject to approval by at least 75 percent of the votes attaching to the disinterested Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Shares, the number of votes cast against the resolution is not more than 10 percent of the voting rights attaching to all disinterested Shares and the Offeror is entitled to exercise, and exercises, its rights of compulsory acquisition.

As at the date of this composite offer document, the Offeror has not decided whether to maintain the listing of SUNDAY on the Stock Exchange or to privatize SUNDAY.

The Stock Exchange has stated that, if less than 25 percent of the issued Shares are in public hands following close of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient numbers of Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

PROPOSED CHANGE OF BOARD COMPOSITION OF SUNDAY

Pursuant to the Agreements, Messrs. Richard John Siemens (Co-Chairman), Edward Wai Sun Cheng (Co-Chairman), William Bruce Hicks (Group Managing Director), Kuldeep Saran, Andrew Chun Keung Leung and Kenneth Michael Katz have tendered letters of resignation as directors of SUNDAY and, where relevant, other members of the Group. Such resignations will take effect from the first closing date of the Offer, being 29 July, 2005, or such earlier date as the Executive may permit. It is anticipated that Mr. William Bruce Hicks will remain employed by SUNDAY as its Chief Executive Officer following such resignation.

Alexander Anthony Arena, Chan Wing Wa, Kwok Yuen Man, Marisa, Chow Ding Man, Gary, Chan Kee Sun, Tom and Hui Hon Hing, Susanna, each designated for appointment by PCCW, have been appointed as Directors with effect from the date of despatch of this composite offer document, being 8 July, 2005. In addition, Alexander Anthony Arena, Kwok Yuen Man, Marisa and Hui Hon Hing, Susanna have been appointed as directors of other members of the Group on the same basis.

Mandarin Communications Limited (a wholly-owned subsidiary of SUNDAY), SUNDAY and Huawei Tech. entered into a Facility Agreement on 13 May, 2004 and the Amendment and Restatement Agreement on 15 November, 2004 for the provision of an equipment supply facility, a general facility and a 3G performance bond facility. As at 31 May, 2005, the Group had total outstanding borrowings of HK$799,244,000, represented by HK$374,244,000 of equipment supply facility and HK$425,000,000 of general facility, and a performance bond of HK$210,746,000 provided to the Office of the Telecommunications Authority through drawdown of the 3G performance bond facility.

Under the terms of the Facility Agreement (as amended by the Amendment and Restatement Agreement) with Huawei Tech., the cessation of any two or more of Richard John Siemens, William Bruce Hicks, Kuldeep Saran and Edward Wai Sun Cheng as Directors involved in the management of SUNDAY other than by reason of death, disability, removal by shareholders or dismissal for cause may constitute an event of default unless a waiver to such term is granted by Huawei Tech.. As referred to above, each of these individuals will resign as Directors with effect from the first closing date of the Offer, which is 29 July, 2005. Failure to comply with this covenant may entitle Huawei Tech. to accelerate the maturity of the outstanding amounts under the Facility Agreement and, if not repaid, to exercise their security rights over substantially all of the Group's assets. SUNDAY, PCCW and the Offeror are considering various alternatives available to them to prevent such event of default occurring, including the possibility of requesting a waiver from Huawei Tech..

Subject to the above changes in the board composition of the Group, PCCW has no intention to make any material change to the existing management and employees of the Group. Except as referred to above, the Offeror believes that the aforesaid proposed change in the board composition of the Group will not have any adverse impact on the Group.

LAPSE OF OUTSTANDING SHARE OPTIONS

Option Holders should note that:

(a) under paragraph 5.3(c) of the Share Option Scheme, if a general offer is made to the holders of Shares, an Option Holder is entitled to exercise the Outstanding Share Options held by him or her at any time within one month after the date on which the offer becomes or is declared unconditional; and

(b) an Outstanding Share Option which has not been exercised shall lapse automatically and shall not be exerciseable on the expiry of that period.

The Offer in respect of the Outstanding Option Shares is unconditional with effect from the date of this composite offer document. Accordingly, any Outstanding Share Options which are not exercised before 9 August, 2005 will automatically lapse and cease to be exerciseable on that date.

FORWARD LOOKING STATEMENTS

This composite offer document contains certain forward-looking statements. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict" and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed or implied in such forward-looking statements. Such forward-looking statements are based on PCCW's current assumptions and expectations and are subject to risks and uncertainties that could significantly affect expected results. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements are discussed herein and in PCCW's reports furnished to or filed with the SEC, including, but not limited to the section "Forward-Looking Statements" and certain other sections of PCCW's 2004 Annual Report on Form 20-F filed with the SEC on 12 May, 2004.

FURTHER INFORMATION FOR US HOLDERS

Investors and holders of SUNDAY's securities are strongly advised to read any other relevant documents filed with the SEC, as well as any amendments and supplements to those documents, because they will contain important information. Investors and holders of SUNDAY's securities may obtain free copies of this composite offer document, as well as other relevant documents filed with the SEC, at the SEC's website at www.sec.gov.

ACCEPTANCE AND SETTLEMENT

Procedures for acceptance

The Offer for Offer Shares

For Shareholders, to accept the Offer in respect of your Shares, you should complete the accompanying **WHITE** form of acceptance and transfer for the Offer Shares in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer in respect of the Offer Shares. The completed **WHITE** form of acceptance and transfer for the Offer Shares should then be forwarded, together with the relevant Offer Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Offer Shares in respect of which you intend to accept the Offer, by post or by hand, to the Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "SUNDAY Offer" as soon as possible but in any event not later than 4:00 p.m. on Friday, 29 July, 2005, or such later time as the Offeror may determine and announce in accordance with the Takeovers Code. No acknowledgement of receipt of any form of acceptance and transfer, share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

The Offer for Outstanding Share Options

For Option Holders, to accept the Offer in respect of your Outstanding Share Options, you should complete the accompanying **YELLOW** form of acceptance and cancellation for the Outstanding Share Options in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer in respect of the Outstanding Share Options. The completed **YELLOW** form of acceptance and cancellation for the Outstanding Share Options should then be forwarded, together with the relevant letter or other document evidencing the grant of the relevant Outstanding Share Options to you and/or any document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Outstanding Share Options in respect of which you intend to accept the Offer, by post or by hand, to SUNDAY at 13th Floor, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong in an envelope marked "SUNDAY Offer" as soon as possible but in any event not later than 4:00 p.m. on Friday, 29 July, 2005, or such later time as the Offeror may determine and announce in accordance with the Takeovers Code. No acknowledgement of receipt of any form of acceptance and cancellation, grant letter or other document granting the Share Options or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

General

Your attention is drawn to the section headed "Further procedures for acceptance" as set out in Appendix I to this composite offer document and in the accompanying **WHITE** or **YELLOW** form.

Overseas Shareholders

Shareholders with registered addresses outside Hong Kong should pay attention to the section headed "General" in Appendix I to this composite offer document.

ADS Holders

ADS Holders may only accept this Offer in respect of Shares underlying such ADSs. ADS Holders should pay attention to the section headed "Information for ADS Holders" in Appendix I to this composite offer document.

Settlement

The Offer for Offer Shares

Provided that the relevant **WHITE** form of acceptance and transfer for the Offer Shares and Offer Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on Friday, 29 July, 2005 (or such later time as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each of the accepting Shareholders in respect of the relevant Offer Shares tendered by them under the Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the relevant Shareholders by ordinary post at their own risk within 10 days following the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

The Offer for Outstanding Share Options

Provided that the relevant **YELLOW** form of acceptance and cancellation for the Outstanding Share Options and the relevant letter or other document evidencing the grant of the relevant Outstanding Share Options to the accepting Option Holder and/or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order and have been received by SUNDAY by no later than before 4:00 p.m. on Friday, 29 July, 2005 (or such later time as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each of the accepting Option Holders in respect of the relevant Outstanding Share Options tendered by them under the Offer and agreed to be cancelled will be despatched to the relevant Option Holders by ordinary post at their own risk within 10 days following the date on which all the relevant documents are received by SUNDAY to render such acceptance complete and valid.

Nominee registration and despatch of payment

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Shareholders and the Option Holders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members (or the register of Share Options as the case may be), or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant **WHITE** forms of acceptance and transfer for the Offer Shares completed and returned by the accepting Shareholders (or **YELLOW** forms of acceptance and cancellation for the Share Options as the case may be). None of the Offeror, the parties acting in concert with the Offeror, Citigroup, SUNDAY, the Registrar or any of their respective directors, officers, or associates or any other person involved in the Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

TAXATION

Shareholders and Option Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer in respect of their Shares or Share Options (as the case may be). It is emphasised that none of the Offeror, the parties acting in concert with the Offeror, Citigroup, SUNDAY, the Registrar or any of their respective directors, officers or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offer.

GENERAL

Shareholders and Option Holders are advised to read carefully the letter from the Independent Board Committee to the Independent Shareholders and the Option Holders and the letter from ING to the Independent Board Committee as contained in the composite offer document before deciding whether or not to accept the Offer.

Your attention is also drawn to the further terms of the Offer and the additional information set out in the appendices to this composite offer document.

Yours faithfully,
For and on behalf of
CITIGROUP GLOBAL MARKETS ASIA LIMITED
Frank J. Slevin
Managing Director
Head of Corporate & Investment Banking, Hong Kong

SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Richard John Siemens *(Co-Chairman)*
Edward Wai Sun Cheng *(Co-Chairman)*
William Bruce Hicks *(Group Managing Director)*
Kuldeep Saran
Andrew Chun Keung Leung

Non-executive Directors:
Kenneth Michael Katz
Hongqing Zheng

Independent Non-executive Directors:
John William Crawford
Henry Michael Pearson Miles
Robert John Richard Owen

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business:
13th Floor, Warwick House,
TaiKoo Place
979 King's Road,
Quarry Bay
Hong Kong

8 July, 2005

To the Shareholders and the Option Holders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER
BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
SUNDAY COMMUNICATIONS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR)
AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
SUNDAY COMMUNICATIONS LIMITED

INTRODUCTION

Reference is made to the announcement issued by the Company dated 13 June, 2005, in which the Company announced that it had been informed by Distacom HK and Townhill that they, among others, had entered into the First Agreement and the Second Agreement with PCCW respectively.

Pursuant to the First Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Distacom HK conditionally agreed to sell an aggregate of 1,380,000,000 Shares, representing approximately 46.15 percent of the then issued share capital of the Company, for the consideration of HK$897,000,000 in cash, being a price of HK$0.65 per Share. Pursuant to the Second Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Townhill conditionally agreed to sell an aggregate of 410,134,000 Shares, representing approximately 13.72 percent of the then issued share capital of the Company, for the consideration of HK$266,587,100 in cash, being a price of HK$0.65 per Share.

Completion of the Agreements took place on 22 June, 2005 whereby the Offeror as a wholly-owned subsidiary of PCCW became the beneficial owner of a total of 1,790,134,000 Shares, representing approximately 59.87 percent of the total issued share capital of the Company as at the Latest Practicable Date. The Offeror is therefore obliged under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer to acquire all the issued Shares other than those owned by the Offeror. In addition, pursuant to Rule 13 of the Takeovers Code, an unconditional cash offer to cancel all Outstanding Share Options granted by the Company under the Share Option Scheme is also being made. Accordingly, Citigroup is making the Offer for and on behalf of the Offeror.

Mr. Richard John Siemens, Mr. William Bruce Hicks, Mr. Kuldeep Saran and Mr. Kenneth Michael Katz are directors of DCL, the holding company of Distacom HK, Mr. Edward Wai Sun Cheng is a director of USI and Mr. Andrew Chun Keung Leung is a director of certain subsidiaries of USI. As such they are not considered sufficiently independent to advise the Independent Shareholders and the Option Holders in respect of the Offer. Mr. Hongqing Zheng, a non-executive Director, Mr. John William Crawford, Mr. Henry Michael Pearson Miles and Mr. Robert John Richard Owen, the three independent non-executive Directors, have been appointed as members of the Independent Board Committee for consideration of and making of recommendations to the Independent Shareholders and the Option Holders in respect of the terms of the Offer. ING has been appointed as the independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the terms of the Offer.

The purpose of this composite offer document is to provide you with, among other matters, information relating to the Group, the Offeror and PCCW and the Offer as well as setting out the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and the Option Holders in respect of the Offer and the letter from ING containing its advice to the Independent Board Committee in respect of the Offer.

THE OFFER

Citigroup is making the Offer for and on behalf of the Offeror, subject to the terms set out in this composite offer document (including, without limitation, those in Appendix I) and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Outstanding Share Options, to acquire all the issued Shares not already owned by the Offeror, at the Offer Price, and to offer to pay a cash amount to the Option Holders for each Outstanding Share Option held by them in consideration of their agreeing to cancel their Outstanding Share Options, on the following bases:

For each Offer Share . . . . HK$0.65 payable in cash

For each Outstanding Share Option . . . . HK$0.001 payable in cash

The Offer Price of HK$0.65 per Offer Share represents:

(a) a premium of approximately 22.64 percent over the closing price of HK$0.53 per Share as quoted on the Stock Exchange on 10 June, 2005, being the last trading day before 13 June, 2005;

(b) a premium of approximately 28.97 percent over the average closing price of HK$0.504 per Share for the last 5 trading days up to and including 10 June, 2005;

(c) a premium of approximately 29.61 percent over the average closing price of HK$0.5015 per Share for the last 10 trading days up to and including 10 June, 2005;

(d) a premium of approximately 35.84 percent over the average closing price of HK$0.4785 per Share for the last 30 trading days up to and including 10 June, 2005;

(e) a premium of approximately 176.24 percent over the audited consolidated net asset value of SUNDAY of approximately HK$0.2353 per Share as stated in the annual report of SUNDAY as at 31 December, 2004; and

(f) a premium of approximately 1.56 percent over the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.65 per Share (from 22 June, 2005 to 24 June, 2005 and 28 June, 2005) and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.40 per Share (on 12 January, 2005).

The Offer Price of HK$0.65 per Offer Share is the same as the price offered by the Offeror under the Agreements to acquire an aggregate of 1,790,134,000 Shares from Distacom HK and Townhill.

By accepting the Offer in respect of their Offer Shares, Shareholders will sell their Offer Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions, if any, declared, made or paid on or after 13 June, 2005, being the date of the Announcement. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. By accepting the Offer in respect of their Outstanding Share Options, the Option Holders will agree to cancel their Share Options for the consideration set out above.

Seller's ad valorem stamp duty at the rate of HK$1.00 for every HK$1,000 or part thereof of the greater of (i) the amount payable or (ii) the market value of the relevant Shares in respect of relevant acceptances of the Offer for the Offer Shares will be payable by the accepting Shareholders. The Offeror will pay such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to the accepting Shareholders on acceptance of the Offer.

As at the Latest Practicable Date, there were in total 27,515,831 Outstanding Share Options held by the Option Holders under the Share Option Scheme entitling the holders thereof to subscribe for 27,515,831 new Shares at prices of HK$1.01 or HK$3.05 per Share (being 14,497,236 Share Options with an exercise price of HK$1.01 and 13,018,595 Share Options with an exercise price of HK$3.05). As at the Latest Practicable Date, there were no share options outstanding under the share option scheme adopted by SUNDAY on 22 May, 2002.

An unconditional cash offer is made to all Option Holders in accordance with the requirements under the Takeovers Code, in consideration for the surrender to the Company by the relevant Option Holders of all of their existing rights in respect of the Outstanding Share Options respectively held by them, following which such Outstanding Share Options will be cancelled and extinguished.

The consideration of HK$0.001 for the cancellation of each Outstanding Share Option with an exercise price per Share of HK$1.01 or HK$3.05 is, in each case, nominal, since the exercise price per Share under such Outstanding Share Options exceeds the Offer Price of HK$0.65 per Offer Share.

The holders of Outstanding Share Options who wish to surrender their rights under their Outstanding Share Options should notify the Company in writing prior to the close of the Offer, before 4:00 p.m. on 29 July, 2005.

The Offer is unconditional and is not subject to the attainment of any particular level of acceptances in respect of the Offer.

FURTHER INFORMATION

Please refer to the letter from Citigroup set out in this composite offer document and Appendix I to this composite offer document for information in relation to the Offer, the making of the Offer to Shareholders and Option Holders residing in overseas countries, taxation, acceptance and settlement procedures of the Offer.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out in this composite offer document which contains its recommendation to the Independent Shareholders and the Option Holders in respect of the Offer and the letter from ING which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offer, and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee. You are also advised to read this composite offer document and the form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Outstanding Share Options in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,
For and on behalf of the Board of
SUNDAY COMMUNICATIONS LIMITED
William Bruce Hicks
Group Managing Director

SUNDAY

SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Richard John Siemens *(Co-Chairman)*
Edward Wai Sun Cheng *(Co-Chairman)*
William Bruce Hicks *(Group Managing Director)*
Kuldeep Saran
Andrew Chun Keung Leung

Non-executive Directors:
Kenneth Michael Katz
Hongqing Zheng

Independent Non-executive Directors:
John William Crawford
Henry Michael Pearson Miles
Robert John Richard Owen

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business:
13th Floor, Warwick House,
TaiKoo Place
979 King's Road,
Quarry Bay
Hong Kong

8 July, 2005

To the Independent Shareholders and the Option Holders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER
BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
SUNDAY COMMUNICATIONS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR)
AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
SUNDAY COMMUNICATIONS LIMITED

We refer to the composite offer and response document issued jointly by the Offeror and the Company to the Shareholders and the Option Holders dated 8 July, 2005 (the "composite offer document") of which this letter forms part. Terms defined in the composite offer document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Offer and to make recommendations to the Independent Shareholders and the Option Holders in connection with the Offer.

We have considered whether the Offer is fair and reasonable so far as the Independent Shareholders and the Option Holders are concerned. ING has been appointed as the independent financial adviser to advise us in respect of the above.

We wish to draw your attention to the letter from the Board, the letter from Citigroup and the letter from ING as set out in this composite offer document. Having considered the principal factors and reasons considered by, and the advice of, ING as set out in its letter of advice, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders and the Option Holders are concerned. Accordingly, we recommend the Independent Shareholders and the Option Holders to accept the Offer.

Yours faithfully,
Independent Board Committee

Mr. Hongqing Zheng
Non-executive Director

Mr. John William Crawford
Independent Non-executive Director

Mr. Henry Michael Pearson Miles
Independent Non-executive Director

Mr. Robert John Richard Owen
Independent Non-executive Director

ING
WHOLESALE BANKING
39/F One International Finance Center
1 Harbour View Street, Central
Hong Kong

8 July, 2005

To the Independent Board Committee of
SUNDAY Communications Limited

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER
BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
SUNDAY COMMUNICATIONS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR)
AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF
SUNDAY COMMUNICATIONS LIMITED

We refer to our engagement to advise the Independent Board Committee with respect to the Offer, details of which are contained in the composite offer and response document dated 8 July, 2005 to the Shareholders and the Option Holders of which this letter forms a part (the "composite offer document"). ING has been retained by the Company as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Offer are fair and reasonable so far as the Independent Shareholders and the Option Holders are concerned.

ING is independent from, and not connected with, any of the Company, the substantial shareholder of the Company, the Offeror and any party acting, or presumed to be acting, in concert with the Offeror, and is accordingly considered qualified to give independent advice in respect of the Offer. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we will receive any fees or benefits from the Company, the substantial shareholder of the Company, the Offeror or any party acting, or presumed to be acting, in concert with the Offeror.

The terms used in this letter shall have the same meanings as defined elsewhere in the composite offer document unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, an Independent Board Committee comprising Mr. Hongqing Zheng, a non-executive Director, Mr. John William Crawford, Mr. Henry Michael Pearson Miles and Mr. Robert John Richard Owen, the three independent non-executive Directors, has been set up to consider and advise the Independent Shareholders and the Option Holders on the terms of the Offer. Mr. Richard John Siemens, Mr. William Bruce Hicks, Mr. Kuldeep Saran and Mr. Kenneth Michael Katz are directors of DCL, the holding company of Distacom HK; Mr. Edward Wai Sun Cheng is a director of USI and Mr. Andrew Chun Keung Leung is a director of certain subsidiaries of USI, the ultimate beneficial owner of the entire issued share capital of Townhill Enterprises Limited. As such they are not considered sufficiently independent to advise the Independent Shareholders and the Option Holders in respect of the Offer.

Our recommendation is based solely on publicly available information and other information provided to us by the Company and its management. In formulating our recommendation, we have relied on the Directors to ensure that the information and facts supplied to us by the Company are true, accurate and complete in all material respects. We have also assumed that all information, representations and opinions contained or referred to in the composite offer document were true at the time they were made and continued to be true at the date of the composite offer document and, accordingly, we have relied on them.

We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the composite offer document and we are not aware of, nor do we suspect that, any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading in any material respects.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the composite offer document (other than that relating to the PCCW Group) and, having made all reasonable enquiries, have confirmed that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the composite offer document misleading. The directors of the Offeror have all declared in a responsibility statement set out in Appendix III "General Information" of the composite offer document that they are jointly and severally fully responsible for the accuracy of the information contained in the composite offer document (other than information relating to the Group and the Directors).

We have not independently verified such information but, nevertheless, have made such enquiry and exercised such judgment as we deemed necessary and we found no reason to doubt the reliability of the information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation and giving our advice to the Independent Board Committee, we have considered the following principal factors and reasons:

1. Background to the Offer

The Company is a public company incorporated in the Cayman Islands. The Group is a developer and provider of wireless communications and data services in Hong Kong, and a third generation ("3G") licence holder. It began commercial operations with GSM 1800 wireless services in 1997 and is now rolling out 3G services in Hong Kong. The Company is listed on the Stock Exchange and on NASDAQ National Market in the United States of America.

On 13 June, 2005, the Company announced that it had been informed by Distacom HK and Townhill that they, among others, had entered into the First Agreement and the Second Agreement with PCCW, respectively. Pursuant to the First Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Distacom HK conditionally agreed to sell an aggregate of 1,380,000,000 Shares, representing approximately 46.15 percent of the then issued share capital of the Company, for the consideration of HK$897,000,000 in cash, being a price of HK$0.65 per Share. Pursuant to the Second Agreement, PCCW conditionally agreed to purchase (or procure the purchase by one of its wholly-owned subsidiaries) and Townhill conditionally agreed to sell an aggregate of 410,134,000 Shares, representing approximately 13.72 percent of the then issued share capital of the Company, for the consideration of HK$266,587,100 in cash, being a price of HK$0.65 per Share.

Completion of the Agreements took place on 22 June, 2005 pursuant to which the Offeror, as a wholly-owned subsidiary of PCCW, became the beneficial owner of an aggregate of 1,790,134,000 Shares, representing approximately 59.87 percent of the total issued share capital of the Company as at the Latest Practicable Date. The Offeror is therefore obliged under Rule 26 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares other than those already owned by the Offeror. In addition, pursuant to Rule 13 of the Takeovers Code, an unconditional offer to cancel all Outstanding Share Options granted by the Company under the Share Option Scheme is also being made.

As at the Latest Practicable Date, there were 2,990,000,000 Shares in issue and 27,515,831 Outstanding Share Options. Accordingly, there are 1,199,866,000 Shares (or approximately 40.13 percent of the total issued share capital of the Company) and 27,515,831 Outstanding Share Options (assuming that none of these Outstanding Share Options will be exercised on or after the Latest Practicable Date) subject to the Offer.

Citigroup is making the Offer on behalf of the Offeror, subject to the terms set out in this composite offer document (including, without limitation, those in Appendix I) and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance and cancellation for the Share Options, to acquire all the issued Shares not already owned by the Offeror, at the Offer Price, and to offer to pay a cash amount to the Option Holders for each Share Option held by them in consideration of their agreeing to cancel their Share Options, on the following basis:

For each Share .... **HK$0.65 payable in cash**

For each Share Option .... **HK$0.001 payable in cash**

The Offer Price of HK$0.65 per Share is the same as the price per Share paid by the Offeror under the First Agreement and the Second Agreement to acquire the Shares from Distacom HK and Townhill, respectively.

Further terms and conditions of the Offer, including the procedures for acceptances, are set out in the "Letter from Citigroup" in the composite offer document.

2. **Financial Performance of the Group**

As set out in the section of the composite offer document headed "Intentions of PCCW and the Offeror" in the letter from Citigroup, PCCW and the Offeror intend that the Company will continue with its existing core business of development and provision of wireless communications and data services in Hong Kong. In addition, PCCW and the Offeror will conduct a review of the financial position and operations of the Group in due course with a view to strengthening its operations and future development.

In order to formulate an opinion, we therefore believe that it is necessary, inter alia, to evaluate the terms of the Offer based on the historical financial performance of the Company.

The Company was incorporated in 1999 in the Cayman Islands and the Shares have been listed on the Stock Exchange and on NASDAQ National Market in the United States of America since March 2000. As at the Latest Practicable Date, the Company had a market capitalisation of approximately HK$1,914 million.

A summary of the audited consolidated results of the Group for each of the three financial years ended 31 December, 2004 and the audited consolidated financial statements of the Group for each of the two financial years ended 31 December, 2004 are set out in Appendix II of the composite offer document.

The Company's core activity is the provision of mobile telephony services in Hong Kong, which generated approximately 89 percent of its turnover for the year ended 31 December, 2004. As at 31 December, 2004, the Company had approximately 684,000 subscribers or 8.4 percent subscriber market share in Hong Kong. For the three financial years ended 31 December, 2004, the Company's mobile subscriber base grew at a compound average growth rate of 7.5 percent per annum, or from approximately 551,000 subscribers as at 31 December, 2001 to approximately 603,000, 660,000 and 684,000 subscribers as at 31 December, 2002, 2003 and 2004, respectively. Annual subscriber growth rates for the years ended 31 December, 2002, 2003 and 2004 were 9.4 percent, 9.5 percent and 3.6 percent respectively. As at 31 December, 2004, the number of cellular subscribers as a percentage of the total population in Hong Kong ("cellular penetration rate") amounted to approximately 119 percent. Because the cellular penetration rate in Hong Kong already exceeds 100 percent, we believe potential future market subscriber growth is limited.

The subscriber market share for the Group for the years ended 31 December, 2002, 2003 and 2004 declined from 9.7 percent to 9.2 percent and 8.4 percent, respectively. Based on the highly competitive market environment of Hong Kong, characterised by a relatively high number of operators compared to other markets and high cellular penetration rate, it is uncertain whether the Group will be able to maintain or increase its market share.

Table 1 below sets out the Group's summary profit and loss accounts and subscriber numbers for the three years ended 31 December, 2002, 2003 and 2004:

Table (1): Summary Profit & Loss Accounts

	Year ended 31 December,		
	2002	**2003**	**2004**
	HK$m	*HK$m*	*HK$m*
Mobile services revenues	1,218	1,150	1,032
Sales of mobile phones & accessories	115	109	127
Others	9	1	—
Total turnover	**1,342**	**1,260**	**1,159**
Cost of sales and services	(334)	(330)	(357)
Gross profit	**1,008**	**930**	**802**
Gross profit margin	*75%*	*74%*	*69%*
Other revenues	2	4	3
Operating expenses	(796)	(619)	(544)
EBITDA	**214**	**315**	**261**
EBITDA margin	*16%*	*25%*	*23%*
Depreciation	(256)	(233)	(229)
Finance costs, net of interest income	(56)	(50)	(26)
Share of losses of joint venture	(19)	(5)	0
Profit/(Loss) for the year	(117)	27	6
Net profit/(loss) margin	*-8.7%*	*2.2%*	*0.5%*
Subscribers ('000)	603	660	684
% increase	*9.4%*	*9.5%*	*3.6%*
Post-paid ARPU (HK$ per month)	209	201	180
% decrease	*-4.6%*	*-3.8%*	*-10.4%*

Source: Annual reports and accounts of SUNDAY

Despite its subscriber growth, turnover of the Group decreased from HK$1,342 million in 2002 to HK$1,260 million in 2003 and HK$1,159 million in 2004, representing year-on-year decreases of 6.2 percent and 8.0 percent, respectively. These decreases were primarily a result of reductions in service revenues (which contribute almost 90 percent of revenues) due to aggressive price competition in the market. Service revenues decreased from HK$1,218 million in 2002 to HK$1,150 million in 2003 and to HK$1,032 million in 2004, representing year-on-year decreases of 5.5 percent and 10.3 percent, respectively.

Table 2 below sets out the revenue, earnings before interest, tax, depreciation and amortisation ("EBITDA") and net profit breakdown of the Company's business in the last 3 fiscal years:

Table (2): EBITDA and Net Profit Breakdown

	Year ended 31 December,		
	2002	**2003**	**2004**
	HK$m	*HK$m*	*HK$m*
2G revenue	1,342	1,260	1,159
% decrease	*-5.6%*	*-6.1%*	*-8.0%*
3G revenue	—	—	—
Total revenue	1,342	1,260	1,159
% decrease	*-5.6%*	*-6.1%*	*-8.0%*
EBITDA			
2G EBITDA	214	315	302
% increase/(decrease)		*47.2%*	*-4.1%*
3G EBITDA	—	—	(41)
Total EBITDA	214	315	261
% increase/(decrease)		*47.2%*	*-17.1%*
Net profit/(loss)			
2G net profit/(loss)	(117)	27	49
% increase		*nm*	*81.5%*
3G net profit/(loss)	—	—	(43)
Total net profit	(117)	27	6
% decrease		*nm*	*-77.8%*

Source: Annual reports and accounts of SUNDAY

The Group's EBITDA for the year ended 31 December, 2004 was HK$261 million, representing a decrease of approximately 17 percent as compared with the previous year. Such decrease was mainly attributable to the continuing decrease in service revenue resulting from aggressive price-based market competition and 3G start-up costs. Excluding the latter, the Group's EBITDA for the 2G business during the same period was HK$302 million, representing a decrease of approximately 4 percent as compared with the previous year.

We note that Company has only been able to achieve marginal profitability during the last two years, having made losses in all the other years since incorporation. Net profit attributable to Shareholders declined from HK$27 million for the year ended 31 December, 2003 to HK$6 million for the year ended 31 December, 2004.

The decline in net profits for the most recent financial year was attributable to two main factors:

- *Decreases in average revenue per subscriber per month ("ARPU").* Aggressive price promotions and heavy handset subsidies by operators continued to negatively impact the long-term profitability of the industry. Such pricing strategies resulted in a general increase in voice traffic but an overall decrease in revenues due to lower ARPU. Post-paid ARPU (ARPU earned from each contract-based subscriber) for the Company has continued to decline from HK$209 in 2002 to HK$201 in 2003 and to HK$180 in 2004, representing year-on-year decreases of 3.8 percent and 10.4 percent, respectively. Although the migration towards 3G services is expected to increasingly drive higher value-added usage, including data usage, to support ARPU levels, there can be no assurance that ARPUs will improve in the future. Prices for mobile services have varied significantly in the past and future price competition could have a negative effect on the future financial performance of the Group; and

- *3G start-up costs.* During the year ended 31 December, 2004, the Company began preparation for the target launch of their 3G services in 2005. As a result, the Company incurred roll-out costs of approximately HK$43 million during the year ended 31 December, 2004 in this regard.

We note that in the Chairman's statement in the 2004 Annual Report of the Group, it is reported that "*the market will remain competitive in 2005 and [the Company] will also face further 3G roll-out costs, which will affect profitability in the short term.*"

We note, however, that operating expenses (excluding depreciation) for the Group in the year ended 31 December, 2004 declined by 12 percent to HK$544 million and decreased marginally as a percentage of mobile service revenue from 54 percent to 53 percent as compared with the previous year. This reduction in operating expenses has been achieved despite the 3G start-up costs. Salary and related costs decreased by 15 percent and 13 percent during the year ended 31 December, 2003 and 2004, respectively, despite an increase in headcount, as the Group established an operations centre in lower-cost Shenzhen in 2002.

With regards to the financial or trading position of the Company since 31 December, 2004, the date to which the latest audited financial statements of the Company were made up, we note that in the section headed "Material Change" in Appendix II to the composite offer document, it is stated that "Mandarin Communications Limited (a wholly-owned subsidiary of SUNDAY), SUNDAY and Huawei Tech. entered into a Facility Agreement on 13 May, 2004 and the Amendment and Restatement Agreement on 15 November, 2004 for the provision of an equipment supply facility, a general facility and a 3G performance bond facility. As of 31 May, 2005, the Group had total outstanding borrowings of HK$799,244,000, represented by HK$374,244,000 of equipment supply facility and HK$425,000,000 of general facility, and a performance bond of HK$210,746,000 provided to the Office of the Telecommunications Authority through drawdown of the 3G performance bond facility.

Under the terms of the Facility Agreement (as amended by the Amendment and Restatement Agreement) with Huawei Tech., the cessation of any two or more of Richard John Siemens, William Bruce Hicks, Kuldeep Saran and Edward Wai Sun Cheng as Directors involved in the management of SUNDAY other than by reason of death, disability, removal by shareholders or dismissal for cause may constitute an event of default unless a waiver to such term is granted by Huawei Tech.. Each of these individuals will resign as Directors with effect from the first closing date of the Offer, which is 29 July, 2005. Failure to comply with this covenant may entitle Huawei Tech. to accelerate the maturity of the outstanding amounts under the Facility Agreement and, if not repaid, to exercise their security rights over substantially all of the Group's assets. SUNDAY, PCCW and the Offeror are considering various alternatives available to them to prevent such event of default occurring, including the possibility of requesting a waiver from Huawei Tech..

Save as disclosed above, the Board is not aware of any material changes in the financial or trading position or prospects of the Group subsequent to 31 December, 2004, the date to which the latest audited consolidated financial statements of the Group were made up."

Based on the information received, which is supplied to us by the Company, we have no reason to believe that this statement is incorrect and therefore we believe it is appropriate for us to rely on this statement in formulating our opinion.

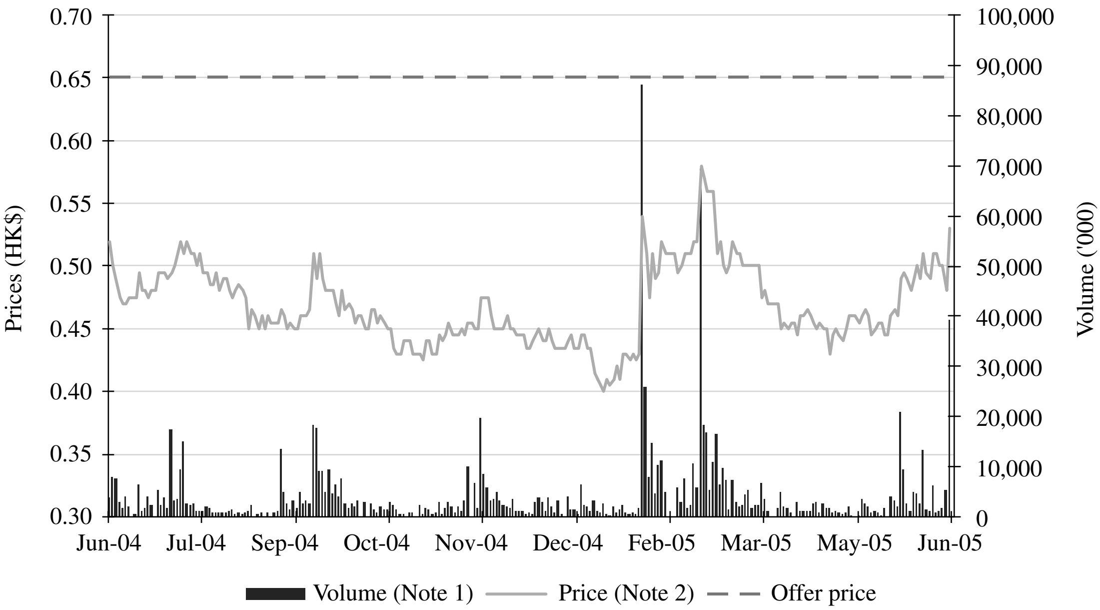
3. Market Trading Performance of the Shares

As the Company is listed on the Stock Exchange, its Share price should, in theory, reflect the prevailing market assessment of its fair value which will be discussed in the following sections.

3.1. *Market price of the Shares*

Set out below is a chart of historical daily closing market prices and trading volumes of the Shares for the 12-month period starting from 11 June, 2004 to 10 June, 2005, being the last trading day immediately prior to the date of the Announcement.

Chart (a): One Year Share Price Performance from 11 June, 2004 to 10 June, 2005



Source: Datastream

Notes:

(1) Daily volume is calculated as the aggregate of the volume transacted for the Shares on that day.

(2) Daily Share price is, on market days when the Shares are traded, the last transacted price of the Shares on that day and, on market days when the Shares are not traded, the closing Share price from the last traded day.

We observe from chart (a) that the Shares traded at a discount to the Offer Price during the entire 12-month period starting on 11 June, 2004 and ending on 10 June, 2005. More specifically, the Offer Price represents a premium of approximately 30.6 percent to the volume weighted average Share price ("VWAP") of HK$0.498 for the one year period ending on 10 June, 2005.

We set out below the following trading statistics for the period from 11 June, 2004 to 10 June, 2005 (the "Pre-Announcement Period"), and for the period from 14 June, 2005 to the Latest Practicable Date (the "Post-Announcement Period"):

Table (3): Pre-Announcement Period

Closing Market Prices	Price (HK$)	Premium of Offer Price for the Shares to market price
Last transacted price prior to the date of the Announcement on Monday 13 June, 2005	0.530	22.6%
Highest price in the 12 month prior to the Announcement (23 February, 2005)	0.580	12.1%
Lowest price in the 12 month prior to the Announcement (12 January, 2005)	0.400	62.5%
30-day average price for the period prior to the date of the Announcement (*See Note*)	0.478	35.8%
60-day average price for the period prior to the date of the Announcement (*See Note*)	0.468	38.9%
90-day average price for the period prior to the date of the Announcement (*See Note*)	0.484	34.2%
180-day average price for the period prior to the date of the Announcement (*See Note*)	0.464	40.0%

Source: Datastream

Note: Based on the daily average last transacted prices of the Shares during the last 30, 60, 90 and 180 days immediately prior to the date of the Announcement, as the case may be.

Based on the trading statistics during the Pre-Announcement Period, as shown in the table above, we note that the Offer Price represents a premium of between 34.2 percent and 40.0 percent to the average prices for the 30, 60, 90 and 180 trading day periods immediately prior to the date of the Announcement. We further note that the Offer Price represents a 12.1 percent premium to the highest closing price in the Pre-Announcement period.

Table (4): Post-Announcement Period

Closing Market Prices	**Price** *(HK$)*	**Premium of Offer Price for the Shares to market price**
Last transacted price on 14 June, 2005, being the first trading day after the date of the Announcement	0.630	3.1%
Last transacted price as of the Last Practicable Date	0.640	1.6%
Highest price since the Announcement date	0.650	0.0%
Lowest price since the Announcement date	0.630	3.1%

Source: Datastream

Based on the trading statistics during the Post-Announcement Period, shown in the table above, we note that the Offer Price represents a slight premium to the last transacted price of the Shares on the first trading day after the Announcement and the Shares have been trading in a narrow range of HK$0.64 and HK$0.65 since completion of the First and Second Agreements.

Shareholders should note that the past trading performance of the Shares should not in anyway be relied upon as an indication of its future trading performance.

3.2. *Trading liquidity of the Shares*

Table (5): Trading Volumes

Average Daily Trading Volumes	**Number of Shares** *('000)*	**As a percentage of Issued share capital of SUNDAY** (Note 1)
30-days (Note 2)	4,639	0.16%
60-day (Note 2)	3,198	0.11%
90-day (Note 2)	4,845	0.16%
180-day (Note 2)	4,316	0.14%
Post-Announcement Period	23,098	0.77%

Source: Datastream

Notes:

(1) Based on issued share capital of 2,990,000,000 as at the Latest Practicable Date.

(2) On market days where the Shares are not traded the volume is assumed to be zero.

We note that the trading volume of the Shares during the Pre-Announcement Period was relatively low, with average trading volumes of approximately 0.14 percent of the issued Share capital over the 180-day period prior to the Announcement. The Company had a public free float of approximately 40.13 percent of total issued Share capital as at the Latest Practicable Date. We note that the average trading volumes during the Post-Announcement Period is considerably higher than the average trading volumes during the Pre-Announcement Period.

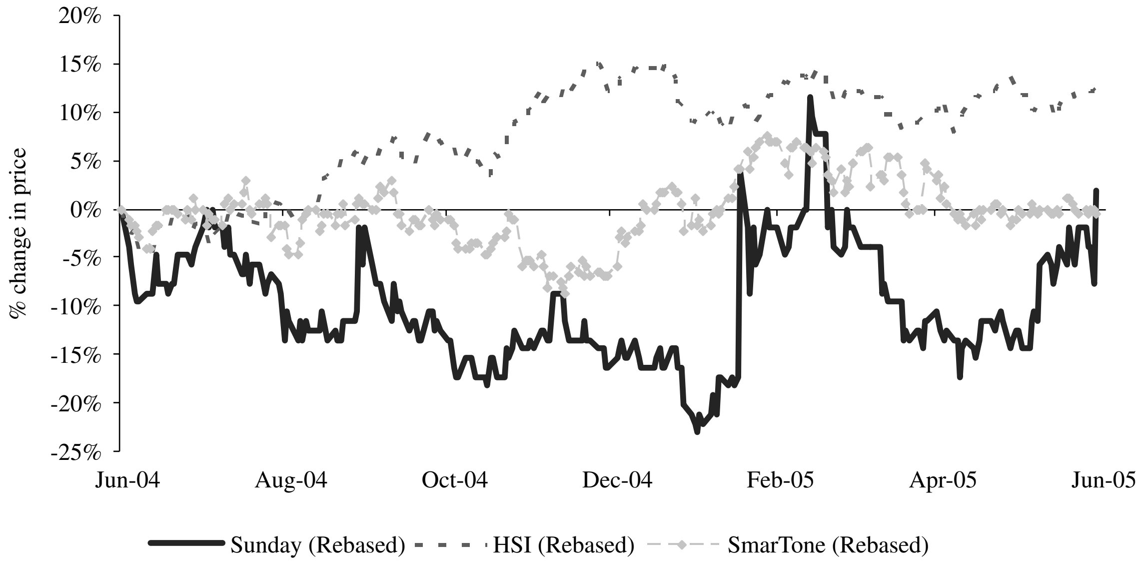
We are of the view that it is unlikely that the relatively active trading volumes in the Shares recorded during the Post-Announcement Period will continue after the Offer period. Given the relatively low level of liquidity of the Shares in the Pre-Announcement Period and the likelihood of a reduction in the public free float of the Shares as a result of the Offer, Independent Shareholders would unlikely be able to sell a significant number of their Shares in the market without depressing the market price of the Shares. The Offer as such represents an alternative avenue to the open market for Shareholders seeking to realise their investment in a significant number of Shares.

Independent Shareholders should note that if sufficient acceptances of the Offer are received, Independent Shareholders who have not accepted the Offer might be subject to compulsory purchase by the Offeror, or if upon the closing of the Offer less than 25 percent of the issued Shares is held in public hands, the Stock Exchange has indicated it will consider exercising its discretion to suspend trading in the Shares. The Offeror has not given any indication of its intention to maintain the listing status of the Shares. Please also see section 8.3 of this letter headed "Compulsory acquisition and withdrawal of the listing of the Company".

3.3. *Comparison to the Hang Seng Index and SmarTone*

For informational purposes only, we set out below the relative share price performance of the Company against the benchmark Hang Seng Index (the "HSI") and SmarTone Telecommunications Holding Limited ("SmarTone") during the Pre-Announcement Period. We have compared the HSI and SmarTone share performance with the Company's Share price, as HSI is the main indicator of the share performance for listed stocks in Hong Kong, reflecting general trends of the market and as SmarTone is the closest comparable to Sunday as a listed pure Hong Kong cellular operator with a 3G license.

Chart (b): Relative Share Price Performance of SUNDAY against Hang Seng Index and SmarTone



Source: Datastream

As illustrated in the graph above, the Company's Share price has underperformed the HSI during the Pre-Announcement Period. We believe that an important factor which contributed to the underperformance relative to the HSI was the continued competitive situation in the Hong Kong mobile market (with operators offering large handset subsidies and discounted tariffs to attract new customers, leading to continuing pressure on revenues and profits) and general investor concerns with the risks and relative costs associated with the Company's intended launch of 3G services. Comparing to SmarTone, the Share price has underperformed for most the Pre-Announcement Period, also taking into account that SmarTone has paid out dividend of HK$0.52 per share over this period. This relative Share price performance, we believe, reflected SmarTone's comparatively larger market share in terms of number of subscribers, stronger balance sheet and higher profitability and dividend pay-outs. However, we do note that SmarTone's share price has also underperformed compared to the HSI, we believe, for the same reasons as mentioned before.

4. **Comparable Company Analysis**

For the purpose of assessing the Offer Price, we have reviewed the valuation statistics of the Company implied by the Offer Price and compared them with the selected comparable companies (the "Comparables"), whose services largely consist of mobile communication services in developed Asian markets, which we consider to be broadly comparable to the Company. The Comparables have been selected after taking into consideration, inter alia, their scope of business and their operating environment, relative to the Company.

While comparative company analysis can reflect current market sentiment towards the sector and provide guidance on valuation, we note that the analysis does not take into account differences in accounting policies and standards as well as differences in local regulations and/or tax treatments, nor does it take into account possible unique characteristic(s) of the different companies. No adjustments have been made to account for these differences. As such, any comparison serves for illustration purposes only.

In our assessment of the Offer Price, we have considered the following multiples:

- Price earnings ratio ("PER")

- Enterprise value to EBITDA ("EV/EBITDA" or "EBITDA Multiple")

- Price to book ("P/B") multiple

Although these multiples may not necessarily fully reflect the fundamental value of wireless operators, they often provide a useful insight into their relative performance.

All multiples have been computed on a historical basis, using financial data obtained from their respective latest publicly available financial interim statements and/or annual reports. Valuation multiples for the Company implied by the Offer are based on the Offer Price. The historical multiples for the Comparables are based on their respective closing prices as at the Latest Practicable Date.

Table (6): Comparable Multiples

Comparables	Country	PER[(1)]	EV/ EBITDA[(2)]	Price to book ratio[(3)]	Net debt/(cash) as percent of book value
New World Mobile	Hong Kong	4.04	3.23	nm	(133%)
SmarTone	Hong Kong	10.90	4.96	1.42	(11%)
China Resources Peoples	Hong Kong	7.11	3.80	1.82	3%
Far EasTone	Taiwan	11.22	5.57	2.25	21%
Taiwan Mobile	Taiwan	8.35	7.12	2.00	34%
KTF	Korea	14.98	4.48	1.33	99%
SK Telecom	Korea	8.86	3.84	2.08	11%
MobileOne	Singapore	14.69	7.69	5.27	34%
StarHub	Singapore	nm[(4)]	13.08	4.73	22%
Average		**10.02**	**5.97**	**2.61**	**9%**
Average (ex-high and low outliers)		*10.19*	*5.35*	*2.38*	*16%*
SUNDAY	Hong Kong	**325.00**	**9.30**	**2.76**	**68%**

Notes:

(1) PER for the Comparables is calculated as the share price as at the Latest Practicable Date divided by earnings per share for the financial year ended 31 December, 2004. PER for the Company is calculated as the Offer Price divided by earnings per Share for the financial year ended 31 December, 2004.

(2) EV/EBITDA for the Comparables is calculated as enterprise value as at the Latest Practicable Date divided by the EBITDA for the financial year ended 31 December, 2004. EV/EBITDA for the Company is calculated as enterprise value based on the Offer Price divided by EBITDA for the financial year ended 31 December, 2004.

(3) Price to book for the Comparables is calculated as share price as at the Latest Practicable Date divided by the audited book value per share at 31 December, 2004 except for New World Mobile which is based on unaudited book value per share at 31 December, 2004. Price to book for the Company is calculated based on the Offer Price divided by the audited consolidated equity book value per Share at 31 December, 2004.

(4) "nm" denotes not meaningful as the Company incurred losses for the year ended 31 December, 2004.

The underlying data for deriving the valuation parameters in table (6) is set out in table (7). There may be some rounding differences when multiplying the figures set out below to derive the comparable multiples:

Table (7)

Comparables	**Share Price[1] (LC)[2]**	**Market Capitalisation (LC m)**	**Net Debt/ (cash)[3] (LC m)**	**EV (LC m)**	**EBITDA[4] (LC m)**	**EPS[5] (LC)**	**Book Value Per Share[6] (LC)**
New World Mobile	HK$1.05	83	1,355	1,438	446	0.26	(12.90)
SmarTone[7]	HK$8.55	4,983	(392)	4,591	926	0.78	6.00
China Resources Peoples	HK$2.70	2,008	28	2,036	535	0.38	1.49
Far EasTone	TWD40.50	156,843	14,322	171,165	30,754	3.61	18.00
Taiwan Mobile	TWD32.80	161,898	27,199	189,097	26,570	3.93	16.40
KTF	KRW23,000	4,233,548	3,150,896	7,384,445	1,647,949	1,535	17,288
SK Telecom	KRW180,000	14,809,860	785,312	15,595,172	4,059,112	20,307	86,623
MobileOne	SGD2.16	2,120	137	2,258	293	0.15	0.41
StarHub	SGD1.91	4,059	193	4,251	325	(0.02)	0.40
SUNDAY	**HK$0.65**	**1,944**	**478**	**2,422**	**261**	**0.002**	**0.24**

Sources: Annual and interim reports, Datastream

Notes:

(1) All share prices are as at the Latest Practicable Date except in the case of the Company, for which the Offer Price was used.

(2) LC denotes local currency.

(3) Net debt/(cash) as of 31 December, 2004.

(4) EBITDA for the Comparables is based on the audited financial statements for the financial year ended 31 December, 2004 except for New World Mobile which is based on unaudited financial statements for the same period.

(5) EPS denotes earnings per share. EPS for the Comparables is based on the audited financial statements for the financial year ended 31 December, 2004 except for New World Mobile which is based on unaudited financial statements for the same period.

(6) Book value per share for the Comparables is based on the audited financial statements for the financial year ended 31 December, 2004 except for New World Mobile which is based on unaudited financial statements

(7) SmarTone's financial results have been adjusted to reflect the aggregate results for the twelve months period ended 31 December, 2004 due to the company having a fiscal year ending 30 June, 2004.

4.1. *PER*

PER is one of the most commonly used benchmarks for valuing companies. The PER for the Company and the Comparables is calculated by dividing the respective share price as at the Latest Practicable Date by the respective earnings per share for the year ended 31 December, 2004.

For illustration purposes only, as shown in table (6), the Company's PER of 325 times based on the Offer Price represents a very significant premium over the average PER of the Comparables of 10.02 times. However, we note that the Company's PER is inflated by its low net profit for the year ending 31 December, 2004 of approximately HK$6 million, which represented a net profit margin of less than 0.5 percent.

4.2. *EBITDA multiple*

The EBITDA multiple, calculated as market capitalisation plus net debt or less net cash divided by EBITDA for the year is a common benchmark used for the valuation of telecommunication companies as it eliminates the differences in capital structures and depreciation policies between the different selected comparable companies. In table (6), the EV/EBITDA for the Comparables are calculated by dividing the respective enterprise value as at the Latest Practicable Date by the respective EBITDA for the year ended 31 December, 2004.

For illustration purposes only, we note that the Company's EV/EBITDA, based on the Offer Price of 9.30 times represents a premium of 55.6 percent to the average EBITDA Multiple of the Comparables of 5.97 times, and a premium of 73.7 percent to the average EV/EBITDA excluding the highest and lowest outliers, of 5.35 times.

4.3. *Price to book multiple*

For illustration purposes we note from table (6) that the P/B of the Company based on the Offer Price of 2.76 times represents a premium of approximately 5.8 percent to the average P/B of the Comparables of 2.61 times, a premium of approximately 16.0 percent to the P/B of the Comparables excluding the highest and the lowest outliers, of 2.38 times and a premium of 70.6 percent to the P/B of the Hong Kong Comparables of 1.62 times.

5. **Comparison to Past Transactions**

We have reviewed acquisitions of telecommunications companies in Asia over the past two years ("Past Transactions"). We have selected these transactions as they comprised the acquisition of significant equity stakes in which cash consideration was offered, characteristics similar to those in the Offer. We have set out in table (8) a comparison of the premiums represented by the cash consideration offered for these Past Transactions to that of the Offer.

We acknowledge that there were other acquisitions of telecommunications companies in the region, however, they were not selected for the purpose of comparison with the Offer primarily because either they involved non-listed companies or their transaction details were not publicly available.

We would like to highlight that the Past Transactions must each be judged on their own commercial and financial merits. The premium that any acquirer is prepared to pay in any particular takeover depends on various factors such as the potential synergy that the offeror can gain from its investment in the target company, the presence of competing bids for the target company, prevailing market conditions, attractiveness and profile of the target company's underlying business and assets, size of consideration, existing level of control in the target company, general economic and business risks. This analysis merely serves as a general indication of the relevant premia/discounts paid in the telecommunications industry.

Based on the comparison set out in table (8), we believe that considering the wide divergence in the offer statistics of the Past Transactions, both in premia/discounts as well as the stakes acquired, limited conclusions may be drawn from such comparison.

Therefore, any comparison of the Offer with the Past Transactions is for illustration purposes only. Conclusions drawn from the comparisons made may not necessarily reflect any perceived market valuation for the Company.

For illustration purposes only, we note from the Past Transactions that the average share price premium offered for the Past Transactions over the prevailing average share prices, as shown in table (8), are consistently lower than the premium offered in the case of the Offer.

Table (8): Past Transactions

Target companies	**PCCW Ltd**	**Globe Telecom**	**Hanaro Telecom**	**Celcom**	**SmarTone**	**Avg.**	**SUNDAY**
Date of announcement	20 January, 2005	13 October, 2003	29 August, 2003	3 April, 2003	30 December, 2002		13 June, 2005
Country of target	Hong Kong	Philippines	South Korea	Malaysia	Hong Kong		Hong Kong
Stake acquired	20.0%	24.8%	39.6%	52.1%	21.1%		60.0%
Offer price	HK$5.90	PHP680	KRW3,200	RM2.75	HK$8.50		HK$0.65
Offeror	China Netcom	Singapore Telecom/ Ayala Corp	AIG/ Newbridge Capital/ TVG	Telekom Malaysia	Sun Hung Kai Properties		PCCW
Last transacted price prior to announcement	**HK$4.70**	**PHP725**	**KRW3,330**	**RM2.69**	**HK$8.25**		**HK$0.53**

Target companies	PCCW Ltd	Globe Telecom	Hanaro Telecom	Celcom	SmarTone	Avg.	SUNDAY
Premium/(discount) of offer price to last transacted price prior to announcement	26%	-6%	-4%	2%	3%	4%	23%
30-day average closing price (Note)	**HK$4.83**	**PHP684**	**KRW2,932**	**RM2.60**	**HK$8.64**		**HK$0.48**
Premium/(discount) of offer price to 30-day average price	22%	-1%	9%	6%	-2%	7%	36%
60-day average closing price (Note)	**HK$4.82**	**PHP669**	**KRW2,975**	**RM2.57**	**HK$8.48**		**HK$0.47**
Premium/(discount) of offer price to 60-day average price	22%	2%	8%	7%	0%	8%	39%
90-day average closing price (Note)	**HK$4.90**	**PHP662**	**KRW2,866**	**RM2.53**	**HK$8.30**		**HK$0.48**
Premium/(discount) of offer price to 90-day average price	20%	3%	12%	9%	2%	9%	34%
180-day average closing price (Note)	**HK$5.09**	**PHP613**	**KRW2,808**	**RM2.43**	**HK$8.58**		**HK$0.46**
Premium/(discount) of offer price to 180-day average price	16%	11%	14%	13%	-1%	11%	40%

Source: Bloomberg, Datastream and shareholders' circulars

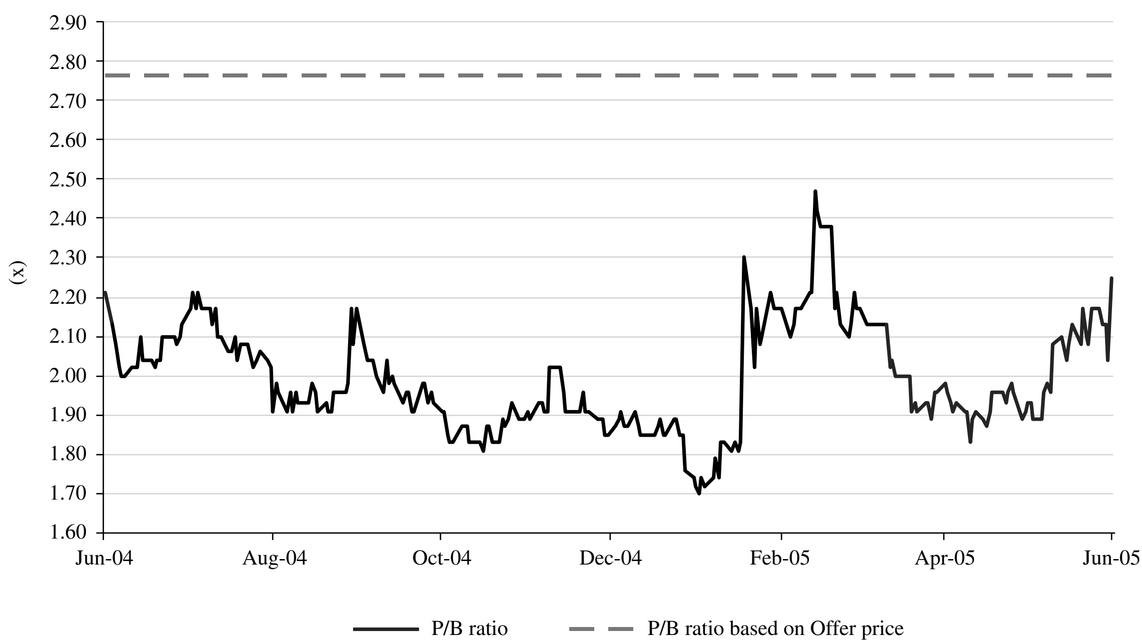
Note: Based on the daily average last transacted prices of the shares on the pre-announcement trading day and during the 30, 60, 90 and 180 trading days immediately prior to the announcement date, as the case may be. Share prices are historical prices unadjusted for bonus and rights issues.

6. **Net Asset value**

The consolidated net asset value ("NAV") of the Group, based on the audited consolidated balance sheet as at 31 December, 2004, amounted to HK$703.4 million or approximately HK$0.235 per Share, based on 2,990 million Shares in issue as at 31 December, 2004. The Offer Price represents a premium of approximately 176 percent to the NAV per Share as at 31 December, 2004.

A chart of the daily historical price-to-book multiple ("P/B Multiple") for the Shares for the Pre-Announcement period is set out below:

Chart (c): Price to Book Multiple



Source: Datastream

We observe from Chart (c) that the Company's P/B Multiple has largely remained in a band between 1.8 times and 2.2 times. This is significantly below the ratio of 2.76 times based on the Offer Price.

7. **Dividend**

We note that since incorporation in 1999, the Company has yet to pay out any dividends to its Shareholders. Given the continuing competitive environment and further roll-out costs related to 3G services, the Company's profitability may continue to be under pressure in the short-term. There can be no assurances that the Company would be in a position to pay dividends in the future.

8. **Other Considerations**

8.1. *Alternative offer from third parties*

The Hong Kong market currently has six facilities-based mobile service providers, which is higher than most other countries in Asia and relatively high given Hong Kong's comparatively small population. Taking into account the consolidation of the telecommunications market in many other countries and foregoing characteristics of the Hong Kong market, a future offer for the Company from a third party or the Company participating in consolidation cannot be ruled out. However, as at the Latest Practicable Date, we are not aware of any third party offer being made for the Company or the Company participating in any consolidation.

The Independent Shareholders should furthermore note that the Offer is unconditional and PCCW beneficially owns 59.87 percent of the issued Share capital following completion of the First Agreement and the Second Agreement. Therefore, an alternative offer for the Shares is unlikely to be forthcoming without the support of the Offeror. The Offeror has indicated that the acquisition is an important strategic step in PCCW's future development to enter the wireless communications, data services and 3G market in Hong Kong.

8.2. *Majority control*

As at the Latest Practicable Date, the Offeror is the beneficial owner of 1,790,134,000 Shares, representing 59.87 percent of the issued and paid-up share capital of the Company. Regardless of the outcome of the Offer, the Offeror has already gained majority ownership over the Company. This will enable the Offeror to exercise statutory control over the Company. Statutory control will put the Offeror in a position to be able to pass all ordinary resolutions on matters in which the Offeror does not have an interest and which are tabled for shareholders' approval at a general meeting of shareholders of the Company.

8.3. *Compulsory acquisition and withdrawal of the listing of the Company*

The Letter from Citigroup states amongst others that:

- the Offer is unconditional and is not subject to the attainment of any particular level of acceptances in respect of the Offer;

- if the Offeror acquires not less than 90 percent of the Shares affected by the Offer and is permitted to do so under the Takeover Code, the Offeror intends to consider availing itself of the powers of compulsory purchase provisions of the Companies Law which would permit the Offeror to compulsorily acquire the balance of the Shares at the Offer Price;

- in such event, and subject to compliance with the applicable provisions of the Takeovers Code and the Listing Rules, the listing of the Shares will be withdrawn from the Stock Exchange;

- in the event that the Offeror does not effect the compulsory acquisition of the remaining Shares, whether by reason of not having acquired the requisite percentage as required under the Company Law or otherwise, the Offeror may either:

  (i) seek a withdrawal of listing of the Shares from the Stock Exchange; or

  (ii) take such steps as are necessary to ensure, or procure the Company to take such steps as are necessary to ensure, that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules; and

- the Stock Exchange has indicated that if, following the closing of the Offer, less than 25 percent of the issued Shares are in public hands, or if the Stock Exchange believes that a false market exists or may exist in the trading of Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

Based on the filing of disclosure of interests published on the Stock Exchange website, we note that of the aggregate 1,199,866,000 Shares affected by the Offer, Huawei Tech. holds 296,416,000 Shares as at the Latest Practicable Date, representing 9.91 percent of the total issued Shares or 24.7 percent of the Shares affected by the Offer. We further note that Huawei Tech., a supplier and creditor of the Company, has increased its holding by 35,000,000 Shares subsequent to the Announcement. We are not aware of the intentions of Huawei Tech. with respect to the Offer.

The Independent Board Committee should advise the Independent Shareholders to note that upon completion of the Offer, there is likely to be a decrease in the free float of the Shares, depending on the level of acceptances, which will have a negative impact on the trading liquidity of the Shares. It may therefore be difficult for Shareholders to sell significant number of Shares through the open market. The Offer, as such, represents an alternative avenue to the open market for Shareholders seeking to realise their investment in a significant number of Shares. If sufficient acceptances of the Offer are received, Independent Shareholders who have not accepted the Offer might be subject to compulsory purchase by the Offeror.

CONCLUSIONS AND RECOMMENDATION

Having considered the above principal factors and reasons, we draw your attention to the following key factors, which should be read in conjunction with, and interpreted, in the full context of this letter, in arriving at our conclusions:

1. The Company's financial performance has been adversely affected by aggressive price based competition in the Hong Kong market and the start-up costs of its 3G services. The Company has only been marginally profitable in the last two years ended 31 December, 2004, having made losses in all the other years since its incorporation in 1999. We further note that in the Chairman's statement in the 2004 Annual Report of the Company, it is stated that "*the market will remain competitive in 2005 and [the Company] will also face further 3G roll-out costs, which will affect profitability in the short term*."

2. The Company's subscriber market share for the years ended 31 December, 2002, 2003 and 2004 declined steadily from 9.7 percent to 9.2 percent and 8.4 percent, respectively while its post-paid ARPU declined from HK$209 in 2002 to HK$201 in 2003 and to HK$180 in 2004, representing year-on-year decreases of 3.8 percent and 10.4 percent, respectively.

3. The Offer Price represents a premium of 22.6 percent and 36.0 percent, respectively, to the closing price of the Shares on the trading day immediately prior to the Announcement and to the average closing share price of the Shares for the 30 trading days before the Announcement.

4. The Shares have traded consistently below the Offer Price in the one-year period prior to the date of the Announcement and the Offer Price represents a 30.6 percent premium to the 12-month VWAP of the Shares.

5. The Offer Price represents 9.30 times the Company's EBITDA in 2004, which is at a premium of approximately 55.6 percent to the average EV/EBITDA traded by the Comparables as at the Latest Practicable Date.

6. The Offer Price represents a P/B of 2.76 times the NAV per Share of the Company as at 31 December, 2004. The Offer Price also represents a premium of 5.8 percent and 16.0 percent to the average P/B of the Comparables and the average P/B of the Comparables excluding the highest and lowest outliers, respectively, as at the Latest Practicable Date.

7. The share price premium offered for the Past Transactions over the prevailing average share prices as shown in table (8) of the section headed "Comparison to Past Transactions" are consistently lower than the premium offered in the case of the Offer.

8. Since incorporation in 1999, the Company has yet to pay out any dividends to its Shareholders. Given the continuing competitive environment and further roll-out costs related to 3G services, the Company's profitability may continue to be under pressure in the short-term and there can be no assurance that the Company would be in a position to pay dividends in the future.

9. As a result of the completion on 22 June, 2005 of the First Agreement and the Second Agreement, the Offeror has obtained a controlling interest of approximately 59.87 percent of the issued Share capital of the Company. Under such circumstances, any competing take-over offer is unlikely to be forthcoming without the support of the Offeror. The Offeror has indicated that the acquisition is an important strategic step in PCCW's future development to enter the wireless communications, data services and 3G market in Hong Kong. As at the Latest Practicable Date, there is no publicly available evidence of an alternative offer for the Company.

Based on the above, and as of the date of this letter, we consider the Offer fair and reasonable as far as the Independent Shareholders of the Company are concerned and recommend that the Independent Board Committee advise the Independent Shareholders to accept the Offer.

OFFER TO OPTION HOLDERS

The Company confirms that as at the Latest Practicable Date, there were 27,515,831 Outstanding Share Options issued pursuant to the Share Option Scheme and held by certain continuous contract employees which entitle them to subscribe in cash for 27,515,831 new Shares at exercise prices of HK$1.01 or HK$3.05 per Share at anytime before the period between January and May 2010 as set out in the following table:

Table (9): Outstanding Options as at the Latest Practicable Date

Exercise period*	**Exercise price**	**Premium of exercise price over the last traded price of HK$0.53 on 10 June, 2005**	**Premium of exercise price over the Offer Price**	**Number of Shares under Option**
	HK$			
23 March, 2000 to 22 March, 2010	3.05	475.5%	369.2%	12,862,666
31 May, 2000 to 30 May, 2010	1.01	90.6%	55.4%	13,206,730
31 May, 2000 to 30 May, 2010	3.05	475.5%	369.2%	155,929
19 January, 2001 to 18 January, 2010	1.01	90.6%	55.4%	1,290,506
				27,515,831

Source: Annual reports and accounts of the Company

* The Outstanding Share Options will lapse on 9 August, 2005. See below.

The Outstanding Share Options are not transferable. We note that, under the terms of the Share Option Scheme, if a general offer is made to all the holders of Shares and such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the options at any time within one month after the date on which such offer becomes or is declared unconditional and after the expiry of such period, the options will lapse. As the Offer is unconditional and was made on 8 July, 2005, the Outstanding Share Options will lapse on 9 August, 2005.

The exercise prices of the Outstanding Share Options of HK$3.05 and HK$1.01 per Share represent premia of approximately 475.5 percent and 90.6 percent, respectively, to the closing price of Shares of HK$0.53 on 10 June, 2005 being the last trading day immediately prior to the Announcement.

Based on the Offer Price, the Outstanding Share Options have a negative intrinsic value. Therefore, the consideration of HK$0.001 per Share payable for the surrender of rights under the outstanding Options with an exercise price per Share from HK$1.01 to HK$3.05 is a nominal amount.

Based on the above, we consider the cancellation price for the Outstanding Share Options fair and reasonable in so far as the Option Holders are concerned. Therefore, we recommend that the Independent Board Committee advise the Option Holders to accept the Offer.

Yours faithfully,
For and on behalf of
ING Bank N.V.
Malcolm E.O. Brown
Managing Director

FURTHER PROCEDURES FOR ACCEPTANCE

(a) If your Shares or the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Share(s) is/are in your name, and you wish to accept the Offer in respect of your Shares, you must send the duly completed form of acceptance and transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on Friday, 29 July, 2005, or such later time as the Offeror may determine and announce in accordance with the Takeovers Code.

(b) If your Shares or the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are registered in the name of a nominee company or some name other than your own, and you wish to accept the Offer, you must:

(i) lodge your Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if any) with the nominee company, or other nominee, with instructions authorising it to accept the Offer in respect of your Shares on your behalf and requesting it to deliver the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on Friday, 29 July, 2005, or such later time as the Offeror may determine and announce in accordance with the Takeovers Code; or

(ii) arrange for the Shares to be registered in your name by SUNDAY through the Registrar, and send the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, and then follow the procedure set out in paragraph (a) above; or

(iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer in respect of your Shares on your behalf on or before the deadline set by HKSCC Nominees Limited, which is normally the business day immediately preceding the latest date on which acceptances of the Offer in respect of the Offer Shares must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the exact timing on processing of your instructions and submit your instructions to your broker/custodian bank as required by them; or

(iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instructions via the CCASS Phone System or CCASS Internet System on or before the deadline set by CCASS, which is normally the business day immediately preceding the latest date on which acceptances of the Offer in respect of the Offer Shares must be received by the Registrar. In order to meet the deadline set by CCASS, you should check with CCASS for the exact timing on processing your instructions via the CCASS Phone System or CCASS Internet System.

(c) If you have lodged (a) transfer(s) of any of your Shares for registration in your name and have not yet received your certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the relevant form(s) of acceptance and transfer and deliver it/them to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Citigroup and/or the Offeror or their respective agent(s) to collect from SUNDAY or the Registrar on your behalf the Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the form(s) of acceptance and transfer.

(d) If your Share certificate(s) and/or transfer receipts and/or other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the form of acceptance and transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for the form of a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(e) Acceptances will be subject to validation and stamping (as the case may be) before the consideration payable in respect thereof will be despatched to the persons entitled to it provided that the consideration shall be despatched no later than the tenth day after the date on which all the relevant documents are received by the Registrar to render acceptance of the Offer complete and valid.

(f) Subject to the terms of the Takeovers Code, acceptance(s) of the Offer may, at the discretion of the Offeror, be treated as valid even if not accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof), but, in such cases, the cheque(s) for the consideration due will not be despatched until the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar or the company secretary of SUNDAY, as the case may be.

(g) No acknowledgement of receipt of any form(s) of acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) will be given.

(h) The address of the Registrar is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(i) Any Option Holder who wishes to accept the Offer for Outstanding Share Options should sign and return the **YELLOW** form of acceptance and cancellation accompanying the composite offer document sent to him or her together with the relevant letter or other document evidencing the grant of the relevant Outstanding Share Options to him or her and/or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) relating to the relevant Outstanding Share Options to SUNDAY at 13th Floor, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong by no later than 4:00 p.m. on Friday, 29 July, 2005 (or such later time as the Offeror may decide and announce in accordance with the Takeovers Code).

(j) The provisions of paragraphs (e), (f) and (g) above shall also apply to acceptances of the Offer in respect of Outstanding Share Options, as if references in those paragraphs to the Registrar were references to the Company and as if references to share certificate(s) and/or transfer receipts were references to the relevant letter or other document evidencing the grant of the relevant Outstanding Share Options to the accepting Option Holder.

(k) If the letter or other document evidencing the grant of your Outstanding Share Options and/or other document(s) of title in respect of your Outstanding Share Options is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Outstanding Share Options, the form of acceptance and cancellation should nevertheless be completed and delivered to the Company together with a letter stating that you have lost one or more of the letters or other documents evidencing the grant of your Outstanding Share Options and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant letter or other document evidencing the grant of your Outstanding Share Options and/or any other document(s) of title should be forwarded to the Company as soon as possible thereafter. If you have lost the letter or other document evidencing the grant of your Outstanding Share Options, you should also write to the Company for the form of a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Company.

ACCEPTANCE PERIOD

Unless the Offer is revised or extended in accordance with the Takeovers Code, the Offer will expire at 4:00 p.m. on Friday, 29 July, 2005.

ANNOUNCEMENTS

(a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on the day of the close of the Offer (or such later time and/or date as the Executive may in exceptional circumstances agree), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. Further, the Offeror must publish a teletext announcement through the Stock Exchange by 7:00 p.m. on the same day stating whether the Offer has been closed, revised or extended. An announcement to that effect must be republished in accordance with Rule 12.2 of the Takeovers Code on the next business day. Such announcement will specify the total number of Shares and rights over Shares:-

  (i) for which acceptances of the Offer have been received;

  (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and

(iii) acquired or agreed to be acquired during the Offer Period by the Offeror or any persons acting in concert with it.

The announcement will also include the details of voting rights, rights over Shares, derivatives and arrangements as required in Rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement will also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

(b) As required under the Takeovers Code, all announcements in relation to the Offer in respect of which the Executive has confirmed it has no further comments, will be republished as paid announcements in at least one leading English language newspaper and one leading Chinese language newspaper published daily and circulating generally in Hong Kong. Copies of all documents will be delivered to the Executive and the Stock Exchange (Listing Division) in electronic form, in accordance with their respective requirements from time to time for publication of their respective websites.

(c) If the Offer is extended or revised, the announcement of such extension or revision will either state the next closing date or state that the Offer will remain open until further notice, in which case at least 14 days' notice will be given before the Offer is closed to those Shareholders and Option Holders who have not accepted the Offer. If the Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days following the date of the announcement of the extension or the date on which the revised offer document is posted (as the case may be) and, unless previously extended or revised, shall be closed at 4:00 p.m. on the subsequent closing date. In any case where the Offer is revised, the benefit of any revision of the Offer in respect of the Offer Shares will be available to any Shareholder who has previously accepted the Offer in respect of the Offer Shares and the benefit of any revision of the Offer in respect of the Outstanding Share Options will be available to any Option Holder who has previously accepted the Offer in respect of the Outstanding Share Options. The execution by or on behalf of any Shareholder who has previously accepted the Offer in respect of the Offer Shares of any **WHITE** form of acceptance and transfer shall be deemed to constitute acceptance of the revised Offer in respect of the Offer Shares. The execution by or on behalf of any Option Holder who has previously accepted the Offer in respect of the Outstanding Share Options of any **YELLOW** form of acceptance and cancellation shall be deemed to constitute acceptance of the revised Offer in respect of the Outstanding Share Options.

RIGHT OF WITHDRAWAL

As the Offer is unconditional, acceptances by the Shareholders under the Offer shall be irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code.

GENERAL

(a) All communications, notices, forms of acceptance and transfer for the Offer Shares, Share certificates, transfer receipts, forms of acceptance and cancellation for the Outstanding Share Options, other documents of title or entitlement (or indemnities) or remittances to be delivered by or sent to or from Shareholders or Option Holders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, PCCW, Citigroup, SUNDAY, the Registrar or any of their respective directors, officers or associates, or any other person involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result.

(b) The provisions set out in the accompanying **WHITE** form of acceptance and transfer and the **YELLOW** form of acceptance and cancellation form part of the Offer.

(c) The accidental omission to despatch this composite offer document and/or the **WHITE** form(s) of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options or any of them to any person to whom the Offer is made will not invalidate the Offer in any way. The deliberate omission, if any, to despatch the composite offer document and/or the **WHITE** form of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options to any Overseas Holders (as defined below) as referred to in paragraph (m) below in this section will not invalidate the Offer in any way.

(d) The Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong. Execution of a **WHITE** form of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options by or on behalf of a Shareholder or Option Holder, respectively, will constitute such Shareholder's or Option Holder's (as the case may be) agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.

(e) Due execution of the **WHITE** form of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options will constitute an authority to any directors of the Offeror or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Offer Shares or canceling the Outstanding Share Options (as the case may be), in respect of which such person has accepted the Offer.

(f) Acceptance of the Offer for Offer Shares by any person(s) will be deemed to constitute a warranty by such person(s) to the Offeror that the Offer Shares acquired under the Offer are sold by any such person(s) free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all dividends or other distributions, if any, declared, paid or made on the Offer Shares on or after 13 June, 2005, being the date of the Announcement.

(g) Acceptance of the Offer with respect to any Outstanding Share Options by any persons will be deemed to constitute a warranty by such persons that they have the absolute right and power to surrender such Outstanding Share Options and such Outstanding Share Options are free from all liens, charges, claims, equities, encumbrances and third party rights of whatsoever nature (other than those restrictions imposed by SUNDAY thereon at the time of grant thereof).

(h) Each Shareholder by whom, or on whose behalf, a **WHITE** form of acceptance and transfer in respect of the Offer Shares is executed irrevocably undertakes, represents, warrants and agrees to and with the Offeror and Citigroup (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect that (i) the Offeror shall be entitled to direct the exercise of any votes and any and all other rights and privileges (including the right to requisition the convening of a general meeting of SUNDAY) attaching to any Shares ("Acceptance Shares"), (ii) SUNDAY will be authorised by the holder of Acceptance Shares to send any notice which may be required to be sent to him as a Shareholder to the Offeror at the address of the Registrar, and (iii) the Offeror will be authorised by such Shareholder to sign any consent to short notice of general meetings and separate class meetings on his behalf and/or to execute a form of proxy in respect of such Acceptance Shares appointing any person determined by the Offeror to attend general meetings and separate class meetings of SUNDAY (and any adjournments thereof) and to exercise the votes attaching to such Acceptance Shares on his behalf, and will also (subject as aforesaid) constitute the agreement of such Shareholder not to exercise any of such rights without the consent of the Offeror and the irrevocable undertaking of such Shareholder not to appoint a proxy for or to attend general meetings or separate class meetings and, subject as aforesaid, to the extent such Shareholder has previously appointed a proxy, other than the Offeror or its nominee or appointee, for or to attend general meetings or separate class meetings, such Shareholder expressly revokes such appointment from the date of execution of the form of acceptance and transfer.

(i) Payment of the consideration under the Offer will be implemented in full in accordance with the Takeovers Code without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against the accepting Shareholder or Option Holder.

(j) Seller's ad valorem stamp duty arising in connection with acceptance of the Offer, amounting to HK$1.00 for every HK$1,000 (or part thereof) of the greater of (i) the consideration payable or (ii) the market value of the relevant Shares in respect of any acceptance and transfer tendered under the Offer for the Offer Shares, will be payable by accepting Shareholders. The Offeror will pay such amount of stamp duty on behalf of the accepting Shareholders and such amount will be deducted from the amount due to such accepting Shareholders under the Offer.

(k) The Offeror intends to consider availing itself of the compulsory acquisition power under the provisions of Section 88 of the Companies Law to compulsorily acquire the Shares not tendered under the Offer.

(l) References to the Offer in this composite offer document and in the **WHITE** forms of acceptance and transfer in respect of the Offer Shares and the **YELLOW** forms of acceptance and cancellation in respect of the Outstanding Share Options shall include any extension and revision thereof. If any closing date of the Offer is extended, any reference in this composite offer document, the **WHITE** form of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date as so extended.

(m) The making and availability of the Offer outside Hong Kong, or to any Shareholder or Option Holder who has a registered address in a jurisdiction outside Hong Kong or who is a citizen or resident of any jurisdiction(s) outside Hong Kong ("Overseas Holder"), may be affected by the laws of the relevant jurisdictions. Overseas Holders should fully acquaint themselves with and observe any applicable legal requirements. It is the responsibility of any Overseas Holder wishing to accept the Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes or other requisite payments due in such jurisdiction. Acceptance of the Offer by any person or persons holding Offer Shares or Outstanding Share Options will be deemed to constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. Any such Overseas Holder will be responsible for any such transfer or other taxes or other requisite payments by whomsoever payable and the Offeror, Citigroup and any person acting on behalf of any of them shall be fully indemnified and held harmless by such Overseas Holder for any such transfer or other taxes as the Offeror or Citigroup (or any person acting on behalf of any of them) may be required to pay.

(n) The attention of Overseas Holders and any person (including, without limitation any nominee, custodian or trustee) who may have an obligation to forward this composite offer document outside Hong Kong is drawn to paragraph (m) above in this section and to the relevant provisions in the **WHITE** form of acceptance and transfer in respect of the Offer Shares and the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options. The availability of the Offer to any such person may be affected by the laws of the relevant jurisdiction.

(o) Subject to the Takeovers Code, the Offeror and Citigroup reserve the right to notify any matter (including the making of the Offer) to all or any Shareholder(s) or Option Holder(s) with a registered address(es) outside Hong Kong or whom the Offeror or Citigroup knows to be nominees, trustees or custodians for such person by announcement or paid advertisement in any daily newspaper published or circulated in Hong Kong in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such Shareholder or Option Holder to receive or see such notice, and all references in this composite offer document to notice in writing shall be construed accordingly.

(p) Subject to the Takeovers Code, the provisions of paragraph (m) above in this section and/or any other terms of the Offer relating to Overseas Holders may be waived, varied or modified as regards specific Shareholder(s) or Option Holder(s) or on a general basis by the Offeror in its absolute discretion.

(q) In making their decision, Shareholders and Option Holders must rely on their own examination of the Offeror and SUNDAY and the terms of the Offer, including the merits and risks involved. The contents of this composite offer document, including any general advice or recommendations contained herein, and the **WHITE** form of acceptance and transfer in respect of the Offer Shares and the **YELLOW** form of acceptance and cancellation in respect of the Outstanding Share Options are not to be construed as legal or business advice. Shareholders and Option Holders should consult with their own lawyer or financial adviser for legal or financial advice. Additionally, this composite offer document does not include any information with respect to United States taxation. Shareholders and Option Holders who may be subject to tax in the United States are urged to consult their tax adviser regarding the United States (Federal or State) or other tax consequences of owning and disposing of Offer Shares or surrendering Outstanding Share Options.

(r) The Offer and this composite offer document are made in accordance with the Takeovers Code.

(s) The English text of this composite offer document and of the forms of acceptance shall prevail over the Chinese text for the purpose of interpretation.

INFORMATION FOR US HOLDERS

The Offer described in this composite offer document is made for the securities of a Cayman Islands company that is also subject to the laws and regulations of Hong Kong, the jurisdiction of its primary trading market. It is important that US Holders understand that the Offer is subject to disclosure requirements in Hong Kong that are quite different from those in the United States.

You should be aware that the Offeror may purchase securities other than through the Offer, such as in open market purchases, to the extent permitted under the applicable laws of Hong Kong, the Cayman Islands and other jurisdictions, including applicable exemptions from Rule 14e-5 under the United States Securities Exchange Act of 1934, as amended. At the current time, the Offeror has no intention of engaging in such open market purchases at any time that the market price for the Shares is above the Offer Price. If the market price becomes lower than the Offer Price, the Offeror will determine at that time whether to make open market purchases of Shares. Any such purchases by the Offeror will be disclosed in Hong Kong on the business day following any purchase. Any required disclosures will also be made in submissions furnished to the SEC. These submissions will be available from the SEC's website at www.sec.gov.

The composite offer document will be furnished to the SEC but will not be reviewed by it. The composite offer document will not be filed with or reviewed by any other state securities commission or United States regulatory authority and none of the foregoing authorities have passed upon or endorse the merits of the Offer or the accuracy, adequacy or completeness of the composite offer document. Any representation to the contrary is a criminal offence in the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under United States federal securities laws, since the issuer is located in a foreign country, and some or all of its officers and directors may be residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of United States securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a United States court's judgment.

INFORMATION FOR ADS HOLDERS

The ADSs are quoted on NASDAQ and trade under the symbol "SDAY". The ADRs representing the ADSs are issued pursuant to a deposit agreement with The Bank of New York acting as depositary (the "Deposit Agreement"). Each ADR represents the right to receive 100 Shares from the custodian for the ADSs. The custodian is The Hongkong and Shanghai Banking Corporation Limited.

If you own ADSs, you may accept this Offer only in respect of the Shares underlying your ADSs. ADS holders who wish to accept this Offer must, pursuant to the terms of the Deposit Agreement, deliver or arrange to be delivered to the Depositary the ADR that represents such ADS, pay the appropriate fee to the Depositary, and withdraw the Shares represented by such ADSs. Once the former holder of ADSs has obtained Shares, such holder is capable of accepting the Offer in respect of the Shares by following the procedures set forth in this composite offer document in Appendix I, provided it is otherwise eligible to accept the Offer.

In order to deliver the ADRs and withdraw the underlying shares, a holder should contact the Depositary at +1 888 BNY ADRS (+1 888 269 2377).

ADS holders who surrender their ADRs and withdraw the Shares represented by their ADSs for the purposes of accepting the Offer may incur certain fees and expenses stipulated in the Deposit Agreement, including taxes and governmental charges payable in connection with such surrender and withdrawal. If you wish to surrender your ADRs, you should contact your stockbroker, financial adviser or the depositary for more detailed information regarding the relevant fees and charges involved.

You should be aware that, according to the Deposit Agreement, in certain instances, non-payment of such applicable fees may cause the Depositary to delay or refuse to execute certain transactions on behalf of the ADS holder. Such delay could affect your ability to accept this Offer before the close of this Offer.

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the consolidated profit and loss account for each of the three years ended 31 December, 2004 and the consolidated balance sheets as at 31 December, 2002, 2003 and 2004 as extracted from the Group's audited accounts prepared in accordance with accounting principles generally accepted in Hong Kong and complying with accounting standards issued by the Hong Kong Institute of Certified Public Accountants for each of the three years ended 31 December, 2004.

The three-year financial summary presents the consolidated profit and loss account for each of the three years ended 31 December, 2004 and the consolidated balance sheets as at 31 December, 2002, 2003 and 2004. The Group has not declared and paid dividends during those periods.

The three-year financial summary presents the consolidated profit and loss account for each of the three years ended 31 December, 2004 and the consolidated balance sheets as at 31 December, 2002, 2003 and 2004 are extracted from the Group's audited accounts prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants for those period. The Group has no exception/extraordinary items/minority interests during the periods and there is no requirement under HKGAAP to present negative statement in the audited accounts.

Consolidated Profit and Loss Account

	For the year ended 31 December,		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Mobile services	1,031,689	1,150,570	1,227,399
Sales of mobile phones and accessories	126,920	109,471	115,291
Turnover	1,158,609	1,260,041	1,342,690
Cost of inventories sold and services provided	(356,479)	(330,069)	(334,485)
Gross profit	802,130	929,972	1,008,205
Other revenues	3,058	4,550	1,917
Network costs	(255,744)	(270,070)	(303,577)
Depreciation	(228,645)	(233,293)	(256,393)
Rent and related costs	(38,264)	(46,284)	(61,074)
Salaries and related costs	(128,889)	(152,020)	(243,890)
Advertising, promotion and other selling costs	(82,636)	(105,976)	(127,798)
Other operating costs	(39,126)	(45,020)	(60,078)
Profit/(Loss) from operations	31,884	81,859	(42,688)
Interest income	218	2,526	3,553
Finance costs	(26,300)	(52,787)	(59,520)
Share of losses from a joint venture	(258)	(4,426)	(18,609)
Profit/(Loss) for the year	5,544	27,172	(117,264)
Earnings/(Loss) per share (basic and diluted)	0.2 cents	0.9 cents	(3.9 cents)
EBITDA	260,529	315,152	213,705

Consolidated Balance Sheet

	As at 31 December,		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Fixed assets	1,228,316	1,101,899	1,213,897
Investment in a joint venture	—	—	3,322
Prepayment of 3G licence fees	41,667	91,667	141,667
Restricted cash deposits	1,130	1,699	1,682
	1,271,113	1,195,265	1,360,568
Current assets			
Inventories	13,868	11,621	9,995
Trade receivables	73,665	81,069	87,409
Prepayment of 3G licence fees	50,000	50,000	50,000
Deposits, prepayments and other receivables	108,831	82,677	96,355
Restricted cash deposits	—	209,643	156,939
Bank balances and cash	114,565	102,413	49,577
	360,929	537,423	450,275
Current liabilities			
Trade payables	60,227	71,600	56,348
Other payables and accrued charges	205,841	152,791	171,313
Subscriptions received in advance	68,847	87,567	123,469
Current portion of long-term loans	—	296,368	238,629
	334,915	608,326	589,759
Net current assets/(liabilities)	26,014	(70,903)	(139,484)
	1,297,127	1,124,362	1,221,084
Financed by:			
Share capital	299,000	299,000	299,000
Reserves	404,448	398,904	371,732
Shareholders' equity	703,448	697,904	670,732
Long-term liabilities			
Long-term loans	592,740	425,000	546,825
Subscriptions received in advance	939	1,458	3,527
	593,679	426,458	550,352
	1,297,127	1,124,362	1,221,084

2. FINANCIAL INFORMATION

Set out below are the consolidated profit and loss account of the Group for each of the two years ended 31 December, 2004 and the consolidated balance sheets as at 31 December, 2004 and 2003 together with the relevant notes thereto as extracted from the Company's audited accounts prepared in accordance with accounting principles generally accepted in Hong Kong and complying with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, as set out in the Company's 2004 annual report.

Consolidated Profit and Loss Account
For the year ended 31 December, 2004

	Notes	2004 US$'000	2004 HK$'000	2003 HK$'000
Mobile services		132,739	1,031,689	1,150,570
Sales of mobile phones and accessories		16,330	126,920	109,471
Turnover	4	149,069	1,158,609	1,260,041
Cost of inventories sold and services provided	5	(45,865)	(356,479)	(330,069)
Gross profit		103,204	802,130	929,972
Other revenues		393	3,058	4,550
Network costs		(32,905)	(255,744)	(270,070)
Depreciation	15	(29,418)	(228,645)	(233,293)
Rent and related costs		(4,923)	(38,264)	(46,284)
Salaries and related costs	13	(16,583)	(128,889)	(152,020)
Advertising, promotion and other selling costs		(10,632)	(82,636)	(105,976)
Other operating costs		(5,034)	(39,126)	(45,020)
Profit from operations	4, 6	4,102	31,884	81,859
Interest income		28	218	2,526
Finance costs	7	(3,384)	(26,300)	(52,787)
Share of losses from a joint venture	16	(33)	(258)	(4,426)
Profit for the year	9	713	5,544	27,172
Earnings per share (basic and diluted)	10	0.02 cents	0.2 cents	0.9 cents
EBITDA	11	33,520	260,529	315,152

Consolidated Balance Sheet
As at 31 December, 2004

	Notes	2004 US$'000	2004 HK$'000	2003 HK$'000
Non-current assets				
Fixed assets	15	158,038	1,228,316	1,101,899
Investment in a joint venture	16	—	—	—
Prepayment of 3G licence fees	17	5,361	41,667	91,667
Restricted cash deposits	18	145	1,130	1,699
		163,544	1,271,113	1,195,265
Current assets				
Inventories	19	1,784	13,868	11,621
Trade receivables	20	9,478	73,665	81,069
Prepayment of 3G licence fees	17	6,433	50,000	50,000
Deposits, prepayments and other receivables		14,003	108,831	82,677
Restricted cash deposits	18	—	—	209,643
Bank balances and cash		14,740	114,565	102,413
		46,438	360,929	537,423
Current liabilities				
Trade payables	21	7,749	60,227	71,600
Other payables and accrued charges		26,484	205,841	152,791
Subscriptions received in advance		8,858	68,847	87,567
Current portion of long-term loans	23	—	—	296,368
		43,091	334,915	608,326
Net current assets/(liabilities)		3,347	26,014	(70,903)
		166,891	1,297,127	1,124,362
Financed by:				
Share capital	22	38,470	299,000	299,000
Reserves		52,037	404,448	398,904
Shareholders' equity		90,507	703,448	697,904
Long-term liabilities				
Long-term loans	23	76,263	592,740	425,000
Subscriptions received in advance		121	939	1,458
		76,384	593,679	426,458
		166,891	1,297,127	1,124,362

Company Balance Sheet
As at 31 December, 2004

	Notes	2004 US$'000	2004 HK$'000	2003 HK$'000
Non-current assets				
Investments in subsidiaries	29	302,213	2,348,891	2,360,501
Current assets				
Prepayments and other receivables		149	1,163	530
Bank balances and cash		10	77	77
		159	1,240	607
Current liabilities				
Other payables and accrued charges		163	1,269	2,129
Net current liabilities		(4)	(29)	(1,522)
		302,209	2,348,862	2,358,979
Financed by:				
Share capital	22	38,470	299,000	299,000
Reserves		263,739	2,049,862	2,059,979
Shareholders' equity		302,209	2,348,862	2,358,979

Statements of Changes in Shareholders' Equity
For the year ended 31 December, 2004

Group

	Share capital	Reserve arising from the Reorganisation	Share premium	Accumulated losses	Total shareholders' equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January, 2003	299,000	1,254,000	2,124,424	(3,006,692)	670,732
Profit for the year	—	—	—	27,172	27,172
As at 31 December, 2003	299,000	1,254,000	2,124,424	(2,979,520)	697,904
As at 1 January, 2004	299,000	1,254,000	2,124,424	(2,979,520)	697,904
Profit for the year	—	—	—	5,544	5,544
As at 31 December, 2004	299,000	1,254,000	2,124,424	(2,973,976)	703,448

Company

	Share capital	Share premium	Accumulated losses	Total shareholders' equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January, 2003	299,000	2,124,424	(55,044)	2,368,380
Loss for the year	—	—	(9,401)	(9,401)
As at 31 December, 2003	299,000	2,124,424	(64,445)	2,358,979
As at 1 January, 2004	299,000	2,124,424	(64,445)	2,358,979
Loss for the year	—	—	(10,117)	(10,117)
As at 31 December, 2004	299,000	2,124,424	(74,562)	2,348,862

Consolidated Cash Flow Statement
For the year ended 31st December 2004

	Notes	2004 US$'000	2004 HK$'000	2003 HK$'000
Net cash inflow from operating activities	24(a)	23,791	184,907	241,914
Investing activities				
Advance to a joint venture		(33)	(258)	(1,104)
Purchases of fixed assets		(18,449)	(143,387)	(73,409)
Proceeds from disposals of fixed assets		21	163	66
Decrease/(Increase) in restricted cash deposits		27,046	210,212	(52,721)
Payment of financing costs	7	(593)	(4,611)	—
Net cash inflow/(outflow) from investing activities		7,992	62,119	(127,168)
Net cash inflow before financing		31,783	247,026	114,746
Financing activities	24(b)			
Repayment of bank loans		(30,879)	(240,000)	(180,000)
Repayment of vendor loans — Nortel	23	(61,928)	(481,324)	(134,550)
Repayment of long-term vendor loans — Huawei	23	(9,650)	(75,000)	—
Increase in vendor loans — Nortel	23	—	—	252,778
Increase in long-term vendor loans — Huawei	23	73,713	572,917	—
Payment of deferred charges		(1,475)	(11,467)	—
Capital element of finance lease payments		—	—	(138)
Net cash outflow from financing		(30,219)	(234,874)	(61,910)
Increase in cash and cash equivalents		1,564	12,152	52,836
Cash and cash equivalents at 1 January		13,176	102,413	49,577
Cash and cash equivalents at 31 December		14,740	114,565	102,413
Analysis of balances of cash and cash equivalents				
Bank balances and cash		14,740	114,565	102,413

Notes to the Accounts

1 BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2 RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and related interpretations ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) **Group accounting**

(i) *Consolidation*

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) *Joint venture*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the joint venture for the year, and the consolidated balance sheet includes the Group's share of the net assets of the joint venture.

When an indication of impairment exists, the carrying amount of the investment in joint venture is assessed and written down immediately to its recoverable amount.

(b) **Revenue recognition**

The Group recognises revenues on the following bases:

(i) *Mobile services*

Revenue from mobile services comprises connection fees and fees for usage of the Group's network and facilities by SUNDAY subscribers and international calls by such subscribers from mobile phones. Connection fee revenue is recognised when received upon completion of activation services. Subscribers pay monthly fees for usage of the Group's network and facilities which include an agreed minimum amount of free airtime available for local and international calls. Fees for airtime in excess of the agreed minimum and international calls are charged based on usage. Revenue for usage of the Group's network and facilities is recognised in the period in which usage of such network and facilities is provided and collectibility can be reasonably assured. Revenue in respect of international calls and mobile airtime in excess of the minimum agreed amount is recognised when the respective calls are made and collectibility can be reasonably assured.

Subscriptions received in advance comprises pre-paid subscription fees received from subscribers and the up-front subscription fees received from subscribers upon purchase of mobile phones. They are for provision of mobile airtime and access to the Group's network for an agreed period of time in accordance with the terms of the sales and services agreements and are deferred and amortised on the straight-line basis over the agreed period, except for prepaid subscription fees from pre-paid mobile services which are recognised as revenue based on usage of the Group's network and facilities.

(ii) *Sales of mobile phones and accessories*

Revenue from sales of mobile phones and accessories is recognised when the mobile phones and accessories are delivered to customers and collectibility can be reasonably assured. Where a customer signs a sales and services agreement in connection with the purchase of a mobile phone and accessories from the Group and the provision of mobile services, revenue in respect of the service element of the agreement is recognised based on the fair value of the service element, which is the price the Group charges to customers who subscribe for mobile services only, without purchase of a mobile phone and accessories. The remainder of the total revenues from the agreement is allocated to revenue from sale of the mobile phone and accessories.

(iii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) **Subscriber acquisition costs**

The direct costs of acquisition of subscribers, which comprise the loss on sales of mobile phones and accessories to the Group and commission expenses, are expensed as incurred. Revenue and cost of sales in respect of sales of mobile phones and accessories are included in revenue from sales and cost of sales of mobile phones and accessories, respectively. Commission expenses are included in advertising, promotion and other selling costs.

(d) **Advertising and promotion costs**

Advertising and promotion costs are charged to the consolidated profit and loss account as incurred.

(e) **Warranty costs**

The Group is provided with warranties from certain manufacturers in respect of such manufacturers' defects on mobile phones and accessories. The Group provides warranties to customers upon sales of such mobile phones and accessories with similar terms and conditions to the warranties offered by the manufacturers.

(f) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

(g) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised as they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) *Bonus plans*

The expected bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Retirement benefit costs*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds of the respective schemes.

(h) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising from depreciation on fixed assets, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of fixed assets is calculated to write off their cost over their estimated useful lives, using the straight-line basis. Estimated useful lives are summarised as follows:

Network equipment	Shorter of 10 years or lease period of 1 to 3 years
Computer equipment	Shorter of 5 years or lease period of 1 to 3 years
Leasehold improvements	Lease period of 2 to 10 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

The cost of the network equipment comprises (i) the purchase cost of network assets and equipment and direct expenses in respect of the development of the network; and (ii) the minimum annual fees payable prior to the launch of 3G commercial services, and are depreciated over the shorter of the remaining 3G licence period or their estimated useful lives.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there are any indications that fixed assets are impaired. If any such indications exist, the recoverable amounts of the fixed assets are estimated and, where relevant, impairment losses are recognised to reduce the fixed assets to the recoverable amounts. Such impairment losses are recognised in the consolidated profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(j) **Assets under leases**

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are charged to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(k) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) **Trade receivables**

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(m) **Refundable deposits**

Refundable deposits are received from customers who require mobile international calls and roaming services. The refundable deposits are retained by the Group and are included in other payables and accrued charges for as long as the customers require these services.

(n) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(o) **Translation of foreign currencies**

Transactions in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All exchange differences arising are included in the consolidated profit and loss account.

The balance sheets of subsidiaries and a joint venture expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(p) **Facility transaction costs and deferred charges**

Facility transaction costs are incremental costs that are directly attributable to the borrowing of long-term loans.

Facility transaction costs include fees and commissions paid to agents, advisers, brokers, and dealers; levies by regulatory agencies and securities exchanges; and transfer taxes and duties, if applicable. Facility transaction costs do not include debt premiums or discounts, financing costs, or allocations of internal administrative or holding costs.

Long-term loans are recognised initially at their cost which is the fair value of the consideration received in respect thereof. Facility transaction costs are included in the initial measurement of loans, and are presented as deferred charges which are offset against loans and amortised using the straight-line method over the expected loan periods.

(q) **Convenience translations**

The consolidated profit and loss account and consolidated cash flow statement for the year ended 31 December, 2004, and the consolidated balance sheet and company balance sheet as at 31 December, 2004 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.7723 to the U.S. dollar. Such translations should not be construed as representations that the Hong Kong dollar amounts represent, have been or could have been converted into U.S. dollars at that or any other rate.

4 SEGMENT INFORMATION

The Group is principally engaged in two business segments in Hong Kong, namely, mobile services and sales of mobile phones and accessories.

	Mobile services 2004 *HK$'000*	Sales of mobile phones and accessories 2004 *HK$'000*	Group 2004 *HK$'000*
Turnover	1,031,689	126,920	1,158,609
Profit/(Loss) from operations	82,081	(50,197)	31,884
Interest income			218
Finance costs			(26,300)
Share of losses from a joint venture			(258)
Profit for the year			5,544
Segment assets	1,482,478	33,870	1,516,348
Unallocated assets			115,694
Total assets			1,632,042
Segment liabilities	312,970	13,395	326,365
Unallocated liabilities			602,229
Total liabilities			928,594
Capital expenditure	353,346	2,217	355,563
Depreciation	(226,595)	(2,050)	(228,645)

	Mobile services 2003 HK$'000	Sales of mobile phones and accessories 2003 HK$'000	Group 2003 HK$'000
Turnover	1,150,570	109,471	1,260,041
Profit/(Loss) from operations	142,935	(61,076)	81,859
Interest income			2,526
Finance costs			(52,787)
Share of losses from a joint venture			(4,426)
Profit for the year			27,172
Segment assets	1,389,052	29,757	1,418,809
Unallocated assets			313,879
Total assets			1,732,688
Segment liabilities	291,723	20,379	312,102
Unallocated liabilities			722,682
Total liabilities			1,034,784
Capital expenditure	119,934	1,841	121,775
Depreciation	(227,186)	(6,107)	(233,293)

There are no sales or other transactions between the business segments. Segment assets consist primarily of fixed assets, inventories, trade receivables, deposits and prepayments and mainly exclude unallocated cash. Segment liabilities comprise operating liabilities and mainly exclude unallocated long-term loans. Capital expenditure comprises additions to fixed assets (Note 15).

5 COST OF INVENTORIES SOLD AND SERVICES PROVIDED

Cost of inventories sold represents the cost of mobile phones and accessories sold. Cost of services provided represents interconnection charges, cost of out-bound roaming services, provision for doubtful debts, billing materials charges, bill collection charges, cost of prepaid cards and revenue sharing expenses.

6 PROFIT FROM OPERATIONS

Profit from operations is stated after charging and crediting the following:

	2004	2003
	HK$'000	*HK$'000*
Charging:		
Write-down of inventories to net realisable value	4,389	1,159
Cost of inventories sold	143,915	133,315
Depreciation:		
Owned fixed assets	228,645	233,055
Leased fixed assets	—	238
Loss on disposals of fixed assets	338	414
Operating lease charges:		
Land and buildings, including transmission sites	182,383	195,945
Leased lines	58,638	73,283
Provision for doubtful debts	25,573	30,228
Auditors' remuneration		
Audit services	1,288	1,100
Audit-related services	248	251
Other permitted services	368	198
	1,904	1,549
Crediting:		
Net exchange gains	194	614

During the year ended 31 December, 2004, the Group incurred operating expenses of HK$70,738,000 in relation to the development of its 3G business, out of which HK$29,965,000 have been capitalized as fixed assets (Note 15). The remainder has been included in the Group's results before arriving at the profit from operations.

7 FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans	434	24,718
Interest on vendor loans:		
Wholly repayable within five years	983	27,579
Not wholly repayable within five years	18,632	—
Interest element of finance lease payments	—	17
Other incidental borrowing costs	11,794	473
Total financing costs incurred	31,843	52,787
Amounts capitalised in fixed assets in the course of construction		
Interest expenses (Note 24(c))	(932)	—
Other incidental borrowing costs	(4,611)	—
Total financing costs capitalised	(5,543)	—
	26,300	52,787

Interest expenses capitalised in fixed assets were incurred for the loan drawn down of equipment supply facility.

Other incidental borrowing costs mainly represented commitment fees, finance charges and amortisation of deferred charges incurred for acquiring the long-term loans.

8 TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made as the Group had sufficient tax losses brought forward to set off against the assessable profits for the year (2003: Nil).

The taxation charge on the Group's profit for the year differs from the theoretical amount that would arise using the applicable taxation rate of 17.5 percent (2003: 17.5 percent) as follows:

	2004	2003
	HK$'000	*HK$'000*
Profit for the year	5,544	27,172
Taxation charge at the applicable rate of 17.5 percent (2003: 17.5 percent)	970	4,755
Add/(Deduct) tax effects of:		
Income not subject to taxation	(36)	(303)
Expenses not deductible for taxation purposes	3,308	3,713
Reversal of temporary differences arising from accelerated depreciation	24,602	22,224
Utilisation of previously unrecognised tax losses	(28,844)	(30,389)
Taxation charge	—	—

9 PROFIT FOR THE YEAR

Profit for the year includes a loss of HK$10,117,000 (2003: HK$9,401,000) which has been dealt with in the accounts of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit for the year of HK$5,544,000 (2003: HK$27,172,000) and the 2,990,000,000 shares (2003: 2,990,000,000 shares) in issue during the year.

(b) Diluted earnings per share

There is no dilutive effect upon exercise of the share options on the earnings per share for the years ended 31 December, 2004 and 2003 since the exercise prices for the share options were above the average fair value of the shares.

11 EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of losses from a joint venture.

12 RETIREMENT BENEFIT COSTS

Pursuant to a trust deed entered into by the Group on 1 April, 1998, the Group has set up a defined contribution scheme to provide retirement benefits for its employees in Hong Kong with retrospective effect from 1 July, 1997 (the "Retirement Scheme").

All permanent full time employees in Hong Kong were eligible to join the Retirement Scheme before the Mandatory Provident Fund ("MPF") Scheme was set up on 1 December, 2000. Under the Retirement Scheme, the employees were required to choose to contribute either nil or 5 percent of their monthly salaries. The Group's contributions were calculated at 5 percent of the employee's salaries.

With effect from 1 December, 2000, the Group set up another defined contribution scheme, the MPF Scheme, for all the eligible employees of the Group in Hong Kong including the employees under the Retirement Scheme. The contributions from the employees and employer are made to the MPF Scheme only and are no longer made to the Retirement Scheme.

Under the MPF Scheme, the employees are required to contribute 5 percent of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The Group's monthly contributions are calculated at 5 percent of the employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The Group makes certain additional contributions if the employee's monthly salaries exceed HK$20,000 (the "voluntary contributions").

Under the MPF Scheme, the employees are entitled to 100 percent of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. The employees are entitled to 100 percent of the Group's voluntary contributions after seven years of completed service or at a reduced scale of the Group's voluntary contributions after completion of two to six years of service.

Under the Retirement Scheme, the employees are entitled to 100 percent of the employer's contributions after seven years of completed service, or at a reduced scale after completion of two to six years of service. Forfeited contributions are to be refunded to the Group under both the MPF Scheme and the Retirement Scheme.

The pension scheme which covers the employees in the People's Republic of China ("PRC") is a defined contribution scheme at various applicable rates of monthly salary that are in accordance with the local practice and regulations.

The Group's contributions to the above schemes are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Gross employer's contributions	7,171	7,313
Less: Forfeited contributions utilised	(649)	(1,951)
Net employer's contributions charged to the consolidated profit and loss account (Note 13)	6,522	5,362

Contributions payable as at 31 December, 2004 amounted to HK$573,000 (2003: HK$545,000). Forfeited contributions not utilised and available to reduce future contributions as at 31 December, 2004 were HK$8,000 (2003: HK$7,000). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

13 SALARIES AND RELATED COSTS

Salaries and related costs for the years ended 31 December, 2004 and 2003, including directors' fees and emoluments (Note 14), are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries, bonuses and allowances	122,367	145,348
Retirement scheme contributions (Note 12)	6,522	5,362
Termination benefits	—	1,310
	128,889	152,020

14 DIRECTORS' AND MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments to directors of the Company are as follows:

	2004				2003
Directors	**Fees**	**Salary, other allowances and benefits-in-kind**	**Retirement scheme contributions**	**Total**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Richard John Siemens	—	1,500	30	1,530	1,630
Edward Wai Sun Cheng	—	1,500	30	1,530	1,630
William Bruce Hicks	—	3,976	30	4,006	4,060
Kuldeep Saran	—	1,500	30	1,530	1,630
Andrew Chun Keung Leung	—	1,500	30	1,530	1,630
John William Crawford (Note 1)	200	—	—	200	28
Henry Michael Pearson Miles	200	—	—	200	200
Simon Murray (Note 2)	146	—	—	146	200
Robert John Richard Owen	200	—	—	200	200
Kenneth Michael Katz (Note 3)	—	—	—	—	—
Hongqing Zheng	—	—	—	—	—
	746	9,976	150	10,872	11,208

Notes:

(1) Appointed on 10 November, 2003.

(2) Resigned on 24 September, 2004.

(3) Appointed on 16 January, 2004.

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands	**2004**	**2003**
Nil - HK$1,000,000	6	8
HK$1,500,001 - HK$2,000,000	4	4
HK$4,000,001 - HK$4,500,000	1	1

During the year no options were granted to or exercised by the directors (2003: Nil).

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2003: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: three) individuals during the year are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Salaries, other allowances and benefits-in-kind	6,550	4,653
Retirement scheme contributions	120	78
Compensation for loss of office - contractual payment	168	754
	6,838	5,485

The emoluments of these four (2003: three) individuals fell within the following bands:

Emolument bands	**Number of individuals**	
(including compensation for loss of office)	**2004**	**2003**
HK$1,500,001 - HK$2,000,000	4	2
HK$2,000,001 - HK$2,500,000	—	1

15 FIXED ASSETS

Group

	Network equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost							
At 1 January, 2004	1,940,678	6,649	17,972	222,992	2,437	319,966	2,510,694
Additions (Note 17)	298,398	375	605	12,921	287	42,977	355,563
Disposals	(505)	(14)	(1,092)	(189)	—	(6,871)	(8,671)
At 31 December, 2004	2,238,571	7,010	17,485	235,724	2,724	356,072	2,857,586
Accumulated depreciation							
At 1 January, 2004	912,906	5,200	11,988	200,212	1,910	276,579	1,408,795
Charge for the year	191,180	810	2,120	11,544	236	22,755	228,645
Disposals	(282)	(13)	(912)	(187)	—	(6,776)	(8,170)
At 31 December, 2004	1,103,804	5,997	13,196	211,569	2,146	292,558	1,629,270
Net book value							
At 31 December, 2004	1,134,767	1,013	4,289	24,155	578	63,514	1,228,316
At 31 December, 2003	1,027,772	1,449	5,984	22,780	527	43,387	1,101,899

At 31 December, 2004, all fixed assets were pledged as security for the vendor loan facilities of the Group (Note 23).

Expenditures of HK$29,965,000 and borrowing costs of HK$5,543,000 were capitalised as fixed assets in the course of constructing the 3G network (2003: Nil).

16 INVESTMENT IN A JOINT VENTURE

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net liabilities	(4,192)	(4,000)
Advance	6,589	6,331
Provision for impairment loss	(2,397)	(2,331)
	—	—

Details of the joint venture as at 31 December, 2004 are as follows:

Name	**Nature**	**Place of incorporation**	**Voting power**	**Principal activities and place of operation**
Atria Limited	Corporate	Hong Kong	50%	Inactive

The advance to Atria Limited is unsecured, interest-free and has no fixed repayment terms.

For the year ended 31 December, 2004, the Group recognised the share of losses from a joint venture of HK$258,000 (2003: HK$4,426,000) in the consolidated profit and loss account. The amounts included share of net liabilities of HK$192,000 (2003: HK$2,095,000) and additional provision for impairment of HK$66,000 (2003: HK$2,331,000).

The Group regularly performs an assessment on its investment in and advances to the joint venture with reference to the expected recoverability. As of 31 December, 2004, a provision of HK$2,397,000 (2003: HK$2,331,000) was considered necessary to write down the carrying value of these assets.

17 PREPAYMENT OF 3G LICENCE FEES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
At 1 January	141,667	191,667
Amount capitalised as fixed assets	(50,000)	(50,000)
At 31 December	91,667	141,667
Classified as:		
Current assets	50,000	50,000
Non-current assets	41,667	91,667
	91,667	141,667

In 2001, the Group paid an amount of HK$250,000,000, equivalent to the aggregate of the first five years' annual fees for its 3G licence, to the Office of Telecommunications Authority ("OFTA"). For the remaining 10 years of the 3G licence, the fees payable shall be the higher of 5 percent of the turnover attributable to the provision of 3G services and the Minimum Annual Fees (as defined in the 3G licence) for each year of the 3G licence. The total Minimum Annual Fees over the remaining term of the 3G licence is HK$1,056,838,000. As at 31 December, 2004, the net present value of which, at an assumed cost of capital to the Group at 9 percent, is HK$532,460,000.

In accordance with the 3G licence, on 22 October each year, the Group is required to provide additional performance bond(s) during the licence period such that the total amount of such performance bond(s) and the Minimum Annual Fees prepaid is equivalent to the next five years' Minimum Annual Fees due (or the remaining Minimum Annual Fees due where less than five years remains). On 22 October, 2004, the Group provided a performance bond through drawdown of a 3G performance bond facility in an aggregate amount of the 6th, 7th and 8th years' Minimum Annual Fees (Note 26).

18 RESTRICTED CASH DEPOSITS

As at 31 December, 2004, a bank deposit of HK$1,130,000 (2003: HK$1,699,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. The guarantee will expire in March 2007.

No restricted cash deposit was required as at 31 December, 2004 under the conditions of the long-term loans (2003: HK$209,643,000).

19 INVENTORIES

The carrying values of the inventories are as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Mobile phones and accessories:		
Cost	22,414	15,940
Less: Provisions	(8,546)	(4,319)
	13,868	11,621

As at 31 December, 2004, the carrying amount of inventories that are stated at net realisable value amounted to HK$8,173,000 (2003: HK$8,281,000).

All inventories were pledged as security for the vendor loan facilities of the Group (Note 23).

20 TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade debtors. The ageing analysis of the trade receivables, net of provision is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
0-30 days	52,840	56,107
31-60 days	13,547	15,243
61-90 days	5,993	8,430
Over 90 days	1,285	1,289
	73,665	81,069

All trade receivables were pledged as security for the vendor loan facilities of the Group (Note 23).

21 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
0-30 days	35,476	30,974
31-60 days	7,818	19,436
61-90 days	5,708	3,307
Over 90 days	11,225	17,883
	60,227	71,600

22 SHARE CAPITAL

	2004	**2003**
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 (2003: 10,000,000,000) ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
2,990,000,000 (2003: 2,990,000,000) ordinary shares of HK$0.10 each	299,000	299,000

Share option scheme

On 1 March, 2000, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme"). Subject to earlier termination by the Company in a general meeting of shareholders, the Share Option Scheme will remain in force for 10 years from its adoption date.

On 22 May, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the Share Option Scheme. Upon the termination of the Share Option Scheme, no further options will be granted thereunder but the provisions of the Share Option Scheme will remain in full force and effect in respect of the existing options granted.

Under the New Option Scheme, the board may, in its discretion, grant options to any director, employee, consultant, customer, supplier, agent, partner, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company. Each grant of options to a director, chief executive or substantial shareholder or any of their respective associates must be approved in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The exercise price for any particular option under the New Option Scheme will be determined by the board but will be not less than the highest of: (i) the closing price of shares on the date of grant of the option; (ii) an amount equivalent to the average closing price of a share for the five business days immediately preceding the date of grant of the option; and (iii) the nominal share value.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the New Option Scheme and Share Option Scheme must not, in aggregate, exceed 30 percent of the shares of the Company in issue.

The total number of shares available for issue under options which may be granted under the New Option Scheme (excluding those options that have been granted by the Company prior to the date of approval of the New Option Scheme) must not, in aggregate, exceed 10 percent of the issued share capital of the Company as at the date of approval of the New Option Scheme ("Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed by shareholders of the Company in general meeting provided that the Scheme Mandate Limit so refreshed must not exceed 10 percent of the issued share capital of the Company at the date of approval of the refreshment by the shareholders. The board may also seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit (whether or not refreshed) provided that the options in excess of the Scheme Mandate Limit are granted only to the eligible participants specified by the Company before such approval is sought.

No option may be granted under the New Option Scheme to any eligible participant which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1 percent of the issued share capital of the Company. As at the date of such new grant, any grant of further options above this limit will be subject to certain requirements provided under the Listing Rules, including the approval of shareholders at a general meeting.

No share options have been granted or exercised under the New Option Scheme during the year ended 31 December, 2004 (2003: Nil). Details of the share options outstanding as at 31 December, 2004 which have been granted under the Share Option Scheme are as follows:

	Options held at 1 January, 2004	Options lapsed during the year[2]	Options cancelled during the year	Options held at 31 December, 2004	Exercise price HK$	Grant date[1]	Exercisable until
Continuous contract employees	13,682,357	488,281	—	13,194,076	3.05	23/03/2000	22/03/2010
	14,308,252	570,281	—	13,737,971	1.01	31/05/2000	30/05/2010
	296,844	41,000	—	255,844	3.05	31/05/2000	30/05/2010
	1,785,050	342,852	—	1,442,198	1.01	19/01/2001	18/01/2011
	30,072,503	1,442,414	—	28,630,089			

Notes:

(1) Of the share options granted, 40 percent become exercisable after one year from the grant date and 30 percent per annum during the following two years.

(2) These share options lapsed during the year upon the cessation of employment of certain employees.

23 LONG-TERM LOANS

	Group 2004 *HK$'000*	Group 2003 *HK$'000*
Bank loans (secured)	—	240,000
Vendor loans (secured)	603,148	481,368
	603,148	721,368
Less: Deferred charges	(10,408)	—
	592,740	721,368
Current portion of long-term loans	—	(296,368)
Long-term portion	592,740	425,000

At 31 December, 2004 and 2003, the Group's long-term loans were repayable as follows:

	Bank loans		**Vendor loans**	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	—	240,000	—	56,368
In the second year	—	—	75,000	175,000
In the third to fifth year	—	—	239,074	250,000
After the fifth year	—	—	289,074	—
	—	240,000	603,148	481,368

Pursuant to the Heads of Agreement of Facility Agreement executed in December 2003 with Mandarin Communications Limited ("Mandarin"), the principal operating subsidiary of the Group, Huawei Tech. Investment Co., Limited ("Huawei Tech.") extended a term loan of HK$500,000,000 (the "New Loan") to Mandarin in January 2004.

On 12 January, 2004, Mandarin repaid the outstanding loan principal of HK$721,368,000 and accrued interest of the bank and vendor loans using its operating cash flows and the New Loan from Huawei Tech.

On 13 May, 2004, Mandarin, the Company and Huawei Tech. entered into a conditional supply contract for HK$859,000,000 (the "Supply Contract") and a conditional facility agreement for the provision of the long-term financing required (the "Facility Agreement"), subject to the satisfaction of certain conditions precedent. The Facility Agreement comprises the following facilities:

- a HK$859,000,000 equipment supply facility with a term of 7.5 years. This facility is to be drawndown against invoices issued under the Supply Contract. The loan carries a floating interest rate tied to HIBOR, and is repayable by eight semi-annual instalments commencing four years from the date of the Facility Agreement;

- a HK$500,000,000 general facility to replace the New Loan, with a term of 2.5 years from the date of the original drawdown of the New Loan. The loan carries a floating interest rate tied to HIBOR, and is repayable by five semi-annual instalments; and

- a 3G performance bond facility for the issuance of the performance bonds required by the OFTA in the years 2004 - 2010 (inclusive) under the terms of the 3G licence.

As security for the provision of the loan and credit facilities under the Facility Agreement, Huawei Tech. has been granted a security package with terms that are standard for similar project financing arrangements and which includes a charge over all the assets, revenues and shares of certain wholly-owned subsidiaries of the Company and a corporate guarantee by the Company.

Both the Supply Contract and the Facility Agreement, as well as the security arrangements, became effective on 2 July, 2004.

On 15 November, 2004, Mandarin entered into the supplemental agreement to the Supply Contract ("the Supplemental Agreement") and the amendment and restatement agreement relating to the Facility Agreement (the "Amendment and Restatement Agreement") with Huawei Tech. in respect of amendments to the above Supply Contract and Facility Agreement.

The Supplemental Agreement aims to give Mandarin flexibility to purchase and install the most technologically advanced equipment available. Payment for all equipment and services provided under the Supplemental Agreement will be satisfied by drawdown of the equipment supply facility under the Facility Agreement as increased by the Amendment and Restatement Agreement.

The Amendment and Restatement Agreement provides for:

(a) the equipment supply facility under the Facility Agreement to be increased by HK$349,000,000 from HK$859,000,000 to HK$1,208,000,000;

(b) the repayment schedule for the general facility within the Facility Agreement to be amended to provide for the next payment to be extended to July 2006 and for the remaining balance to be paid by instalments until July 2011; and

(c) amendment of certain of the covenants given by Mandarin to the lenders to take account of the changes to the Facility Agreement.

Both the Supplemental Agreement and the Amendment and Restatement Agreement became effective on 23 December, 2004.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2004	**2003**
	HK$'000	*HK$'000*
Profit from operations	31,884	81,859
Depreciation	228,645	233,293
Loss on disposals of fixed assets	338	414
Operating profit before working capital changes	260,867	315,566
Increase in inventories	(2,247)	(1,626)
Decrease in trade receivables, deposits, prepayments and other receivables	206	20,877
(Decrease)/Increase in trade payables, other payables and accrued charges	(38,699)	1,835
Decrease in subscriptions received in advance	(19,239)	(37,971)
Cash inflow from operations	200,888	298,681
Interest received	228	2,791
Interest paid	(11,204)	(56,892)
Interest element of finance lease payments	—	(17)
Other incidental borrowing costs paid	(4,961)	(473)
Exchange difference (Note 24(b))	(44)	(2,176)
Net cash inflow from operating activities	184,907	241,914

(b) **Analysis of changes in financing during the year**

	Long-term loans	**Obligations under finance leases**
	HK$'000	*HK$'000*
At 1 January, 2003	785,316	138
Net cash outflow from financing	(61,772)	(138)
Exchange differences	(2,176)	—
At 31 December, 2003	721,368	—
At 1 January, 2004	721,368	—
Net cash outflow from financing	(223,407)	—
Non-cash transaction (Note 24(c))	105,231	—
Exchange differences	(44)	—
Payment of deferred charges	(11,467)	—
Amortisation of deferred charges	1,059	—
At 31 December, 2004	592,740	—

(c) **Major non-cash transactions**

	2004	**2003**
	HK$'000	*HK$'000*
Purchases of fixed assets by directly assuming long-term loans (Note 24(b))	105,231	—
Interest expenses capitalised in fixed assets in the course of network construction (Note 7)	932	—

25 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 17.5 percent (2003: 17.5 percent).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for tax loss carry forward purposes to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$3,217,454,000 (2003: HK$3,382,281,000) to carry forward against future taxable income. These tax losses can be carried forward indefinitely.

	2004	2003
	HK$'000	*HK$'000*
Deferred tax assets		
At 1 January	491,024	476,859
Utilisation of previously unrecognised tax losses	(28,844)	(30,389)
Increase in tax rate	—	44,554
At 31 December	462,180	491,024

	2004	2003
	HK$'000	*HK$'000*
Deferred tax liabilities		
At 1 January	(90,410)	(102,991)
Reversal of temporary differences	24,602	22,224
Increase in tax rate	—	(9,643)
At 31 December	(65,808)	(90,410)

	2004	2003
	HK$'000	*HK$'000*
Summary of net status		
Deferred tax assets	462,180	491,024
Deferred tax liabilities	(65,808)	(90,410)
Net unrecognised deferred tax assets at 31 December	396,372	400,614

26 CAPITAL COMMITMENTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
In respect of purchases of fixed assets:		
Contracted but not provided for	1,129,775	38,509

The outstanding commitment is mainly to be financed by the unutilised balance of equipment supply facility of the Amendment and Restatement Agreement entered with Huawei Tech. as set out in Note 23.

As of 31 December, 2004, the Group provided a performance bond of HK$210,746,000 to OFTA, representing the aggregate amount of the 6th, 7th and 8th years' Minimum Annual Fees.

27 COMMITMENTS UNDER OPERATING LEASES

At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
In respect of land and buildings, including transmission sites:		
Not later than one year	147,408	127,719
Later than one year and not later than five years	84,711	67,773
	232,119	195,492
In respect of leased lines:		
Not later than one year	70,398	21,286
Later than one year and not later than five years	49,833	5,019
	120,231	26,305
	352,350	221,797

28 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Operating lease charges paid to certain related companies	126	1,346

The Group entered into various operating lease agreements based on normal commercial terms with subsidiaries of certain beneficial shareholders of the Company to lease a number of premises for the Group's operating activities.

29 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	**2003**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1	1
Loan to a subsidiary	2,421,735	2,421,735
Amounts due to subsidiaries	(72,845)	(61,235)
	2,348,891	2,360,501

The loan to and the amounts due to the subsidiaries are unsecured, interest-free and have no fixed terms for repayment.

The Company has the following principal wholly-owned subsidiaries as at 31 December, 2004:

Name	**Place of incorporation**	**Issued and fully paid up capital**	**Principal Activities**
Shares held directly:			
SUNDAY HOLDINGS (HONG KONG) CORPORATION	British Virgin Islands	100 ordinary shares of US$1 each	Investment holding
SUNDAY HOLDINGS (CHINA) CORPORATION	British Virgin Islands	1 ordinary share of US$1	Investment holding
SUNDAY IP HOLDINGS CORPORATION	British Virgin Islands	1 ordinary share of US$1	Investment holding
Shares held indirectly:			
MANDARIN COMMUNICATIONS LIMITED	Hong Kong	100 ordinary shares of HK$1 each and 1,254,000,000 non-voting deferred shares of HK$1 each	Provision of mobile and other services, and sales of mobile phones and accessories
SUNDAY 3G HOLDINGS (HONG KONG) CORPORATION	British Virgin Islands	1 ordinary share of US$1	Investment holding
SUNDAY 3G (HONG KONG) LIMITED	Hong Kong	2 ordinary shares each of HK$1	Licensee of Hong Kong 3G Licence
SUNDAY IP LIMITED	British Virgin Islands	1 ordinary share of US$1	Holding the Group's intellectual property rights and trade marks
SUNDAY COMMUNICATIONS SERVICES (SHENZHEN) LIMITED ("SCSSL")	People's Republic of China	US$1,500,000	Provision of back office support services to the Group

The principal activities of the subsidiaries, except for SCSSL which operates in the People's Republic of China ("PRC"), are undertaken in Hong Kong.

SCSSL is registered as a wholly foreign-owned enterprise in the PRC. The registered capital of SCSSL has been fully paid up.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 30 March, 2005.

3. INDEBTEDNESS STATEMENT

As at the close of business on 31 May, 2005, being the latest practicable date for the purpose of this indebtedness statement, SUNDAY had total outstanding borrowings of HK$799,244,000, represented by HK$374,244,000 of equipment supply facility and HK$425,000,000 of general facility, both of which were loans from Huawei Tech. drawn down in accordance with the Facility Agreement entered into by Mandarin Communications Limited (a wholly-owned subsidiary of SUNDAY), SUNDAY and Huawei Tech. on 13 May, 2004 and the Amendment and Restatement Agreement entered into by the same parties on 15 November, 2004 and secured by a financial package with terms that are standard for similar project financing arrangements and including a charge over all the assets, revenues and shares of certain wholly-owned subsidiaries of the Company and a corporate guarantee by the Company.

As at 31 May, 2005, the Group had capital commitments in respect of acquisition of fixed assets amounting to HK$943,398,000.

As at 31 May, 2005, the Group provided a performance bond of HK$210,746,000 to the Office of Telecommunications Authority through drawdown of the 3G performance bond facility under the Facility Agreement.

As at 31 May, 2005, a bank deposit of HK$806,000 was pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities as at the close of business on 31 May, 2005.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the commitments and contingent liabilities of the Group since 31 December, 2004 and up to the Latest Practicable Date.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 May, 2005.

4. MATERIAL CHANGE

Mandarin Communications Limited (a wholly-owned subsidiary of SUNDAY), SUNDAY and Huawei Tech. entered into the Facility Agreement on 13 May, 2004 and the Amendment and Restatement Agreement on 15 November, 2004 for the provision of an equipment supply facility, a general facility and a 3G performance bond facility. As at 31 May, 2005, the Group had total outstanding borrowings of HK$799,244,000, represented by HK$374,244,000 of equipment supply facility and HK$425,000,000 of general facility, and a performance bond of HK$210,746,000 provided to the Office of the Telecommunications Authority through drawdown of the 3G performance bond facility.

Under the terms of the Facility Agreement (as amended by the Amendment and Restatement Agreement) with Huawei Tech., the cessation of any two or more of Richard John Siemens, William Bruce Hicks, Kuldeep Saran and Edward Wai Sun Cheng as Directors involved in the management of SUNDAY other than by reason of death, disability, removal by shareholders or dismissal for cause may constitute an event of default unless a waiver to such term is granted by Huawei Tech.. Each of these individuals will resign as Directors with effect from the first closing date of the Offer, which is 29 July, 2005. Failure to comply with this covenant may entitle Huawei Tech. to accelerate the maturity of the outstanding amounts under the Facility Agreement and, if not repaid, to exercise their security rights over substantially all of the Group's assets. SUNDAY, PCCW and the Offeror are considering various alternatives available to them to prevent such event of default occurring, including the possibility of requesting a waiver from Huawei Tech..

Save as disclosed above, the Board is not aware of any material changes in the financial or trading position or prospects of the Group subsequent to 31 December, 2004, the date to which the latest audited consolidated financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This composite offer document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offer and the Company.

The information contained in this composite offer document (other than that relating to the PCCW Group, but including that relating to the Group) is supplied by the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information in relation to the Group contained in this composite offer document (other than that relating to the PCCW Group, but including that relating to the Group) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions of SUNDAY and the Directors expressed in this composite offer document have been arrived at after due and careful consideration and there are no other facts (other than relating to the PCCW Group, but including those relating to the Group) not contained in this composite offer document, the omission of which would make any statement in this composite offer document relating to the Group misleading.

The information contained in this composite offer document relating to the PCCW Group (other than that relating to the Group and the Directors) is supplied by the Offeror. The directors of PCCW and the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this composite offer document (other than that relating to the Group and the Directors) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions of the Offeror and PCCW expressed in this composite offer document have been arrived at after due and careful consideration and there are no other facts relating to the PCCW Group (other than those relating to the Group and the Directors) not contained in this composite offer document, the omission of which would make any statement in this composite offer document relating to the PCCW Group (excluding the Group) misleading.

2. SHARE CAPITAL OF SUNDAY

As at the Latest Practicable Date, the authorised capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each, of which HK$299,000,000 divided into 2,990,000,000 Shares had been issued and were fully paid up of which 24,917,500 Shares were represented by 249,175 ADSs. No Shares had been issued since 31 December, 2004, being the end of the last financial year of the Company, and up to the Latest Practicable Date. All of the Shares currently in issue rank pari passu in all respects with each other, including the rights in respect of capital, dividends and voting.

As at the Latest Practicable Date, save and except for the 27,515,831 Outstanding Share Options, there were no outstanding options, warrants, derivatives or convertible securities issued by the Company.

3. DISCLOSURE OF INTERESTS OF SUNDAY

(a) **Interests of the Directors**

As at the Latest Practicable Date, none of the Directors had any interest in the Shares of SUNDAY. None of the Directors had any interest in the shares of the Offeror as at the Latest Practicable Date.

(b) **Persons with interest or short position in the Shares of SUNDAY which are discloseable under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance**

As at the Latest Practicable Date, so far as is known to any Director or the chief executive of SUNDAY, the following persons had, or was deemed or taken to have, an interest or short position in the securities of SUNDAY which would fall to be disclosed to SUNDAY and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance:

Name of shareholders	Number of Shares	Percentage of Shareholding
PCCW Limited*	1,790,134,000	59.87%
Huawei Tech. Investment Co., Limited	296,416,000	9.91%

All the interests disclosed represent long positions in the shares of SUNDAY.

* PCCW indirectly holds these interests through its indirect wholly-owned subsidiary, PCCW Mobile Holding No. 2 Limited, which is the Offeror.

(c) Save and except the 1,790,134,000 Shares acquired under the Agreements, the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date.

(d) As at the Latest Practicable Date, a wholly-owned subsidiary of Cheung Kong (Holdings) Limited and a private company controlled by Mr. Li Ka Shing, each of which is presumed under the Takeovers Code to be acting in concert with the Offeror, held respectively 19,854,000 Shares (representing approximately 0.66 percent of the existing issued share capital of SUNDAY) and 5,127,000 Shares (representing approximately 0.17 percent of the existing issued share capital of SUNDAY), which were acquired by them between April 2000 and February 2003.

(e) Except as disclosed in paragraphs (c) and (d) above, as at the Latest Practicable Date, to the best knowledge of the Offeror after making reasonable enquiries, none of its directors or persons acting in concert with the Offeror owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares.

(f) As at the Latest Practicable Date, no persons who owned or controlled Shares or convertible securities, warrants, options or derivatives in respect of the Shares have irrevocably committed themselves to accept or, so far as the Offeror is aware, not to accept the Offer.

(g) As at the Latest Practicable Date, to the best knowledge of the Offeror after making reasonable enquiries, there were no holdings of Shares, or convertible securities, warrants, options or derivatives in respect of Shares, owned or controlled by any person with whom the Offeror or any person acting in concert with it has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

(h) As at the Latest Practicable Date, none of Citigroup, their respective group companies, directors, or (except as disclosed in paragraphs (c) and (d) above) persons acting in concert with the Offeror or presumed under the Takeovers Code to be acting in concert with the Offeror, had any beneficial interest in any Shares.

(i) As at the Latest Practicable Date, to the best knowledge of the Offeror after making reasonable enquiries, neither the Offeror nor any persons acting in concert with it had any arrangement with any other person of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

(j) As at the Latest Practicable Date, save as disclosed in this composite offer document, there were no material contracts entered into by the Offeror in which the Directors have a material personal interest.

(k) As at the Latest Practicable Date, none of SUNDAY or the Directors was interested in any shares of the Offeror.

(l) As at the Latest Practicable Date, no subsidiary of SUNDAY, or any pension fund of SUNDAY or of any member of the Group or any adviser to SUNDAY as specified in class (2) of the definition of "associate" under the Takeover Code but excluding exempt principal traders owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of Shares.

(m) As at the Latest Practicable Date, no shareholding in SUNDAY was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with SUNDAY.

(n) As at the Latest Practicable Date, to the best knowledge of the Directors after making reasonable enquiries, there were no holdings of Shares or convertible securities, warrants, options or derivatives in respect of Shares, owned or controlled by any person with whom SUNDAY or any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

(o) As at the Latest Practicable Date, to the best knowledge of the Directors after making all reasonable enquiries, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between SUNDAY or any of its associates (as defined in the Takeovers Code) and any other person.

4. DEALING IN SHARES

During the Relevant Period,

(a) save for the acquisition of the 1,790,134,000 Shares pursuant to the Agreements, none of the Offeror, the directors of the Offeror or parties acting in concert with the Offeror had dealt for value in any securities of SUNDAY;

(b) none of the Directors had dealt for value in any securities of SUNDAY;

(c) neither SUNDAY nor any of its Directors had dealt for value in the securities of the Offeror;

(d) none of the subsidiaries of SUNDAY, any pension funds of SUNDAY or of any of its subsidiaries or ING, had dealt for value in any securities of SUNDAY; and

(e) no fund managers (other than exempted fund managers) connected with SUNDAY and who managed funds on a discretionary basis connected with SUNDAY had dealt for value in any securities of SUNDAY.

5. PERSONS ACTING IN CONCERT WITH THE OFFEROR

PCCW has received a ruling from the Executive to modify the application of the presumption in class (2) of the definition of "acting in concert" under the Takeovers Code, to the effect that, the class (2) presumption shall not apply to the directors (and their close relatives, related trusts and companies controlled by any of the directors, their close relatives or related trusts) of PCCW's subsidiaries, for the reasons that:

(i) PCCW has more than 420 subsidiaries and there are more than 140 directors of those subsidiaries;

(ii) directors of PCCW's subsidiaries are not involved in the Offer (except for those who are also main board Directors of PCCW) and are not acting in concert with the Offeror; and

(iii) accordingly, it is not practical or possible for PCCW to control or monitor share dealings of the directors of PCCW's subsidiaries regarding their personal investment.

On the basis of the ruling of the Executive, all references to persons acting in concert with the Offeror in this composite offer document shall exclude the directors (and their close relatives, related trusts and companies controlled by any of the directors, their close relatives or related trusts) of PCCW's subsidiaries.

6. MARKET PRICES

(a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$0.40 per Share on 12 January, 2005 and HK$0.65 per Share from 22 June, 2005 to 24 June, 2005 and 28 June, 2005, respectively.

(b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement on which trading of the Shares took place:

	Closing price *(HK$)*
31 December, 2004	0.435
31 January, 2005	0.510
28 February, 2005	0.560
31 March, 2005	0.455
30 April, 2005	0.460
31 May, 2005	0.510

(c) The closing price of the Shares on the Stock Exchange on 10 June, 2005, being the last day on which the Shares were traded before the suspension of trading on 13 June, 2005 at the request of SUNDAY, was HK$0.53.

(d) The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK$0.64.

7. LITIGATION

None of SUNDAY or any of its subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against SUNDAY or any of its subsidiaries.

8. MATERIAL CONTRACTS

None of the members of the Group has entered into any material contract, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any member of the Group, after the date two years preceding the date of the Announcement.

9. EXPERTS

The following are the qualifications of each of the experts who have been named in this composite offer document or given their opinion or advice which are contained in this composite offer document:

Name	Qualification
Citigroup Global Markets Asia Limited	A deemed licensed corporation under the Securities and Futures Ordinance, licensed to carry on Type 1 (dealings in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities.
ING Bank N.V.	A registered institution under the Securities and Futures Ordinance, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities.

10. CONSENT

Citigroup and ING have given and have not withdrawn their respective written consents to the issue of this composite offer document with the inclusion in this composite offer document of the text of their respective letters and references to their names in the form and context in which they are included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at the office of Richards Butler, legal advisor to the Offeror, at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong while the Offer remains open for acceptance.

(a) the memorandum and articles of association of the Offeror;

(b) the memorandum and articles of association of SUNDAY;

(c) the annual reports of SUNDAY for the two years ended 31 December, 2004;

(d) the letter from Citigroup, the text of which is set out on pages 7 to 17 of this composite offer document;

(e) the letter of recommendation of the Independent Board Committee, the text of which is set out on pages 23 to 24 of this composite offer document;

(f) the letter of advice from ING, the text of which is set out on pages 25 to 50 of this composite offer document;

(g) the material contracts set out under the paragraph headed "Material contracts" in Appendix III to this composite offer document; and

(h) the written consents referred to in the paragraph headed "Consent" in Appendix III to this composite offer document.

12. MISCELLANEOUS

(a) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer.

(b) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

(c) Save and except for the Agreements and the transactions contemplated therein, there is no agreement or arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it (on the one part) and any of the Directors, recent directors, shareholders or recent shareholders of SUNDAY (on the other part) having any connection with or dependence upon the Offer.

(d) The Offeror does not have any intention to transfer any Shares acquired pursuant to the Offer to any other person.

(e) PCCW is the ultimate holding company of the Offeror. PCCW is a company which was incorporated in Hong Kong on 24 April, 1979 with limited liability and is listed on the Main Board of the Stock Exchange (SEHK: 0008) with an ADS (American Depositary Share) listing on the New York Stock Exchange, Inc. (NYSE: PCW). The registered office of PCCW is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The directors of PCCW are:

Executive Directors:
Li Tzar Kai, Richard *(Chairman)*
So Chak Kwong, Jack *(Deputy Chairman and Group Managing Director)*
Yuen Tin Fan, Francis *(Deputy Chairman)*
Peter Anthony Allen
Alexander Anthony Arena
Chung Cho Yee, Mico
Lee Chi Hong, Robert
Dr Fan Xingcha

Non-Executive Directors:
Sir David Ford, KBE, LVO
Zhang Chunjiang
Dr Tian Suning *(Deputy Chairman)*

Independent Non-Executive Directors:
Prof Chang Hsin-kang
Dr Fung Kwok King, Victor
Dr The Hon Li Kwok Po, David, GBS, JP
Sir Roger Lobo, CBE, LLD, JP
Aman Mehta
The Hon Raymond George Hardenbergh Seitz

(f) The Secretary of SUNDAY is Mr. Raymond Wai Man Mak who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(g) The registered office of SUNDAY is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, Cayman Islands, British West Indies.

(h) The head office and principal place of business of SUNDAY is situated at 13th Floor, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(i) The principal share registrar and transfer office of SUNDAY is Butterfield Bank (Cayman) Limited, which is situated at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies.

(j) The Hong Kong branch share registrar and transfer office of SUNDAY is Computershare Hong Kong Investor Services Limited, which is situated at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(k) The ADS custodian is The Hongkong and Shanghai Banking Corporation Limited which is located at One Queen's Road Central, Hong Kong.

(l) The principal place of business of Citigroup is at 50/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

(m) The principal place of business of ING is at 39/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(n) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.

(o) As at the Latest Practicable Date, none of the Directors has entered into any service contract with SUNDAY or any of its subsidiaries or associated companies which has more than 12 months to run, or which has been entered into or amended within six months before the commencement of the Offer Period.

(p) The English language text of this composite offer document shall prevail over the Chinese language text.