

Report of the Directors

The directors present their report together with the summary accounts of SUNDAY Communications Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The Group is a developer and provider of wireless communications and data services in Hong Kong, and a 3G licence holder. It began commercial operations with GSM 1800 wireless services in 1997.

Details of segment information are set out in note 4 to the summary accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2005 are set out in the consolidated profit and loss account on page 45.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended 31st December 2005.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 75.

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FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 9 to the summary accounts.

BORROWINGS

Particulars of the Group’s borrowings are set out in note 12 to the summary accounts.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 11 to the summary accounts.

RESERVES

Details of the movements in reserves of the Group during the year are set out in the Statement of Changes in Shareholders' Equity on page 48.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

The largest supplier, PCCW Limited ("PCCW") via its subsidiaries, for the year ended 31st December 2005 represented 14.12% of the Group's total purchases and the combined total of the five largest suppliers accounted for 35.97% of the Group's total purchases for the year. PCCW, through its indirect wholly-owned subsidiary PCCW Mobile Holding No. 2 Limited ("PCCW Mobile"), holds approximately 79.35% of the issued share capital of the Company as at the date of this report and is the ultimate holding company of the Company.

Other than disclosed above, none of the directors, their associates or any shareholder of the Company, who to the knowledge of the directors, owns more than 5% of the Company's share capital, had any interest in these major suppliers.

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DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive Directors

Alexander Anthony Arena <i>Chairman</i>	(appointed on 8th July 2005)
Chan Kee Sun, Tom	(appointed on 8th July 2005)
Chan Wing Wa	(appointed on 8th July 2005)
Chow Ding Man	(appointed on 8th July 2005)
Hui Hon Hing, Susanna	(appointed on 8th July 2005)
Kwok Yuen Man, Marisa	(appointed on 8th July 2005 and resigned on 28th February 2006)
Richard John Siemens <i>Co-Chairman</i>	(resigned on 29th July 2005)
Cheng Wai Sun, Edward <i>Co-Chairman</i>	(resigned on 29th July 2005)
William Bruce Hicks <i>Group Managing Director</i>	(resigned on 29th July 2005)
Kuldeep Saran	(resigned on 29th July 2005)
Leung Chun Keung, Andrew	(resigned on 29th July 2005)

Non-executive Directors

Kenneth Michael Katz	(resigned on 29th July 2005)
Zheng Hongqing	(resigned on 16th January 2006)

Independent Non-executive Directors

John William Crawford
Henry Michael Pearson Miles
Robert John Richard Owen

In accordance with Article 86(3) of the Company's Articles of Association, Alexander Anthony Arena, Chan Kee Sun, Tom, Chan Wing Wa, Chow Ding Man and Hui Hon Hing, Susanna shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 87 of the Company's Articles of Association, Henry Michael Pearson Miles shall retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st December 2005, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

1. Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the Company held by the director of the Company.

Name of director/ chief executive	Personal interests	Number of ordinary shares			Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
		Family interests	Corporate interests					
Kwok Yuen Man, Marisa	4,000	—	—	—	—	4,000	0.0001%	

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2. Interests in Associated Corporation of the Company

The table below sets out the aggregate long positions in the shares and underlying shares of PCCW, the ultimate holding company of the Company, held by the directors and the chief executive of the Company.

Name of director/ chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Alexander Anthony Arena	760,000	—	—	—	15,800,200 (Notes a & b)	16,560,200	0.2463%
Chan Kee Sun, Tom	44,383	—	—	—	470,000 (Note b)	514,383	0.0077%
Chan Wing Wa	455	—	—	—	960,000 (Note b)	960,455	0.0143%
Chow Ding Man	83,600	—	—	—	463,360 (Notes b & c)	546,960	0.0081%
Hui Hon Hing, Susanna	41,800	—	—	—	196,000 (Note b)	237,800	0.0035%
Kwok Yuen Man, Marisa	2,513	—	—	—	1,740,000 (Notes b & d)	1,742,513	0.0259%

Notes:

- (a) These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 American depositary receipts which constituted listed equity derivatives; and (ii) 15,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note (b) below.

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- (b) These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive of the Company as beneficial owners as at 31st December 2005, details of which are set out as follows:

Name of director/ chief executive	Date of grant (Note (iii))	Vesting period (Note (iii))	Exercisable period (Note (iii))	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2005	Outstanding at 12.31.2005
Alexander Anthony Arena	08.28.1999 (Note (i))	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.7800	3,200,000	3,200,000
	08.26.2000 (Note (i))	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	1,600,000
	02.20.2001 (Note (i))	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,600,000	1,600,000
	07.25.2003 (Note (i))	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	6,400,000	6,400,000
	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	3,000,000
Chan Kee Sun, Tom	10.27.2000 (Note (i))	10.27.2001 to 10.27.2003	10.27.2001 to 10.27.2010	24.3600	30,000	30,000
	07.25.2003 (Note (i))	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	220,000	220,000
	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	220,000
Chan Wing Wa	10.27.2000 (Note (i))	10.27.2001 to 10.27.2003	10.27.2001 to 10.27.2010	24.3600	120,000	120,000
	11.13.2002 (Note (i))	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	600,000	600,000
	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	240,000
Chow Ding Man	10.27.2000 (Note (i))	10.27.2001 to 10.27.2003	10.27.2001 to 10.27.2010	24.3600	40,000	40,000
	07.25.2003 (Note (i))	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	160,000	160,000
	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	240,000
Hui Hon Hing, Susanna	10.27.2000 (Note (i))	10.27.2001 to 10.27.2003	10.27.2001 to 10.27.2010	24.3600	16,000	16,000
	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	180,000
Kwok Yuen Man, Marisa	02.08.2005 (Note (ii))	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	—	1,500,000

Notes:

- (i) The share options were granted under the share option scheme of PCCW adopted on 20th September 1994, last amended and restated on 23rd May 2002.
- (ii) The share options were granted under the share option scheme of PCCW adopted on 19th May 2004.
- (iii) All dates are shown month/day/year.

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- (c) These interests included the deemed interests in 23,360 underlying shares in respect of the share options granted by PCCW to the spouse of Chow Ding Man under the share option scheme adopted on 20th September 1994, last amended and restated on 23rd May 2002.
- (d) These interests included 240,000 underlying shares in respect of the shares awarded by PCCW under the share incentive award schemes, details of which are set out as follows:

Name of director/ chief executive	Date of grant (Note)	Vesting period (Note)	Exercisable period (Note)	Number of options	
				Outstanding at 01.01.2005	Outstanding at 12.31.2005
Kwok Yuen Man, Marisa	02.24.2005	02.24.2006 to 02.24.2006	02.24.2006 to 02.24.2006	—	120,000
	02.24.2005	02.24.2007 to 02.24.2007	02.24.2007 to 02.24.2007	—	120,000

Note: All dates are shown month/day/year

Save as disclosed above, none of the directors or chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 11 to the summary accounts.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the following persons (other than any directors or the chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Note(s)	Number of shares/ underlying shares held	Percentage of issued share capital
PCCW	(a) & (b)	2,372,672,256	79.35%
Huawei Tech. Investment Co., Limited	(b)	296,416,000	9.91%

Notes:

(a) PCCW indirectly holds these interests through its indirect wholly-owned subsidiary, PCCW Mobile.

(b) All the interests disclosed under this section represent long position in the shares of the Company.

Save as disclosed above, the Company had not been notified of any other person (other than any directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December 2005.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company has any interests in any business apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$128,000 (2004: HK\$77,500).

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SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in note 14 to the summary accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the listed securities of the Company.

CONNECTED TRANSACTIONS

In the period since the publication of the Company's 2004 Annual Report, members of the Group entered into (or continued to be party to) certain transactions which were "continuing connected transactions" as defined by the Listing Rules and which are subject to disclosure obligations under Chapter 14A of the Listing Rules.

The Group from time to time enters into transactions with PCCW and its subsidiaries ("PCCW Group") relating to services provided to and to be provided by the Group,

On 22nd June 2005, PCCW through PCCW Mobile acquired 1,790,134,000 shares, representing approximately 59.87% of the issued share capital of the Company (the "Acquisition") and the Company became an indirect non-wholly owned subsidiary of PCCW. Under the Hong Kong Code on Takeovers and Mergers, PCCW Mobile was required to make a mandatory unconditional cash offer (the "Offer") to acquire all the shares of the Company, other than those already owned by PCCW Mobile. Upon the closing of the Offer on 9th September 2005, PCCW Mobile owned in aggregate 2,372,672,256 shares, representing approximately 79.35% of the issued share capital of the Company.

PCCW Mobile is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. Accordingly, members of PCCW Group are connected persons of the Company under the Listing Rules and transactions between the Group and PCCW Group constitute connected transactions for the Company under the Listing Rules. Details of such transactions are as follows:

- (1) On 29th July 2005, the Company announced that the Group and PCCW Group had the following continuing connected transactions (collectively the "CC Transactions"). Details of the CC Transactions have been disclosed in the Company's announcement dated 29th July 2005 ("2005 Announcement"). The CC Transactions are subject to the reporting and disclosure requirements under the Listing Rules.

(a) Provision of telecommunications services to the Group

After the Acquisition, PCCW Group continued to provide certain telecommunications services including certain types of leased circuits and interconnection capacity to the Group. The agreements were entered into before PCCW Mobile became a substantial shareholder of the Company in June 2005 and the term for the provision of such services will expire on 30th September 2006. The total charges in respect of such telecommunications services paid by the Group to PCCW Group for the year ended 31st December 2004 was approximately HK\$42 million. In view of the Group's 3G network roll-out and the anticipated growth in network usage, it was expected that the total of such charges payable by the Group to PCCW Group for the year ended 31st December 2005 and for the nine months ending 30th September 2006 would not exceed HK\$60 million and HK\$59 million, respectively. The total charges in respect of such telecommunications services paid by the Group to PCCW Group for the year ended 31st December 2005 was approximately HK\$26.3 million. The provision of such services is on normal commercial terms and in the ordinary and usual course of business of the Group.

Also, in accordance with the regulations of the Office of the Telecommunications Authority ("OFTA"), wireless operators are required to pay interconnection charges to PCCW Group for transmission of mobile calls via PCCW Group's fixed telephone network. The rates for the interconnection charges payable to PCCW Group are regulated by OFTA. Total interconnection charges paid to PCCW Group was HK\$41 million for the year ended 31st December 2004. In view of the Group's 3G network roll-out and the anticipated growth in network usage, it was expected that the total of such interconnection charges payable by the Group to PCCW Group would not exceed HK\$45 million and HK\$53 million for the year ended 31st December 2005 and the nine months ending 30th September 2006 respectively. The total interconnection charges paid by the Group to PCCW Group for the year ended 31st December 2005 was approximately HK\$20.6 million.

As the agreements were entered into with members of PCCW Group which became connected persons of the Company and the provision of such services by PCCW Group to the Group is of a continuing and recurring nature, it is subject to the reporting and disclosure requirements under Rule 14A.41 of the Listing Rules. Upon any variation or renewal of the relevant agreements, the Company will comply in full with all applicable reporting, disclosure and independent shareholders' approval requirements under Rule 14A.41 of the Listing Rules.

(b) Provision of distribution services to the Group

PCCW-HKT Network Services Limited ("NSL"), an indirect wholly-owned subsidiary of PCCW, entered into the distribution agreement with Mandarin Communications Limited ("Mandarin") on 25th July 2005, to act as one of its distributors for the distribution, promotion and sale of Mandarin's services and certain consumer products in Hong Kong with effect from 25th June 2005 (the "Distribution Agreement"). The Distribution Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group and expired on 31st December 2005.

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It was expected that the total commissions payable by Mandarin and the sale of consumer products to NSL under the Distribution Agreement for the year ended 31st December 2005 would not exceed HK\$6 million and HK\$21 million, respectively. There were no such previous transactions between the parties in this regard and these estimates were determined based on sales projections as discussed between NSL and the Group. The total commissions paid by Mandarin and the sale of consumer products to NSL for the year ended 31st December 2005 were HK\$5.8 million and HK\$19.7 million, respectively.

The transactions under the Distribution Agreement fall within Rule 14A.34 of the Listing Rules and are only subject to the reporting and announcement requirements under Rule 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under the Listing Rules. The Company undertook to comply with the requirements under Rule 14A.36 of the Listing Rules if the aggregate value of such transactions exceeds such amounts for the year ended 31st December 2005, or when the Distribution Agreement is renewed or there are material changes to the terms of the Distribution Agreement.

The Board, including the Independent Non-executive Directors of the Company, reviewed and confirmed that the CC Transactions for the year ended 31st December 2005 were entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, the Auditors of the Company confirmed to the Board in writing in respect of the CC Transactions for the year ended 31st December 2005 that the CC Transactions:

- (i) were approved by the Board;
 - (ii) were in accordance with the pricing policies of the Group if the CC Transactions involve provision of goods or services by the Group;
 - (iii) were entered into in accordance with the relevant agreements governing the CC Transactions; and
 - (iv) did not exceed the specified aggregate value of each of the CC Transactions for the year ended 31st December 2005 disclosed in the 2005 Announcement.
- (2) On 12th January 2006, the Company further announced that members of the Group and members of PCCW Group have entered into the following agreements, which also constitute continuing connected transactions of the Company under the Listing Rules. Given the anticipated recurring nature of these transactions, a maximum aggregate annual value for each category of transactions ("Annual Cap") has been set by the Company, details of which have been disclosed in the Company's announcement dated 12th January 2006 (the "2006 Announcement").

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(a) *Provision of distribution services to the Group*

Agreements date:	10th January 2006
Parties:	Mandarin; and NSL.
Summary:	Mandarin has appointed NSL to act as one of its distributors for the distribution, promotion and sale of Mandarin's services and certain consumer products in Hong Kong. As regards the consumer products, these are purchased by NSL from Mandarin and may then be re-sold by NSL. NSL is entitled to retain the difference between the price paid to Mandarin and the retail price. As regards the commissions payable to NSL, Mandarin is required to compile monthly sales reports showing total sales proceeds returnable to Mandarin and total commissions payable to NSL. The two figures may be set off against each other with the balance returnable to Mandarin within 60 days after the issuance of the report. The Directors are satisfied that the agreements are on normal commercial terms.
Duration:	The agreements expire on 31st December 2006, but may be terminated earlier, should either party give to the other not less than 15 days' notice.
Annual Caps for the year ending 31st December 2006:	HK\$28 million in respect of sales commissions payable by Mandarin and HK\$28 million in respect of consumer products sold to NSL for resale purposes. The projected sales commissions and projected sales to NSL, as determined by reference to estimated sales commissions and estimated sales referred to in the Distribution Agreement, are in excess of the Annual Cap. However, until independent shareholders' approval is obtained for, among other things, higher caps, the Company will adhere to the Annual Caps (or otherwise discontinue the arrangements before the Annual Caps are exceeded).

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(b) Wholesale of 2G and 3G mobile telecommunications services to PCCW Group

Agreements date:	10th January 2006
Parties:	Mandarin and SUNDAY 3G (Hong Kong) Limited ("SUNDAY 3G"), an indirect wholly-owned subsidiary of the Company; and PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of PCCW.
Summary:	Mandarin and SUNDAY 3G have agreed to wholesale certain 2G and 3G mobile telecommunications services, respectively, to HKTC so as to enable HKTC to repackage, promote, distribute and resell those services in Hong Kong. The charges payable by HKTC to Mandarin and SUNDAY 3G are on normal commercial terms. SUNDAY 3G shall issue and send invoices together with a call detail record file to HKTC at such intervals as both parties may agree. In the absence of dispute raised by HKTC within 14 days upon receipt, the invoices are deemed accepted and HKTC shall settle the invoices within 30 days from the date of receipt of the invoices. The Directors are satisfied that the agreements are on normal commercial terms.
Duration:	The agreements expire on 31st December 2006, but may be terminated earlier (in respect of all or any of the services provided), should either party give to the other not less than 60 days' notice.
Annual Cap for the year ending 31st December 2006:	HK\$28 million. The Company anticipates sales to HKTC in excess of the Annual Cap. However, until independent shareholders' approval is obtained for, among other things, a higher cap, the Company will adhere to the Annual Cap stated (or otherwise discontinue the arrangement before the Annual Cap is exceeded).

(c) Provision of IDD wholesale service to the Group

Agreement date:	10th January 2006
Parties:	HKTC; and Mandarin.
Summary:	HKTC has agreed to provide international direct dial (“IDD”) wholesale capacity to Mandarin for the carriage of voice and data from certain inter-connection points within Hong Kong to certain destinations outside Hong Kong. The charges are on normal commercial terms. HKTC will provide to Mandarin within 15 days after expiration of each calendar month a statement setting out the amount due and to be paid to HKTC for the IDD wholesale services provided in that month. Mandarin shall pay the amount set out in such statement to HKTC within 30 days after the date of such statement, subject to bona fide dispute made in accordance with the terms of the agreement. The Directors are satisfied that the agreement is on normal commercial terms.
Duration:	The agreement expires on 31st December 2006, but may be terminated earlier, should either party give to the other not less than 30 days’ notice.
Annual Cap for the year ending 31st December 2006:	HK\$2 million, being an estimate principally determined by reference to charges to be incurred by Mandarin on IDD capacity.

(d) Handset mobile trade-in programme

Agreement date:	10th January 2006
Parties:	PCCW Directories Limited (“PDL”), an indirect wholly-owned subsidiary of PCCW; and Mandarin.
Summary:	Mandarin has appointed PDL on an exclusive basis to collect trade-in mobile handsets surrendered to Mandarin via the Company’s retail shops and other channels. PDL will purchase those trade-in mobile handsets on the basis of an agreed price schedule. The settlement of trade-in value by PDL to Mandarin shall be settled on a monthly basis by the group accounting system or by cheque if such system is not available. The Directors are satisfied that the agreement is on normal commercial terms.
Duration:	The agreement expires on 31st December 2006, but may be terminated earlier, should either party give to the other not less than 30 days’ notice.

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Annual Cap for the year ending 31st December 2006: HK\$6 million, being an estimate principally determined by reference to a similar handset trade-in programme operated between late September 2005 and 31st December 2005, the details of which were not required to be announced on the basis of the de-minimis sums involved.

(e) Provision of call centre services for the benefit of the Group

Agreement date: 10th January 2006

Parties: Mandarin; and

PCCW Teleservices (Hong Kong) Limited ("PCCW Teleservices"), an indirect wholly-owned subsidiary of PCCW.

Summary: The Group has decided to outsource its call centre services to PCCW Teleservices, given the need for increased customer services capacity and the anticipated growth in network usage and subscriber's base. These amounts payable include a set up fee to be made prior to May 2006 and a monthly service fee to be calculated based on the headcount of operators involved. The Directors are satisfied that the agreement is on normal commercial terms.

Duration: The agreement expires on 31st July 2006.

Annual Cap for the year ending 31st December 2006: The amounts payable by Mandarin have been capped at HK\$28 million.

The aggregate projected charges for 2006 exceed HK\$28 million. However, until independent shareholders' approval is obtained for, among other things, a higher cap, the Company will adhere to the Annual Cap stated (or otherwise discontinue the arrangement before the Annual Cap is exceeded).

(f) Provision of systems integration and operations to the Group

Agreement date: 10th January 2006

Parties: PCCW Powerbase Data Center Services (HK) Limited ("PCCW Powerbase"), an indirect wholly-owned subsidiary of PCCW; and
Mandarin.

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Summary: PCCW Powerbase has agreed to provide data centre management services and IT network support services to Mandarin. The amounts payable under the agreement include a set up charge payable in January 2006 and a service charge payable every month in advance. The Directors are satisfied that the agreement is on normal commercial terms.

Duration: The agreement expires on 31st December 2006.

Annual Cap for the year ending 31st December 2006: HK\$13 million, being the value of the agreement, based upon the Company's estimate of the system upgrades and equipment replacement costs for 2006.

(g) Sale of mobile plans by the Group to PCCW Group

Agreement date: 10th January 2006

Parties: Mandarin; and

PCCW-HKT Limited ("HKTL"), an indirect wholly-owned subsidiary of PCCW.

Summary: HKTL has agreed to acquire certain telecommunications services from Mandarin to the extent that such services will be provided or made available to HKTL's authorised users (comprising different packages of mobile phone services offered by the Group). At the end of each billing cycle, Mandarin shall send an invoice for the preceding billing cycle, and in the absence of dispute raised by HKTL within 10 days upon receipt of the invoice, the invoice shall be payable within 45 days from the date thereof. The Directors are satisfied that the agreement is on normal commercial terms, being in the same form as entered into with the Group's corporate customers generally.

Duration: The agreement expires on 31st December 2006, but may be terminated earlier should either party give to the other not less than 3 months' notice.

Annual Cap for the year ending 31st December 2006: HK\$6 million, based upon internal projections of the number of users who will be authorised by HKTL to sign up for the services during 2006.

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(h) Provision of office space to the Group

Agreement date:	10th January 2006
Parties:	PCCW Services Limited ("PCCWS"), a direct wholly-owned subsidiary of PCCW; and Mandarin.
Summary:	PCCWS has agreed to provide office space to Mandarin at PCCW Tower, TaiKoo Place, Quarry Bay, Hong Kong. The amount payable by Mandarin to PCCWS under the agreement shall be payable in arrears on a monthly basis against PCCWS' invoice. Within 14 days following the end of each month, PCCWS shall prepare and send to Mandarin a breakdown/invoice giving details of the charge for the precedent month. The Company shall duly settle the invoice within 14 days thereafter. The Directors are satisfied that the agreement is on normal commercial terms.
Duration:	The agreement expires on 31st December 2006.
Annual Cap for the year ending 31st December 2006:	HK\$4 million, based upon an apportionment of the costs according to the space to be occupied by the staff of the Group.

(i) Provision of facility management services to the Group

Summary:	Mandarin (in respect of 2G telecommunications services) and SUNDAY 3G (in respect of 3G telecommunications services) have entered into various agreements with HKTC relating to the provision by HKTC of facility management services to Mandarin and SUNDAY 3G at 14 exchanges buildings owned by HKTC in Hong Kong. The services relate to management services in respect of radio equipment at what are known as 'facility management sites' necessary for the provision of mobile telephone services. The agreements in respect of 4 such facility management sites pre-dated PCCW Mobile's ownership of shares in the Company. The agreement in respect of 10 such facility management sites was entered into on 10th January 2006.
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There is a minimum commitment period in respect of each such facility management site of two years from when the facility management site is made ready for use. That two-year period has already expired in respect of the 4 facility management sites referred to above. After the expiry of the two-year minimum commitment period in respect of any facility management site, the service to the facility management site is terminable by either party on giving 6 months' notice. (Mandarin (in respect of 2G telecommunications services) and SUNDAY 3G (in respect of 3G telecommunications services) has the right to terminate the respective service to any facility management site within the relevant two-year minimum commitment period subject to paying the outstanding charges). Unless terminated earlier, the arrangements in respect of the above 14 facility management sites will expire on 31st December 2008.

In addition, Mandarin has entered into a licence agreement with Netcare Limited, an indirect wholly-owned subsidiary of PCCW, in respect of the licence of a mobile facility management site at the exchange building in Chek Lap Kok. The licence period expires on 31st May 2007 but may be terminated earlier by Mandarin on giving 1 month's notice to Netcare Limited.

The aggregate annual fees payable by the Group in respect of the 15 facility management sites is approximately HK\$2 million. Moreover, when the Group is to terminate all of its existing commitments in respect of the abovementioned 15 facility management sites, it would have to pay an aggregate amount of approximately HK\$2.7 million, inclusive of all amounts payable in respect of notice periods in respect of each facility management site. Invoice amounts in respect of charges payable to HKTC under the agreements are due in full within 30 calendar days from the date of issue of the invoice or next working day if it is a holiday. All invoices must be settled in HK\$ by company or bank cheque made payable to HKTC or by electronic transfer to the nominated bank account of HKTC. Payment must be credited to HKTC on or before the invoice due date.

The Directors are satisfied that each of the agreements is on normal commercial terms.

Annual Caps for each of three years ending 31st December 2008:

HK\$4 million per annum, representing the aggregate annual fee commitment contracted for to date of HK\$2 million plus a contingency of approximately HK\$2 million to cater for additional fees in respect of further facility management sites that may be required, in each case on substantially the same terms as the existing agreements.

Report of the Directors

(j) Offer letters in respect of telephone exchanges

Summary:

HKTC and Mandarin have entered into an offer letter dated 1st September 2005 whereby HKTC proposes to grant Mandarin a licence to occupy part of HKTC's telephone exchange at Yau Tong, Kowloon for the purpose of enabling Mandarin to provide a switching centre facility. The grant of any licence is subject to the waiver approval of the Director of Lands and such licence will run for a term of 3 years commencing from the date of such approval. As at the date of this report, the approval has yet to be received. The licence fee will be equal to the market value prescribed in, or otherwise derived from, the waiver approval mentioned above.

With effect from 1st September 2005 and until commencement of the licence or 31st December 2006 whichever is earlier, Mandarin has a right of access to the site to enable Mandarin to design, co-ordinate and implement the fitting out works, in consideration for which Mandarin pays a fitting out administration fee of approximately HK\$90,000 per month.

In addition, HKTC and Mandarin have entered into an offer letter dated 10th January 2006 whereby HKTC proposes to grant Mandarin a licence to occupy a portion of the telephone exchange in Lai Chi Kok, Kowloon owned by HKTC as office space. The grant of any licence is subject to the waiver approval of the Director of Lands and such licence will run for a term of 1 year commencing from the date of such approval. As at the date of this report, the approval has yet to be received. The licence fee will be equal to the market value prescribed in, or otherwise derived from, the above-mentioned waiver approval.

With effect from 1st January 2006 and until commencement of the licence or 31st December 2006, whichever is earlier, Mandarin has a right of access to the site to enable Mandarin to design, co-ordinate and implement the fitting-out works, in consideration for which Mandarin pays a fitting-out administration fee of approximately HK\$209,000 per month.

The Directors are satisfied that both offer letters are on normal commercial terms.

Report of the Directors

Annual Cap for the year ending 31st December 2006: HK\$4 million, representing the aggregate annual monthly fitting-out administration fees for the two telephone exchanges plus a contingency to cater for additional fitting-out administration fees in respect of further space that may be required at any telephone exchange of HKTC if the Directors consider it appropriate. It is not anticipated that the rights of access arrangements will need to run beyond 31st December 2006 as the decision of the Director of Lands is, for each exchange, expected to be made within the year. As and when the licences are settled and the licence fees are determined, the Company will make a further announcement and, as necessary, comply with the independent shareholders' approval requirements of the Listing Rules.

(k) Design and build of mobile switching centres for the Group

Letter of award date: 10th January 2006

Parties: Cascade Limited ("Cascade"), an indirect wholly-owned subsidiary of PCCW; and

Mandarin.

Summary: Mandarin has awarded Cascade the contract to design and build the new mobile switching centre at Yau Tong exchange referred to in the above offer letter, following a tender process. As noted above, use of the site for this purpose remains subject to the waiver approval of the Director of Lands. The Directors are satisfied that the contract has been awarded on normal commercial terms.

Duration: Completion in respect of the design and build of the Yau Tong exchange is to occur on or before 31st December 2006. In light of the expected increase in 3G usage, the Directors anticipate that it may be necessary to tender for the design and build of additional switching centres before 31st December 2006 and wish to provide for the flexibility of awarding some or all of that work to Cascade if the Directors perceive the Cascade tender(s) to be best for the Group.

Annual Cap for the year ending 31st December 2006: HK\$28 million (comprising the HK\$15 million costs applicable to the Yau Tong project and a contingency of approximately the same amount for further switching centre(s)).

To the extent that the design and build of the switching centres has not been completed within 2006, the Company will make a further announcement in due course and, as applicable, set annual caps for 2007 and beyond.

Report of the Directors

(I) *Provision of logistics support by PCCW Group*

The Group has entered into two agreements (the “Logistic Support Agreements”) with PCCW Group applicable to the provision of certain logistical and administrative support to the Group. Details of the Logistic Support Agreements are as follow:

Agreement date:	10th January 2006
Parties:	Power Logistics Limited (“Power Logistics”), an indirect wholly-owned subsidiary of PCCW; and Mandarin.
Summary:	Power Logistics will provide logistical support to the Group, including printing and mailing services, in consideration for the payment by Mandarin of charges to be agreed with Power Logistics on project by project basis. The service charges under the agreement shall be payable in arrears on a monthly basis against Power Logistics’ invoice. Within 14 days following the end of each month, Power Logistics shall prepare and send to Mandarin a breakdown/invoice giving details of the service charge for the precedent month. Mandarin shall duly settle the invoice within 30 days thereafter. The Directors are satisfied that the agreement is on normal commercial terms.
Duration:	The agreement expires on 31st December 2006 but may be terminated earlier should either party give to the other one month’s notice in advance.
Agreement date:	10th January 2006
Parties:	HKTC; and Mandarin.
Summary:	HKTC will provide procurement, purchasing and supply consulting services to Mandarin designed to enhance the Group’s purchasing of services and products applicable to all aspects of its business operations, including to provide consulting services for Mandarin to procure data centres, switch and site construction and facility management leasing. For procurement or purchases, Mandarin shall make payment to HKTC directly as per the payment terms and manner agreed in the purchase order. For charges other than those for procurement or purchases, Mandarin shall make payment to HKTC on monthly basis in respect of the said services and products against HKTC’s invoice. Within 14 days following the end of each month, HKTC shall prepare and send to Mandarin a breakdown/invoice giving details of the service charge for the precedent month. Mandarin shall duly settle the invoice within 30 days thereafter. The Directors are satisfied that the Agreement is on normal commercial terms.

Duration:	The agreement expires on 31st December 2006 but may be terminated earlier should either party give to the other three months' notice in advance.
Annual Cap for the year ending 31st December 2006:	A combined Annual Cap of HK\$6 million has been set in respect of the Logistic Support Agreements based on an estimate of the anticipated costs.

As the relevant percentage ratios (as defined in the Listing Rules) applicable to the Annual Cap in respect of each category of continuing connected transaction exceed 0.1% but are less than 2.5%, each category of transaction is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. The Company will comply with the requirements of Rule 14A.36 if the aggregate value of transactions within each category described above exceeds the stated Annual Cap for the relevant category of transactions during the period ending 31st December 2006, or when the relevant agreements applicable to the relevant category of transactions is renewed or is subject to material changes.

The Directors believe that each of the continuing connected transactions described above stands to benefit from the synergies afforded by virtue of the various transactions, in particular by enabling the Group to leverage on the infrastructure and distribution networks of PCCW Group.

The Directors (including the Independent Non-executive Directors) are of the opinion that the transactions entered into pursuant to the various agreements and offer letters set out above are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

The Directors will monitor the transactions undertaken within each category of continuing connected transactions identified in the 2006 Announcement with a view to ensuring adherence to the relevant Annual Cap. The Company anticipates that the total value of the transactions within certain of the categories identified above will exceed the respective Annual Caps. However, until independent shareholders' approval for higher caps has been obtained, the Company will adhere to the relevant Annual Cap stated or otherwise discontinue the arrangements before the relevant Annual Cap is exceeded.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal courses of business are set out in note 13 to the summary accounts. In relation to those related party transactions constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

Report of the Directors

PUBLIC FLOAT

Upon closing of the Offer on 9th September 2005, PCCW Mobile owned in aggregate 2,372,672,256 shares, representing approximately 79.35% of the issued share capital of the Company. The Company is required to restore sufficient public float of at least 25% of the issued share capital of the Company as required under Rule 8.08 of the Listing Rules and application has been made to the Stock Exchange on waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules. The Company has previously been granted two one-month waivers by the Stock Exchange from strict compliance with Rule 8.08(1)(a) of the Listing Rules during the period from 9th September 2005 to 8th October 2005 and the period from 9th October 2005 to 8th November 2005. On the expiry of the second waiver on 8th November 2005, the Company was granted a further waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a further period from 9th November 2005 up to (i) the date of the withdrawal of the listing of the shares of the Company on the Stock Exchange following the scheme of arrangement in relation to the proposed privatisation of the Company having become effective; or (ii) in the event that the proposed privatisation of the Company did not proceed, the date which is one month after the Company first becomes aware that the proposed privatisation of the Company will not proceed (“One-month Period”).

As the scheme of arrangement in relation to the proposed privatisation of the Company was disapproved at the court meeting of the Company’s independent shareholders held on 15th December 2005, the Company is required to restore sufficient public float of at least 25% of the issued share capital of the Company as required under Rule 8.08 of the Listing Rules within the One-month Period ending on 15th January 2006. The Company has applied for and was granted three additional one-month waivers from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a further period from 16th January 2006 to 15th February 2006, the period from 16th February 2006 to 15th March 2006 and the period from 16th March 2006 to 15th April 2006.

Details of the above public float arrangements have been disclosed in the joint announcement issued by the Company and PCCW on 9th September 2005, the joint announcements issued by the Company, PCCW Mobile and PCCW on 27th September 2005, 13th October 2005 and 9th November 2005, and the announcements issued by the Company on 10th October 2005, 12th January 2006, 15th February 2006 and 16th March 2006.

AUDITORS

The consolidated accounts for the financial year ended 31st December 2005 have been audited by PricewaterhouseCoopers who will retire upon the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Alexander Anthony Arena

Chairman

Hong Kong,

29th March 2006