SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2003

(Hong Kong dollar is translated to United States dollar at a rate of HK$7.764 to US$1)

- Net profit of HK$27 million
- EBITDA increased by 47% to HK$315 million
- EBITDA margin rose to 25% from 16%
- Subscriber numbers increased by 9% to 660,000
- Fully financed for future operations

CHAIRMAN'S STATEMENT

The year 2003 saw SUNDAY pass important milestones during a difficult year, a performance that testifies to the Group's sound management and strategy. It is a new era for SUNDAY and also for the industry, which is seeing an increasingly positive acceptance of new technologies and which, as a result, resembles more and more a fast-moving consumer goods market than a traditional telecommunications market.

At the beginning of the year we set ourselves the target of recording our first annual profit, and we achieved this, building on the success in the first half to record a profit for the year of HK$27 million, compared to a net loss of HK$117 million for 2002. There was a further strong improvement in EBITDA and EBITDA margin.

Owing to a weak economy, severe price-based competition and the impact of SARS, however, the Group's average revenue per user (ARPU) declined. This resulted in revenues for mobile service business decreasing by a modest 6% to HK$1,150 million.

The effect of the weak market was offset by lower costs as the benefits of the initiatives implemented in 2002 to increase efficiency became apparent. Operating costs excluding depreciation were reduced by 22% to HK$619 million. SUNDAY's ability to operate with a more lean and efficient structure well ahead of the industry is therefore proving to be an important competitive advantage.

Our success was underpinned by higher service quality. To improve coverage, over the past three years the Group has increased the number of cell sites by 25%. This and other initiatives have given SUNDAY among the best coverage of all operators in the industry, according to a study on voice message performance amongst the mobile operators by the Chinese University of Hong Kong.

To enhance sales and marketing, we reorganised our teams under new management that combines traditional mobile telecommunications expertise with an understanding of the needs of fast-moving consumer markets. Customer care benefited from new management systems that enable us to better track how effectively we are meeting customer service needs and build this data into performance measurements for individual business units. We also increased our use of quality assurance techniques to improve and monitor service delivery.

These fundamentals have allowed us to compete more effectively. But we operate in a mature and fast changing market. Rather than engaging in price-based tactics to secure short-term gains, SUNDAY is taking a creative approach focused on market segmentation and service innovation. This strategy is now coinciding with a noticeable shift in consumer attitudes as users begin increasingly to value innovation and quality with technology widening the range of service choice.

Market segmentation brings value to customers by providing tailor-made services to meet their specific lifestyle needs. During 2003, the Group has reorganised its operations according to distinct customer segments, namely, youth, ethnic, corporate and the mass market. Each is run as a sub-business, responsible for products, pricing, promotion and place of business, with separate targets for subscribers, ARPU, churn and other metrics. This reorganisation of our operations puts SUNDAY ahead of the field in successfully segmenting the market on a commercial basis.

To support these segments, SUNDAY continued as a leader in innovative data services, as we expanded our proprietary Location Based Services (LBS). In the corporate segment, the Group made good progress as the market leader in enterprise LBS applications for logistics and field service dispatch. In the mass market, SUNDAY launched Family Watch and SARS updates, applications which attracted considerable attention. In the youth segment, it launched interactive LBS games. SUNDAY also launched other innovative services such as wireless LAN roaming services for business customers, which allows customers to access Internet via GPRS or wireless LAN.

Although our data and market segmentation initiatives are still in their early stages, they are already beginning to contribute, as they will do much more forcefully in future, to overall customer acquisition and retention. Data services revenues grew by 55% in 2003.

The services introduced to date by SUNDAY are an important precursor to its 3G services, since 3G technology will move the industry and consumers even further away from the commoditised mass market of mobile voice communications towards ever more tailored multi-media mobile services.

SUNDAY has moved quickly to capitalise on the rapid changes in the industry that have seen powerful new entrants emerge in recent years. In December 2003, we signed Heads of Agreement with Shenzhen-based Huawei Technologies Co., Ltd. (Huawei) to provide a turnkey solution for our 3G business.

Huawei was chosen through a rigorous selection process that focused on technical capabilities, pricing and financing, in which it outperformed some of the world's leading mobile telecommunications vendors. The financing associated with the Huawei supply contract, which will be arranged through banks supported by export credit agencies, means that we are fully financed for our existing operations and 3G roll-out.

Outlook

We expect 2004 to continue to be competitive. Our focus will be on growing revenues. We will launch more services and be more reactive to market demands, based on our creative segmentation approach to the market. We will also continue to benefit from the highly cost-effective and efficient operating structure now in place, through which we aim to achieve further incremental cost savings in areas such as transmission costs. This will help to offset the impact on earnings from a possible roll-out of 3G during the year.

Preparation will continue for the launch of 3G services. We will be ready for launch in the fourth quarter of 2004, but our partnership with Huawei gives us the flexibility to reschedule the launch date if market acceptance is different from that anticipated. This partnership offers tremendous strengths and synergies. Huawei's 3G technology is among the world's best, and it has one of the largest R&D establishments of any network equipment manufacturer in the world, including 3,500 engineers working specifically on 3G. It has strengths in areas that will be critical to success in 3G, including the IP platform and service creation as well as an end-to-end solution. Huawei's base in Shenzhen, just one hour's drive from SUNDAY's offices, means that we will enjoy a very close working relationship on technology development and product introduction, giving SUNDAY a significant edge over its rivals in developing tailor-made services and bringing them to market quickly.

The significance of the Huawei partnership goes beyond 3G in our home market, however. The future of Hong Kong's mobile communications industry, as most industries in Hong Kong, will be closely linked to mainland China, the world's largest market. In 2004, we will use our China operation to continue to drive cost efficiencies and create the foundation to capitalise upon opportunities that will develop as the mainland's telecommunications industry opens. The Closer Economic Partnership Arrangement (CEPA) may provide an early entry for Hong Kong mobile operators.

SUNDAY's competitive strengths are ever more relevant as a new generation of technologies becomes more ingrained in the way people use and think about mobile communications. The scope of what everyone regards as mobile services is set to expand dramatically, which will lead to a consequent growth in opportunity for SUNDAY. We have the right infrastructure, strategy, partners, people and vision to succeed in this new era.

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 period 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 2003, together with the comparative figures for the previous year, are as set out below.

Condensed Consolidated Profit and Loss Account
For the year ended 31st December 2003

	Notes	2003 US$'000	2003 HK$'000	2002 HK$'000
Mobile services		**148,104**	**1,149,875**	1,217,677
Sales of mobile phones and accessories		**14,100**	**109,471**	115,291
Other services		**89**	**695**	9,722
Turnover	1	**162,293**	**1,260,041**	1,342,690
Cost of inventories sold and services provided		**(42,513)**	**(330,069)**	(334,485)
Gross profit		**119,780**	**929,972**	1,008,205
Other revenues		**586**	**4,550**	1,917
Network costs		**(34,785)**	**(270,070)**	(303,577)
Depreciation		**(30,048)**	**(233,293)**	(256,393)
Rent and related costs		**(5,961)**	**(46,284)**	(61,074)
Salaries and related costs	6	**(19,580)**	**(152,020)**	(243,890)
Advertising, promotion and other selling costs		**(13,650)**	**(105,976)**	(127,798)
Other operating costs		**(5,799)**	**(45,020)**	(60,078)
Profit/(Loss) from operations	1, 2	**10,543**	**81,859**	(42,688)
Interest income		**325**	**2,526**	3,553
Finance costs		**(6,798)**	**(52,787)**	(59,520)
Share of loss from a joint venture		**(570)**	**(4,426)**	(18,609)
Profit/(Loss) for the year		**3,500**	**27,172**	(117,264)
Earnings/(Loss) per share (basic and diluted)	4	**0.1 cents**	**0.9 cents**	(3.9 cents)
EBITDA	5	**40,591**	**315,152**	213,705

Condensed Consolidated Balance Sheet
As at 31st December 2003

	Notes	2003 US$'000	2003 HK$'000	2002 HK$'000
Non-current assets				
Fixed assets		**141,924**	**1,101,899**	1,213,897
Investment in a joint venture		**—**	**—**	3,322
Prepayment of 3G licence fees	7	**11,807**	**91,667**	141,667
Restricted cash deposits		**219**	**1,699**	1,682
		153,950	**1,195,265**	1,360,568
Current assets				
Inventories		**1,496**	**11,621**	9,995
Trade receivables	8	**10,442**	**81,069**	87,409
Prepayment of 3G licence fees	7	**6,440**	**50,000**	50,000
Deposits, prepayments and other receivables		**10,649**	**82,677**	96,355
Restricted cash deposits		**27,002**	**209,643**	156,939
Bank balances and cash		**13,191**	**102,413**	49,577
		69,220	**537,423**	450,275
Current liabilities				
Trade payables	9	**9,222**	**71,600**	56,348
Other payables and accrued charges		**19,679**	**152,791**	171,313
Subscriptions received in advance		**11,279**	**87,567**	123,469
Current portion of long-term loans and obligations under finance leases	10	**38,172**	**296,368**	238,629
		78,352	**608,326**	589,759
Net current liabilities		**(9,132)**	**(70,903)**	(139,484)
		144,818	**1,124,362**	1,221,084
Financed by:				
Share capital		**38,511**	**299,000**	299,000
Reserves		**51,379**	**398,904**	371,732
Shareholders' equity		**89,890**	**697,904**	670,732
Long-term liabilities				
Long-term loans	10	**54,740**	**425,000**	546,825
Subscriptions received in advance		**188**	**1,458**	3,527
		54,928	**426,458**	550,352
		144,818	**1,124,362**	1,221,084

Notes:

1. Segment information

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

	Mobile services 2003 HK$'000	Sales of mobile phones and accessories 2003 HK$'000	Other services 2003 HK$'000	Group 2003 HK$'000
Turnover	**1,149,875**	**109,471**	**695**	**1,260,041**
Profit/(Loss) from operations	**145,685**	**(61,076)**	**(2,750)**	**81,859**
Interest income				**2,526**
Finance costs				**(52,787)**
Share of loss from a joint venture				**(4,426)**
Profit for the year				**27,172**

	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	815	(38,239)	(5,264)	(42,688)
Interest income				3,553
Finance costs				(59,520)
Share of losses from joint ventures				(18,609)
Loss for the year				(117,264)

2. Profit/(Loss) from operations

Profit/(Loss) from operations is stated after charging and crediting the following:

	2003 HK$'000	2002 HK$'000
Charging		
Cost of inventories sold	**133,315**	113,414
Depreciation:		
— owned fixed assets	**233,055**	253,668
— leased fixed assets	**238**	2,725
Loss on disposals of fixed assets	**414**	377
Operating lease charges:		
— land and buildings, including transmission sites	**195,945**	220,207
— leased lines	**73,283**	87,130
Provision for doubtful debts	**30,228**	31,016
Restructuring costs	**—**	26,606
Auditors' remuneration		
— charge for the year	**1,100**	1,128
— underprovision in prior year	**—**	35
Net exchange losses	**—**	313
Crediting		
Net exchange gains	**614**	—

3. Taxation

No provision for Hong Kong profits tax and overseas taxation has been made as the Group had sufficient tax losses brought forward to set off against the assessable profits for the year (2002: Nil).

The taxation charge on the Group's profit for the year differs from the theoretical amount that would arise using the applicable taxation rate of 17.5% (2002: 16%) as follows:

	2003 HK$'000	2002 HK$'000
Profit/(Loss) for the year	**27,172**	(117,264)
Taxation charge/(credit) at the applicable rate of 17.5% (2002: 16%)	**4,755**	(18,762)
Add/(Deduct) tax effect of:		
Income not subject to taxation	**(303)**	(431)
Expenses not deductible for taxation purposes	**3,713**	8,295
Utilisation of previously unrecognised tax losses	**(30,389)**	(10,860)
Reversal of temporary differences arising from accelerated depreciation	**22,224**	21,758
Taxation charge	**—**	—

4. Earnings per share

(a) ***Basic earnings per share***

The calculation of basic earnings per share is based on the Group's profit for the year of HK$27,172,000 (2002: loss of HK$117,264,000) and the 2,990,000,000 shares (2002: 2,990,000,000 shares) in issue during the year.

(b) ***Diluted earnings per share***

There is no dilutive effect upon exercise of the share options on the earnings per share for the years ended 31st December 2003 and 2002 since the exercise prices for the share options were above the average fair value of the shares.

5. EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of loss from a joint venture. In 2002, restructuring costs of HK$26,606,000 were incurred and charged to the operating expenses. No such costs were incurred during the year. EBITDA amounted to HK$315,152,000 in 2003 (2002: HK$240,311,000, before the restructuring costs).

6. Salaries and related costs

Salaries and related costs for the years ended 31st December 2003 and 2002, including directors' fees and emoluments, are as follows:

	2003 HK$'000	2002 HK$'000
Salaries, bonuses and allowances	**145,348**	212,338
Retirement scheme contributions	**5,362**	6,653
Termination benefits	**1,310**	24,899
	152,020	243,890

7. Prepayment of 3G licence fees

	2003 HK$'000	2002 HK$'000
At 1st January	**191,667**	241,667
Amount capitalised as fixed assets	**(50,000)**	(50,000)
At 31st December	**141,667**	191,667
Classified as:		
Current asset	**50,000**	50,000
Non-current asset	**91,667**	141,667

In 2001, the Group paid an amount of HK$250,000,000, equivalent to the aggregate of the first five years' annual fees for its 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 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 to 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 in an amount equivalent to the 6th and 7th years' Minimum Annual Fees on 22nd October 2003. On 30th August 2003, OFTA granted a one-year waiver to the Group on the submission of such performance bond. 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).

8. 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:

	2003 *HK$'000*	2002 *HK$'000*
0-30 days	**56,107**	59,380
31-60 days	**15,243**	15,931
61-90 days	**8,430**	9,433
Over 90 days	**1,289**	2,665
	81,069	87,409

9. Trade payables

The ageing analysis of the trade payables is as follows:

	2003 *HK$'000*	2002 *HK$'000*
0-30 days	**30,974**	17,731
31-60 days	**19,436**	9,460
61-90 days	**3,307**	15,546
Over 90 days	**17,883**	13,611
	71,600	56,348

10. Long-term loans and obligations under finance leases

	2003 *HK$'000*	2002 *HK$'000*
Bank loans (secured — *note a*)	**240,000**	420,000
Vendor loans (secured — *note a*)	**481,368**	365,316
Obligations under finance leases	**—**	138
	721,368	785,454
Less: Current portion included under current liabilities		
— bank loans	**(240,000)**	(180,000)
— vendor loans	**(56,368)**	(58,491)
— obligations under finance leases	**—**	(138)
	(296,368)	(238,629)
Long-term portion	**425,000**	546,825

(a) ***Bank and vendor loans***

At 31st December 2003 and 2002, the Group's long-term loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans 2003 *HK$'000*	Bank loans 2002 *HK$'000*	Vendor loans 2003 *HK$'000*	Vendor loans 2002 *HK$'000*
Within one year	**240,000**	180,000	**56,368**	58,491
In the second year	**—**	240,000	**175,000**	306,825
In the third to fifth year	**—**	—	**250,000**	—
	240,000	420,000	**481,368**	365,316

The bank loans and the loans from Nortel Networks (Asia) Limited ("Nortel"), a major vendor of the Group, ("the vendor loans") bore interest at prevailing market rates, i.e. HIBOR and LIBOR, respectively, plus a progressively increasing rate, and were repayable in 15 quarterly instalments commencing from 11th March 2001 up to 11th September 2004.

As at 31st December 2003, the bank loans and the vendor loans were secured, amongst other things, by a charge over all the assets, revenue and shares of certain wholly-owned subsidiaries of the Company, including Mandarin Communications Limited ("Mandarin"), the main operating subsidiary.

(b) ***Banking and other borrowing facilities***

The Group had available bank loan facilities of HK$600,000,000, as well as a loan facility of US$155,000,000 (approximately HK$1,209,000,000) provided by Nortel (the "vendor loan facility"). All of the facilities had been fully drawn down as at 30th September 2003.

(c) ***Bank and vendor loan covenants***

The bank loan and the vendor loan facilities provided for a corporate guarantee by the Company to secure all the obligations and liabilities of its wholly-owned subsidiaries. In addition, they contained a number of covenants which included maintenance of certain performance targets such as number of subscribers, earnings level, tangible net worth and debt service ratios and operation of the business in accordance with approved business plans.

(d) ***Post-balance sheet bank and vendor loan repayments***

On 30th December 2003, Mandarin gave notice to the lenders of the loan facilities of its intention to make full repayment of all the outstanding loan principal and accrued interest of the bank loans and vendor loans of HK$721,368,000. On 12th January 2004, all the bank and vendor loans were fully paid off through operating cash flows of Mandarin and a term loan of HK$500,000,000 provided by Huawei Tech. (see note 11 for details).

HK$75,000,000 of the new term loan from Huawei Tech. is payable in July 2004, while the remaining balance is repayable from January 2005 to July 2006. As a result, HK$425,000,000 of the term loan has been classified as non-current liabilities as at 31st December 2003.

The term loan from Huawei Tech. is unsecured and repayable in five progressively increasing semi-annual instalments after drawdown and carries a floating interest rate tied to HIBOR.

11. Subsequent event

On 12th January 2004, pursuant to the Heads of Agreement of Facility Agreements executed in December 2003 with Mandarin, Huawei Tech. Investment Co., Limited ("Huawei Tech."), a subsidiary of Huawei Technologies Co., Ltd., provided a term loan of HK$500,000,000 to Mandarin. The loan was used to repay part of the outstanding principal and accrued interest and charges in respect of certain bank and vendor loans as set out in note 10. The term loan from Huawei Tech. is unsecured and is repayable in five progressively increasing semi-annual instalments after drawdown and carries a floating interest rate tied to HIBOR.

12. Convenience translations

The condensed consolidated profit and loss account for the year ended 31st December 2003 and the condensed consolidated balance sheet as at 31st December 2003 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.764 to the U.S. dollar. Such translations should not be construed as representations that the Hong Kong dollar amounts represent, have been or could have been converted into U.S. dollars at that or any other rate.

DIVIDENDS

No interim dividend was paid for the year (2002: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31st December 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Overview

2003 was another landmark year for SUNDAY. The Group recorded its first annual profit of HK$27 million in a difficult year. EBITDA and cash inflow from operating activities increased by 47% and 87%, respectively, to HK$315 million and HK$242 million in 2003. The subscriber base increased by 9% to 660,000. Owing to the outbreak of SARS and price based competition during 2003, however, the Group's average revenue per user ("ARPU") declined by 4% to HK$201.

The significant improvement in the Group's financial results in 2003, despite difficult market conditions and a weak economy, clearly shows the benefits of the various initiatives to improve efficiency implemented in 2002 and 2003. SUNDAY's ability to operate with a leaner and more efficient structure well ahead of the industry has proven an important competitive advantage. During 2003, SUNDAY continued to improve network and pre- and post-sales service quality and to introduce many new innovative services to customers.

In 2003, the Group also signed Heads of Agreements with Huawei Technologies Co., Ltd. ("Huawei"), under which Huawei will provide a turnkey solution for the roll-out of SUNDAY's 3G network and services. The contract is supported by financing. As a result, the Group will be able to launch 3G services in the final quarter of 2004, but also has the flexibility to reschedule the launch date if market acceptance is different from that expected.

Mobile services

The year 2003 was full of challenges. The industry was adversely affected by the outbreak of SARS and the weak economy in general. Some competitors launched aggressive price promotions to secure short-term gains. To respond to these challenges, SUNDAY invested in the quality of its service delivery and continued its creative approach focused on market segmentation and service innovation. This strategy coincides with a shift in consumer attitudes as customers begin, increasingly, to value innovation and service quality.

The Group also continued to enhance its network coverage and quality. Over the past three years, the number of cell sites has increased by about 25%. To enhance sales and marketing, teams were reorganised under new management that combines traditional mobile telecommunications expertise with an understanding of fast-moving consumer markets. Customer care benefited from new management systems that enable SUNDAY to better track how effectively customer service needs are being met and build this data into performance measurements for individual business units. There was also increased use of quality assurance techniques to improve and monitor service delivery.

During 2003, the Group reorganised its operations according to distinct customer segments, namely, youth, ethnic, corporate and the mass market. Each is run as a sub-business, responsible for products, pricing, promotion and distribution channels, with separate targets for subscribers, ARPU, churn and other metrics.

The Group continued to make customer retention a priority and maintain tight control over churn and the average monthly gross churn rate, calculated as a percentage of opening subscribers, improved to 5.0% in 2003 as compared with 5.4% in 2002. The relatively high churn rate was mainly attributable to adverse market conditions in the first three quarters in 2003, but the rate has significantly decreased since the fourth quarter of 2003. The churn rate in December 2003 was 3.6%.

Despite the difficult market conditions, high service quality and SUNDAY's segmentation strategy enabled the Group to grow its mobile subscriber base, which increased by 9% to 660,000. The revenue from the mobile services business for 2003 declined moderately by 6% to HK$1,150 million from HK$1,218 million in 2002 as ARPU for 2003 fell a modest 4% to HK$201 from HK$209 in 2002.

The use of prepaid SIM cards has continued to grow. Prepaid subscriber number increased by 54,000 or 29% to 243,000 in 2003 over 2002. ARPU from these subscribers decreased to HK$60 in 2003 from HK$92 in 2002 due to aggressive price promotions initiated by some operators.

The gross profit margin for mobile services was 83% in 2003, slightly better than the 82% recorded in 2002.

Wireless data services

SUNDAY remains a leader in the introduction of innovative data services. In 2003, in support of its segmentation strategy, SUNDAY expanded its proprietary Location Based Services ("LBS"). SUNDAY made very good progress in its corporate segment as market leader in enterprise LBS applications for logistics and field services management. In the mass segment, the Group launched the "Family Watch" service that allows family users to locate each other, and "SARS updates" which enabled callers to identify affected buildings in their calling areas. The Group was also the first operator in Hong Kong to offer an unlimited GPRS package and wireless LAN roaming services. Such initiatives helped data services revenue grow by 55% in 2003. Data services are still in their early stages and are expected to contribute increasingly to overall customer acquisition and retention in the future.

The data services introduced by SUNDAY to date are an important precursor to its future 3G services, since 3G technology is expected to move consumers further away from commoditised mass market of mobile voice communications towards ever more tailored multi-media mobile services.

SUNDAY's partnership with Huawei, which is a leading telecommunications equipment manufacturer based in Shenzhen, China, provides important competitive advantages for the Group. It has strengths in areas that will be critical to success in the 3G arena, including the IP core network platform and service creation as well as an end-to-end solution. The proximity of Huawei's base in Shenzhen to Hong Kong gives SUNDAY a significant edge over its rivals in developing tailor-made services and launching them quickly. The partnership and associated financing also allows SUNDAY flexibility on when and how to launch its 3G services.

Sales of mobile phones and accessories

Revenue from sales of mobile phones and accessories decreased by HK$6 million to HK$109 million. The business made a gross loss of HK$24 million as compared with a gross profit of HK$2 million in 2002, mainly because of an extremely competitive market environment where more mobile phones were sold at subsidised prices to help upgrade existing customers for ongoing retention programmes and to acquire new customers.

FINANCIAL REVIEW

Turnover and gross profit

Total turnover for the year declined 6%, or HK$82 million, as compared with 2002 to HK$1,260 million. The decrease was mainly attributable to the generally weak economy, the outbreak of SARS and aggressive price promotions.

Gross profit in 2003 also decreased by 8% to HK$930 million as compared with 2002, mainly due to lower mobile services revenue and increased handset subsidies.

Revenues from mobile services and the sales of mobile phones and accessories accounted for 91% and 9%, respectively, of the total turnover in 2003.

Operating expenses (excluding depreciation)

Operating expenses (excluding depreciation) in 2003 were reduced by 22% to HK$619 million and fell from 65% to 54% as a percentage of mobile services revenue, as compared with 2002. This was achieved while improving service quality and was a direct result of the various efficiency improvement initiatives implemented in 2002 and 2003.

Significant savings were made in all major cost components. In particular, salary and related costs decreased by 37%, or HK$91 million, to HK$152 million in 2003. This largely reflects the full year effect of the restructuring of the Group's organisation and the setting up of an operations centre in Shenzhen in 2002. The new centre in Shenzhen has also provided higher productivity and better service quality.

EBITDA

EBITDA increased by HK$101 million, or 47%, to HK$315 million in 2003 as compared with 2002. The improvement, despite lower turnover, mainly resulted from the efficiency gains reflected by the substantial savings in operating expenses. EBITDA represents earnings before interest income, finance costs, taxation, depreciation, amortisation and share of loss from a joint venture.

Profit for the year

The Group recorded a net profit of HK$27 million as compared with a net loss of HK$117 million in 2002. The better performance was mainly attributable to the improvements in operating results as described above and a lower share of the loss from a joint venture.

CAPITAL EXPENDITURE

Capital expenditure for 2003 amounted to HK$122 million, including capitalised 3G licence fees of HK$50 million. The Group's 2G/2.5G mobile network is substantially complete. Capital expenditure incurred in 2003 was mainly for the ongoing enhancement of the mobile network for data services and expansion of the Shenzhen operations centre.

Capital expenditure for 2G/2.5G services in 2004 will decline further as the Group will focus on preparing for the rollout of its 3G network and services. It is expected that total capital expenditure for the construction of the 3G network will amount to around HK$850 million to HK$900 million over the next three years.

LIQUIDITY AND FINANCIAL RESOURCES

Cash flow from operations

Net cash inflow from operating activities of the Group in 2003 amounted to HK$242 million, an increase of HK$113 million over 2002. The increase in cash inflow from operating activities primarily resulted from the improvement in operating results as outlined above.

Financing

In 2003, the capital expenditure and working capital requirements of the Group were mainly funded by cash flow generated from operating activities. By September 2003, the outstanding revolving facility of HK$253 million had been fully drawn down.

As at 31st December 2003, the outstanding bank loan and vendor loan balances were repayable in three 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$721 million, and cash reserves of HK$314 million. Net debt (total bank and vendor loans less cash reserves) amounted to HK$407 million, and the net debt-to-equity ratio was 58% as at 31st December 2003.

In January 2004, Huawei provided a term loan of HK$500 million through a subsidiary to SUNDAY pursuant to the terms of the Heads of Agreement executed in December 2003, which, together with available cash on hand, was used to repay outstanding vendor loans and bank loans in full. The loan from Huawei is repayable in five progressively increasing semi-annual instalments after drawdown and carries a floating interest rate tied to HIBOR. No collateral is provided by 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 2003, the outstanding vendor loan amounted to US$62 million and this was subsequently repaid in full in January 2004.

International roaming payables and receivables are netted and settled on a monthly basis in Special Drawing Rights ("SDR"). As at 31st December 2003, the net SDR-denominated payables were insignificant. The Group has not experienced significant foreign exchange movements 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 continue 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 this 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, without 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 investments 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 726 employees as at 31st December 2003, of which 502 were in Hong Kong and 224 were in Shenzhen. Total salaries and related costs incurred in 2003 amounted to HK$152 million as compared with HK$243 million in 2002. 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 (the "Old Scheme"). On 22nd May 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "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 thereunder but the provisions of the Old Scheme will remain in full force and effect in respect of the existing options granted. Details of the share option schemes and the share options outstanding are disclosed in the Annual Report.

CORPORATE GOVERNANCE

The accounts for the year have been reviewed by the Audit Committee of the Board. The committee comprises four Directors, including three independent Non-executive Directors and a Non-executive Director. One of these Directors, Mr. John William Crawford, has the appropriate professional qualifications and experience in financial matters.

The Company has complied throughout the year 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, 1st April 2004

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 for publication on the Stock Exchange's website in due course.