



During 2004, SUNDAY focused its energies on preparing for the launch of its 3G services, while continuing to improve the quality and efficiency of its operations. The 3G market in Hong Kong is now gaining the desired momentum and consumers are increasingly excited by what the technology will offer. Already this is altering the competitive landscape greatly to SUNDAY's benefit. We are fully ready for 3G and will endeavour to seize the opportunities it presents.

RESULTS

The market in Hong Kong remained highly competitive during the year, with operators offering extensive handset subsidies and discounted tariffs to attract consumers. Recognising the short-sightedness of competing aggressively on price for customers in the mass market, SUNDAY concentrated on preparing for the launch of 3G services and the consequent migration of its subscriber base to this new level of service.

Although we did not compete aggressively with other operators' extensive 2G handset subsidies, which were particularly acute in the second half of the year, our subscriber base increased by 4% over 2003 to 684,000, with growth in both the post-paid and pre-paid categories. ARPU, however, declined to HK\$180 per post-paid subscriber as price tariffs fell and rebates increased. As a result, mobile service revenues declined by 10% to HK\$1,032 million. Further gains were made in operating efficiency, so that despite the addition of 3G start-up expenses, total operating expenses declined by 12% to HK\$544 million. As a result of these efficiencies, SUNDAY recorded an 81% year-on-year increase in 2G operating profit to HK\$49 million, and after HK\$43 million in 3G roll-out costs, its second consecutive full year net profit, amounting to HK\$6 million.

OPERATIONS

While developments in the mobile telecommunications industry have not been favourable in recent years, SUNDAY had been far-sighted in countering these conditions by putting in place the strategies and infrastructure to succeed as 3G becomes a reality.

Among these was the need for a highly efficient operation. The measures we have taken over the past three years, notably the establishment of our service centre in Shenzhen, Mainland China, continue to yield results as each year we have improved efficiency. The ratio of operating expenses to mobile services revenue for our 2G operations improved further to 49% in 2004 from 54% in 2003 and 65% in 2002.

We have always recognised the vital importance of providing high quality service. We continued to upgrade our existing 2.5G network in 2004, adding 64 more cell sites, to improve coverage. We also continued our monthly surveys of service quality, using professional market research firms. The data and analysis collected were integrated into our intensive programme to improve network quality and customer

service, which bore fruit during 2004 as SUNDAY garnered a remarkable number of customer service awards from a variety of organisations. These included the “Best-in-Class” award from the Asia Pacific Customer Service Consortium and a total of ten group and individual awards from Hong Kong’s Call Centre Association.

In marketing, anticipating the potential of 3G technology, we moved away from the commoditised product offerings applicable to the voice market of 2G, towards more targeted and content based services. Hence our operation is organised around customer segments which centre on demographic attributes such as age, ethnicity and lifestyle as well as customer behaviour patterns. The success of this strategy was demonstrated in 2004 by a 32% increase in data services revenue which accounted for 8% of mobile service revenues, and reduced churn.

Most significantly, however, this hands-on experience with 2G and 2.5G services has given us considerable understanding of how to offer tailored services to user groups, which will be vital to attracting and retaining customers in the 3G era.

3G

The fundamentals are thus in place for launch of our 3G service, for which we have made decisions on timing, technology and service delivery that will give us a competitive advantage.

On timing, we have been right not to rush into a launch. The promise of the technology remains, but has been predictably undermined by teething problems in networks and in particular by a lack of good handsets. This situation is now improving and by the second half of 2005, much superior handsets will be available to all operators from a wide variety of manufacturers. Hence our plan to launch in the second quarter of 2005, which although after the other 3G licence holders, will coincide with the availability of handsets which will be in demand from consumers because of their improved functionality and cost.

Our decision to select Huawei Technologies Co., Ltd. (“Huawei”) as our technology partner has proven far-sighted. We said at the time that Huawei’s technical excellence and attractive commercial terms were key factors in that decision. Since then, Huawei has exceeded expectations in respect of technical quality, vendor responsiveness and overall commercial support for SUNDAY. In November we signed expanded credit and supply terms with Huawei, which is as committed as SUNDAY to providing 3G services that can be a global showcase of the technology. The extended repayment schedule, meanwhile, greatly strengthens our financial position during the start-up period.

The network is now installed and the billing and service platforms are in place. Moreover, extensive testing has demonstrated that we will be among the leaders in the quality of service that users will experience. Furthermore, with minor enhancements planned for the end of 2005, our network will be ready by the first quarter of 2006 for high speed downlink packet access (HSDPA) technology, which offers even faster speeds and opens up mobile networks to the full range of multimedia services.

The new technology offers an enormous opportunity to make life more fun through a wide variety of entertaining content, intriguing handsets and innovative services. This promise of 3G technology aligns closely with long-held perceptions of SUNDAY's brand, giving us a distinct advantage in the marketplace. But the technology must be delivered in the right way, through handsets and networks that are reliable and easy to be used, with associated customer services that deliver consistently positive consumer experiences. We have worked diligently to build the service delivery platform capable of achieving this for our 3G service to ensure it will be the stimulating, vibrant and meaningful experience the market expects. As part of this effort, we will leverage the understanding of our customers we have accumulated through our segmentation strategy.

COMMUNITY ENGAGEMENT

As a company that cares not just about financial results, but the people whose lives it touches, during 2004, SUNDAY continued to engage with the community by supporting charitable and sponsorship activities with a focus on youth and sports. We were also active participants in a number of environmental protection and awareness initiatives.

OUTLOOK

The market will remain competitive in 2005 and we will also face further 3G roll-out costs, which will affect profitability in the short term.

The arrival of 3G, however, immediately improves our competitive position. Although its timing is uncertain, market consolidation is an inevitable consequence of 3G as the excitement offered by the more sophisticated technology becomes readily accessible, leading to increasing consumer demand. As a 3G licence holder, SUNDAY will benefit from this process. Even in the absence of consolidation, the improved handsets and extensive roll-out of 3G networks are expected increasingly to drive higher value added usage, including data usage, to 3G services. SUNDAY's combination of excellent technology, ease of use and exciting content, backed by a brand that fits the market will enable us to capitalise fully on the opportunity.

We are excited about the imminent launch of our 3G service, which we are convinced will make the lives of our subscribers more fun and lead to higher revenues for SUNDAY. The network is ready for operation, with technology that is proving to be among the best in the market and the strong support of Huawei. We have an efficient operation and are recognised leaders in customer service. All of these factors will come together more powerfully as we roll out 3G during 2005.

In the longer term, growth avenues will be created as Mainland China's mobile market opens to investment from outside and as the Mainland's domestic telecommunications industry plays an increasing role in the Hong Kong and global markets. Mobile operators will also be able to capture opportunities that will arise as Internet Protocol becomes the common platform for multimedia services for fixed and wireless telecommunications.

In short, we are ready not just for 3G but for the world of opportunities beyond 3G. We firmly believe that the future belongs to SUNDAY, and that shareholders will be rewarded for sharing our belief.

APPRECIATION

Finally, we wish to extend our thanks to our fellow directors and all employees for their hard work and commitment to the Group. We also thank our shareholders, bankers, advisers and suppliers for their continued support of SUNDAY.

Richard John Siemens
Co-Chairman

Edward Wai Sun Cheng
Co-Chairman

Hong Kong, 30th March 2005