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A solid first half

SUNDAY Interim Report

BOARD OF DIRECTORS

Executive Directors

Richard John Siemens, Co-Chairman
Edward Wai Sun Cheng, Co-Chairman
William Bruce Hicks, Group Managing Director
Kuldeep Saran
Andrew Chun Keung Leung
Craig Edward Ehrlich

Non-executive Directors

Peter Kin Ngok Lam
Simon Murray
Tak Sing Yip
Hongqing Zheng

Independent Non-executive Directors

Henry Michael Pearson Miles
Robert John Richard Owen

AUDIT COMMITTEE

Robert John Richard Owen
Henry Michael Pearson Miles
Simon Murray

REMUNERATION COMMITTEE

Richard John Siemens
Edward Wai Sun Cheng
Henry Michael Pearson Miles

CHIEF EXECUTIVE OFFICER

Fergus Wilmer

COMPANY SECRETARY

Janet Ching Man Fung

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

13th Floor
Warwick House
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Front Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

ADR DEPOSITARY

The Bank of New York
101 Barclay Street
22nd Floor
New York, NY 10286
United States of America

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
United Overseas Bank Limited

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

STOCK CODES

The Stock Exchange of Hong Kong: 0866
Ticker Symbol for ADR Code: SDAY

WEBSITES

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

Condensed Consolidated Profit and Loss Account

The Directors of SUNDAY Communications Limited (the "Company") are pleased to present the Interim Report and the condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002. The consolidated profit and loss account and the consolidated cash flow statement for the six months ended 30th June, 2002 and the consolidated balance sheet and the statement of changes in shareholders' equity as at 30th June, 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 13 of this report.

	Note	Unaudited Six months ended 30th June,		
		2002 US\$'000	2002 HK\$'000	2001 HK\$'000
Mobile services		76,214	594,469	574,584
Sales of mobile phones and accessories		8,102	63,192	144,960
International telecommunications and other services		<u>855</u>	<u>6,672</u>	<u>6,286</u>
Turnover	2	85,171	664,333	725,830
Cost of inventories sold and services provided		<u>(21,826)</u>	<u>(170,239)</u>	<u>(264,560)</u>
Gross profit		63,345	494,094	461,270
Other revenues		109	849	–
Network costs		(18,979)	(148,035)	(148,224)
Depreciation		(16,740)	(130,570)	(134,236)
Rent and related costs		(3,950)	(30,806)	(28,057)
Salaries and related costs		(15,319)	(119,492)	(119,713)
Advertising, promotion and other selling costs		(8,391)	(65,452)	(92,135)
Other operating costs		<u>(3,738)</u>	<u>(29,157)</u>	<u>(31,091)</u>
Loss from operations	2, 3	(3,663)	(28,569)	(92,186)
Interest income		214	1,669	15,519
Finance costs		(3,659)	(28,538)	(37,806)
Share of losses from joint ventures		<u>(1,415)</u>	<u>(11,039)</u>	<u>–</u>
Loss for the period		<u>(8,523)</u>	<u>(66,477)</u>	<u>(114,473)</u>
Loss per share	6	<u>(0.3 cents)</u>	<u>(2.2 cents)</u>	<u>(3.8 cents)</u>
EBITDA	7	<u>13,077</u>	<u>102,001</u>	<u>42,050</u>

Condensed Consolidated Balance Sheet

	Note	Unaudited 30th June, 2002 US\$'000	Unaudited 30th June, 2002 HK\$'000	Audited 31st December, 2001 HK\$'000
Non-current assets				
Intangible asset		74,863	583,930	583,930
Fixed assets	8	155,990	1,216,724	1,293,479
Investments in joint ventures	9	965	7,527	4,940
Restricted cash deposits	10	306	2,385	2,385
		<u>232,124</u>	<u>1,810,566</u>	<u>1,884,734</u>
Current assets				
Inventories		1,096	8,546	20,448
Trade receivables	11	11,104	86,609	88,462
Deposits, prepayments and other receivables		17,038	132,898	95,608
Restricted cash deposits	10	17,170	133,927	132,706
Bank balances and cash		12,148	94,756	47,328
		<u>58,556</u>	<u>456,736</u>	<u>384,552</u>
Current liabilities				
Trade payables	12	6,802	53,054	47,932
Other payables and accrued charges		24,809	193,509	193,311
Subscriptions received in advance		17,050	132,986	145,795
Current portion of long-term loans and obligations under finance leases	13	27,876	217,434	196,960
		<u>76,537</u>	<u>596,983</u>	<u>583,998</u>
Net current liabilities		<u>(17,981)</u>	<u>(140,247)</u>	<u>(199,446)</u>
		<u>214,143</u>	<u>1,670,319</u>	<u>1,685,288</u>
Financed by:				
Share capital				
Share capital		38,333	299,000	299,000
Reserves				
Reserves		54,169	422,519	488,996
Shareholders' equity		<u>92,502</u>	<u>721,519</u>	<u>787,996</u>
Long-term liabilities				
3G Licence fees liability		42,706	333,109	333,109
Long-term loans and obligations under finance leases	13	78,400	611,522	556,653
Subscriptions received in advance		535	4,169	7,530
		<u>121,641</u>	<u>948,800</u>	<u>897,292</u>
		<u>214,143</u>	<u>1,670,319</u>	<u>1,685,288</u>

Statement of Changes in Shareholders' Equity

Group	Share capital HK\$'000	Reserve arising from the Reorganisation HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total shareholders' equity HK\$'000
Unaudited					
As at 1st January, 2001	299,000	1,254,000	2,124,424	(2,677,680)	999,744
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(114,473)</u>	<u>(114,473)</u>
As at 30th June, 2001	<u>299,000</u>	<u>1,254,000</u>	<u>2,124,424</u>	<u>(2,792,153)</u>	<u>885,271</u>
Unaudited					
As at 1st January, 2002	299,000	1,254,000	2,124,424	(2,889,428)	787,996
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(66,477)</u>	<u>(66,477)</u>
As at 30th June, 2002	<u>299,000</u>	<u>1,254,000</u>	<u>2,124,424</u>	<u>(2,955,905)</u>	<u>721,519</u>

Condensed Consolidated Cash Flow Statement

	Unaudited			Audited
	Six months ended 30th June,			Year ended
	2002	2002	2001	2001
	US\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	<u>9,334</u>	<u>72,809</u>	<u>(75,244)</u>	<u>(88,355)</u>
Investing activities				
Investment in a joint venture	(1,747)	(13,626)	–	(4,940)
Purchases of fixed assets	(4,663)	(36,375)	(63,866)	(146,664)
Proceeds from disposals of fixed assets	2	15	15	504
Changes in restricted cash deposits	(157)	(1,221)	27,020	(39,066)
Payment of 3G Licence fees	–	–	–	(250,000)
Payment of 3G Licence related expenses	–	–	–	(821)
Net cash outflow from investing activities	<u>(6,565)</u>	<u>(51,207)</u>	<u>(36,831)</u>	<u>(440,987)</u>
Net cash inflow/(outflow) before financing	<u>2,769</u>	<u>21,602</u>	<u>(112,075)</u>	<u>(529,342)</u>
Financing				
Repayment of long-term bank loans	(10,000)	(78,000)	(12,000)	(24,000)
Repayment of long-term vendor loans	(2,500)	(19,500)	(9,748)	(19,543)
Increase in long-term vendor loans	16,000	124,800	–	–
Capital element of finance lease payments	(189)	(1,474)	(3,731)	(5,927)
Net cash inflow/(outflow) from financing	<u>3,311</u>	<u>25,826</u>	<u>(25,479)</u>	<u>(49,470)</u>
Increase/(decrease) in cash and cash equivalents	6,080	47,428	(137,554)	(578,812)
Cash and cash equivalents at 1st January	<u>6,068</u>	<u>47,328</u>	<u>626,140</u>	<u>626,140</u>
Cash and cash equivalents at 30th June/31st December	<u>12,148</u>	<u>94,756</u>	<u>488,586</u>	<u>47,328</u>
Analysis of balances of cash and cash equivalents				
Bank balances and cash	<u>12,148</u>	<u>94,756</u>	<u>488,586</u>	<u>47,328</u>

Notes to the Condensed Consolidated Accounts

1. Principal accounting policies

(a) Basis of presentation

The unaudited condensed interim accounts ("interim accounts") have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are the same as those used in the annual accounts for the year ended 31st December, 2001.

(b) Convenience translations

The condensed consolidated profit and loss account and condensed consolidated cash flow statement for the six months ended 30th June, 2002, and condensed consolidated balance sheet as at 30th June, 2002 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK\$7.8 to the U.S. dollar. Such translations should not be construed as representations that the Hong Kong dollar amounts represent or have been or could have been converted into U.S. dollars at that or any other rate.

2. Segment information

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

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

Six months ended 30th June, 2001

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

3. Loss from operations

Loss from operations is stated after charging the following:

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

4. Taxation

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

Notes to the Condensed Consolidated Accounts

5. Interim dividends

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

6. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the six months ended 30th June, 2002 of HK\$66,477,000 (2001: loss of HK\$114,473,000) and the weighted average number of 2,990,000,000 shares (2001: 2,990,000,000 shares) in issue during the period.

(b) Diluted loss per share

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

7. EBITDA

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

8. Fixed assets

	HK\$'000
Cost	
At 1st January, 2002	2,246,331
Additions	53,896
Disposals	<u>(788)</u>
At 30th June, 2002	<u>2,299,439</u>
Accumulated depreciation	
At 1st January, 2002	952,852
Charge for the period	130,570
Disposals	<u>(707)</u>
At 30th June, 2002	<u>1,082,715</u>
Net book value	
At 30th June, 2002	<u>1,216,724</u>
At 31st December, 2001	<u>1,293,479</u>

At 30th June, 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK\$867,621 (31st December, 2001: HK\$2,963,000).

All fixed assets were pledged as security for bank loan and vendor loan facilities of the Group.

9. Investments in joint ventures

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Share of net (liabilities)/assets	(11,033)	1
Advances	<u>18,560</u>	<u>4,939</u>
	<u>7,527</u>	<u>4,940</u>

As at 30th June, 2002, particulars of the joint ventures were as follows:

Name	Nature	Place of incorporation	Voting power	Principal activities and place of operation
Atria Limited	Corporate	Hong Kong	50%	Development of applications for wireless communications in Hong Kong
Shell & SUNDAY Mobile Communications Limited	Corporate	Hong Kong	50%	Provision of mobile services in Hong Kong as a mobile virtual network operator on a pilot project basis

The advances to the joint ventures are unsecured, interest free and have no fixed repayment terms.

10. Restricted cash deposits

As at 30th June, 2002, a bank deposit of HK\$2,385,000 (31st December, 2001: HK\$2,385,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. The guarantee will expire in March 2007.

As at 30th June, 2002, another bank deposit of HK\$133,927,000 (31st December, 2001: HK\$132,706,000) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within six months.

Notes to the Condensed Consolidated Accounts

11. 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:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
0-30 days	63,999	63,463
31-60 days	11,002	13,902
61-90 days	6,241	6,755
Over 90 days	<u>5,367</u>	<u>4,342</u>
	<u>86,609</u>	<u>88,462</u>

12. Trade payables

The ageing analysis of the trade payables is as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
0-30 days	36,682	36,170
31-60 days	5,714	2,383
61-90 days	1,656	2,697
Over 90 days	<u>9,002</u>	<u>6,682</u>
	<u>53,054</u>	<u>47,932</u>

13. Long-term loans and obligations under finance leases

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Bank loans (secured)	498,000	576,000
Vendor loans (secured)	330,272	175,455
Obligations under finance leases	<u>684</u>	<u>2,158</u>
	<u>828,956</u>	<u>753,613</u>
Less: Current portion included under current liabilities		
- bank loans	(168,000)	(156,000)
- vendor loans	(48,750)	(38,990)
- obligations under finance leases	<u>(684)</u>	<u>(1,970)</u>
	<u>(217,434)</u>	<u>(196,960)</u>
	<u>611,522</u>	<u>556,653</u>

(a) Bank and vendor loans

At 30th June, 2002 and 31st December, 2001, the Group's long-term loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans		Vendor loans	
	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Within one year	168,000	156,000	48,750	38,990
In the second year	210,000	180,000	68,250	58,485
In the third to fifth year	<u>120,000</u>	<u>240,000</u>	<u>213,272</u>	<u>77,980</u>
	<u>498,000</u>	<u>576,000</u>	<u>330,272</u>	<u>175,455</u>

The bank loans and the vendor loans bear interest at prevailing market rates and are repayable in 15 quarterly instalments commencing from 11th March, 2001. During the six months ended 30th June, 2002, the Group repaid the bank loans and the vendor loans of HK\$78,000,000 and HK\$19,500,000, respectively.

(b) Banking and other borrowing

During the period, the expiry date of the revolving loan facility granted by Nortel Networks (Asia) Limited, a major vendor of the Group, was further extended to 11th September, 2004 pursuant to an agreement dated 17th May, 2002. The revolving loan facility available will be reduced in the same proportion as the repayments of the vendor loans (as set out in note 13(a)) bear to the vendor loans of US\$25,000,000 (approximately HK\$195,000,000). As at 30th June, 2002, the available revolving loan facility was US\$81,700,000 (approximately HK\$637,260,000).

(c) Obligations under finance leases

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Minimum lease payments		
Within one year	755	2,123
In the second year	<u>-</u>	<u>209</u>
	755	2,332
Future finance charges on finance leases	<u>(71)</u>	<u>(174)</u>
Present value of finance lease liabilities	<u>684</u>	<u>2,158</u>
The present value of finance lease liabilities is as follows:		
Within one year	684	1,970
In the second year	<u>-</u>	<u>188</u>
	<u>684</u>	<u>2,158</u>

Notes to the Condensed Consolidated Accounts

14. Capital commitments

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
In respect of purchases of fixed assets:		
- contracted but not provided for	58,429	118,044
- authorised but not contracted for	<u>18,116</u>	<u>70,510</u>
	<u>76,545</u>	<u>188,554</u>

15. Commitments under operating leases

At 30th June, 2002 and 31st December, 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
In respect of land and buildings, including transmission sites:		
- within one year	174,187	170,948
- in the second to fifth year inclusive	104,388	111,702
- after the fifth year	<u>-</u>	<u>2,035</u>
	<u>278,575</u>	<u>284,685</u>
In respect of leased lines:		
- within one year	50,106	55,145
- in the second to fifth year inclusive	<u>16,407</u>	<u>33,121</u>
	<u>66,513</u>	<u>88,266</u>
	<u>345,088</u>	<u>372,951</u>

16. Related party transactions

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Six months ended 30th June, 2002 HK\$'000	2001 HK\$'000
Revenues received from a related company (note a)	115	4,105
Operating lease charges paid to related companies (note b)	(2,092)	(2,359)
Consulting service fees paid to a related company (note c)	<u>(1,440)</u>	<u>-</u>

- (a) The Group entered into certain agreements based on normal commercial terms with a wholly-owned subsidiary of a related company, e-Kong Group Limited ("e-Kong"), during the year ended 31st December, 2000. Under these agreements, the Group enabled the customers of e-Kong to make international calls by providing it interconnection to the Group's international telecommunications service facility and referred the Group's subscribers of international telecommunications service to make international calls directly through a web site of e-Kong. Such arrangements were terminated effective from 26th September, 2001 pursuant to a revised agreement entered on the same date. The revenue from international telecommunications service during the six months ended 30th June, 2002 was HK\$115,000 (2001: HK\$4,105,000).

Messrs. Richard John Siemens, Kuldeep Saran and William Bruce Hicks are directors of both the Company and e-Kong.

- (b) The Group entered into various operating lease agreements based on normal commercial terms with subsidiaries and related companies of certain beneficial shareholders of the Company to lease a number of premises for the Group's operating activities.
- (c) The Group entered into certain agreements based on normal commercial terms with Lifetree Convergence Limited ("Lifetree") which provided various software development and consulting services to the Group during the six months ended 30th June, 2002.

Messrs. Richard John Siemens, Edward Wai Sun Cheng, William Bruce Hicks and Kuldeep Saran are directors of both the Company and Lifetree.

17. Subsequent events

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

The Company also announced on 23rd August, 2002 that the operations of Shell & SUNDAY Mobile Communications Limited, the joint venture formed with Shell Hong Kong Limited, will be shut down effective 26th September, 2002.

Management Discussion and Analysis

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

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

SUNDAY's management is confident of managing its debt and repayment schedule under the existing financing arrangements. As at 30th June, 2002, the Group had cash reserves and available revolving facility of HK\$868 million. Net debt at 30th June, 2002 amounted to HK\$597 million. Net debt will increase slightly through the end of 2002 to complete our final phase of 2.5G network enhancement before 3G, and will begin to reduce thereafter. SUNDAY has already paid its first 5 years of 3G licence fees and capital expenditure for 3G rollout is not expected until 2004, when appropriate financing arrangements will be made.

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

Review of Operations

Total mobile subscribers increased by 18% to 570,000 as at 30th June, 2002 as compared with 30th June, 2001, and increased by 3% as compared with 31st December, 2001. Revenue from the mobile services business for the six months ended 30th June, 2002 recorded a 3% increase to HK\$594 million as compared with the corresponding period in 2001 and increased by 1% as compared with the second half of 2001. The gross profit of the mobile services business was stable at 82%.

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

Revenues from the sales of mobile phones and accessories for the six months ended 30th June, 2002 dropped by 57% to HK\$63 million. As the Group does not earn a profit from selling handsets, this decline in revenues is favourable for the Group. The revenues and the gross profit from international telecommunications and other services remained stable and relatively small.

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

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

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

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

Capital expenditure incurred during the period amounted to HK\$54 million, and was mainly for enhancement of the mobile network for data services, and setting up the Shenzhen operations centre. In terms of cash flow, capital expenditure payment including deposit payment for the period amounted to HK\$36 million, and direct drawdown from the revolving facility provided by Nortel Networks (Asia) Limited ("Nortel") amounted to HK\$50 million. Following the investment made by the Group through the end of 2002 to expand coverage and provide capacity for GPRS services, capital expenditure in the near future will be mainly for maintenance of the 2G/2.5G network.

In January 2002, SUNDAY formed a 50:50 joint venture company with the Shell Group to operate as a mobile virtual network operator ("MVNO") on a pilot project basis. The pilot project provided SUNDAY with valuable operating and strategic understanding of MVNO potential within Hong Kong. Upon completion of the pilot project in August, it was determined that MVNOs have limited potential and the decision was made to shut down the joint venture. This experience in running an MVNO operation reinforces the Group's belief that owning a 3G network licence as SUNDAY does in Hong Kong, is essential for value creation in the future and that those companies without networks will have limited upside opportunity.

Prospects

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

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

Liquidity and Financial Resources

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

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

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

As at 30th June, 2002, the Group had total bank and vendor loans of HK\$828 million, cash reserves of HK\$231 million and available revolving facility of HK\$637 million. Net debt (total bank and vendor loans less cash reserves) amounted to HK\$597 million, and net debt to equity ratio was 83% as at 30th June, 2002. The Group has already paid an amount of HK\$250 million to the Office of Telecommunications Authority (in October 2001) as prepayment for the first five years' minimum annual fees of the 3G licence.

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

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

Employees and Share Option Scheme

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

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

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

No share options were granted during the six months ended 30th June, 2002 under the New Scheme or the Old Scheme. Details of the share options outstanding as at 30th June, 2002 which were granted under the Old Scheme are as follows:

	Options held at 1st January, 2002	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options held at 30th June, 2002	Exercise price HK\$	Grant date ⁽²⁾	Exercisable until
Executive Directors ⁽³⁾	90,000,000	-	-	-	90,000,000	1.01	31/05/2000	30/05/2010
Chief Executive ⁽³⁾	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Continuous contract employees	26,265,646	-	-	486,394 ⁽¹⁾	25,779,252	3.05	23/03/2000	22/03/2010
	30,551,857	-	-	1,114,034 ⁽¹⁾	29,437,823	1.01	31/05/2000	30/05/2010
	2,096,009	-	-	313,822 ⁽¹⁾	1,782,187	3.05	31/05/2000	30/05/2010
	3,828,177	-	-	327,792 ⁽¹⁾	3,500,385	1.01	19/01/2001	18/01/2011

Notes:

(1) These share options lapsed during the period upon the cessation of the employment of certain employees.

(2) Of the share options granted, 40% become exercisable after one year from the grant date and 30% per annum during the following two years.

(3) Details of the options granted to the Executive Directors and Chief Executive of the Company are set out on page 18 of this interim report under the heading of "Directors' and Chief Executive's Interests in Securities".

Directors' and Chief Executive's Interests in Securities

As at 30th June, 2002, the interests of the Directors and chief executive in the securities of the Company and its associated corporation as recorded in the register kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company were as follows:

Interests in shares of the Company

Name of Director/Chief Executive	Number of Shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Edward Wai Sun Cheng ⁽¹⁾	-	-	-	345,000,000	345,000,000
Craig Edward Ehrlich	500,000	-	-	-	500,000
Fergus Wilmer	800,000	-	-	-	800,000

Interests in shares of an associated corporation (within the meaning of the SDI Ordinance)

- Mandarin Communications Limited

Name of Director	Number of Shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Edward Wai Sun Cheng ⁽¹⁾	-	-	-	188,100,000	188,100,000

Interests in share options of the Company

- Under the share option scheme adopted on 1st March, 2000

Name of Director/Chief Executive	Options held at 1st January, 2002	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options held at 30th June, 2002	Exercise price HK\$	Grant date ⁽²⁾	Exercisable until
Richard John Siemens	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Edward Wai Sun Cheng	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
William Bruce Hicks	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Kuldeep Saran	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Andrew Chun Keung Leung	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Craig Edward Ehrlich	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010
Fergus Wilmer	15,000,000	-	-	-	15,000,000	1.01	31/05/2000	30/05/2010

Notes:

(1) Mr. Edward Wai Sun Cheng is a beneficiary of a trust which assets include indirect interests in 21.4% of the issued share capital of USI Holdings Limited ("USI"). USI is interested in 345,000,000 shares of the Company and 188,100,000 non-voting deferred shares of Mandarin Communications Limited.

(2) The share options were granted pursuant to the Share Option Scheme adopted by the Company on 1st March, 2000. Of the share options granted, 40% become exercisable after one year from the grant date and 30% per annum during the following two years.

During the period under review, none of the Directors or chief executive had exercised any share options in the Company.

Save as disclosed above, none of the Directors or chief executive of the Company nor their spouses or children under 18 years of age had any interests in, or had been granted or exercised, any rights to subscribe for any securities of the Company or any of its associated corporations during the period under review.

Substantial Shareholders' Interests in the Company

As at 30th June, 2002, the following parties (other than a Director or chief executive of the Company) were, directly or indirectly, interested or deemed to be interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance or as otherwise notified to the Company:

Name of shareholders	Number of shares	Percentage of total issued shares
Distacom Communications Limited ("Distacom") ⁽¹⁾	1,380,000,000	46.2%
Distacom International Limited ⁽¹⁾	1,380,000,000	46.2%
Sinomax Capital Limited ⁽¹⁾	1,380,000,000	46.2%
USI Holdings (B.V.I.) Limited ⁽²⁾	345,000,000	11.5%
USI Holdings Limited ⁽³⁾	345,000,000	11.5%

Notes:

(1) These interests were held through Distacom's wholly-owned subsidiary, Distacom Hong Kong Limited. Each of Distacom International Limited and Sinomax Capital Limited, by virtue of their respective corporate interests in Distacom, was taken to be interested in the same 1,380,000,000 shares in which Distacom was interested. These shares therefore duplicate each other.

(2) These interests were held through USI Holdings (B.V.I.) Limited's wholly-owned subsidiary, Townhill Enterprises Limited.

(3) USI Holdings Limited was taken to be interested in 345,000,000 shares in the Company by virtue of its corporate interests in USI Holdings (B.V.I.) Limited. The 345,000,000 shares in which USI Holdings Limited was interested are the same parcel of shares referred to in "Other interests" of Mr. Edward Wai Sun Cheng under "Directors' and Chief Executive's Interests in Securities". These shares therefore duplicate each other.

Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

Corporate Governance

Code of Best Practice

The Group is committed to high standards of corporate governance. It has complied throughout the six months ended 30th June, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that Non-executive Directors of the Company were not appointed for 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 Company is chaired by Mr. Robert John Richard Owen, an independent Non-executive Director. During the period, the Audit Committee met regularly with the external auditors and the Company's internal audit personnel and management, approved the nature and scope of both statutory and internal audits for the year, considered and approved the accounts and reviewed the adequacy and effectiveness of the accounting and financial controls of the Company. The Audit Committee also followed up with management regularly on the management actions arising from the audits.

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

Committee and Board Meetings

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

Purchase, Sale or Redemption of Shares

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

By Order of the Board
Janet Ching Man Fung
Company Secretary

Hong Kong, 12 September, 2002