



The 2002 financial year was an important one for SUNDAY. In a competitive market, we made further improvements in both our financial performance and customer base. At the same time, we brought changes to our business that will ensure continued increases in profitability in 2003 and create a competitive platform for the new era of mobile communications that is just beginning.

## PROFITABILITY

Revenue from mobile services business for the year increased, supporting strong growth in EBITDA, which more than doubled to HK\$240 million excluding one-off restructuring costs. As from January 2003, SUNDAY is achieving net profit on a month-to-month basis.

The balance sheet also saw a significant improvement, with net debt at year-end declining more than we had expected as positive cash flow enabled us to cover finance costs and maintenance capital expenditure. Net debt started to reduce from the fourth quarter of 2002, and will continue to decline until maturity.

## GROWTH IN SUBSCRIBERS AND DATA VOLUMES

Growth in mobile services business revenue was driven by increased subscriber numbers, which reflects the success we are beginning to achieve in our strategy of market segmentation.

In the past two years, mobile communications in Hong Kong has shifted from being a high-growth mass market to one characterised by saturation of penetration, where opportunities to increase revenues centre on delivering tailored services to well understood user groups. New data services provide us with the opportunity to do this even more effectively through enhancing the services we offer.

Our total subscriber base rose 9% over 2001 to 603,000, buoyed by the prepaid category, which we see as an attractive area of business. In this regard, it is important to note that the methodology of reporting adopted by SUNDAY is very conservative and fully accounts for all types of subscriber activations, disconnections and usage.

Average revenue per user (ARPU) was broadly flat, though showing a slight upward momentum that has reversed the down trend which had prevailed in the Hong Kong market for the preceding four years.

Growth in wireless data services was also encouraging, with short message service (SMS) volumes growing sharply, boosted by events such as the football World Cup and festivals. Multi-media messaging service (MMS) volumes also climbed following its introduction during the year. In total, data services contributed to approximately 5% of ARPU by December 2002, pointing to the great potential of data services, as the new technologies become more widely used.

## LOWER CHURN

We made churn a priority in 2002 and succeeded in more than halving the rate from 7.8% at the start of the year to 3.5% by year-end, lowering our average acquisition cost. Again, it is emphasised that SUNDAY uses churn calculation methods that are very conservative. Considerable effort was put into retention programmes based on market research which allowed us to gain greater insight into the reasons behind customers changing service. Although churn may rise modestly in response to periodic changes in market conditions, we continue to make customer retention a priority and are confident of maintaining a tight control over churn.

### QUALITY, PRODUCTS AND SERVICES

SUNDAY's ability to achieve revenue growth during the year also testifies to the enhancements we made to our network, customer service, as well as the new or improved products and services we introduced.

Although our cell site cost did not rise, we increased the number of cell sites by 17% to over 1,050 sites on a single GSM1800 network. This ensures a high quality of coverage and call performance for users.

Customer service quality was greatly enhanced in 2002 by the establishment of our operations centre in Shenzhen. This centre provides greater resources of high quality and higher productivity, enabling us to improve customer service through a faster and higher response rate.

SUNDAY introduced a broad range of new products and services in the fourth quarter of 2002 targeting a wide variety of consumer segments:

- "My Album" is a one-stop-shop for personalised MMS photos, with music, voice and text to MMS-enabled handsets, as well as email and with made-to-order printouts available at over 450 Hong Kong locations.
- "Location Based Services" enables corporate customers to monitor effectively their fleets of vehicles, field staff or valuable parcels on a real time basis.
- "SUNDAY Look!Hear!" features MMS entertainment through popular content downloads of celebrity photos, cartoon and comic characters and e-cards.
- "SUNDAY Games" brings a real life "Game Store" experience to mobile handsets through new collections of Java games.
- "Handy Workstation" is a complete mobile email and Personal Information Management (PIM) solution enabling mobile users to access corporate email accounts and up to 10 POP3/IMAP4 Internet email accounts.
- "ICQ for SMS" allows users to stay in touch with ICQ friends 24 hours a day through a handset with a short messaging function.
- "MSN Mobile Messenger" allows users to send, receive and reply to instant messages from their online contacts who are using MSN Messenger on a computer or a mobile phone.

All of our service and product initiatives follow the principles laid down in our four core values of simplicity, transparency, quality and value-for-money. They should be readily useable and understandable by the customer, of high quality as regards both the product or service as well as any support services, and offered at an attractive and reasonable price.

### HIGHER PRODUCTIVITY

During 2002, we put considerable emphasis on raising the Group's productivity and to this end were successful in reducing our costs. Operating expenses before depreciation and restructuring costs fell by 10%. The successful establishment of the operations centre in Shenzhen, which offers greater cost-effectiveness, also contributed to lower costs in 2002. Further improvements in productivity resulted from major organisational changes and a reduction in the workforce during the year.

The overall reduction of operating expenses was especially significant given that SUNDAY during the year expanded the subscriber base, improved service quality and launched new services. These changes reorient the Group towards its focus on addressing the market in a more targeted manner and include the creation of teams covering product development, sales, marketing and retention focused on specific market segments rather than broad product categories. The full benefits of the Shenzhen centre and the subsequent organisational changes will accrue from 2003.

## OUTLOOK

In 2003 we will focus our attention on profitability through improving customer retention, growing the subscriber base, increasing ARPU and enhancing productivity.

Market segmentation will continue to be a strategic theme for the Group as we pursue these growth objectives. The new wireless data services and MMS interoperability introduced in the fourth quarter of 2002 are expected to provide additional revenue growth in 2003. More mobile phones supporting MMS and other data services based on GPRS technology were introduced to the market in late 2002, and this trend will continue.

We expect 2003 to continue to be a competitive year for the industry, in which SUNDAY will continue to post improved results, following the solid groundwork laid down in 2002. The continued enhancement in our financial position, together with the new orientation of our business, will position us well for the eventual roll out of our 3G service.

SUNDAY has consistently maintained that 3G would not become a significant market reality before 2004 and that the key to success in 3G services would be a cost-effective platform that delivers creative and tailored services. We have completed comprehensive planning of all network, IT and service delivery systems required for the launch of 3G services and are in active discussion with a number of vendors and financial institutions to ensure we can roll out our 3G service on schedule and on a sound commercial basis, when the time is right.

We have followed the developments in 3G around the world with close attention and are convinced that our vision and strategy remain effective. In particular, it is ever more evident that a 3G licence will be essential for success in the future and that alternative ways of delivering wireless communications services based on either older technology or mobile virtual network operations will not be competitive. We expect the arrival of 3G commercially to be a catalyst for the long-expected consolidation in the industry, to the benefit of our shareholders as well as other 3G licence holders.

It should now be evident that SUNDAY's competitive strengths are becoming ever more relevant as new generation of technologies begins to transform the way people use and think about mobile communications.

## APPRECIATION

Finally, we wish to extend our thanks to our fellow directors and all employees for their hard work and commitment to the Group. We also thank our bankers, advisers, suppliers and shareholders for their continued support of SUNDAY during this time of change.

Richard John Siemens  
Co-Chairman

Edward Wai Sun Cheng  
Co-Chairman

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