

The Directors have pleasure in presenting their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 29 to the accounts.

An analysis of the Group's turnover and contribution to loss from operations by business segment for the year ended 31st December, 2001 is set out in note 3 to the accounts. The activities of the Group are mainly carried out in Hong Kong.

## RESULTS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated profit and loss account on page 38.

## DIVIDENDS

No interim dividend was paid for the year (2000: Nil). The Board does not recommend the payment of a final dividend for the year ended 31st December, 2001 (2000: Nil).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 75.

## FIXED ASSETS

Movements in fixed assets of the Group during the year are set out in note 14 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in shareholders' equity on page 41.

Pursuant to the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association, the share premium is distributable to shareholders provided that immediately following the date on which the dividend is proposed to be paid, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

As at 31st December, 2001, the reserves of the Company available for distribution to shareholders amounted to HK\$2,093,511,000 (2000: HK\$2,108,492,000).

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$91,000.

## BORROWINGS

Details of the Group's bank loans and vendor loans are set out in note 22 to the accounts.

## DIRECTORS

The Directors during the year and up to the date of this report were:

### Executive Directors

Richard John Siemens	Co-Chairman
Edward Wai Sun Cheng	Co-Chairman
William Bruce Hicks	<i>(appointed as Group Managing Director on 1st January, 2002)</i>
Kuldeep Saran	
Andrew Chun Keung Leung	
Craig Edward Ehrlich	<i>(ceased to be Group Managing Director on 31st December, 2001)</i>

### Non-executive Directors

Johnson Chan	<i>(resigned on 29th August, 2001)</i>
Peter Kin Ngok Lam	
Henry Michael Pearson Miles*	
Simon Murray	
Robert John Richard Owen*	
Michael Triguboff	
George Kin Wah Wong	
Hongqing Zheng	

\* Independent Non-executive Directors

The Company's Articles of Association provides that at each annual general meeting of the Company, with the exception of the Chairman and the Managing Director, one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not greater than one-third) who have been longest in office since their last re-election or appointment shall retire from office by rotation and the retiring directors shall be eligible for re-election.

Messrs. Peter Kin Ngok Lam, George Kin Wah Wong and Hongqing Zheng shall retire by rotation at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association. Mr. Peter Kin Ngok Lam and Mr. Hongqing Zheng offer themselves for re-election at the forthcoming annual general meeting.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT EXECUTIVES

Biographical details of Directors and management executives are set out on pages 31 to 35.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into or is proposing to enter into a service contract with the Company or its subsidiaries, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2001, 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 (Note 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 (Note 1)	—	—	—	188,100,000	188,100,000

## Interests in share options of the Company

Name of Director/ Chief Executive	Options held at 1st January, 2001	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31st December, 2001	Exercise price HK\$	Grant date (Note 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:

- 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.
- 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.

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 year.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 31st December, 2001, 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	Note	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.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

## SHARE OPTION SCHEME

Details of the Share Option Scheme are set out in note 20 to the accounts.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group earned less than 30% of its income from its five largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	14%
Percentage of purchases attributable to the Group's five largest suppliers	32%

None of the Directors or their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has interests in any of the major suppliers noted above.

## SUBSEQUENT EVENTS

Details of the subsequent events are set out in note 28 to the accounts.

## CONNECTED TRANSACTIONS

The following connected transactions have been entered into and/or ongoing after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the NASDAQ National Market. The Stock Exchange has, subject to certain conditions, granted a waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in connection with these transactions.

- (a) The Group occupied various premises, under various tenancy agreements of varying duration, at Park Sun Factory Building as warehouses and switching centres which are leased/licenced from Lai Sun Textiles Company Limited, a company controlled by Mr. Por Yen Lim, the father of Mr. Peter Kin Ngok Lam, a Director of the Company. The monthly rentals of such leases range from HK\$3,000 to HK\$52,500.
- (b) The Group occupied certain premises and parts of Golden Era Plaza as a repair centre and an advertising light box under the tenancy and licence agreements with Honlink Development Limited ("Honlink"), a company controlled by Mr. Por Yen Lim. The lease/licence was for a term of two years and had expired on 27th January, 2001. The rentals and licence fees incurred in 2001 amounted to HK\$31,000.
- (c) The Group also occupied certain parts of various buildings owned or managed by Mr. Por Yen Lim's associates, including Lai Sun Development Company Limited and some of its subsidiaries and Honlink, for the purposes of installing and operating base transceiver stations, transmission sites and other related equipment for the Group's ordinary course of business. The term of each such licence is for a maximum period of 24 months and the monthly licence fees for the use of such premises range from HK\$6,000 to HK\$21,800.

For the year ended 31st December, 2001, the aggregate rental and licence fees incurred by the Group in respect of the above arrangements amounted to HK\$3,376,000 (2000: HK\$3,770,000). The amount has been included in operating lease charges paid to related companies as disclosed in note 27(b) to the accounts.

The independent Non-executive Directors of the Company have reviewed the above transactions and confirmed that:

- (a) the transactions are:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties;
  - (iii) conducted in accordance with the terms of the respective agreements governing such transactions; and
  - (iv) fair and reasonable so far as the shareholders of the Company are concerned; and
- (b) the aggregate rental and licence fees paid or payable by the Group in respect of the connected transactions for the financial year ended 31st December, 2001 do not exceed 1% of the total turnover of the Group for the preceding year.

## CORPORATE GOVERNANCE

### **Code of Best Practice**

The Group is committed to high standards of corporate governance. It has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, 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.

### **Board of Directors**

The Board of Directors comprises six Executive Directors, two independent Non-executive Directors and five Non-executive Directors. The Board is scheduled to meet at least three times a year to determine overall strategic direction and objectives and approve interim and annual results, budgets and other significant matters. Six Board meetings were held in 2001, with an average attendance rate of over 65%.

### **Executive Management Committee**

In February 2000, an executive management committee consisting of all the Executive Directors of the Board was formed to formulate strategies and oversee operational matters of the Group under the direct authority of the Board. The committee meets regularly each month and on an ad hoc basis as required with the senior management of the Company, and engages in frequent informal discussions.

### **Remuneration Committee**

In January 2000, the Company set up a remuneration committee of the Board of Directors, which consists of Messrs. Richard John Siemens, Edward Wai Sun Cheng and an independent Non-executive Director, Henry Michael Pearson Miles. The remuneration committee meets at least once each year and is responsible for reviewing the remuneration of the Directors and officers of the Group.

### **Share Option Scheme Committee**

In 2000, a committee consisting of the two Co-Chairmen, Messrs. Richard John Siemens and Edward Wai Sun Cheng was formed to deal with the granting of share options under the Share Option Scheme of the Company. The two independent Non-executive Directors, Messrs. Robert John Richard Owen and Henry Michael Pearson Miles had been delegated with full powers of the Board to deal with the granting of share options to the two Co-Chairmen of the Company before the introduction of the amended Listing Rules in September 2001. In accordance with the amended Listing Rules, the granting of share options to the Directors and the Chief Executive Officer should be approved by the independent Non-executive Directors of the Company.

### **Audit Committee**

In January 2000, an audit committee of the Board of Directors was established with written terms of reference that set out the authorities and duties of the audit committee adopted by the Board. The committee comprises Mr. Robert John Richard Owen and Mr. Henry Michael Pearson Miles, both independent Non-executive Directors, and Mr. Simon Murray, a Non-executive Director. The committee is chaired by Mr. Robert Owen and has met twice during the year. Its principal duties include the review and supervision of the Group's financial reporting processes and internal controls.

In May 2001, an internal audit function was established, and an Internal Audit Charter was approved and adopted by the audit committee. The internal audit function is an independent unit established within the Group which shall provide to the Board of Directors an independent appraisal of the Group's systems of internal controls by means of conducting reviews to evaluate the adequacy and effectiveness of the controls in safeguarding shareholders' investment and the Group's assets. The head of the internal audit has a direct reporting line to the audit committee.

### **Directors' Remuneration**

In 2001, total directors' remuneration amounted to HK\$13.8 million.

### **Communication with Shareholders**

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the annual report and the interim report, which are sent to the shareholders. The Investor Relations website provides regularly updated information of interest to shareholders, and a channel for enquiries and feedback. There is regular dialogue with investors and enquiries on matters relating to their shareholdings and the business of the Group are welcomed and are dealt with in an informative and timely manner. The Group encourages all shareholders to attend the annual general meeting.

### **Employment Policies**

The employment policies that the Group espouses reflect the legal, cultural and employment requirements in Hong Kong. The Group operates an equal opportunities policy for all aspects of employment regardless of race, nationality, sex, marital status, disability or religious or political belief. In practice, this means that the Group will select its employees based on merit and ability, and strive to make the most effective use of the talents and experience of its people.



### **Corporate and Social Responsibility**

SUNDAY is committed to ensuring the health, safety and welfare of employees at work so far as is reasonably practicable. SUNDAY adheres to high standards throughout the organisation in the management and control of operations in order to ensure that it properly safeguards those who work for it and those who may be affected by its business.

The Group is committed to reducing the impact of any waste that it produces and actively pursues methods for reducing waste from its operations and the products it provides to its customers.

The Group recognises that there is a public concern about the development and siting of telecommunications transmitters, as well as widespread usage of mobile phones. SUNDAY is committed to work with all stakeholders, local communities and with government. It is aware of and abides by all Hong Kong guidelines related to its business.

The Group believes in assisting local communities and endeavours to use its technological expertise to develop services which enhance public safety and community well-being.

### **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Richard John Siemens  
Co-Chairman  
19th March, 2002

Edward Wai Sun Cheng  
Co-Chairman



**Jovan**  
(Executive)

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