

SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Hong Kong dollar is translated to United States dollar at a rate of HK\$7.8 to US\$1.0)

- EBITDA increased by 143% to HK\$102 million (US\$13 million)
- Loss decreased by 42% to HK\$66 million (US\$9 million)
- Subscriber numbers increased by 3% to 570,000, compared to 551,000 in December 2001
- ARPU improved to HK\$210 (US\$27) in June 2002 from HK\$205 (US\$26) in December 2001
- Operating expenses (excluding depreciation) reduced by 6%, and dropped from 73% to 66% as a percentage of mobile services revenue
- Churn reduced to 4.7% in June 2002 from 7.8% in December 2001

The Directors of SUNDAY Communications Limited ("the Company") are pleased to present the consolidated profit and loss account for the six months ended 30th June, 2002 and the consolidated balance sheet as at 30th June, 2002 of the Company and its subsidiaries ("the Group"), all of which are unaudited and condensed.

Condensed Consolidated Profit and Loss Account For the six months ended 30th June, 2002

	Note	Unaudited Six months ended 30th June, 2002 2002 20 US\$'000 HK\$'000 HK\$'		
Mobile services Sales of mobile phones and accessories International telecommunications and other services		76,214 8,102	594,469 63,192	574,584 144,960
		855	6,672	6,286
Turnover Cost of inventories sold and services provided	1	85,171	664,333	725,830
		(21,826)	(170,239)	(264,560)
Gross profit		63,345	494,094	461,270
Other revenues Network costs Depreciation Rent and related costs Salaries and related costs Advertising, promotion and other selling costs Other operating costs		109 (18,979) (16,740) (3,950) (15,319) (8,391) (3,738)	849 (148,035) (130,570) (30,806) (119,492) (65,452) (29,157)	(148,224) (134,236) (28,057) (119,713) (92,135) (31,091)
Loss from operations	1, 2	(3,663)	(28,569)	(92,186)
Interest income Finance costs Share of losses from joint ventures		(3,659) (1,415)	1,669 (28,538) (11,039)	15,519 (37,806)
Loss for the period		(8,523)	(66,477)	(114,473)
Loss per share	4	(0.3 cents)	(2.2 cents)	(3.8 cents)
EBITDA	5	13,077	102,001	42,050
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Loss per share	4 _	(0.3 cents)	(2.2 cents)	(3.8 cents
EBITDA	5	13,077	102,001	42,050
Condensed Consolidated Balance Sheet As at 30th June, 2002				
				Audited
		Unaudited	Unaudited	31st
		30th June, 2002	30th June, 2002	December 2001
		US\$'000	HK\$'000	HK\$'000
Non-current assets				
Intangible asset		74,863	583,930	583,930
Fixed assets Investment in joint ventures		155,990 965	1,216,724 7,527	1,293,479 4,940
Restricted cash deposits		306	2,385	2,385
	_	232,124	1,810,566	1,884,734
Current assets	-			
Inventories		1,096	8,546	20,448
Trade receivables		11,104	86,609	88,462
Deposits, prepayments and other receivables Restricted cash deposits	S	17,038 17,170	132,898 133,927	95,608 132,706
Bank balances and cash	_	12,148	94,756	47,328
		58,556	456,736	384,552
Current liabilities Trade payables	-	6,802	53,054	47,932
Other payables and accrued charges		24,809	193,509	193,311
Subscriptions received in advance Current portion of long-term loans and oblig	rations	17,050	132,986	145,795
under finance leases	;ations -	27,876	217,434	196,960
		76,537	596,983	583,998
Net current liabilities		(17,981)	(140,247)	(199,446
	-			
	-	214,143	1,670,319	1,685,288
Financed by:				
Share capital		38,333	299,000	299,000
Reserves	_	54,169	422,519	488,996
Shareholders' equity		92,502	721,519	787,996
Long-term liabilities 3G Licence fees liability		42,706	333,109	333,109
Long-term loans and obligations under final	nce			
leases		78,400	611,522	556,653
Subscriptions received in advance	-	535	4,169	7,530
		121,641	948,800	897,292
	-			

Segment information

The Group is principally engaged in three business segments in Hong Kong: mobile services, sales of mobile phones and accessories, and international telecommunications and other services.

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	Six months ended 30th June, 2002			
	Mobile services HK\$'000	Sales of mobile phones and accessories HK\$'000	International telecommunications and other services HK\$'000	Group HK\$'000
Turnover	594,469	63,192	6,672	664,333
Profit/(loss) from operations	3,987	(15,307)	(17,249)	(28,569)
Interest income Finance costs Share of losses from joint ventures	(10,448)		(591)	1,669 (28,538) (11,039)
Loss for the period				(66,477)

	Six months ended 30th June, 2001			
	Mobile services HK\$'000	Sales of mobile phones and accessories HK\$'000	International telecommunications and other services HK\$'000	Group HK\$'000
Turnover	574,584	144,960	6,286	725,830
Loss from operations	(12,475)	(38,929)	(40,782)	(92,186)
Interest income Finance costs				15,519 (37,806)
Loss for the period				(114,473)

2. Loss from operation:

	Six months ended 30th June, 2002 2001		
	HK\$'000	HK\$'000	
Cost of inventories sold	60,604	156,149	
Depreciation:			
- owned fixed assets	128,475	129,819	
- leased fixed assets	2,095	4,417	
Loss on disposals of fixed assets	66	10	
Operating leases charges:			
- land and buildings, including transmission sites	108,701	102,801	
— leased lines	43,526	47,798	
Provision for doubtful debts	14,554	10,399	

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the pe (2001: Nil).

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the six months ended 30th June, 2002 of HK564.77,000 (2001: loss of HK514.473,000) and the 2.990,000,000 shares) in issue during the period.

(b) Diluted loss per share

There is no dilutive effect upon exercise of the share options on the loss per share for the six months ended 30th June 2002

EBITDA

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

Subsequent events

On 30th July, 2002, the Group entered into various documents to effect certain amendments to its bank loan and vendor loan facilities in order to accommodate changes to the structure of the Group for business development and/or cost saving measures, as well as to vary certain financial covenants. The maturity date of the loans, amounts lent and interest provisions have not been altered. Details can be referred to the announcement on "Amendments to Nortel and UoB Facilities" dated 31st July, 2002.

The Company also announced on 23rd August, 2002 that the operations of Shell & SUNDAY Mobile Communications Limited, the joint venture formed with Shell Hong Kong Limited, will be shut down effective 76th Sentember 2002.

INTERIM DIVIDENDS

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

SUNDAY has delivered significantly improved operating results during the period under review. The Group recorded EBITDA of HK\$102 million, an improvement of HK\$60 million over the corresponding period last year. Loss for the period decreased by 42% to HK\$66 million. The Group also recorded positive cash flow of HK\$73 million from operating activities as compared with a cash outflow of HK\$75 million from operating activities during the first half of 2001. This positive cash flow from operations covered finance costs and maintenance capital expenditure.

The Group has focused on ensuring stable and cost-effective operations. Improvements in operating performance stem from the efforts made in churn reduction, ongoing cost control and business process re-engineering. Subscriber numbers, mobile services revenue and monthly average revenue per user ("ARPU") have all improved.

SUNDAY's management is confident of managing its debt and repayment schedule under the existing financing arrangements. As at 30th June, 2002, the Group had cash reserves and available revolving facility of HKS868 million. Net debt at 30th June, 2002 amounted to HKS597 million. Net debt will increase slightly through the end of 2002 to complete our final phase of 2.5G network enhancement before 3G, and will begin to reduce thereafter. SUNDAY has already paid its first 5 years of 3G licence fees and capital expenditure for 3G rollout is not expected until 2004, when appropriate financing arrangements will be made.

SUNDAY is well-prepared to take advantage of the next phase in wireless communications, and is positioned for future growth with a lean operating structure, a segmented approach to the market and a solid rollout plan for new data services.

Total mobile subscribers increased by 18% to 570,000 as at 30th June, 2002 as compared with 30th June, 2001, and increased by 3% as compared with 31st December, 2001. Revenue from the mobile services business for the six months ended 30th June, 2002 recorded a 3% increase to HKS594 million as compared with the corresponding period in 2001 and increased by 1% as compared with the second half of 2001. The gross profit of the mobile services business was stable at 82%.

The mobile services business has improved continuously during the period. ARPU has shown a rising trend since the second quarter this year with increased wireless data revenue. ARPU improved to HK\$210 in June 2002 from HK\$205 in December 2001, reversing the painful trend observed for the past four years of sharply declining ARPU. ARPU for June 2001 was HK\$224. The monthly churn rate, calculated as a percentage of opening subscribers, was reduced to 4.7% in June 2002 from 10.7% in June 2001 and 7.8% in December 2001, with the implementation of effective retention programs and an easing of market competition.

Revenues from the sales of mobile phones and accessories for the six months ended 30th June, 2002 dropped by 57% to HKS63 million. As the Group does not earn a profit from selling handsets, this decline in revenues is favourable for the Group. The revenues and the gross profit from international telecommunications and other services remained stable and relatively small.

Therefore, while the total turnover of the Group decreased by 9% to HK\$664 million for the six months ended 30th June, 2002, mobile services revenue increased by 3% resulting in improved gross profit for the Group. Gross profit increased by HK\$33 million, or 7%, to HK\$494 million for the period

The Group continues to streamline its operations and to exercise tight financial controls to reduc The Group continues to streamline its operations and to exercise tight financial controls to reduce operating costs. Operating costs (excluding depreciation) for the six months ended 30th June, 2002 decreased by HK\$26 million or 6% to HK\$393 million as compared with the corresponding period of 2001, even though there was an 18% increase in subscriber numbers and a 16% increase in the number of cell sites to enhance coverage. The Group recorded EBITDA of HK\$102 million for the six months ended 30th June, 2002, an improvement of HK\$60 million as compared with the corresponding period last year.

During the period, the Group set up an operations centre in Shenzhen to provide various support services to SUNDAY, and to better position SUNDAY for future opportunities to provide services in China. The new centre will help to reduce operating costs as well as to enhance service quality by leveraging the lower labour costs in China. It is expected that the benefits from this new centre will be fully reflected in the Group's results in 2003.

Net loss for the six months ended 30th June, 2002 was HK\$66 million as compared with HK\$114 million in the corresponding period of 2001. The better performance was mainly attributable to the improvements in operating results as mentioned above, and partly offset by the share of losses from improvements in operating result joint ventures of HK\$11 million.

Capital expenditure incurred during the period amounted to HK\$54 million, and was mainly for Capital expenditure incurred during the period amounted to HKS54 million, and was mainly for enhancement of the mobile network for data services, and setting up the Shenzhen operations centre. In terms of cash flow, capital expenditure payment including deposit payment for the period amounted to HKS56 million, and direct drawdown from the revolving facility provided by Nortel Networks (Asia) Limited ("Nortel") amounted to HKS50 million. Following the investment made by the Group through the end of 2002 to expand coverage and provide capacity for GPRS services, capital expenditure in the near future will be mainly for maintenance of the 2G/2.5G network. In January 2002, SUNDAY formed a 50:50 joint venture company with the Shell Group to operate as a mobile virtual network operator ("MVNO") on a pilot project basis. The pilot project provided SUNDAY with valuable operating and strategic understanding of MVNO potential within Hong Kong. Upon completion of the pilot project in August, it was determined that MVNOs have limited potential and the decision was made to shut down the joint venture. This experience in running an MVNO operation reinforces the Group's belief that owning a 3G network licence as SUNDAY does in Hong Kong, is essential for value creation in the future and that those companies without networks will have limited upside opportunity.

SUNDAY is well positioned for future growth despite the expectation that the market will remain tough and competitive in the coming year. SUNDAY's improved business performance is expected to continue. In addition to the company's ability to manage its debt and repayment schedule under existing financing arrangements, the re-engineering and cost control measures of the past 18 months have delivered a leaner operating business and low cost base that is essential to effectively compete in a maturing, competitive market.

SUNDAY is, therefore, well prepared to benefit from the next phase of mobile services development. The Group is developing a segmented approach to the market in order to enhance customer retention, derive greater value and drive future revenue growth through the delivery of tailor-made service offerings. As part of this approach and to enhance the specific products and services demanded by individual segments, SUNDAY has a solid rollout plan for new data services. The Group intends to make the most of these opportunities over the coming six to twelve months, while continuing to concentrate on improving operating efficiency.

Liquidity and Financial Resources

The Group recorded positive cash flow of HK\$73 million from operating activities during the six months ended 30th June, 2002 as compared with a cash outflow of HK\$75 million during the corresponding period in 2001. During the period, the capital expenditure and working capital requirements of the Group were mainly funded by cash flow generated from operating activities and the revolving facility from Nortel.

The outstanding bank loan and vendor loan balances as at 30th June, 2002 are repayable in nine quarterly instalments through September 2004, and are secured by a charge over all the assets, revenues and shares of Mandarin Communications Limited, the main operating subsidiary of the Company. The bank loans and the vendor loans bear interest at prevailing market rates.

On 17th May, 2002, the expiry date of the revolving facility provided by Nortel was extended to 11th September, 2004. During the period, HK\$174 million was drawn down from the revolving facility.

As at 30th June, 2002, the Group had total bank and vendor loans of HK\$828 million, cash reserves of HK\$931 million and available revolving facility of HK\$637 million. Net debt (total bank and vendor loans less cash reserves) amounted to HK\$597 million, and net debt to equity ratio was 83% as at 30th June, 2002. The Group has already paid an amount of HK\$250 million to the Office of Telecommunications Authority (in October 2001) as prepayment for the first five years' minimum annual fees of the 3G licence. mual fees of the 3G licence

On 30th July, 2002, the Group entered into various documents to amend its bank loan and vendor loan facilities in order to accommodate changes to the structure of the Group, as well as to vary certain financial covenants. The maturity date of the loans, amounts lent and interest provisions have not been altered. The Directors believe that the agreed amendments to the financing documentation are beneficial to the Group. Details of the amendments were disclosed in an announcement by the Company dated 31st July, 2002.

Substantially all the revenues, expenses, assets and liabilities are denominated in Hong Kong dollars except for the long-term vendor loan facility. As at 30th June, 2002, the outstanding vendor loans amounted to approximately US\$42 million but the Group also had bank deposits of US\$16 million. The international roaming payables and receivables are netted and settled on a monthly special Drawing Rights ("SDR") and the net SDR-denominated payables were insignificant as at 30th June, 2002. The Group does not anticipate significant foreign exchange losses as long as the Hong Kong government's policy to peg the Hong Kong dollar to the U.S. dollar remains in effect. The Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required.

Employees and Share Option Scheme

The Group employed 976 full-time employees as at 30th June, 2002, of which 239 employees are in Shenzhen. Total salaries and related costs incurred during the six months ended 30th June, 2002 amounted to HK\$119 million, which was comparable to the corresponding period in 2001.

The Group offers comprehensive remuneration and benefits packages to all employees. Remuneration of employees is maintained at competitive levels, and promotion and salary increments are assessed based on individual and Group performance. Other staff benefits include a mandatory provident fund scheme, subsidised medical care and subsidies for external educational and

The Group adopted an employee share option scheme on 1st March, 2000 ("Old Scheme"). On 22nd May, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and termination of the operation of the Old Scheme. Upon the termination of the Old Scheme, no further options will be offered under the Old Scheme but the provisions of the Old Scheme will remain in full force and effect in respect of existing options granted. Details of the New Scheme were disclosed in the circular to shareholders dated 24th April, 2002.

No share options were granted during the six months ended 30th June, 2002 under the New Scheme or the Old Scheme.

CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance. It has complied throughout the six months ended 30th June, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that Non-executive Directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the provisions of the Company's Articles of Association.

The Audit Committee of the Company is chaired by Mr. Robert John Richard Owen, an independent Non-executive Director. During the period, the Audit Committee met regularly with the external auditors and the Company's internal audit personnel and management, approved the nature and scope of both statutory and internal audits for the year, considered and approved the accounts and reviewed the adequacy and effectiveness of the accounting and financial controls of the Company. The Audit Committee also followed up with management regularly on the management actions arising from the audits.

The Audit Committee has reviewed the condensed interim accounts and the Interim Report, and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Interim Report has not been audited but has been reviewed by the Company's external auditors.

Since 1st January to 12th September, 2002, the Board of Directors has met three times, and the Audit Committee has met twice. The Executive Management Committee has met ten times in addition to frequent informal meetings with the senior management.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2002, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

> By Order of the Board Janet Ching Man Fung

Hong Kong, 12th September, 2002

http://www.sunday.com http://www.irasia.com/listco/hk/sunday http://www.quamnet.com

The Company will submit all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited on or before 50th September, 2002 for publication on the website of The Stock Exchange of Hong Kong Limited (http://www.hkx.com.hk).