

# SUNDAY

## SUNDAY COMMUNICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

### RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2003

(Hong Kong dollar is translated to United States dollar at a rate of HK\$7.7984 to US\$1.0)

- Net profit of HK\$13 million (US\$2 million)
- EBITDA increased by 57% to HK\$160 million (US\$21 million)
- Successful launch of segmentation strategy to serve mature marketplace

#### RESULTS

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 2003 and the consolidated balance sheet as at 30th June 2003 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 2003

Note	Unaudited		
	Six months ended 2003 US\$'000	Six months ended 2002 HK\$'000	2002 HK\$'000
Mobile services	74,645	582,113	594,469
Sales of mobile phones and accessories	8,390	65,432	63,192
Other services	52	404	6,672
Turnover	83,087	647,949	664,333
Cost of inventories sold and services provided	(21,943)	(171,120)	(170,239)
Gross profit	61,144	476,829	494,094
Other revenues	197	1,532	849
Network costs	(18,235)	(142,207)	(148,035)
Depreciation	(15,059)	(117,433)	(130,570)
Rent and related costs	(3,312)	(25,826)	(30,806)
Salaries and related costs	(9,393)	(73,253)	(119,492)
Advertising, promotion and other selling costs	(6,908)	(53,869)	(65,452)
Other operating costs	(2,915)	(22,729)	(29,157)
Profit/(Loss) from operations	5,519	43,044	(28,569)
Interest income	153	1,191	1,669
Finance costs	(3,435)	(26,791)	(28,538)
Share of loss from a joint venture	(513)	(3,998)	(11,039)
Profit/(Loss) for the period	1,724	13,446	(66,477)
Earnings/(Loss) per share	0.06 cents	0.45 cents	(2.22 cents)
EBITDA	20,578	160,477	102,001

#### Condensed Consolidated Balance Sheet

As at 30th June 2003

	Unaudited 30th June 2003 US\$'000	Unaudited 31st December 2002 HK\$'000	Audited 31st December 2002 HK\$'000
Non-current assets			
Fixed assets	147,650	1,151,430	1,213,897
Investment in a joint venture	42	327	3,322
Prepayment of 3G Licence fees	14,960	116,667	141,667
Restricted cash deposits	217	1,694	1,682
	162,869	1,270,118	1,360,568
Current assets			
Inventories	793	6,188	9,995
Trade receivables	9,540	74,399	87,409
Prepayment of 3G Licence fees	6,412	50,000	50,000
Deposits, prepayments and other receivables	10,356	80,761	96,355
Restricted cash deposits	19,807	154,459	156,939
Bank balances and cash	2,173	16,949	49,577
	49,081	382,756	450,275
Current liabilities			
Trade payables	2,920	22,770	56,348
Other payables and accrued charges	22,476	175,277	171,313
Subscriptions received in advance	13,149	102,545	123,469
Current portion of long-term loans and obligations under finance leases	39,024	304,322	238,629
	77,569	604,914	589,759
Net current liabilities	(28,488)	(222,158)	(139,484)
	134,381	1,047,960	1,221,084
Financed by:			
Share capital	38,341	299,000	299,000
Reserves	49,392	385,178	371,732
Shareholders' equity	87,733	684,178	670,732
Long-term liabilities			
Long-term loans and obligations under finance leases	46,394	361,800	546,825
Subscriptions received in advance	254	1,982	3,527
	46,648	363,782	550,352
	134,381	1,047,960	1,221,084

#### 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.

	Six months ended 30th June 2003		
	Mobile services HK\$'000	phones and accessories HK\$'000	Other services HK\$'000
Turnover	582,113	65,432	404
Profit/(Loss) from operations	65,729	(21,294)	(1,391)
Interest income			1,191
Finance costs			(26,791)
Share of loss from a joint venture			(3,998)
Profit for the period			13,446

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

##### 2. Profit/(Loss) from operations

	Six months ended 30th June 2002	
	HK\$'000	HK\$'000
Profit/(Loss) from operations is stated after charging the following:		
Cost of inventories sold	68,406	60,604
Depreciation:		
- owned fixed assets	117,195	128,475
- leased fixed assets	238	2,095
Loss on disposals of fixed assets	104	66
Operating leases charges:		
- land and buildings, including transmission sites	104,676	108,701
- leased lines	35,247	43,526
Provision for doubtful debts	13,303	14,554

##### 3. Taxation

No provision for Hong Kong profits tax has been made as the Group has sufficient tax losses brought forward to set off against the assessable profit for the six months ended 30th June 2003 (2002: Nil).

##### 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 six months ended 30th June 2003 of HK\$13,446,000 (2002: loss of HK\$66,477,000) and the 2,990,000,000 shares (2002: 2,990,000,000 shares) in issue during the period.
- (b) Diluted earnings per share
- There is no dilutive effect upon exercise of the share options on the earnings per share for the six months ended 30th June 2003.

##### 5. EBITDA

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

##### 6. Subsequent event

The Group was required to provide a performance bond in an amount equivalent to the 6th and 7th years' Minimum Annual Fees due on 22nd October 2003. On 30th August 2003, the Office of Telecommunications Authority 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).

##### INTERIM DIVIDENDS

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: Nil).

##### MANAGEMENT DISCUSSION AND ANALYSIS

SUNDAY recorded its first net profit of HK\$13 million in the six months ended 30th June 2003. This result is all the more pleasing since it came in the most difficult of circumstances, involving the outbreak of SARS, a weak economic environment and a highly competitive marketplace.

SUNDAY's profitability, which continues beyond the reporting period, testifies to its ability to compete as a unique operator in a currently very competitive marketplace. Recognising this reality well in advance of the industry as a whole, management took aggressive steps during 2002 to contain costs. As a result, the Group was able to create a highly efficient cost structure that allows it to match or exceed the tariff, service quality and product offerings of competitors.

The Group is now using this foundation to focus on customer acquisition and retention, through the implementation of its segmentation strategy. This strategy plays to SUNDAY's recognised strengths in creativity, particularly in the areas of branding, marketing and new service creation. The segmentation strategy will become increasingly important with the shift towards more data services and the introduction of 3G services.

##### Review of Operations

The first half year of 2003 was a challenging period for SUNDAY. The mobile communications market is mature and was intensely competitive, as some competitors launched aggressive price promotions. In addition, the industry was adversely affected by the outbreak of SARS and the weak economy in general.

SUNDAY's response has been to ensure the Group's ability to compete in the short term through creating an efficient cost structure, and beyond this to implement the market segmentation strategy that will be critical to success in future, especially as 3G becomes a commercial and technical reality. In any commoditised industry, market segmentation quickly becomes the only way to bring value to the customer and achieve sustained growth. SUNDAY has been well ahead of the competition in Hong Kong in recognising this fact and reorienting its operations to implement effective segmentation programmes. During the period, the Group introduced its "U Decide" youth plan and the "Pinoy" prepaid mobile service.

SUNDAY continues to ensure it remains a leader in the introduction of innovative data services. In the first half of 2003, SUNDAY expanded its proprietary Location Based Services to the personal safety arena by introducing the "Family Watch" service that allows family users to locate each other and "SARS" updates, which enabled callers to identify SARS-affected buildings in their calling areas. SUNDAY was also the first operator to offer an unlimited GPRS package, which has encouraged the uptake of GPRS mobile connectivity. Although SUNDAY's data and market segmentation initiatives are in their early stages, they are beginning to contribute, as they will do much more forcefully in future, to customer acquisition and retention.

As a result, despite the adverse macro environment, the Group increased its mobile subscriber base by 14% to 650,000 as at 30th June 2003 as compared with 30th June 2002, and increased by 8% as compared with 31st December 2002. Due to the outbreak of SARS and a weak economy, the monthly postpaid average revenue per user (ARPU) and the revenue for mobile service business for the first half of 2003 declined moderately by 4% (to HK\$200) and 2% (to HK\$582 million), respectively, as compared with the corresponding period of 2002.

Due to the launch of aggressive price promotions by some competitors, the average monthly churn rate of the Group for the first six months in 2003 also increased to 5.5%, from an average of 4.4% in the second half of 2002, but it was still lower than the 6.5% recorded during the corresponding period of 2002.

Revenues from the sales of mobile phones and accessories for the six months ended 30th June 2003 increased by HK\$2 million to HK\$65 million but the business made a gross loss of HK\$3 million as more mobile phones were sold at subsidised prices to upgrade existing subscribers for ongoing retention programmes.

SUNDAY recognised the need to improve its productivity further and to operate with a lean and efficient structure well ahead of the industry. The benefits of the various initiatives implemented in 2002 to reduce the cost base and to increase efficiency became apparent in 2003. Overall operating costs (excluding depreciation) for the six months ended 30th June 2003 decreased by HK\$75 million or 19% to HK\$518 million as compared with the corresponding period of 2002.

SUNDAY earned its first net profit of HK\$13 million in the first half year of 2003, compared with a net loss of HK\$66 million in the corresponding period of 2002. The EBITDA of the Group for the first half of 2003 also increased by 57% to HK\$160 million.

Capital expenditure incurred during the period was mainly for enhancement of the 2G/2.5G mobile network, which amounted to HK\$30 million, and capitalised 3G licence fees amounted to HK\$25 million.

##### Prospects

SUNDAY is confident that by building on its solid groundwork completed in 2002, it can continue to deliver sustained improvements in operating performance. This is despite the expectation that the market will remain mature and aggressively competitive during the remaining part of the year given that the weak economy will continue in the third quarter of 2003.

SUNDAY will continue to focus on improving its profitability through maintaining efficiency and service quality, while developing a wide range of new data services and implementing the market segmentation strategy. In doing so, the Group will leverage its recognised competitive strengths in branding and marketing to drive customer acquisition and retention among specific customer segments. SUNDAY will also continue to benefit directly from the operation in Shenzhen, China, which gives it a lean operating structure and on-the-ground experience in China.

SUNDAY believes that the key to success in 3G services will be a cost-effective platform that delivers creative and tailored services, and will only launch 3G at the optimum time. The Group continues comprehensive planning of all network, IT and service delivery systems required for the launch of 3G services and continues discussion with a number of vendors and financial institutions who will provide the most desirable package of technology and financing to support the eventual launch.

It is ever more evident that a 3G licence will be essential for success in the future. SUNDAY expects the arrival of 3G commercially to be a catalyst for the long-expected consolidation in the industry, to the benefit of the shareholders as well as other 3G licence holders.

##### Liquidity and Financial Resources

The Group recorded positive cash flow of HK\$130 million from operating activities during the six months ended 30th June 2003, an increase of HK\$57 million as compared with the corresponding period in 2002. During the period, the capital expenditure and working capital requirements of the Group were mainly funded by cash flow generated from operating activities.

The outstanding bank loan and vendor loan balances as at 30th June 2003 are repayable in five quarterly installments through September 2004, and are mainly secured by a charge over all the assets, revenues and shares of Mandarin Communications Limited, the main operating subsidiary of the Company.

As at 30th June 2003, the Group had total bank and vendor loans of HK\$666 million, cash reserves of HK\$173 million and available revolving facility provided by a vendor, Nortel Networks (Asia) Limited, of HK\$329 million. Net debt (total bank and vendor loans less cash reserves) as at 30th June 2003 reduced to HK\$493 million, compared with HK\$577 million as at 31st December 2002 and HK\$597 million as at 30th June 2002. Net debt to equity ratio was reduced from 83% as at 30th June 2002 to 72% as at 30th June 2003.

##### Foreign Exchange Exposure

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 2003, the outstanding vendor loans amounted to US\$43 million but the Group also had bank deposits of US\$20 million. The international roaming payables and receivables are netted and settled on a monthly basis in Special Drawing Rights ("SDR") and the net SDR-denominated payables were insignificant as at 30th June 2003. 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 720 full-time employees as at 30th June 2003, of which 520 employees were in Hong Kong and 200 employees were in Shenzhen. Total salaries and related costs incurred during the six months ended 30th June 2003 amounted to HK\$73 million, which was 39% less than that incurred during the corresponding period 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 provident fund schemes, subsidised medical care and subsidies for external educational and training programmes.

No share options were granted during the six months ended 30th June 2003.

##### CORPORATE GOVERNANCE

###### Code of Best Practice

SUNDAY is committed to ensuring high standards of corporate governance in the interests of shareholders and takes care to identify practices designed to achieve effective oversight, transparency and ethical behaviour.

The Company has complied throughout the six months ended 30th June 2003 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.

###### Audit Committee

The Audit Committee of the Board of Directors was established with written terms of reference that set out the authorities and duties of the committee adopted by the Board. The committee is chaired by Mr. Robert Owen, and meets regularly with the external auditors and the Group's internal audit personnel and management. None of the members of the committee has any personal financial interests (other than as shareholders) or conflicts of interests arising from day-to-day involvement in the running of the business.

During the period, the committee met regularly with the external auditors and the Group'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 Group. The committee also followed up with management regularly on the management actions arising from the audits.

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

###### Committee and Board Meetings

Since 1st January to 10th September 2003, both the Board of Directors and the Audit Committee have met twice. The Executive Management Committee has met nine times in addition to frequent informal meetings with the senior management.

###### PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2003, 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, 10th September 2003

<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 24th September 2003 for publication on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)).