

## Corporate Governance Report

SUNDAY Communications Limited (the “Company” or “SUNDAY”) has made continued efforts to incorporate the key elements of sound corporate governance in its management structures and internal control procedures.

The Company is committed to high standards of ethics and integrity in all aspects of its business, and to ensuring its affairs are conducted in accordance with applicable laws and regulations.

In September 2003, the Company adopted a Code of Ethics that applied to its principal executive officer and senior financial officers. This Code of Ethics emphasizes the roles of the principal executive officer and senior financial officers in the conduct and practice of financial management and lays down the key principles that they should follow and advocate, which include honest and ethical conduct; full, fair, accurate, timely and understandable disclosures; compliance with applicable laws and regulations; prompt internal reporting; and accountability for adherence to the Code of Ethics.

In April 2004, the Company amended its Code of Conduct and Ethics to comply with the corporate governance standards of The NASDAQ Stock Market, Inc. (“NASDAQ”) in the United States. This code is intended to promote the well-being of all employees, officers and directors in the workplace, and advocates high standards of professional conduct and work performance, with the guiding principles of honesty, fairness, forthrightness and adherence to the spirit and letter of the code.

### CORPORATE GOVERNANCE PRACTICES

14

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31st December 2005, save for minor exceptions stated in this report.

### MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company also adopted its own code of conduct regarding securities transactions by directors and employees, namely, Securities Dealing Code (the “SUNDAY Code”) on terms no less exacting than the required standards set out under the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules.

The SUNDAY Code sets out the principles applicable to dealings in the Company’s shares and other securities. It applies to all directors and all employees to whom the SUNDAY Code is given and who are informed that they are subject to its provisions. The directors and all the relevant employees must comply strictly with the terms of the SUNDAY Code and any breaches thereof would be regarded as very serious disciplinary matters.

Having made specific enquiries of all directors of the Company, they confirmed that they have complied with the required standards set out in the SUNDAY Code and the Model Code throughout the year ended 31st December 2005.

## BOARD OF DIRECTORS

As at the date of this report, the Board of Directors (the “Board”) of the Company consists of eight directors, including five Executive Directors and three Independent Non-executive Directors. Biographies of all these directors are set out on pages 10 to 12 of this Annual Report.

The Board schedules to meet at least four times a year to determine overall strategic direction and corporate objectives and to approve interim and annual results, budgets and other significant matters. All directors have full and timely access to all relevant information, including regular reports from the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Company and its subsidiaries (the “Group”). All directors are encouraged to take independent professional advice, at the Company’s expense, in the performance of their duties as and when deemed necessary.

In March 2006, the Board clearly defined its responsibility for making broad policy decisions and exercising a number of reserved powers and, thereby, delegated the responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman. The reserved powers of the Board include as follows:

- those functions and matters which require Board approval from time to time as set out in the terms of reference of various committees;
- those functions and matters which require Board approval in accordance with the Group’s internal policies;
- consideration and approval of accounts in interim and annual reports, announcements and press releases for interim and final results;
- consideration of dividend policies and dividend amounts declared; and
- monitoring the corporate governance of the Group in compliance with the relevant rules and regulations both in Hong Kong and the United States.

The Directors acknowledge their responsibilities for overseeing the preparation of the accounts for each financial year which give a true and fair view of the state of affairs of the Company. In preparing the accounts for the year ended 31st December 2005, the Directors have ensured the selection of suitable accounting policies and consistent application thereof; made judgments and estimates that are prudent and reasonable, stated the reasons for any significant departures from applicable accounting standards in Hong Kong and ensured the going concern basis of presentation has been applied.

## Corporate Governance Report

The Directors are responsible for ensuring proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Group and ensure that the accounts comply with the Companies Ordinance, the Listing Rules and NASDAQ rules and regulations.

The Directors are also responsible for ensuring the design and implementation of effective internal controls to prevent and detect any fraud and error and are also responsible for safeguarding the assets of the Group.

There were nine full Board meetings and three Audit Committee meetings of the Company held during the year 2005. Details of the attendance record of members of the Board at Board and Audit Committee meetings held in 2005 are set out below:

Name of Director	Date of Appointment/Resignation	Meetings Attended/Held	
		Board	Audit Committee
<i>Executive Directors</i>			
Alexander Anthony Arena <i>Chairman</i>	appointed on 8th July 2005	3/9	N/A
Chan Kee Sun, Tom	appointed on 8th July 2005	3/9	N/A
Chan Wing Wa	appointed on 8th July 2005	3/9	N/A
Chow Ding Man	appointed on 8th July 2005	4/9	N/A
Hui Hon Hing, Susanna	appointed on 8th July 2005	3/9	N/A
Kwok Yuen Man, Marisa	appointed on 8th July 2005 and resigned on 28th February 2006	4/9	N/A
Richard John Siemens <i>Co-Chairman</i>	resigned on 29th July 2005	2/9	N/A
Cheng Wai Sun, Edward <i>Co-Chairman</i>	resigned on 29th July 2005	3/9	N/A
William Bruce Hicks <i>Group Managing Director</i>	resigned on 29th July 2005	5/9	N/A
Kuldeep Saran	resigned on 29th July 2005	5/9	N/A
Leung Chun Keung, Andrew	resigned on 29th July 2005	4/9	N/A
<i>Non-executive Directors</i>			
Kenneth Michael Katz	resigned on 29th July 2005	5/9	N/A
Zheng Hongqing	resigned on 16th January 2006	0/9	N/A
<i>Independent Non-executive Directors</i>			
John William Crawford	appointed on 10th November 2003	8/9	3/3
Henry Michael Pearson Miles	appointed on 27th January 2000	3/9	2/3
Robert John Richard Owen	appointed on 27th January 2000	6/9	3/3

## Corporate Governance Report

More than one-third of the Board consists of Independent Non-executive Directors, which exceeds the minimum number required under the Listing Rules. The Company has received an annual written confirmation from each Independent Non-executive Director confirming his independence to the Company. Accordingly, the Company considers all of the Independent Non-executive Directors to be independent.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between chairman and chief executive officer should be clearly established and set out in writing.

The positions of the Chairman and the Chief Executive Officer are held separately by Alexander Anthony Arena and William Bruce Hicks respectively. In general, the Chairman is responsible for overseeing the functions of the Board while the Chief Executive Officer is responsible for managing the Group's business. The detailed responsibilities of these positions were confirmed by the Board in March 2006.

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for specific terms, subject to re-election. The non-executive directors of the Company are not appointed for specific terms of office, however, all directors of the Company (including non-executive directors) are subject to retirement by rotation at least once every three years and re-election at annual general meetings in accordance with the Company's Articles of Association.

Under code provision D.1.2 of the CG Code, the Company should formalize and distinguish the functions designated as having the responsibility of the board and those delegated to management and review such arrangements on a periodic basis to ensure they remain appropriate to the needs of the issuer. The respective functions of the Board and management of the Company were formalized and approved by the Board in March 2006.

### BOARD COMMITTEES

The Board has established the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee with defined terms of reference. The terms of reference for each of the Audit Committee, the Nomination Committee and the Remuneration Committee are in no less exacting terms than those set out in the CG Code. To reinforce independence, the Audit Committee has been structured to include only Independent Non-executive Directors. The Nomination Committee and the Remuneration Committee have been structured to include a majority of Independent Non-executive Directors.

# Corporate Governance Report

## Executive Committee

The Executive Management Committee (the "EMC") was formed in February 2000 and included the Executive Directors of the Board together with key management staff. The principal functions of the EMC included formulating strategies and overseeing operational matters of the Group.

On 29th July 2005, the Board resolved to establish an Executive Committee of the Board to take over the functions of the EMC. This Executive Committee operates as a general management committee with overall delegated authority from the Board and determines the Group's strategies, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board.

### *Members of the Executive Committee are:*

Alexander Anthony Arena *Chairman*

So Chak Kwong, Jack

Chan Kee Sun, Tom

Chan Wing Wa

Chow Ding Man

Hui Hon Hing, Susanna

## Remuneration Committee

The Remuneration Committee was formed in January 2000 and is responsible for reviewing and approving the remuneration of directors and officers of the Company and other matters relating to employee remuneration, as directed by the Board from time to time. The committee's authority, composition and duties are specified in its terms of reference, which are re-assessed by the Board on an annual basis.

### *Members of the Remuneration Committee are:*

Alexander Anthony Arena *Chairman*

John William Crawford

Henry Michael Pearson Miles

Robert John Richard Owen

The Remuneration Committee consists of at least three members, a majority of whom must be Independent Non-executive Directors of the Company. Details of the emoluments of each director of the Company are set out in note 14 to the consolidated accounts.

During the year, the Board resolved to consolidate the functions of the Remuneration Committee with the Share Option Committee and the latter was dissolved with effect from 29th July 2005. Accordingly, the Remuneration Committee was re-structured and adopted revised terms of reference on 18th August 2005. Its objectives are not only to ensure formal and transparent procedures for overseeing and developing policies on the remuneration packages of directors but also to provide effective supervision and administration of the Company's share option scheme.

## Corporate Governance Report

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practices. In determining the levels of remuneration and fees paid to the members of the Board, market rates and factors such as workloads and required commitments are taken into account. The following factors are considered when determining the selection of directors and their remuneration packages:

- business requirements;
- individual performance and contribution to results;
- retention considerations and the potential of individuals; and
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions.

During the review process, the directors concerned will not be involved in decisions relating to their own remuneration.

### Nomination Committee

The Nomination Committee was established in March 2006 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board and to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board. The committee's authority, composition and duties are set out in its terms of reference, which are re-assessed by the Board on an annual basis.

#### *Members of the Nomination Committee are:*

Alexander Anthony Arena *Chairman*

John William Crawford

Henry Michael Pearson Miles

Robert John Richard Owen

The Nomination Committee consists of four members, a majority of whom are Independent Non-executive Directors of the Company.

The Company follows a formal, fair and transparent procedure for the new appointment of directors to the Board. The committee will first consider necessary changes in respect of the structure, size and composition of the Board, identify suitably qualified candidates and makes recommendation to the Board for decision. In accordance with the Articles of Association of the Company, every newly appointed director is subject to re-election at the following annual general meeting.

# Corporate Governance Report

## Audit Committee

The Audit Committee was formed in January 2000 and its principal duties include approving the nature and scope of both the statutory and internal audits, considering and approving the interim and annual accounts, and reviewing the adequacy and effectiveness of the accounting and financial controls of the Group. The committee's authority, composition and duties are set out in the terms of reference, which are re-assessed by the Board on an annual basis.

### *Members of the Audit Committee are:*

John William Crawford *Chairman*  
Henry Michael Pearson Miles  
Robert John Richard Owen

The Audit Committee consists of three Independent Non-executive Directors and one of these directors, John William Crawford, has appropriate professional qualifications and experience in financial matters. The Audit Committee meets regularly with the external auditors and the Group's internal audit personnel and management. None of the members of the committee has any personal financial interests or conflicts of interest arising from day-to-day involvement in the running of the business.

The Audit Committee meets at least twice a year and on an as-needed basis and also follows up regularly with management on any actions arising from the audit engagements. The attendance of individual members at the Audit Committee meetings is set out in the table on page 16 of this Annual Report.

20

The following is a summary of the work performed by the Audit Committee during 2005:

- (i) consideration of and discussion on the report from external auditors in relation to the annual audit for the year ended 31st December 2004;
- (ii) review of the audited accounts for the year ended 31st December 2004, with a recommendation to the Board for approval;
- (iii) review of and approval of audited accounts for the year ended 31st December 2004 for the Form 20-F filing with the United States Securities and Exchange Commission;
- (iv) review of 2005 bi-annual progress reports on internal audit activities;
- (v) consideration of, discussion on and approval of the internal audit plan for the year 2005;
- (vi) amendment of the Internal Audit Charter;
- (vii) consideration of and agreement on connected/related party transactions disclosed in the 2004 annual report and 2005 interim report;
- (viii) consideration of and discussion on the latest corporate governance related regulations and proposals made in Hong Kong and the United States;

## Corporate Governance Report

- (ix) review and approval of the continuing connected transactions and the disclosures in this regard on 29th July 2005;
- (x) review of the interim accounts and interim report for the six months ended 30th June 2005, with a recommendation to the Board for approval;
- (xi) consideration of, discussion on and approval of the scope of the audit of the Group's 2005 results and other permissible services as set out in the audit plan;
- (xii) review of progress reports on the work of internal audit and the follow-up activities;
- (xiii) consideration of and approval of audit and non-audit services fees; and
- (xiv) review of the external auditors' report regarding the audit findings and their independence.

For the year ended 31st December 2005, PricewaterhouseCoopers ("PWC"), the auditors of the Company, received approximately HK\$1,470,000 (2004: HK\$1,536,000) for audit and related services and HK\$546,000 (2004: HK\$368,000) for other non-audit services. PWC provided the following non-audit services to the Company:

- (i) provision of tax advisory services;
- (ii) review of the Company's reply to the enquiries from the United States Securities and Exchange Commission;
- (iii) confirmation of the Group's indebtedness relating to various corporate exercises of the Company; and
- (iv) annual review of continuing connected transactions between the Group and PCCW Limited and its subsidiaries.

### INTERNAL CONTROLS

The Directors have overall responsibility for ensuring that adequate and effective internal controls are operating in the Company. The Board is committed to having effective and sound internal accounting and control systems to safeguard the interests of shareholders and Group assets. Various Board committees have been established with clear written terms of reference setting out their authorities, composition, responsibilities and duties.

In addition, the Company established clear policies and procedures for the review and approval of related party transactions in March 2003 and such transactions are periodically reviewed and approved by the Audit Committee. Significant related party transactions undertaken by the Group during the year are set out in note 28 to the consolidated accounts. In September 2003, a Whistleblower Policy was established to facilitate the reporting of any improper activities relating to fraud, or questionable accounting, internal accounting controls or auditing matters.

# Corporate Governance Report

## GROUP INTERNAL AUDIT

An internal audit function was established in May 2001 under an Internal Audit Charter setting out the authorities and responsibilities approved and adopted by the Audit Committee. The internal audit function is an independent unit established within the Group, which provides to the Board an independent appraisal on systems of internal control by means of conducting reviews to evaluate the adequacy and effectiveness of key controls established to safeguard shareholder interests and Group assets. The review procedures cover key financial, operational and risk management controls.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Communication with the Company's shareholders is given high priority by the Board. Extensive information about the Group's activities is provided in annual and interim reports and circulars which are sent to the Company's shareholders. SUNDAY's website provides regularly updated information of interest to shareholders. The Company also maintains regular communications with investors and analysts.

Enquiries on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner. The Company encourages all shareholders to attend the annual general meeting.

On behalf of the Board

**Alexander Anthony Arena**

*Chairman*

Hong Kong,

29th March 2006