1 Basis of preparation

Pursuant to a group reorganisation (the "Reorganisation") completed on 24th February, 2000 to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Hong Kong and the NASDAQ National Market (the "NASDAQ") in the United States of America, the Company became the holding company of its subsidiaries (the "Group"). The Company's shares were successfully listed on the NASDAQ and the Stock Exchange on 15th March, 2000 and 16th March, 2000 respectively.

The comparative figures of the accounts have been prepared on the basis of merger accounting as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December, 2000.

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for periods commencing on or after 1st July, 2000)
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The Group has also early adopted SSAP 1 (revised) "Presentation of financial statements" and SSAP 15 (revised) "Cash flow statements" which will be effective for accounting periods commencing on or after 1st January, 2002.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiaries made up to 31st December. A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power, or controls the composition of the board of directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of a jointly controlled entity.

(b) Revenue recognition

The Group recognises revenues on the following bases:

(i) Telecommunications revenues

Telecommunications revenues comprise revenue in respect of mobile services and international telecommunications services. Revenue from mobile services comprises connection fees and fees for usage of the Group's network and facilities by SUNDAY subscribers and international calls by such subscribers from mobile phones. Connection fee revenue is recognised upon completion of activation services. Revenue from international telecommunications services comprises revenue from fixed line international calls by SUNDAY subscribers and international calls by non-SUNDAY subscribers. Subscribers pay monthly fees for usage of the Group's network and facilities which include an agreed minimum amount of free airtime available for local and international calls. Fees for airtime in excess of the agreed minimum and international calls are charged based on usage. Revenue for usage of the Group's network and facilities is recognised in the period in which usage of such network and facilities is provided and collectibility can be reasonably assured. Revenue in respect of international calls and mobile airtime in excess of the minimum agreed amount is recognised when the respective calls are made and collectibility can be reasonably assured.

Subscriptions received in advance comprises the up-front subscription fees received from subscribers upon purchase of mobile phones and prepaid subscription fees received from subscribers. They are for provision of mobile airtime and access to the Group's network for an agreed period of time in accordance with the terms of the sales and services agreements and are deferred and amortised on a straight line basis over the agreed period.

(ii) Revenue from sales of mobile phones and accessories

Revenue from sales of mobile phones and accessories is recognised when the mobile phones and accessories are delivered to customers and collectibility can be reasonably assured. Where a customer signs a sales and services agreement in connection with the purchase of a mobile phone and accessories from the Group and the provision of telecommunications services, revenue in respect of the service element of the agreement is recognised based on the fair value of the service element, which is the price the Group charges to customers who subscribe for telecommunications services only, without purchase of a mobile phone and accessories. The remainder of the total revenues from the agreement is allocated to revenue from sale of the mobile phone and accessories.

(iii) Data revenue

Data revenue comprises revenue in respect of mobile data services. Monthly fees for usage of these services are recognised on an accrual basis.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) Subscriber acquisition costs

The direct costs of acquisition of subscribers, which comprise the loss on sales of mobile phones and accessories to the Group and commission expenses, are expensed as incurred. Revenue and cost of sales in respect of sales of mobile phones and accessories are included in revenue from sales and cost of sales of mobile phones and accessories respectively. Commission expenses are included in advertising, promotion and other selling costs.

(d) Advertising and promotion costs

Advertising and promotion costs are charged to the profit and loss account as incurred.

(e) Warranty costs

The Group is provided with warranty from manufacturers in respect of the manufacturers' defects of mobile phones and accessories. The Group provides warranty to customers upon sales of mobile phones and accessories with similar terms and conditions to the warranty offered by the manufacturers. Provision is made for warranty costs not recoverable from the manufacturers.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(g) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds of respective schemes.

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost over their estimated useful lives, using a straight line basis. Estimated useful lives are summarised as follows:

Network equipment	Shorter of 10 years or lease period of 1 to 3 years
Computer equipment	Shorter of 5 years or lease period of 1 to 3 years
Leasehold improvements	Lease period of 2 to 10 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

The cost of the network equipment comprises the purchase cost of network assets and equipment and direct expenses in respect of the development of the network.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the fixed assets are estimated and where relevant, an impairment loss is recognised to reduce the fixed assets to the recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(j) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are charged to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(k) Intangible asset

The mobile carrier licence to establish and maintain a third-generation ("3G") mobile telecommunications network and to provide 3G services in Hong Kong ("3G Licence") is recorded as an intangible asset. Upon the grant of the 3G Licence, the cost of the 3G Licence, which is the discounted value of the minimum annual licence fees payable over the licence period of 15 years, is recorded together with the obligation. Amortisation is provided on a straight line basis over the life of the 3G Licence, commencing from the date of launch of the 3G services.

The difference between the discounted value of and the total of, the minimum annual licence fees payments represents the effective cost of financing and accordingly, for the period prior to the launch of the 3G services, this is capitalised as part of the cost of the intangible asset consistent with the policy for borrowing costs as set out in note 2(f). Subsequent to the launch of the 3G services, such finance costs will be charged to the profit and loss account in the year in which they are incurred.

Prior to the launch of the 3G services, the recoverable amount of the intangible asset is estimated at each balance sheet date and where relevant, an impairment loss is recognised to reduce the intangible asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account. Subsequent to the launch of the 3G services, at each balance sheet date the recoverable amount will be estimated if there is any indication, based upon both internal and external sources of information, that the intangible asset is impaired.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(n) Refundable deposits

Refundable deposits are received from customers who require mobile international calls and roaming services. The refundable deposits are retained by the Group and are included in other payables and accrued charges for as long as the customers require these services.

(o) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(p) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All exchange differences arising are included in the profit and loss account.

(q) Convenience translations

The consolidated profit and loss account and consolidated cash flow statement for the year ended 31st December, 2001, and consolidated balance sheet and company balance sheet as at 31st December, 2001 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.798 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.

(r) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in current year. In particular, comparatives have been adjusted or extended to take into account the requirements of SSAP 14 (revised) "Leases" which the Group implemented in current year.

SSAP 14 prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of SSAP 14 does not have any impact on these accounts except that the comparatives of notes 22 and 26 to the accounts have been extended or restated.

3 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.

	Mobile services 2001 HK$'000	Sales of mobile phones and accessories 2001 HK$'000	International telecommunications and other services 2001 HK$'000	Group 2001 HK$'000
Turnover	1,165,399	242,901	14,093	1,422,393
Loss from operations	(38,127)	(52,958)	(72,125)	(163,210)
Interest income				21,592
Finance costs				(70,130)
Loss for the year				(211,748)
Segment assets	1,974,904	47,904	57,167	2,079,975
Investment in a joint venture				4,940
Unallocated assets				184,371
Total assets				2,269,286
Segment liabilities	670,263	27,120	24,655	722,038
Unallocated liabilities				759,252
Total liabilities				1,481,290
Intangible asset	583,930	–	–	583,930
Capital expenditure	105,590	3,604	1,029	110,223
Depreciation	(241,906)	(12,184)	(11,012)	(265,102)

	Mobile services 2000 HK$'000	Sales of mobile phones and accessories 2000 HK$'000	International telecommunications and other services 2000 HK$'000	Group 2000 HK$'000
Turnover	988,718	404,444	57,231	1,450,393
Loss from operations	(146,150)	(96,092)	(138,441)	(380,683)
Interest income				51,053
Finance costs				(136,938)
Loss for the year				(466,568)
Segment assets	1,491,947	70,903	86,223	1,649,073
Unallocated assets				726,199
Total assets				2,375,272
Segment liabilities	478,494	52,498	40,441	571,433
Unallocated liabilities				804,095
Total liabilities				1,375,528
Capital expenditure	293,623	12,133	33,517	339,273
Depreciation	(229,975)	(16,692)	(14,624)	(261,291)

There are no sales or other transactions between the business segments. Segment assets consist primarily of the intangible asset, fixed assets, inventories, trade receivables, deposits and prepayments and mainly exclude cash. Segment liabilities comprise operating liabilities, 3G Licence fees liability and mainly exclude long-term loans. Capital expenditure comprises additions to fixed assets (note 14).

4 Cost of inventories sold and services provided

Cost of inventories sold represents cost of mobile phones and accessories sold. Cost of services provided represents interconnection charges, cost of out-bound roaming services, provision for doubtful debts, billing materials charges, bill collection charges, cost of prepaid cards and revenue sharing expenses.

5 Loss from operations

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

	2001 HK$'000	2000 HK$'000
Cost of inventories sold	244,981	424,549
Depreciation:		
- owned fixed assets	258,641	253,480
- leased fixed assets	6,461	7,811
Loss/(gain) on disposals of fixed assets	1,126	(60)
Operating leases charges:		
- land and buildings, including transmission sites	209,370	190,983
- leased lines	94,777	102,265
Provision for doubtful debts	19,579	28,501
Auditors' remuneration	840	840

6 Finance costs

	2001 HK$'000	2000 HK$'000
Interest on bank loans and overdrafts	52,160	65,102
Interest on vendor loans repayable within five years	16,540	35,508
Interest on convertible notes	–	34,428
Interest element of finance lease payments	413	814
Other incidental borrowing costs	1,017	1,086
	70,130	136,938

7 Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2000: Nil).

The Group has not recorded a deferred tax credit in its consolidated profit and loss account for the years ended 31st December, 2001 and 2000 in respect of tax losses due to the uncertainty that the resultant deferred tax assets will be recovered in the foreseeable future.

Deferred taxation credit/(charge) for the year has not been provided in respect of the following:

	2001 HK$'000	2000 HK$'000
Accelerated depreciation allowances	24,459	(795)
Tax losses	12,817	100,715
Other temporary differences	(49)	(2,987)
	37,227	96,933

8 Loss for the year

The loss for the year is dealt with in the accounts of the Company to the extent of HK$14,981,000 (2000: loss of HK$15,932,000).

9 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the year of HK$211,748,000 (2000: loss of HK$466,568,000) and the weighted average number of 2,990,000,000 shares (2000: 2,850,491,803 shares) in issue during the year.

The weighted average number of shares in issue during the year ended 31st December, 2000 has been calculated as if the 2,300,000,000 ordinary shares were in issue on 1st January, 2000 and on the basis that the 690,000,000 ordinary shares were issued on 15th March, 2000 pursuant to the global offering of the Company's shares.

(b) Diluted loss per share

There is no dilutive effect upon exercise of the share options on the loss per share for the years ended 31st December, 2001 and 2000.

10 Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA represents earnings/losses of the Group before interest income, finance costs, taxation, depreciation and amortisation.

11 Retirement benefit costs

Pursuant to a trust deed entered into by the Group on 1st April, 1998, the Group has set up a defined contribution scheme to provide retirement benefits for its employees with retrospective effect from 1st July, 1997 (the "Retirement Scheme").

All permanent full time employees were eligible to join the Retirement Scheme before the Mandatory Provident Fund ("MPF") Scheme was set up on 1st December, 2000. Under the Retirement Scheme, the employees were required to choose to contribute either nil or 5% of their monthly salaries. The Group's contributions were calculated at 5% of the employee's salaries.

With effect from 1st December, 2000, the Group has set up another defined contribution scheme, the MPF Scheme, for all the eligible employees of the Group including the employees under the Retirement Scheme. The contributions from the employees and employer are made to the MPF Scheme only and are no longer made to the Retirement Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The Group's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The Group makes certain additional contributions if the employee's monthly salaries exceed HK$20,000 (the "voluntary contributions").

Under the MPF Scheme, the employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. The employees are entitled to 100% of the Group's voluntary contributions after seven years of completed service or at a reduced scale of the Group's voluntary contributions after completion of two to six years' service. Under the Retirement Scheme, the employees are entitled to 100% of the employer's contributions after seven years of completed service, or at a reduced scale after completion of two to six years' service. Forfeited contributions are to be refunded to the Group and applied to reduce the Group's contributions.

The Group's contributions to the schemes are as follows:

	2001 HK$'000	2000 HK$'000
Gross employer's contributions	9,890	8,104
Less: Forfeited contributions utilised	(18)	(3,593)
Net employer's contributions charged to the profit and loss account	9,872	4,511

Contributions payable as at 31st December, 2001 was HK$892,243 (2000: HK$1,633,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December, 2001 were HK$29,000 (2000: Nil). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

12 Directors' and management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments to directors of the Company are as follows:

	2001 HK$'000	2000 HK$'000
Fees	600	558
Salaries, other allowances and benefits in kind	11,754	11,700
Bonuses	1,446	24,863
Retirement scheme contributions	–	198
	13,800	37,319

The above amounts include directors' fees of HK$400,000 (2000: HK$372,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors 2001	 2000
Nil - HK$1,000,000	8	11
HK$1,000,001 - HK$1,500,000	5	5
HK$5,500,001 - HK$6,000,000	1	–
HK$29,000,001 - HK$29,500,000	–	1

During the year no options were granted to or exercised by the directors.

(b) Management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include one (2000: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2000: four) individuals during the year are as follows:

	2001 HK$'000	2000 HK$'000
Salaries, other allowances and benefits in kind	11,714	8,667
Bonuses	4,107	2,999
Retirement scheme contributions	400	289
	16,221	11,955

The emoluments of these four individuals fell within the following bands:

Emolument bands	Number of individuals 2001	 2000
HK$2,000,001 - HK$2,500,000	–	1
HK$2,500,001 - HK$3,000,000	1	2
HK$3,000,001 - HK$3,500,000	1	–
HK$4,000,001 - HK$4,500,000	1	1
HK$5,500,001 - HK$6,000,000	1	–

13 Intangible asset

Group

	3G Licence HK$'000
Addition	583,930
Amortisation	–
At 31st December, 2001	583,930

On 22nd October, 2001, the Group was granted a 3G Licence (note 2(k)) in accordance with the provisions in Chapter 106 of the Telecommunications Ordinance. The 3G Licence will be valid for 15 years from the date of grant and requires the Group to install, maintain and use equipment for the 3G telecommunications network and to provide 3G services in Hong Kong.

Pursuant to the terms of the 3G Licence, the licence fees payable in arrears for each of the first five years following the grant of the 3G Licence shall be the minimum annual fees indicated below ("Minimum Annual Fees") of HK$50 million per year, and in each of the remaining 10 years, shall be the higher of 5% of the turnover attributable to the provision of the 3G services and the Minimum Annual Fees for each year of the 3G Licence:

	Minimum Annual Fees (HK$'000)
1st	50,000
2nd	50,000
3rd	50,000
4th	50,000
5th	50,000
6th	60,124
7th	70,249
8th	80,373
9th	90,497
10th	100,622
11th	110,746
12th	120,870
13th	130,995
14th	141,119
15th	151,243
Total	1,306,838

The cost of the 3G Licence is stated at the discounted value of the Minimum Annual Fees to be paid over the licence period, together with certain direct expenditures and the finance costs capitalised prior to the launch of the 3G services. The discount rate, which represents the Group's weighted average cost of capital, is 11.2% as at 31st December, 2001.

The cost of the 3G Licence will be amortised over the licence period from the date of launch of the 3G services. The 3G services have not been launched as at 31st December, 2001.

The carrying amount of the 3G Licence as at 31st December, 2001 would have been HK$1,307,659,000 had it been stated at the total undiscounted future cash payments.

14 Fixed assets

Group

	Network equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost							
At 1st January, 2001	1,620,051	7,433	12,732	202,905	3,354	299,815	2,146,290
Additions	80,338	74	460	17,931	–	11,420	110,223
Disposals	(221)	(96)	(774)	(1,082)	(483)	(7,526)	(10,182)
At 31st December, 2001	1,700,168	7,411	12,418	219,754	2,871	303,709	2,246,331
Accumulated depreciation							
At 1st January, 2001	374,896	3,141	6,055	109,190	1,882	201,138	696,302
Charge for the year	172,345	1,493	2,541	44,461	644	43,618	265,102
Disposals	(150)	(76)	(564)	(839)	(317)	(6,606)	(8,552)
At 31st December, 2001	547,091	4,558	8,032	152,812	2,209	238,150	952,852
Net book value							
At 31st December, 2001	1,153,077	2,853	4,386	66,942	662	65,559	1,293,479
At 31st December, 2000	1,245,155	4,292	6,677	93,715	1,472	98,677	1,449,988

At 31st December, 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK$2,963,000 (2000: HK$10,436,000).

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

15 Investment in a joint venture

	Group 2001 HK$'000	Group 2000 HK$'000
Share of net assets	1	–
Advance	4,939	–
	4,940	–

Details of the joint venture are 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 advance to Atria Limited is unsecured, interest free and has no fixed repayment terms.

16 Restricted cash deposits

As at 31st December, 2001, a bank deposit of HK$2,385,000 (2000: 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 31st December, 2001, another bank deposit of HK$132,706,000 (2000: HK$93,640,000) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within six months.

17 Inventories

The carrying values of the inventories are as follows:

	Group 2001 HK$'000	Group 2000 HK$'000
Mobile phones and accessories		
Cost	26,233	29,504
Less: Provision	(5,785)	(13,429)
	20,448	16,075

As at 31st December, 2001, the carrying amount of inventories that are stated at net realisable value amounted to HK$19,830,000 (2000: HK$13,852,000).

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

18 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:

	Group	
	2001	2000
	HK$'000	HK$'000
0-30 days	63,463	63,953
31-60 days	13,902	17,479
61-90 days	6,755	10,550
Over 90 days	4,342	7,371
	88,462	99,353

19 Trade payables

The ageing analysis of the trade payables is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
0-30 days	36,170	72,939
31-60 days	2,383	4,965
61-90 days	2,697	1,763
Over 90 days	6,682	10,610
	47,932	90,277

20 Share capital

	Company	
	2001	2000
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2000: 10,000,000,000) ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
2,990,000,000 (2000: 2,990,000,000) ordinary shares of HK$0.10 each	299,000	299,000

The following changes in the Company's share capital took place from the Company's date of incorporation to 31st December, 2000:

(i) Upon incorporation on 24th November, 1999, the Company's authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.10 each and one share was issued at par for cash. On the same date, 99 ordinary shares of HK$0.10 each were issued at par for cash.

(ii) On 24th February, 2000, the Company issued a further 7,900 shares of HK$0.10 each at par in exchange for shares of SUNDAY Holdings Corporation.

(iii) Pursuant to special resolutions in writing passed on 1st March, 2000, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 shares of HK$0.10 each.

(iv) On 15th March, 2000, pursuant to the Global Offering of the Company's shares, 690,000,000 shares of HK$0.10 each were issued to the public and institutional investors at HK$3.78 per share (the "New Issue") for cash. The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

(v) Immediately following the New Issue, 2,299,992,000 shares of HK$0.10 each were issued at par to the shareholders on the register of members of the Company as at 1st March, 2000 by way of capitalisation of a sum of HK$229,999,200 standing to the credit of the share premium account of the Company.

(vi) The shares of the Company were listed on the NASDAQ and the Stock Exchange on 15th and 16th March, 2000 respectively.

Share option scheme

On 1st March, 2000, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, the board of directors may offer to grant qualifying employees and directors of the Company or its subsidiaries options to subscribe for ordinary shares of the Company. Upon accepting an option, a grantee must pay HK$1 to the Company as consideration for the grant within 28 days from the offer date.

The maximum number of ordinary shares over which options may be granted under the Share Option Scheme may not exceed 10% of the Company's issued share capital from time to time (excluding for this purpose from the issued share capital any shares which have been issued on the exercise of any option granted under the Share Option Scheme). The number of shares over which an option may be granted to any one person at any time is limited such that no person may be granted an option, which, if exercised in full, would result in such person becoming entitled to subscribe for shares which, when aggregated with the total number of shares subscribed under options previously granted to that employee, would exceed 25% of the aggregate number of shares over which all options may be granted under the Share Option Scheme.

The board of directors may determine, in its discretion, the consideration for a share payable by a participant upon the exercise of any option granted under the Share Option Scheme and such price will not be less than the higher of: (1) the nominal value of the Company's share; or (2) 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option on which there were dealings in the Company's shares on the Stock Exchange.

The board of directors has absolute discretion to determine the exercise period of any option, except that no option may be exercised more than 10 years after its grant.

Subject to earlier termination by the Company in a general meeting of shareholders, the Share Option Scheme will remain in force for 10 years from its adoption date.

Details of the share options outstanding as at 31st December, 2001 which have been granted under the Share Option Scheme are as follows:

	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[3]	Exercisable until
Executive Directors[4]	90,000,000	–	–	–	90,000,000	1.01	31/05/2000	30/05/2010
Chief Executive[4]	15,000,000	–	–	–	15,000,000	1.01	31/05/2000	30/05/2010
Continuous contract employees	31,292,548	–	–	5,026,902[2]	26,265,646	3.05	23/03/2000	22/03/2010
	36,365,109	–	–	5,813,252[2]	30,551,857	1.01	31/05/2000	30/05/2010
	2,482,479	–	–	386,470[2]	2,096,009	3.05	31/05/2000	30/05/2010
	–	4,213,147[1]	–	384,970[2]	3,828,177	1.01	19/01/2001	18/01/2011

Notes:
(1) At the date before the options were granted, 18th January, 2001, the market value per share was HK$0.62.
(2) These share options lapsed during the year upon the cessation of employment of certain employees.
(3) Of the share options granted, 40% become exercisable after one year from the grant date and 30% per annum during the following two years.
(4) Details of the options granted to the Executive Directors and Chief Executive of the Company are set out on page 24 of this annual report under the heading of "Directors' and Chief Executive's Interests in Securities".

As at 31st December, 2001, 131,258,311 unissued share options are available under the Share Option Scheme, representing 4.39% of the issued share capital of the Company.

The Group has computed the fair value of the options granted during the year ended 31st December, 2001 using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	5.33%
Expected dividend yield	0%
Expected volatility of the market price of the Company's shares	56%
Weighted average expected life of the options	10 years

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the options. The fair value of the options granted during the year ended 31st December, 2001 was computed as approximately HK$1,896,000.

No charge was recognised in the profit and loss account in respect of the value of the options granted during the year.

21 3G Licence fees liability

Pursuant to the terms of the 3G Licence, the Minimum Annual Fees (as set out in note 13) are payable to the Office of Telecommunications Authority ("OFTA") in arrears. The aggregate of such fees are HK$1,306,838,000. However, pursuant to the grant of the 3G Licence, the Group paid an amount of HK$250,000,000 to OFTA during the year, equivalent to the aggregate of the first five years' Minimum Annual Fees.

As at 31st December, 2001, the Group's 3G Licence fees liability represents the discounted value of the remaining Minimum Annual Fees payable from the 6th to the 15th year and is analysed as follows:

	Group	
	2001 HK$'000	2000 HK$'000
Minimum Annual Fees payable after the fifth year	1,056,838	–
Future finance charges	(723,729)	–
Discounted value of Minimum Annual Fees	333,109	–

On 22nd October, 2002, 2003, 2004 and 2005, the Group will be required to provide performance bonds in amounts equivalent to the 6th, 7th, 8th and 9th years' Minimum Annual Fees due respectively, on a cumulative basis. From 22nd October, 2006 onwards, the Group will be required to provide such performance bonds in amounts equivalent to the next five years' Minimum Annual Fees due (or the remaining Minimum Annual Fees due where less than five years).

22 Long-term loans and obligations under finance leases

	Group	
	2001 HK$'000	2000 HK$'000
Bank loans (secured) (note a)	576,000	600,000
Vendor loans (secured) (note a)	175,455	194,998
Obligations under finance leases (note d)	2,158	8,085
	753,613	803,083
Less: Current portion included under current liabilities		
- bank loans	(156,000)	(24,000)
- vendor loans	(38,990)	(19,500)
- obligations under finance leases	(1,970)	(5,900)
	(196,960)	(49,400)
	556,653	753,683

(a) Bank and vendor loans

At 31st December, 2001 and 2000, the Group's long-term loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans		Vendor loans	
	2001	2000	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	156,000	24,000	38,990	19,500
In the second year	180,000	156,000	58,485	39,000
In the third to fifth year	240,000	420,000	77,980	136,498
	576,000	600,000	175,455	194,998

The bank loans and the vendor loans from Nortel Networks (Asia) Limited ("Nortel"), a major vendor of the Group, ("the vendor loans") bear interest at prevailing market rates and are repayable in 15 quarterly instalments commencing from 11th March, 2001.

As at 31st December, 2001, the bank loans and the vendor loans were secured, amongst other things, by a charge over all the assets, revenue and shares of Mandarin Communications Limited ("Mandarin"), a wholly-owned subsidiary of the Company.

(b) Banking and other borrowing

The Group had available bank loan facilities of HK$600,000,000 which had been fully drawn down as at 31st December, 2000. With effect from 11th March, 2001, the bank loan facilities available are reduced in line with repayments being made (as set out in note 22(a)) and the available bank loan facilities as at 31st December, 2001 were HK$576,000,000.

In addition, Nortel provided a long-term loan facility (the "vendor loan facility") of US$155,000,000 (approximately HK$1,209,000,000) to the Group for financing certain of its capital and other expenditures. The vendor loan facility was fully utilised in 2000. In 2000, the Group repaid Nortel an aggregate of US$130,000,000 (approximately HK$1,013,000,000) and at the same time Nortel granted a short-term revolving facility of the same amount ("the revolving loan facility") to the Group with an expiry date on 12th March, 2001. During the year, the expiry date of the revolving loan facility was further extended to 11th March, 2002.

With effect from 11th March, 2001, the revolving loan facility available is reduced in the same proportion as the repayments of the vendor loans (as set out in note 22(a)) bear to the vendor loans of US$25,000,000 (approximately HK$194,998,000). As at 31st December, 2001, the available revolving loan facility was US$117,000,000 (approximately HK$912,366,000) (2000: US$130,000,000, approximately HK$1,014,000,000). The revolving loan facility has been extended to 10th April, 2002 as set out in note 28 to the accounts.

(c) Bank and vendor loans' covenants

Pursuant to the Amended and Restated Sponsor Support Agreement dated 18th February, 2000 entered into between the bank, Nortel and certain beneficial shareholders of the Group (namely, Distacom Communications Limited, USI Holdings Limited, Lai Sun Development Company Limited, The Hong Kong Parkview Group Limited and China Travel Services (Holdings) Hong Kong Limited), these beneficial shareholders have certain non-financial obligations under the Sponsor Support Agreement. Any breach of the obligations under the Sponsor Support Agreement provides the bank and Nortel with rights of actions against these beneficial shareholders only and has no impact on the bank loan and vendor loan facilities.

On 18th February, 2000, the Group has renegotiated the terms, in particular the covenants, of the bank loans and the vendor loans with the bank and Nortel respectively.

The revised bank loan and the vendor loan facilities effective from 18th February, 2000 contain a number of covenants that restrict Mandarin's ability to take certain actions without prior approval of the bank and Nortel. These covenants include the following:

- Mandarin must operate its business in accordance with business plans approved by the bank and Nortel except for variations that would not have a material adverse effect on Mandarin's financial condition, its operations or its ability to repay the debt;

- Mandarin cannot incur capital expenditure in any budget period greater than 15% above the levels specified in its business plan then in effect;

- Mandarin is required to continuously meet certain subscriber, earnings (EBITDA), tangible net worth and debt service ratio targets;

- Mandarin must continue to be managed by such person or persons who, in the reasonable opinion of the bank and Nortel, have sufficient expertise and experience in the Hong Kong or international telecommunications industry so as to be able to provide adequate managerial personnel to implement and execute Mandarin's business plan then in effect in accordance with good industry practice;

- Mandarin is prohibited from declaring or paying dividends until the combined outstanding balance of the facilities is less than HK$600,000,000. When Mandarin pays a dividend, it is required to make a prepayment to the facilities which equals the total amount of a dividend, and that dividend and the matching prepayment can only be funded from the excess cash flow of Mandarin;

- Mandarin is required to deposit all of its revenues into an account from which it may only withdraw amounts for its operating expenses, working capital and capital expenditures, as provided in the business plan then in effect. The rest of its revenue goes toward paying principal and interest on the facilities and into a minimum six months debt service reserve account for future payments. If there is any excess cash flow after these commitments, Mandarin may use 50% of that excess cash, but it must use the other 50% to prepay the facilities;

- Mandarin generally cannot, without consent from the bank and Nortel, incur new debt except for certain permitted indebtedness incurred in the ordinary course of business;

- Mandarin cannot use its assets to secure any additional debt, subject to certain exceptions; and

- Mandarin will be in default:
  (i) if it defaults on any other loan in excess of US$2,000,000 (approximately HK$15,596,000);
  (ii) if the Company, SUNDAY Holdings Corporation or SUNDAY Investment Limited default on any other loan in excess of US$10,000,000 (approximately HK$77,980,000); or
  (iii) if, in the opinion of the bank and Nortel, an event occurs which has a material adverse effect on Mandarin's financial condition, operations or ability to repay debt.

Failure to comply with these covenants and restrictions, subject to a 14-day grace period in the case of a remediable event, would entitle the bank and Nortel to accelerate the maturity of the outstanding debt under the facilities and exercise their security rights over substantially all of Mandarin's assets.

(d) Obligations under finance leases:

	2001 HK$'000	2000 HK$'000 (Restated)
Minimum lease payments		
Within one year	2,123	6,760
In the second year	209	2,314
In the third to fifth year	–	209
	2,332	9,283
Future finance charges on finance leases	(174)	(1,198)
Present value of finance lease liabilities	2,158	8,085

The present value of finance lease liabilities is as follows:		
Within one year	1,970	5,900
In the second year	188	1,997
In the third to fifth year	–	188
	2,158	8,085

23 Notes to the consolidated cash flow statement

(a) Reconciliation of loss from operations to net cash outflow from operating activities

	2001 HK$'000	2000 HK$'000
Loss from operations	(163,210)	(380,683)
Depreciation	265,102	261,291
Loss/(gain) on disposal of fixed assets	1,126	(60)
Operating profit/(loss) before working capital changes	103,018	(119,452)
Increase in inventories	(4,373)	(8,255)
Decrease in trade receivables, deposits, prepayments and other receivables	1,228	19,127
Decrease in trade payables, other payables and accrued charges	(75,538)	(15,011)
Decrease in subscriptions received in advance	(63,758)	(95,212)
Cash outflow from operations	(39,423)	(218,803)
Interest received	25,488	47,018
Interest paid	(72,990)	(150,669)
Interest element of finance lease payments	(413)	(814)
Other incidental borrowing costs paid	(1,017)	(1,086)
Net cash outflow from operating activities	(88,355)	(324,354)

(b) Analysis of changes in financing during the year

	Share capital HK$'000	Share premium HK$'000	Long-term loans HK$'000	Convertible notes HK$'000	Obligations under finance leases HK$'000
At 1st January, 2000	1	–	1,221,517	700,000	8,746
Net cash inflow/(outflow) from financing	61,502	2,075,656	(632,511)	(430,900)	(8,753)
Convertible notes converted into shares	7,498	278,767	–	(269,100)	–
Bonus issue	229,999	(229,999)	–	–	–
Inception of finance leases	–	–	–	–	8,092
Purchases of fixed assets by directly assuming long-term loans	–	–	205,992	–	–
At 31st December, 2000	299,000	2,124,424	794,998	–	8,085
At 1st January, 2001	299,000	2,124,424	794,998	–	8,085
Net cash outflow from financing	–	–	(43,543)	–	(5,927)
At 31st December, 2001	299,000	2,124,424	751,455	–	2,158

(c) Major non-cash transactions

	2001 HK$'000	2000 HK$'000
Acquisition of 3G Licence by incurring the 3G Licence fees liability	333,109	–
Inception of finance leases	–	8,092
Purchases of fixed assets by directly assuming long-term vendor loans	–	205,992
Convertible notes and interest converted into shares	–	286,265

24 Deferred taxation

The potential deferred tax assets/(liabilities) not provided for as of 31st December, 2001 and 2000 amount to:

	Group	
	2001 HK$'000	2000 HK$'000
Accelerated depreciation allowances	(113,160)	(137,619)
Tax losses	478,119	465,302
Other temporary differences	49	98
	365,008	327,781

25 Capital commitments

	Group	
	2001 HK$'000	2000 HK$'000
In respect of purchases of fixed assets:		
- contracted but not provided for	118,044	19,767
- authorised but not contracted for	70,510	282,000
	188,554	301,767

The Company did not have any capital commitments as at 31st December, 2001 (2000: Nil).

26 Commitments under operating leases

At 31st December, 2001 and 2000, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2001 HK$'000	2000 HK$'000 (Restated)
In respect of land and buildings, including transmission sites:		
- within one year	170,948	148,396
- in the second to fifth year inclusive	111,702	123,043
- after the fifth year	2,035	4,826
	284,685	276,265
In respect of leased lines:		
- within one year	55,145	48,637
- in the second to fifth year inclusive	33,121	14,937
	88,266	63,574
	372,951	339,839

The Company did not have any commitments under operating leases as at 31st December, 2001 (2000: Nil).

27 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:

	Group	
	2001 HK$'000	2000 HK$'000
International telecommunications service and other revenues received from a related company (note a)	6,564	12,045
Operating lease charges paid to related companies (note b)	(4,870)	(5,304)
Sales and marketing service fees paid to a beneficial shareholder (note c)	(910)	(510)
Consulting service fees paid to a related company (note d)	(833)	–

(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 arrangement was terminated effective from 26th September, 2001 pursuant to a revised agreement entered on the same date. The revenue from international telecommunications service was HK$6,564,000 (2000: HK$4,471,000). The one-time referral revenue of HK$7,574,000 was included in other revenues in 2000.

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 of certain beneficial shareholders or connected parties of the Company to lease a number of premises for the Group's operating activities.

(c) Distacom Communications Limited ("Distacom"), a beneficial shareholder of the Company, provided the Group with sales and marketing services for fees which were agreed based on the resources spent, expertise allocated and actual staff costs incurred by Distacom for providing these services.

Messrs. Richard John Siemens, William Bruce Hicks, Kuldeep Saran, Simon Murray and Michael Triguboff are directors of both the Company and Distacom.

(d) The Group entered into certain agreements based on normal commercial terms with Lifetree Convergence Limited ("Lifetree") during the year ended 31st December, 2001, 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.

28 Subsequent events

On 5th March, 2002, the expiry date of the revolving loan facility granted by Nortel (note 22(b)) was extended to 10th April, 2002. On the expiry date, any outstanding amounts drawn down under the revolving loan facility will become subject to the terms of the vendor loans and will be repaid in line with the repayment schedule of the vendor loans.

29 Subsidiaries

	Company	
	2001 HK$'000	2000 HK$'000
Unlisted shares at cost	1	1
Loan to a subsidiary	2,421,735	2,421,735
Amount due to subsidiaries	(24,952)	(10,755)
	2,396,784	2,410,981

The loan to and the amount due to the subsidiaries are unsecured, interest free and have no fixed terms for repayment.

The Company has the following principal wholly-owned subsidiaries as at 31st December, 2001:

Name	Place of incorporation	Issued and fully paid up capital	Principal activities
Shares held directly			
SUNDAY HOLDINGS (HONG KONG) CORPORATION (formerly known as SUNDAY HOLDINGS CORPORATION)	British Virgin Islands	100 ordinary shares of US$1 each	Investment holding
SUNDAY HOLDINGS (CHINA) CORPORATION	British Virgin Islands	1 ordinary share of US$1	Investment holding
Shares held indirectly			
MANDARIN COMMUNICATIONS LIMITED	Hong Kong	100 ordinary shares of HK$1 each and 1,254,000,000 non-voting deferred shares of HK$1 each	Provision of mobile, international tele-communications and other services, and sales of mobile phones and accessories
SUNDAY 3G HOLDINGS (HONG KONG) CORPORATION	British Virgin Islands	1 ordinary share of US$1	Investment holding
SUNDAY 3G (HONG KONG) LIMITED (formerly known as SUNDAY TELECOMMUNICATIONS (HONG KONG) LIMITED)	Hong Kong	2 ordinary shares of HK$1 each	Licensee of Hong Kong 3G Licence
SUNDAY COMMUNICATIONS SERVICES (SHENZHEN) LIMITED ("SCSSL")	The People's Republic of China (the "PRC")	Note (a)	Provision of back office support services to the Group

The principal activities of the subsidiaries, except for SCSSL which is operated in the PRC, are undertaken in Hong Kong.

(a) SCSSL is registered as a wholly foreign-owned enterprise in the PRC. The registered capital of SCSSL is US$1.5 million which was not paid up as at 31st December, 2001.

30 Approval of accounts

The accounts were approved by the board of directors on 19th March, 2002.