

2003

A first half of boundless joy

Corporate Information

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

Non-Executive Directors

Simon Murray
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

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 2003. The consolidated profit and loss account and the consolidated cash flow statement for the six months ended 30th June 2003 and the consolidated balance sheet and the statement of changes in shareholders' equity as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 15 of this Report.

	Note	Unaudited Six months ended 30th June		
		2003 US\$'000	2003 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
		<u> </u>	<u> </u>	<u> </u>
Turnover	2	83,087	647,949	664,333
Cost of inventories sold and services provided		(21,943)	(171,120)	(170,239)
		<u> </u>	<u> </u>	<u> </u>
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)
		<u> </u>	<u> </u>	<u> </u>
Profit/(Loss) from operations	2, 3	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	9	(513)	(3,998)	(11,039)
		<u> </u>	<u> </u>	<u> </u>
Profit/(Loss) for the period		<u>1,724</u>	<u>13,446</u>	<u>(66,477)</u>
Earnings/(Loss) per share	6	<u>0.06 cents</u>	<u>0.45 cents</u>	<u>(2.22 cents)</u>
EBITDA	7	<u>20,578</u>	<u>160,477</u>	<u>102,001</u>

Condensed Consolidated Balance Sheet

	Note	Unaudited 30th June 2003 US\$'000	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Non-current assets				
Fixed assets	8	147,650	1,151,430	1,213,897
Investment in a joint venture	9	42	327	3,322
Prepayment of 3G Licence fees	10	14,960	116,667	141,667
Restricted cash deposits	11	217	1,694	1,682
		<u>162,869</u>	<u>1,270,118</u>	<u>1,360,568</u>
Current assets				
Inventories		793	6,188	9,995
Trade receivables	12	9,540	74,399	87,409
Prepayment of 3G Licence fees	10	6,412	50,000	50,000
Deposits, prepayments and other receivables		10,356	80,761	96,355
Restricted cash deposits	11	19,807	154,459	156,939
Bank balances and cash		2,173	16,949	49,577
		<u>49,081</u>	<u>382,756</u>	<u>450,275</u>
Current liabilities				
Trade payables	13	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	14	39,024	304,322	238,629
		<u>77,569</u>	<u>604,914</u>	<u>589,759</u>
Net current liabilities		<u>(28,488)</u>	<u>(222,158)</u>	<u>(139,484)</u>
		<u>134,381</u>	<u>1,047,960</u>	<u>1,221,084</u>
Financed by:				
Share capital		38,341	299,000	299,000
Reserves		49,392	385,178	371,732
Shareholders' equity		<u>87,733</u>	<u>684,178</u>	<u>670,732</u>
Long-term liabilities				
Long-term loans and obligations under finance leases	14	46,394	361,800	546,825
Subscriptions received in advance		254	1,982	3,527
		<u>46,648</u>	<u>363,782</u>	<u>550,352</u>
		<u>134,381</u>	<u>1,047,960</u>	<u>1,221,084</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 2002	299,000	1,254,000	2,124,424	(2,889,428)	787,996
Loss for the period	—	—	—	(66,477)	(66,477)
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>
Unaudited					
As at 1st January 2003	299,000	1,254,000	2,124,424	(3,006,692)	670,732
Profit for the period	—	—	—	13,446	13,446
As at 30th June 2003	<u>299,000</u>	<u>1,254,000</u>	<u>2,124,424</u>	<u>(2,993,246)</u>	<u>684,178</u>

Condensed Consolidated Cash Flow Statement

	Unaudited			Audited
	Six months ended 30th June			Year ended
	2003	2003	2002	2002
	US\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash inflow from operating activities	16,720	130,395	72,809	129,343
Net cash outflow from investing activities	(5,595)	(43,635)	(51,207)	(109,474)
Net cash inflow before financing activities	11,125	86,760	21,602	19,869
Net cash (outflow)/inflow from financing activities	(15,309)	(119,388)	25,826	(17,620)
(Decrease)/Increase in cash and cash equivalents	(4,184)	(32,628)	47,428	2,249
Cash and cash equivalents at 1st January	6,357	49,577	47,328	47,328
Cash and cash equivalents at 30th June/31st December	<u>2,173</u>	<u>16,949</u>	<u>94,756</u>	<u>49,577</u>
Analysis of balances of cash and cash equivalents				
Bank balances and cash	<u>2,173</u>	<u>16,949</u>	<u>94,756</u>	<u>49,577</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 2002. These condensed accounts should be read in conjunction with the 2002 annual accounts.

(b) Convenience translations

The condensed consolidated profit and loss account and condensed consolidated cash flow statement for the six months ended 30th June 2003, and condensed consolidated balance sheet as at 30th June 2003 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK\$7.7984 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 other services.

	Six months ended 30th June 2003			
	Mobile services HK\$'000	Sales of mobile phones and accessories HK\$'000	Other services HK\$'000	Group HK\$'000
Turnover	<u>582,113</u>	<u>65,432</u>	<u>404</u>	<u>647,949</u>
Profit/(Loss) from operations	<u>65,729</u>	<u>(21,294)</u>	<u>(1,391)</u>	43,044
Interest income				1,191
Finance costs				(26,791)
Share of loss from a joint venture	–	–	(3,998)	(3,998)
Profit for the period				<u>13,446</u>

	Six months ended 30th June 2002			
	Mobile services HK\$'000	Sales of mobile phones and accessories HK\$'000	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				(28,538)
Share of losses from joint ventures	(10,448)	–	(591)	<u>(11,039)</u>
Loss for the period				<u>(66,477)</u>

3. Profit/(Loss) from operations

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

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
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	<u>13,303</u>	<u>14,554</u>

4. 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).

Notes to the Condensed Consolidated Accounts

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

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Profit/(Loss) for the period	13,446	(66,477)
Taxation charge/(credit) at the applicable rate of 17.5% (2002: 16%)	2,353	(10,636)
Add/(Less) tax effect of:		
Income not subject to taxation	(146)	(107)
Expenses not deductible for taxation purposes	1,869	3,522
Reversal of temporary differences	8,507	9,894
Utilisation of previously unrecognised tax losses	(12,583)	(2,673)
Taxation charge	<u> -</u>	<u> -</u>

In 2003, the Government of the Hong Kong Special Administrative Region of the People's Republic of China enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

5. 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).

6. 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 weighted average number of 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.

7. EBITDA

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

8. Fixed assets

	HK\$'000
Cost	
At 1st January 2003	2,409,617
Additions	55,081
Disposals	<u>(9,926)</u>
At 30th June 2003	<u>2,454,772</u>
Accumulated depreciation	
At 1st January 2003	1,195,720
Charge for the period	117,433
Disposals	<u>(9,811)</u>
At 30th June 2003	<u>1,303,342</u>
Net book value	
At 30th June 2003	<u>1,151,430</u>
At 31st December 2002	<u>1,213,897</u>

At 30th June 2003, the fixed assets held by the Group under finance leases were fully depreciated (31st December 2002: HK\$238,000).

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

9. Investment in a joint venture

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Share of net liabilities	(2,961)	(1,905)
Advances	6,230	5,227
Provision for diminution in value	<u>(2,942)</u>	<u>–</u>
	<u>327</u>	<u>3,322</u>

Notes to the Condensed Consolidated Accounts

As at 30th June 2003, particulars of the joint venture 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

The advances to Atria Limited are unsecured, interest free and have no fixed repayment terms.

The Group regularly performs an assessment on its investment in and advances to the joint venture with reference to the expected recoverability. For the six months ended 30th June 2003, a provision of HK\$2,942,000 (2002: Nil) was considered necessary to write down the carrying value of these assets. Such provision is included in the share of loss from a joint venture in the condensed consolidated profit and loss account.

10. Prepayment of 3G Licence fees

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
At 1st January	191,667	241,667
Amount capitalised as fixed assets	<u>(25,000)</u>	<u>(50,000)</u>
	166,667	191,667
Less: Current portion included under current assets	<u>(50,000)</u>	<u>(50,000)</u>
	<u>116,667</u>	<u>141,667</u>

11. Restricted cash deposits

As at 30th June 2003, a bank deposit of HK\$1,694,000 (31st December 2002: HK\$1,682,000) 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 2003, another bank deposit of HK\$154,459,000 (31st December 2002: HK\$156,939,000) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within six months.

12. 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 2003 HK\$'000	31st December 2002 HK\$'000
0–30 days	53,611	59,380
31–60 days	12,178	15,931
61–90 days	5,156	9,433
Over 90 days	3,454	2,665
	<u>74,399</u>	<u>87,409</u>

13. Trade payables

The ageing analysis of the trade payables is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
0–30 days	6,604	17,731
31–60 days	2,307	9,460
61–90 days	1,005	15,546
Over 90 days	12,854	13,611
	<u>22,770</u>	<u>56,348</u>

Notes to the Condensed Consolidated Accounts

14. Long-term loans and obligations under finance leases

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Bank loans (secured)	330,000	420,000
Vendor loans (secured)	336,122	365,316
Obligations under finance leases	—	138
	<u>666,122</u>	<u>785,454</u>
Less: Current portion included under current liabilities		
– bank loans	(210,000)	(180,000)
– vendor loans	(94,322)	(58,491)
– obligations under finance leases	—	(138)
	<u>(304,322)</u>	<u>(238,629)</u>
	<u>361,800</u>	<u>546,825</u>

(a) Bank and vendor loans

At 30th June 2003 and 31st December 2002, the Group's long-term loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans		Vendor loans	
	30th June 2003 HK\$'000	31st December 2002 HK\$'000	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within one year	210,000	180,000	94,322	58,491
In the second year	120,000	240,000	241,800	306,825
	<u>330,000</u>	<u>420,000</u>	<u>336,122</u>	<u>365,316</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 2003, the Group repaid the bank loans and the vendor loans of HK\$90,000,000 and HK\$29,250,000, respectively.

(b) Banking and other borrowing

As at 30th June 2003, the available revolving loan facility provided by a vendor, Nortel Networks (Asia) Limited, was US\$42,157,000 (approximately HK\$328,757,000).

15. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movements on the deferred tax assets/(liabilities) accounts during the period are as follows:

Deferred taxation assets	2003 HK\$'000	2002 HK\$'000
At 1st January	476,859	478,119
Increase/(Decrease) in tax losses	31,971	(1,260)
At 30th June 2003/31st December 2002	<u>508,830</u>	<u>476,859</u>
Deferred taxation liabilities	2003 HK\$'000	2002 HK\$'000
At 1st January	(102,991)	(113,160)
(Increase)/Reversal of temporary differences	(1,131)	10,169
At 30th June 2003/31st December 2002	<u>(104,122)</u>	<u>(102,991)</u>
Other temporary difference	2003 HK\$'000	2002 HK\$'000
At 1st January	–	49
Reversal of other temporary difference	–	(49)
At 30th June 2003/31st December 2002	<u>–</u>	<u>–</u>
	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Deferred tax assets	508,830	476,859
Deferred tax liabilities	(104,122)	(102,991)
Valuation allowance	(404,708)	(373,868)
	<u>–</u>	<u>–</u>

Deferred income tax assets are recognised for tax loss carryforwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$2,907,601,000 (2002: HK\$2,979,506,000) to carry forward against future taxable income. These tax losses have no expiry date.

Notes to the Condensed Consolidated Accounts

16. Capital commitments

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
In respect of purchases of fixed assets:		
– contracted but not provided for	40,213	53,898
– authorised but not contracted for	<u>8,551</u>	<u>2,223</u>
	<u>48,764</u>	<u>56,121</u>

17. Commitments under operating leases

At 30th June 2003 and 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
In respect of land and buildings, including transmission sites:		
– within one year	144,043	156,473
– in the second to fifth year inclusive	84,630	97,482
– after the fifth year	<u>–</u>	<u>236</u>
	<u>228,673</u>	<u>254,191</u>
In respect of leased lines:		
– within one year	24,487	43,871
– in the second to fifth year inclusive	<u>10,424</u>	<u>5,048</u>
	<u>34,911</u>	<u>48,919</u>
	<u>263,584</u>	<u>303,110</u>

18. 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	
	2003	2002
	HK\$'000	HK\$'000
Operating lease charges paid to related companies (note a)	(1,632)	(2,092)
Consulting service fees paid to a related company (note b)	<u>(82)</u>	<u>(1,440)</u>

- (a) The Group entered into various operating lease agreements based on normal commercial terms with subsidiaries of certain beneficial shareholders of the Company to lease a number of premises for the Group's operating activities.
- (b) 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.

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

19. 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).

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 in 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\$318 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.

Management Discussion and Analysis

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 SCHEMES

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. Details of the share options outstanding as at 30th June 2003 are as follows:

	Grant date ⁽¹⁾	Exercisable until	Exercise price HK\$	Options held at 1st January 2003	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options held at 30th June 2003
Executive Directors	31/05/2000	30/05/2010	1.01	75,000,000	–	–	–	75,000,000 ⁽²⁾	–
Non-executive Director	31/05/2000	30/05/2010	1.01	15,000,000	–	–	15,000,000 ⁽³⁾	–	–
Continuous contract	23/03/2000	22/03/2010	3.05	17,999,077	–	–	4,021,088 ⁽⁴⁾	–	13,977,989
	31/05/2000	30/05/2010	1.01	20,932,545	–	–	4,099,755 ⁽⁴⁾	–	16,832,790
employees	31/05/2000	30/05/2010	3.05	1,450,632	–	–	39,333 ⁽⁴⁾	–	1,411,299
	19/01/2001	18/01/2011	1.01	1,959,561	–	–	57,947 ⁽⁴⁾	–	1,901,614

Notes:

- (1) Of the share options granted, 40% become exercisable after one year from the grant date and 30% per annum during the following two years.
- (2) In March 2003, a total of 75,000,000 share options of the five Executive Directors of the Company, namely, Messrs. Richard John Siemens, Edward Wai Sun Cheng, William Bruce Hicks, Kuldeep Saran and Andrew Chun Keung Leung, were cancelled at a total consideration of HK\$5. No share options remain exercisable by the Executive Directors as at 30th June 2003.
- (3) Mr. Craig Edward Ehrlich changed as Non-executive Director on 1st January 2003 upon the expiry of his executive director service contract, his 15,000,000 share options automatically lapsed on 1st January 2003. Mr. Ehrlich retired as a Non-executive Director of the Company on 22nd May 2003.
- (4) These share options lapsed during the period upon the cessation of the employment of certain employees.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June 2003, none of the Directors or chief executive of the Company had any interest or short position, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

None of the Directors or the 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

According to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the parties (other than a Director or chief executive of the Company), directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of the issued share capital of the Company as at 30th June 2003 were as follows:

Name of shareholders	Note	Number of shares	Percentage of Shareholding
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	390,632,000	13.1%
USI Holdings Limited	2	390,632,000	13.1%

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. USI Holdings Limited was taken to be interested in the same 390,632,000 shares in the Company by virtue of its corporate interests in USI Holdings (B.V.I.) Limited. These shares therefore duplicate each other.

All the interests disclosed under this Section represent long position in the shares of the Company.

Save as disclosed above, the Company has not been notified of any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations which would fall to be disclosed to the Company pursuant to Section 336 of the SFO.

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.

Other Information



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