

SUNDAY

SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2002

(Hong Kong dollar is translated to United States dollar at a rate of HK\$7.7988 to US\$1)

- EBITDA increased by 135% to HK\$240 million (US\$31 million) before restructuring costs
- Loss for the year decreased by 57% to HK\$91 million (US\$12 million) before restructuring costs
- Subscriber numbers increased by 9% to 603,000
- Churn rate reduced to 3.5% in December 2002
- Stable postpaid ARPU at HK\$209 (US\$27)
- 10% higher productivity achieved through reduction in operating expenses

CHAIRMAN'S STATEMENT

The 2002 financial year was an important one for SUNDAY. In a competitive market, we made further improvements in both our financial performance and customer base. At the same time, we brought changes to our business that will ensure continued increases in profitability in 2003 and create a competitive platform for the new era of mobile communications that is just beginning.

Profitability

Revenue from mobile services business for the year increased, supporting strong growth in EBITDA, which more than doubled to HK\$240 million excluding one-off restructuring costs. As from January 2003, SUNDAY is achieving net profit on a month-to-month basis.

The balance sheet also saw a significant improvement, with net debt at year-end declining more than we had expected as positive cash flow enabled us to cover finance costs and maintenance capital expenditure. Net debt started to reduce from the fourth quarter of 2002, and will continue to decline until maturity.

Growth in Subscribers and Data Volumes

Growth in mobile services business revenue was driven by increased subscriber numbers, which reflects the success we are beginning to achieve in our strategy of market segmentation.

In the past two years, mobile communications in Hong Kong has shifted from being a high-growth mass market to one characterised by saturation of penetration, where opportunities to increase revenues centre on delivering tailored services to well understood user groups. New data services provide us with the opportunity to do this even more effectively through enhancing the services we offer.

Our total subscriber base rose 9% over 2001 to 603,000, buoyed by the prepaid category, which we see as an attractive area of business. In this regard, it is important to note that the methodology of reporting adopted by SUNDAY is very conservative and fully accounts for all types of subscriber activations, disconnections and usage.

Average revenue per user (ARPU) was broadly flat, though showing a slight upward momentum that has reversed the down trend which had prevailed in the Hong Kong market for the preceding four years.

Growth in wireless data services was also encouraging, with short message service (SMS) volumes growing sharply, boosted by events such as the football World Cup and festivals. Multi-media messaging service (MMS) volumes also climbed following its introduction during the year. In total, data services contributed to approximately 5% of ARPU by December 2002, pointing to the great potential of data services, as the new technologies become more widely used.

Lower Churn

We made churn a priority in 2002 and succeeded in more than halving the rate from 7.8% at the start of the year to 3.5% by year-end, lowering our average acquisition cost. Again, it is emphasised that SUNDAY uses churn calculation methods that are very conservative. Considerable effort was put into retention programmes based on market research which allowed us to gain greater insight into the reasons behind customers changing service. Although churn may rise modestly in response to periodic changes in market conditions, we continue to make customer retention a priority and are confident of maintaining a tight control over churn.

Quality, Products and Services

SUNDAY's ability to achieve revenue growth during the year also testifies to the enhancements we made to our network, customer service, as well as the new or improved products and services we introduced.

Although our cell site cost did not rise, we increased the number of cell sites by 17% to over 1,050 sites on a single GSM1800 network. This ensures a high quality of coverage and call performance for users.

Customer service quality was greatly enhanced in 2002 by the establishment of our operations centre in Shenzhen. This centre provides greater resources of high quality and higher productivity, enabling us to improve customer service through a faster and higher response rate.

SUNDAY introduced a broad range of new products and services in the fourth quarter of 2002 targeting a wide variety of consumer segments:

- "My Album" is a one-stop-shop for personalised MMS photos, with music, voice and text to MMS-enabled handsets, as well as email and with made-to-order printouts available at over 450 Hong Kong locations.
- "Location Based Services" enables corporate customers to monitor effectively their fleets of vehicles, field staff or valuable parcels on a real time basis.
- "SUNDAY Look! Hear!" features MMS entertainment through popular content downloads of celebrity photos, cartoon and comic characters and e-cards.
- "SUNDAY Games" brings a real life "Game Store" experience to mobile handsets through new collections of Java games.
- "Handy Workstation" is a complete mobile email and Personal Information Management (PIM) solution enabling mobile users to access corporate email accounts and up to 10 POP3/IMAP4 Internet email accounts.
- "ICQ for SMS" allows users to stay in touch with ICQ friends 24 hours a day through a handset with a short messaging function.
- "MSN Mobile Messenger" allows users to send, receive and reply to instant messages from their online contacts who are using MSN Messenger on a computer or a mobile phone.

All of our service and product initiatives follow the principles laid down in our four core values of simplicity, transparency, quality and value-for-money. They should be readily useable and understandable by the customer, of high quality as regards both the product or service as well as any support services, and offered at an attractive and reasonable price.

Higher Productivity

During 2002, we put considerable emphasis on raising the Group's productivity and to this end were successful in reducing our costs. Operating expenses before depreciation and restructuring costs fell by 10%. The successful establishment of the operations centre in Shenzhen, which offers greater cost-effectiveness, also contributed to lower costs in 2002. Further improvements in productivity resulted from major organisational changes and a reduction in the workforce during the year.

The overall reduction of operating expenses was especially significant given that SUNDAY during the year expanded the subscriber base, improved service quality and launched new services. These changes reorient the Group towards its focus on addressing the market in a more targeted manner and include the creation of teams covering product development, sales, marketing and retention focused on specific market segments rather than broad product categories. The full benefits of the Shenzhen centre and the subsequent organisational changes will accrue from 2003.

Outlook

In 2003 we will focus our attention on profitability through improving customer retention, growing the subscriber base, increasing ARPU and enhancing productivity.

Market segmentation will continue to be a strategic theme for the Group as we pursue these growth objectives. The new wireless data services and MMS interoperability introduced in the fourth quarter of 2002 are expected to provide additional revenue growth in 2003. More mobile phones supporting MMS and other data services based on GPRS technology were introduced to the market in late 2002, and this trend will continue.

We expect 2003 to continue to be a competitive year for the industry, in which SUNDAY will continue to post improved results, following the solid groundwork laid down in 2002. The continued enhancement in our financial position, together with the new orientation of our business, will position us well for the eventual roll out of our 3G service.

SUNDAY has consistently maintained that 3G would not become a significant market reality before 2004 and that the key to success in 3G services would be a cost-effective platform that delivers creative and tailored services. We have completed comprehensive planning of all network, IT and service delivery systems required for the launch of 3G services and are in active discussion with a number of vendors and financial institutions to ensure we can roll out our 3G service on schedule and on a sound commercial basis, when the time is right.

We have followed the developments in 3G around the world with close attention and are convinced that our vision and strategy remain effective. In particular, it is ever more evident that a 3G licence will be essential for success in the future and that alternative ways of delivering wireless communications services based on either older technology or mobile virtual network operations will not be competitive. We expect the arrival of 3G commercially to be a catalyst for the long-expected consolidation in the industry, to the benefit of our shareholders as well as other 3G licence holders.

It should now be evident that SUNDAY's competitive strengths are becoming ever more relevant as new generation of technologies begins to transform the way people use and think about mobile communications.

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 bankers, advisers, suppliers and shareholders for their continued support of SUNDAY during this time of change.

RESULTS

The Directors of the Company are pleased to announce that the audited results of the Company and its subsidiaries ("the Group") for the year ended 31st December 2002, together with the comparative figures for the previous year, are as follows:

Condensed Consolidated Profit and Loss Account

For the year ended 31st December 2002

	Note	2002 US\$'000	2002 HK\$'000	2001 HK\$'000
Mobile services		156,136	1,217,677	1,165,399
Sales of mobile phones and accessories		14,783	115,291	242,901
Other services		1,247	9,722	14,093
Turnover	1	172,166	1,342,690	1,422,393
Cost of inventories sold and services provided		(42,889)	(334,485)	(469,243)
Gross profit		129,277	1,008,205	953,150
Other revenues		246	1,917	2,602
Network costs		(38,926)	(303,577)	(301,668)
Depreciation		(32,876)	(256,393)	(265,102)
Rent and related costs		(7,831)	(61,074)	(58,502)
Salaries and related costs	6	(31,273)	(243,890)	(233,202)
Advertising, promotion and other selling costs		(16,387)	(127,798)	(180,363)
Other operating costs		(7,664)	(59,765)	(80,125)
Loss from operations	1, 2	(5,434)	(42,375)	(163,210)
Interest income		456	3,553	21,592
Finance costs		(7,672)	(59,833)	(70,130)
Share of losses from joint ventures		(2,386)	(18,609)	—
Loss for the year		(15,036)	(117,264)	(211,748)
Loss per share	4	(0.5 cents)	(3.9 cents)	(7.1 cents)
EBITDA	5	27,442	214,018	101,892

Condensed Consolidated Balance Sheet

As at 31st December 2002

Note	2002 US\$'000	2002 HK\$'000	2001 HK\$'000 (restated)
Non-current assets			
Fixed assets	155,652	1,213,897	1,302,633
Investment in a joint venture	426	3,322	4,940
Prepayment of 3G Licence fees	8	18,165	191,667
Restricted cash deposits		216	2,385
	174,459	1,360,568	1,501,625
Current assets			
Inventories	1,282	9,995	20,448
Trade receivables	9	11,208	88,462
Prepayment of 3G Licence fees	8	6,411	50,000
Deposits, prepayments and other receivables		12,355	96,355
Restricted cash deposits		20,123	156,939
Bank balances and cash		6,357	47,328
	57,736	450,275	434,552
Current liabilities			
Trade payables	10	7,225	56,348
Other payables and accrued charges		21,967	171,313
Subscriptions received in advance		15,832	123,469
Current portion of long-term loans and obligations under finance leases		30,598	238,629
	75,622	589,759	583,998
Net current liabilities		(17,886)	(139,484)
	156,573	1,221,084	1,352,179
Financed by:			
Share capital		38,339	299,000
Reserves		47,666	371,732
Shareholders' equity		86,005	670,732
			787,996
Long-term liabilities			
Long-term loans and obligations under finance leases		70,116	546,825
Subscriptions received in advance		452	3,527
	70,568	550,352	564,183
	156,573	1,221,084	1,352,179

Notes:

1. Segment information

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

	Mobile services 2002 HK\$'000	Sales of mobile phones and accessories 2002 HK\$'000	Other services 2002 HK\$'000	Group 2002 HK\$'000
Turnover	1,217,677	115,291	9,722	1,342,690
Profit/(loss) from operations	1,128	(38,239)	(5,264)	(42,375)
Interest income				3,553
Finance costs				(59,833)
Share of losses from joint ventures				(18,609)
Loss for the year				(117,264)
	Mobile services 2001 HK\$'000	Sales of mobile phones and accessories 2001 HK\$'000	Other services 2001 HK\$'000	Group 2001 HK\$'000
Turnover	1,165,399	242,901	14,093	1,422,393
Loss from operations	(38,127)	(52,958)	(72,125)	(163,210)
Interest income				21,592
Finance costs				(70,130)
Loss for the year				(211,748)

2. Loss from operations

Loss from operations is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	113,414	244,981
Depreciation:		
— owned fixed assets	253,668	258,641
— leased fixed assets	2,725	6,461
Loss on disposals of fixed assets	377	1,126
Operating leases charges:		
— land and buildings, including transmission sites	220,207	209,370
— leased lines	87,130	94,777
Provision for doubtful debts	31,016	19,579
Restructuring costs (note below)	26,606	—
Auditors' remuneration		
— charge for the year	850	840
— under-provision in prior year	35	—

Note: Restructuring costs of HK\$26,606,000 mainly comprised of termination benefits of HK\$24,899,000 which had been included in the salaries and related costs (note 6).

3. Taxation

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

4. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the year of HK\$117,264,000 (2001: HK\$211,748,000) and the weighted average number of 2,990,000,000 shares (2001: 2,990,000,000 shares) in issue during the year.

(b) Diluted loss per share

There is no dilutive effect upon exercise of the share options on the loss per share for the years ended 31st December 2002 and 2001.

5. EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of losses from joint ventures. During the year, restructuring costs of HK\$26,606,000 (2001: Nil) were incurred and charged to the operating expenses. EBITDA before restructuring costs amounted to HK\$240,624,000 in 2002 (2001: HK\$101,892,000).

6. Salaries and related costs

Salaries and related costs for the years ended 31st December 2002 and 2001, including directors' fees and emoluments, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries, bonuses and allowances	212,338	223,330
Retirement scheme contributions	6,653	9,872
Termination benefits	24,899	—
	<u>243,890</u>	<u>233,202</u>

7. Restatement

In 2001, the discounted value of the Minimum Annual Fees of the mobile carrier licence to establish and maintain a third-generation ("3G") mobile telecommunications network and to provide 3G services in Hong Kong ("3G Licence") was recorded both as an intangible asset and as a long-term liability.

During 2002, the directors have re-evaluated the Group's existing accounting policy for the 3G Licence and believe that it is not an appropriate treatment, as it does not reflect fully the underlying legal and financial obligations and therefore the commercial position of the Group given the provisions of the 3G Licence.

The licence fees payable prior to the launch of commercial services are regarded as integral to the development and construction of the 3G network and are deferred and included within fixed assets. Depreciation of the fixed assets will be provided from the commencement of 3G services over the shorter of the remaining life of the 3G Licence or the estimated useful life of the fixed assets.

Therefore, the consolidated balance sheet as at 31st December 2001 has been restated to reflect the following adjustments:

- Decrease in the intangible asset by HK\$583,930,000;
- Decrease in the 3G Licence fees liability by HK\$333,109,000 under long-term liabilities;
- Increase in the fixed assets by HK\$9,154,000; and
- Increase in the prepayment of 3G Licence fees by HK\$191,667,000 under non-current assets and HK\$50,000,000 under current assets.

The directors believe that the adjustments result in a more appropriate presentation of the fees paid under the terms of the 3G Licence.

8. Prepayment of 3G Licence fees

	2002 HK\$'000	2001 HK\$'000
At 1st January	241,667	—
Addition	—	250,000
Amount capitalised as fixed assets	(50,000)	(8,333)
At 31st December	191,667	241,667
Less: Current portion included under current assets	(50,000)	(50,000)
	<u>141,667</u>	<u>191,667</u>

In 2001, the Group paid an amount of HK\$250,000,000, equivalent to the aggregate of the first five years' annual fees for the 3G Licence, to the Office of Telecommunications Authority ("OFTA"). For the remaining 10 years of the 3G Licence, the fees payable shall be the higher of 5% of the turnover attributable to the provision of the 3G services and the Minimum Annual Fees (as defined in the 3G Licence) for each year of the 3G Licence. The total Minimum Annual Fees over the remaining term of the 3G Licence is HK\$1,056,838,000, the net present value of which, at an assumed cost of capital of the Group at 11.2%, is HK\$333,109,000.

In accordance with the 3G Licence, the Group was required to provide a performance bond, equivalent to the 6th year's Minimum Annual Fee due, on 22nd October 2002. On 11th October 2002, OFTA granted a one-year waiver to the Group on the submission of such performance bond.

On 22nd October 2003, the Group will be required to provide a performance bond in an amount equivalent to the 6th and 7th years' Minimum Annual Fees due. From 22nd October 2004 onwards, the Group will be required to provide additional performance bonds in amounts such that the total of such performance bonds and the Minimum Annual Fees prepaid is equivalent to the next five years' Minimum Annual Fees due (or the remaining Minimum Annual Fees due where less than five years remains).

9. Trade receivables

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

	2002 HK\$'000	2001 HK\$'000
0-30 days	59,380	63,463
31-60 days	15,931	13,902
61-90 days	9,433	6,755
Over 90 days	2,665	4,342
	<u>87,409</u>	<u>88,462</u>

10. Trade payables

The ageing analysis of the trade payables is as follows:

	2002 HK\$'000	2001 HK\$'000
0-30 days	17,731	36,170
31-60 days	9,460	2,383
61-90 days	15,546	2,697
Over 90 days	13,611	6,682
	<u>56,348</u>	<u>47,932</u>

DIVIDENDS

No interim dividend was paid for the year (2001: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31st December 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Overview

SUNDAY achieved a significantly improved business performance during 2002, and recorded sustained growth in the subscriber base and service revenue. EBITDA of the Group for 2002 increased by 135% to HK\$240 million before restructuring costs. Loss for the year decreased by 57% to HK\$91 million before restructuring costs, and by 45% to HK\$117 million after restructuring costs.

The Group implemented various initiatives to enhance network quality and coverage, strengthen the sales and marketing functions, and improve customer service quality during the year. Combined with the efforts made in churn reduction, ongoing cost control and

business process re-engineering, the Group delivered significant improvement in operating results in 2002 with subscriber numbers, mobile revenues, average revenue per user ("ARPU") and operating efficiencies all higher.

The Group also recorded positive cash flow of HK\$129 million from operating activities in 2002 as compared with a cash outflow of HK\$89 million in 2001. The positive cash flow from operating activities was sufficient to cover finance costs and maintenance capital expenditure. As at 31st December 2002, net debt was HK\$577 million. Net debt started to reduce from the fourth quarter of 2002 and will continue to reduce until maturity.

Mobile Services

The mobile services business achieved sustained growth in both revenue and the subscriber base. In 2002, SUNDAY's mobile subscriber base increased by 9% to 603,000 as compared with 2001. Revenue from mobile services business recorded a 5% increase from HK\$1.165 million to HK\$1.218 million.

During the year, SUNDAY implemented various initiatives to improve further its services to subscribers. The Group has enhanced the network quality and coverage, improved customer services, and strengthened the sales and marketing functions.

In 2002, the Group established a dedicated task force to monitor enhancement of its network performance. The number of cell sites increased by 17% in 2002 to over 1,050 sites to improve network quality and coverage in 2002. The high quality of the network enabled SUNDAY to be named the "Official Mobile Network Operator" at the ITU Telecom Asia 2002, a major international telecommunications event.

The Group has adopted a segmented approach to the market by providing tailor-made services targeted to different market segments. More innovative programmes aimed at clearly defined customer segments will be rolled out in 2003, which will support future growth in the mobile services business.

A number of programmes, including the "Superstar Club", were also launched in 2002 to enhance customer care for SUNDAY subscribers in order to foster customer loyalty. The Group also introduced new billing tools, achieving greater efficiency and cost savings in billing management and providing better response to billing related inquiries from subscribers. As a result, SUNDAY received the "Outstanding Billing Implementation — Telecoms" award in *Tariffica's Billing Magazine* Globe Awards 2002.

The monthly gross churn rate, calculated as a percentage of opening subscribers, reduced to 3.5% in December 2002 from 7.8% in December 2001, with the implementation of effective retention programmes and an easing of market conditions. While the churn may increase modestly in response to changes in market conditions, the Group will continue to make customer retention a priority and maintain a tight control over churn.

In addition to continued subscriber growth and significantly improved churn, ARPU has shown a modest rising trend in 2002 following increasing revenue from wireless data, reversing a trend observed during the past four years of declining ARPU. Monthly postpaid ARPU for December 2002 was HK\$207 as compared with HK\$205 in December 2001. Average ARPU for 2002 was HK\$209 as compared with HK\$219 in 2001.

The prepaid SIM cards have continued to record significant growth since their launch in 2000. Subscriber numbers grew by 57,000 or 43% to 189,000 in 2002 over 2001. ARPU from these subscribers was HK\$93 in 2002, comparable to that of 2001.

The gross profit percentage of mobile services was 82% in 2002, slightly higher than that of 2001 because of decreases in connection charges.

Wireless Data Services

In 2002, SUNDAY launched a series of new wireless data applications and services based on the GPRS (general packet radio services) technology.

A new line of data services was launched in the fourth quarter of 2002, which provides subscribers with a wide array of mobile entertainment through the use of MMS (multi-media messaging) enabled terminals, offered at simple, affordable tariffs. Such services include "SUNDAY Games" for a collection of interactive games, "My Album" for personalised MMS photographs, and "SUNDAY Look! Hear!" for downloads of popular MMS content. The Group has also launched a new series of wireless communications services, the "Handy Workstations" and "ICQ for SMS", for e-mail and instant messaging using mobile phones.

More mobile phones supporting MMS or other data services based on GPRS technology were introduced to the market in 2002, and this trend will continue in 2003. Combined with the launch of inter-operator MMS services among the six wireless operators in Hong Kong in December 2002, these should allow both the usage and revenue of wireless data services to grow at faster rates in 2003. Revenue of wireless data services accounted for approximately 5% of mobile services revenue by December 2002.

Introducing a broad range of wireless data services is an important development in providing specialised products to individual customer segments, and is a vital step to ensure a successful future with 3G.

MVNO Joint Venture with Shell

In January 2002, the Group formed a joint venture with the Shell group to operate as a mobile virtual network operator ("MVNO") on a pilot basis. The joint venture ceased operations in September 2002 as the operating results of this pilot project indicated that MVNOs had limited potential.

Sales of Mobile Phones and Accessories

Revenue from sales of mobile phones and accessories continued to decrease, mainly owing to a reduction in sales volumes as the handset subsidy level has been significantly reduced since 2000. In consequence, while such revenue decreased by 53% to HK\$115 million in 2002, the Group earned a gross profit of HK\$2 million from sales of mobile phones and accessories as compared with a gross loss of HK\$2 million in 2001.

Financial Review

Turnover and gross profit

Total turnover for the year declined 6% as compared with 2001 to HK\$1,342 million, mainly due to a 53% decrease in revenue from the sales of mobile phones and accessories. Because the Group did not earn a profit from selling handsets in the past, the decline in revenue is favourable for the Group. Revenues from mobile services and the sales of mobile phones and accessories accounted for 91% and 8% respectively of the total turnover in 2002.

Therefore, despite the lower total turnover, however, gross profit for the Group improved by HK\$55 million, or 6%, to HK\$1,008 million in 2002, due to the sustained growth in the mobile services revenue, which was 5% higher at HK\$1.218 million.

Operating expenses (excluding depreciation)

Before restructuring costs of HK\$26 million, operating expenses (excluding depreciation) decreased by 10% to HK\$770 million and fell from 73% to 63% as a percentage of mobile services revenue. After restructuring costs, operating expenses (excluding depreciation) decreased by 7% from HK\$854 million in 2001 to HK\$796 million in 2002. This was a direct result of reduced acquisition costs from lower churn rate and higher productivity.

The Group established an operations centre in Shenzhen in mainland China in 2002 to provide various support services to SUNDAY and better position the Group for future opportunities to provide services in China. The new centre helps reduce operating costs as well as provide higher productivity and better service quality by leveraging the lower labour costs in mainland China.

In December 2002, the Group restructured its operations to revamp the organisational structure and reprioritise functions and responsibilities. The restructuring will help the Group take advantage of the next phase in wireless communications with a lean but efficient operating structure and a more focused employee team to strive for the Group's objective of improved profitability.

It is expected that the real benefits from this new operations centre in Shenzhen and the restructuring will be fully reflected in the Group's 2003 results. Total one-off expenses incurred in relation to the re-location of functions to Shenzhen and the restructuring in December 2002 amounted to approximately HK\$26 million, of which termination benefits, mainly severance pay and payments in lieu of notice to redundant or terminated staff were HK\$25 million.

EBITDA

With the sustained growth in gross profit and reduction in operating expenses, EBITDA increased by HK\$138 million, or 135%, to HK\$240 million before restructuring costs. After restructuring costs, EBITDA increased by 110% to HK\$214 million as compared with 2001. EBITDA represents earnings before interest income, finance costs, taxation, depreciation, amortisation and share of losses from joint ventures.

Loss for the year

Loss for the year was reduced by 57% from HK\$212 million in 2001 to HK\$91 million before restructuring costs, and by 45% to HK\$117 million after restructuring costs. The better performance was mainly attributable to the improvements in operating results as described above and partly offset by the share of losses from joint ventures.

Capital Expenditure

The Group's 2G/2.5G mobile network is substantially complete. Capital expenditure incurred in 2002 was mainly for the ongoing enhancement of the mobile network for data services and setting up the Shenzhen operations centre. In terms of cash flow, capital expenditure payments including deposit payments for 2002 amounted to HK\$69 million, direct drawdown from the revolving facility provided by a major vendor, Nortel Networks (Asia) Limited ("Nortel"), amounted to HK\$49 million, and capitalised 3G Licence fees amounted to HK\$50 million.

Following the investment already made by the Group to expand coverage and provide capacity for GPRS services, capital expenditure in 2003 will decline further and will be mainly for maintenance of the 2G/2.5G network. The financial impact of 3G is not expected to be felt before 2004.

Liquidity and Financial Resources

Cash flow from operations

The Group recorded positive cash flow of HK\$129 million from operating activities in 2002 as compared with a cash outflow from operations of HK\$89 million in 2001. The improvement in the cash flow from operations primarily resulted from the increases in operating revenues and effective cost reductions.

Financing

In 2002, 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. In 2002, HK\$49 million was drawn from Nortel's revolving facility for equipment purchases, which was non-cash drawdown. On 17th May 2002 the expiry date of the revolving facility provided by Nortel was extended to 11th September 2004.

As at 31st December 2002, the outstanding bank loan and vendor loan balances were repayable in seven quarterly instalments through September 2004, and were secured by a charge over all the assets, revenues and shares of certain subsidiaries of the Company, including Mandarin Communications Limited, the main operating subsidiary. The bank loans and vendor loans bear interest at prevailing market rates.

The Group had total bank and vendor loans of HK\$785 million, cash reserves of HK\$208 million and an available revolving facility of HK\$481 million. Net debt (total bank and vendor loans less cash reserves) amounted to HK\$577 million, and the net debt-to-equity ratio was 86% as at 31st December 2002.

On 30th July 2002, the Group entered into various documents to amend its bank loans 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.

Foreign Exchange Exposure

Substantially all revenues, expenses, assets and liabilities are denominated in Hong Kong dollars except for the US\$155 million vendor loan facility provided by Nortel. As at 31st December 2002, the outstanding vendor loan amounted to US\$47 million and the Group had a bank deposit of US\$24 million. The international roaming payables and receivables are netted and settled on a monthly basis in Special Drawing Rights ("SDR"). As at 31st December 2002, the net SDR-denominated payables were insignificant. The Group has not experienced foreign exchange movement and does not anticipate foreign exchange losses as long as the Hong Kong SAR Government's policy to peg the Hong Kong dollar to the U.S. dollar remains in effect. The Group will monitor its foreign exchange exposure and market conditions to determine if any hedging is required.

Key Risks

The business performance of the Group is subject to market competition and regulatory changes. Some forward looking statements made in the annual report with respect to SUNDAY's corporate plans or strategies are made based on management's assumptions and beliefs in the light of the information currently available to it.

The key risks include, with limitation, the following:

- Increased competition may reduce market share or revenues
- Delays in the development of handsets and network may hinder the deployment of new technologies
- Expected benefits from investment in the networks, licences and new technologies may not be realised
- Regulatory decisions and changes could adversely affect the Group's business
- ARPU may not be increased by the introduction of new services.

Employees and Share Option Scheme

The Group had a total of 683 employees as at 31st December 2002, of which 510 employees were in Hong Kong and 173 employees were in Shenzhen. Excluding the termination benefits, total salaries and related costs incurred in 2002 amounted to HK\$219 million as compared with HK\$233 million 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 Mandatory Provident Fund schemes, subsidised medical care and subsidies for external educational and training programmes.

The Group adopted a 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 ("New Scheme") and the 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 the existing options granted. Details of the New Scheme are disclosed in the Annual Report.

CORPORATE GOVERNANCE

The Company has complied 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 a specific term 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.

Further details on the subject of corporate governance of the Company are set out in the Annual Report.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 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
Company Secretary

Hong Kong, 25th March 2003

<http://www.sunday.com> (please click Investor Relations)

<http://www.irasia.com/listco/hk/sunday>

<http://www.quamnet.com>

The Company will submit all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules to the Stock Exchange on or before 8th April 2003 for publication on the Stock Exchange's website (<http://www.hkex.com>).