1 BASIS OF PREPARATION

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 2002:

SSAP1 (revised)	:	Presentation of financial statements
SSAP11 (revised)	:	Foreign currency translation
SSAP15 (revised)	:	Cash flow statements
SSAP34	:	Employee benefits

The Group has also early adopted SSAP12 (revised) "Income Taxes", which is effective for accounting periods commencing on or after 1st January 2003.

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 venture*

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 joint ventures for the year, and the consolidated balance sheet includes the Group's share of the net assets of a joint venture.

(b) Revenue recognition

The Group recognises revenues on the following bases:

(i) *Mobile 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 when received upon completion of activation services. 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 prepaid subscription fees received from subscribers and the up-front subscription fees received from subscribers upon purchase of mobile phones. 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, except for prepaid subscription fees from prepaid mobile services which are recognised as revenue based on usage of the Group's network and facilities.

(ii) *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 mobile 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 mobile 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) *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) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) *Bonus plans*

The expected bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. 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 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) 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.

(l) 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.

(m) 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.

(n) 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 and deposits held at call with banks.

(o) 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.

The balance sheet of subsidiaries and a joint venture expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(p) Convenience translations

The consolidated profit and loss account and consolidated cash flow statement for the year ended 31st December 2002 and the consolidated balance sheet and company balance sheet as at 31st December 2002 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.7988 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.

3 RESTATEMENT

In 2001, the discounted value of the Minimum Annual Fees of 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") was recorded both as an intangible asset and as a long-term liability.

During 2002, the directors have re-evaluated the Group's existing accounting policy for the 3G Licence and believe that it is not an appropriate treatment, as it does not reflect fully the underlying legal and financial obligations and therefore the commercial position of the Group given the provisions of the 3G Licence.

Accordingly, the licence fees payable prior to the launch of commercial services are regarded as integral to the development and construction of the 3G network and are deferred and included within fixed assets. Depreciation of the fixed assets will be provided from the commencement of 3G services over the shorter of the remaining life of the 3G Licence or the estimated useful life of the fixed assets.

Therefore, the consolidated balance sheet as at 31st December 2001 has been restated to reflect the following adjustments:

(i) Decrease in the intangible asset by HK$583,930,000;

(ii) Decrease in the 3G Licence fees liability by HK$333,109,000 under long-term liabilities;

(iii) Increase in the fixed assets by HK$9,154,000; and

(iv) Increase in the prepayment of 3G Licence fees by HK$191,667,000 under non-current assets and HK$50,000,000 under current assets.

The directors believe that the adjustments result in a more appropriate presentation of the fees paid under the terms of the 3G Licence.

4 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.

	Mobile services 2002 HK$'000	Sales of mobile phones and accessories 2002 HK$'000	Other services 2002 HK$'000	Group 2002 HK$'000
Turnover	1,217,677	115,291	9,722	1,342,690
Profit/(loss) from operations	1,128	(38,239)	(5,264)	(42,375)
Interest income				3,553
Finance costs				(59,833)
Share of losses from joint ventures				(18,609)
Loss for the year				(117,264)
Segment assets	1,557,242	28,823	12,987	1,599,052
Investment in a joint venture				3,322
Unallocated assets				208,469
Total assets				1,810,843
Segment liabilities	336,081	10,518	1,279	347,878
Unallocated liabilities				792,233
Total liabilities				1,140,111
Capital expenditure	164,701	3,375	–	168,076
Depreciation	(244,629)	(9,782)	(1,982)	(256,393)

	Mobile services 2001 HK$'000 (restated)	Sales of mobile phones and accessories 2001 HK$'000	Other services 2001 HK$'000	Group 2001 HK$'000 (restated)
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	1,641,795	47,904	57,167	1,746,866
Investment in a joint venture				4,940
Unallocated assets				184,371
Total assets				1,936,177
Segment liabilities	337,154	27,120	24,655	388,929
Unallocated liabilities				759,252
Total liabilities				1,148,181
Capital expenditure	114,744	3,604	1,029	119,377
Depreciation	(241,906)	(12,184)	(11,012)	(265,102)

There are no sales or other transactions between the business segments. Segment assets consist primarily of fixed assets, inventories, trade receivables, deposits and prepayments and mainly exclude cash. Segment liabilities comprise operating liabilities and mainly exclude long-term loans. Capital expenditure comprises additions to fixed assets (note 15).

5 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.

6 LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	2002 HK$'000	2001 HK$'000
Cost of inventories sold	113,414	244,981
Depreciation:		
— owned fixed assets	253,668	258,641
— leased fixed assets	2,725	6,461
Loss on disposals of fixed assets	377	1,126
Operating leases charges:		
— land and buildings, including transmission sites	220,207	209,370
— leased lines	87,130	94,777
Provision for doubtful debts	31,016	19,579
Restructuring costs (note below)	26,606	–
Auditors' remuneration		
— charge for the year	850	840
— under-provision in prior year	35	–

Note: Restructuring costs of HK$26,606,000 mainly comprised of termination benefits of HK$24,899,000 which had been included in the salaries and related costs (note 13).

7 FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on bank loans and overdrafts	37,923	52,160
Interest on vendor loans repayable within five years	20,816	16,540
Interest element of finance lease payments	129	413
Other incidental borrowing costs	965	1,017
	59,833	70,130

8 TAXATION

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

The unrecognised deferred taxation credit on the Group's loss for the year differs from the theoretical amount that would arise using the applicable taxation rate of 16% as follows:

	2002 HK$'000	2001 HK$'000
Loss for the year	(117,264)	(211,748)
Taxation credit at the applicable rate of 16% (2001: 16%)	(18,762)	(33,880)
Add/(less) tax effect of:		
Income not subject to taxation	(431)	(2,631)
Expenses not deductible for taxation purposes	8,000	1,534
Unrecognised deferred tax charge/(credit) in previous years	2,333	(2,250)
Unrecognised deferred taxation credit	(8,860)	(37,227)

9 LOSS FOR THE YEAR

The loss for the year is dealt with in the accounts of the Company to the extent of HK$24,131,000 (2001: HK$14,981,000).

10 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$117,264,000 (2001: HK$211,748,000) and the weighted average number of 2,990,000,000 shares (2001: 2,990,000,000 shares) in issue during the year.

(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 2002 and 2001.

11 EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of losses from joint ventures. During the year, restructuring costs of HK$26,606,000 (2001: Nil) were incurred and charged to the operating expenses. EBITDA before the restructuring costs amounted to HK$240,624,000 in 2002 (2001: HK$101,892,000).

12 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 in Hong Kong with retrospective effect from 1st July 1997 (the "Retirement Scheme").

All permanent full time employees in Hong Kong 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 in Hong Kong 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.

The pension scheme which covers the employees in the People's Republic of China ("PRC") is a defined contribution scheme at various applicable rates of monthly salary that are in accordance with the local practice and regulations.

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

	2002 HK$'000	2001 HK$'000
Gross employer's contributions	8,776	9,890
Less: Forfeited contributions utilised	(2,123)	(18)
Net employer's contributions charged to the profit and loss account	6,653	9,872

Contributions payable as at 31st December 2002 was HK$502,000 (2001: HK$892,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December 2002 were HK$994,000 (2001: HK$29,000). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

13 SALARIES AND RELATED COSTS

Salaries and related costs for the years ended 31st December 2002 and 2001, including directors' fees and emoluments (note 14), are as follows:

	2002 HK$'000	2001 HK$'000
Salaries, bonuses and allowances	212,338	223,330
Retirement scheme contributions	6,653	9,872
Termination benefits	24,899	–
	243,890	233,202

14 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002 HK$'000	2001 HK$'000
Fees	600	600
Other emoluments:		
Salaries, other allowances and benefits in kind	11,858	11,754
Bonuses	1,500	1,446
Retirement scheme contributions	30	–
	13,988	13,800

Directors' fee disclosed above include fees of HK$400,000 (2001 : HK$400,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors 2002	 2001
Nil – HK$1,000,000	8	8
HK$1,000,001 – HK$1,500,000	5	5
HK$5,500,001 – HK$6,000,000	1	1

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2001: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2001: four) individuals during the year are as follows:

	2002 HK$'000	2001 HK$'000
Salaries, other allowances and benefits in kind	10,861	11,714
Bonuses	3,083	4,107
Retirement scheme contributions	120	400
Compensation for loss of office:		
— contractual payments	5,805	–
— others	410	–
	20,279	16,221

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

Emolument bands	Number of individuals 2002	2001
HK$2,500,001 – HK$3,000,000	–	1
HK$3,000,001 – HK$3,500,000	1	1
HK$3,500,001 – HK$4,000,000	1	–
HK$4,000,001 – HK$4,500,000	1	1
HK$5,500,001 – HK$6,000,000	–	1
HK$9,000,001 – HK$9,500,000	1	–

15 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 2002 as previously reported	1,700,168	7,411	12,418	219,754	2,871	303,709	2,246,331
Restatement (note 3)	9,154	–	–	–	–	–	9,154
At 1st January 2002, as restated	1,709,322	7,411	12,418	219,754	2,871	303,709	2,255,485
Additions	125,827	883	6,389	4,378	585	30,014	168,076
Disposals	(13)	(845)	(859)	(2,392)	(376)	(9,459)	(13,944)
At 31st December 2002	1,835,136	7,449	17,948	221,740	3,080	324,264	2,409,617
Accumulated depreciation							
At 1st January 2002	547,091	4,558	8,032	152,812	2,209	238,150	952,852
Charge for the year	180,433	1,256	2,830	36,702	354	34,818	256,393
Disposals	(11)	(660)	(733)	(2,363)	(351)	(9,407)	(13,525)
At 31st December 2002	727,513	5,154	10,129	187,151	2,212	263,561	1,195,720
Net book value							
At 31st December 2002	1,107,623	2,295	7,819	34,589	868	60,703	1,213,897
At 31st December 2001	1,162,231	2,853	4,386	66,942	662	65,559	1,302,633

At 31st December 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK$238,000 (2001: HK$2,963,000).

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

16 INVESTMENT IN A JOINT VENTURE

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net (liabilities)/assets	(1,905)	1
Advance	5,227	4,939
	3,322	4,940

Details of the joint venture as at 31st December 2002 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.

In January 2002, the Group formed a joint venture, Shell & SUNDAY Mobile Communications Limited ("Shell Mobile"), with Shell Hong Kong Limited to operate as a mobile virtual network operator on a pilot basis. After the completion of the pilot period, Shell Mobile ceased its operation effective from 26th September 2002 and commenced members' voluntary liquidation on 12th December 2002. The Group's investment in Shell Mobile of HK$16,703,000 had been fully written off as at 31st December 2002.

17 PREPAYMENT OF 3G LICENCE FEES

	Group	
	2002	2001
	HK$'000	HK$'000
At 1st January	241,667	–
Addition	–	250,000
Amount capitalised as fixed assets	(50,000)	(8,333)
At 31st December	191,667	241,667
Less: Current portion included under current assets	(50,000)	(50,000)
	141,667	191,667

In 2001, the Group paid an amount of HK$250,000,000, equivalent to the aggregate of the first five years' annual fees for the 3G Licence, to the Office of Telecommunications Authority ("OFTA"). For the remaining 10 years of the 3G Licence, the fees payable shall be the higher of 5% of the turnover attributable to the provision of the 3G services and the Minimum Annual Fees (as defined in the 3G Licence) for each year of the 3G Licence. The total Minimum Annual Fees over the remaining term of the 3G Licence is HK$1,056,838,000, the net present value of which, at an assumed cost of capital of the Group at 11.2%, is HK$333,109,000.

In accordance with the 3G Licence, the Group was required to provide a performance bond, equivalent to the 6th year's Minimum Annual Fee due, on 22nd October 2002. On 11th October 2002, OFTA granted a one-year waiver to the Group on the submission of such performance bond.

On 22nd October 2003, the Group will be required to provide a performance bond in an amount equivalent to the 6th and 7th years' Minimum Annual Fees due. 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).

18 RESTRICTED CASH DEPOSITS

As at 31st December 2002, a bank deposit of HK$1,682,000 (2001: HK$2,385,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. The guarantee will expire in March 2007.

As at 31st December 2002, another bank deposit of HK$156,939,000 (2001: HK$132,706,000) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within six months.

19 INVENTORIES

The carrying values of the inventories are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Mobile phones and accessories		
Cost	13,155	26,233
Less: Provision	(3,160)	(5,785)
	9,995	20,448

As at 31st December 2002, the carrying amount of inventories that are stated at net realisable value amounted to HK$3,129,000 (2001: HK$19,830,000).

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

20 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	
	2002	2001
	HK$'000	HK$'000
0 – 30 days	59,380	63,463
31 – 60 days	15,931	13,902
61 – 90 days	9,433	6,755
Over 90 days	2,665	4,342
	87,409	88,462

21 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0 – 30 days	17,731	36,170
31 – 60 days	9,460	2,383
61 – 90 days	15,546	2,697
Over 90 days	13,611	6,682
	56,348	47,932

22 SHARE CAPITAL

	Company	
	2002	2001
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2001: 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 (2001: 2,990,000,000) ordinary shares of HK$0.10 each	299,000	299,000

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 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: (i) the nominal value of the Company's share; or (ii) 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.

On 22nd May 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the Share Option Scheme. Upon the termination of the Share Option Scheme, no further options will be granted under the Share Option Scheme but the provisions of the Share Option Scheme will remain in full force and effect in respect of the existing options granted.

Under the New Option Scheme, the board may, in its discretion, grant options to any director, employee, consultant, customer, supplier, agent, partner, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company. Each grant of options to a director, chief executive or substantial shareholder or any of their respective associates must be approved in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The exercise price for any particular option under the New Option Scheme will be determined by the board but will be not less than the highest of (i) the closing price of shares on the date of grant of the option, (ii) an amount equivalent to the average closing price of a share for the five business days immediately preceding the date of grant of the option and (iii) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the New Option Scheme and Share Option Scheme must not, in aggregate, exceed 30% of the shares of the Company in issue.

The total number of shares available for issue under options which may be granted under the New Option Scheme (excluding those options that have been granted by the Company prior to the date of approval of the New Option Scheme) must not in aggregate, exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme ("Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed by shareholders of the Company in general meeting provided that the Scheme Mandate Limit so refreshed must not exceed 10% of the issued share capital of the Company at the date of approval of the refreshment by the shareholders. The board may also seek separate shareholders' approval in general meeting to grant option beyond the Scheme Mandate Limit (whether or not refreshed) provided that the options in excess of the Scheme Mandate Limit are granted only to the eligible participants specified by the Company before such approval is sought.

No option may be granted under the New Option Scheme to any eligible participant which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company. As at the date of such new grant, any grant of further options above this limit will be subject to certain requirements provided under the Listing Rules, including the approval of shareholders at general meeting.

No share options were granted under the New Option Scheme or the Share Option Scheme during the year ended 31st December 2002. Details of the share options outstanding as at 31st December 2002 which have been granted under the Share Option Scheme are as follows:

	Options held at 1st January 2002	Options granted during the year	Options exercised during the year	Options lapsed during the year[1]	Options held at 31st December 2002	Exercise price HK$	Grant date[2]	Exercisable until
Executive Directors[3]	90,000,000	–	–	–	90,000,000	1.01	31/05/2000	30/05/2010
Chief Executive	15,000,000	–	–	15,000,000	–	1.01	31/05/2000	30/05/2010
Continuous contract employees	26,265,646	–	–	8,266,569	17,999,077	3.05	23/03/2000	22/03/2010
	30,551,857	–	–	9,619,312	20,932,545	1.01	31/05/2000	30/05/2010
	2,096,009	–	–	645,377	1,450,632	3.05	31/05/2000	30/05/2010
	3,828,177	–	–	1,868,616	1,959,561	1.01	19/01/2001	18/01/2011

Notes:

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

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

(3) Details of the options granted to the Executive Directors of the Company are set out on page 37 of this annual report under the heading of "Directors' and Chief Executive's Interests in Securities".

23 LONG-TERM LOANS AND OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loans (secured) (note a)	420,000	576,000
Vendor loans (secured) (note a)	365,316	175,455
Obligations under finance leases (note d)	138	2,158
	785,454	753,613
Less: Current portion included under current liabilities		
— bank loans	(180,000)	(156,000)
— vendor loans	(58,491)	(38,990)
— obligations under finance leases	(138)	(1,970)
	(238,629)	(196,960)
	546,825	556,653

(a) Bank and vendor loans

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

	Bank loans		Vendor loans	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	180,000	156,000	58,491	38,990
In the second year	240,000	180,000	306,825	58,485
In the third to fifth year	–	240,000	–	77,980
	420,000	576,000	365,316	175,455

The bank loans and the 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 2002, the bank loans and the vendor loans were secured, amongst other things, by a charge over all the assets, revenue and shares of certain wholly-owned subsidiaries of the Company, including Mandarin Communications Limited ("Mandarin"), the main operating subsidiary.

(b) Banking and other borrowing facilities

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 23(a)) and the available bank loan facilities as at 31st December 2002 were HK$420,000,000.

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, which had been further extended to 11th September 2004 during the year.

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 23(a)) bear to the vendor loans of US$25,000,000 (approximately HK$194,998,000). As at 31st December 2002, the available revolving loan facility was US$61,657,000 (approximately HK$480,851,000) (2001: US$117,000,000, approximately HK$912,366,000).

(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 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 (“Sponsors”), these Sponsors 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 Sponsors 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, 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$15,597,600);

  (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$77,988,000); 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.

On 30th July 2002, the Group entered into various documents to effect certain amendments to the bank loan and vendor loan facilities in order to accommodate changes to the structure of the Group for business development and/or cost saving measures, including the provision of a corporate guarantee by the Company to secure all the obligations and liabilities of its wholly-owned subsidiaries, as well as to vary the required targets for subscriber, earnings, tangible net worth and debt service ratio. The maturity of the loans, amounts lent and interest provisions have not been altered.

(d) Obligations under finance leases

At 31st December 2002, the Group's finance lease liabilities were repayable as follows:

	2002 HK$'000	2001 HK$'000
Minimum lease payments		
Within one year	155	2,123
In the second year	–	209
	155	2,332
Future finance charges on finance leases	(17)	(174)
Present value of finance lease liabilities	138	2,158
The present value of finance lease liabilities is as follows:		
Within one year	138	1,970
In the second year	–	188
	138	2,158

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000
Loss from operations	(42,375)	(163,210)
Depreciation	256,393	265,102
Loss on disposals of fixed assets	377	1,126
Operating profit before working capital changes	214,395	103,018
Decrease/(increase) in inventories	10,453	(4,373)
Decrease in trade receivables, deposits, prepayments and other receivables	666	1,228
Decrease in trade payables, other payables and accrued charges	(13,852)	(75,538)
Decrease in subscriptions received in advance	(26,329)	(63,758)
Cash inflow/(outflow) from operations	185,333	(39,423)
Interest received	3,422	25,488
Interest paid	(58,307)	(72,990)
Interest element of finance lease payments	(129)	(413)
Other incidental borrowing costs paid	(976)	(1,017)
Net cash inflow/(outflow) from operating activities	129,343	(88,355)

(b) Analysis of changes in financing during the year

	Long-term loans HK$'000	Long-term obligations under finance leases HK$'000
At 1st January 2001	794,998	8,085
Net cash outflow from financing	(43,543)	(5,927)
At 31st December 2001	751,455	2,158
At 1st January 2002	751,455	2,158
Net cash outflow from financing	(15,600)	(2,020)
Purchases of fixed assets by directly assuming long-term loans	49,461	–
At 31st December 2002	785,316	138

(c) Major non-cash transactions

	2002 HK$'000	2001 HK$'000
Purchases of fixed assets by directly assuming long-term vendor loans	49,461	–

25 DEFERRED TAXATION

Deferred tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 16% (2001: 16%).

The potential deferred tax assets/(liabilities) not provided for as of 31st December 2002 and 2001 amount to:

	Group	
	2002 HK$'000	2001 HK$'000
Accelerated depreciation allowances	(102,991)	(113,160)
Tax losses	476,859	478,119
Other temporary differences	–	49
	373,868	365,008

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 net unrecognised tax losses of HK$2,327,444,000 (2001: HK$2,281,300,000) to carry forward against future taxable income. This tax loss has no expiry date.

26 CAPITAL COMMITMENTS

	Group	
	2002 HK$'000	2001 HK$'000
In respect of purchases of fixed assets:		
— contracted but not provided for	53,898	118,044
— authorised but not contracted for	2,223	70,510
	56,121	188,554

The Company did not have any capital commitments as at 31st December 2002 (2001: Nil).

27 COMMITMENTS UNDER OPERATING LEASES

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

	Group 2002 HK$'000	Group 2001 HK$'000
In respect of land and buildings, including transmission sites:		
Not later than one year	156,473	170,948
Later than one year and not later than five years	97,482	111,702
Later than five years	236	2,035
	254,191	284,685
In respect of leased lines:		
Not later than one year	43,871	55,145
Later than one year and not later than five years	5,048	33,121
	48,919	88,266
	303,110	372,951

The Company did not have any commitments under operating leases as at 31st December 2002 (2001: Nil).

28 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 2002 HK$'000	Group 2001 HK$'000
International telecommunications service revenue received from a related company (note a)	–	6,564
Operating lease charges paid to related companies (note b)	(4,334)	(4,870)
Consulting service fees paid to a related company (note c)	(1,580)	(833)
Sales and marketing service fees paid to a beneficial shareholder (note d)	–	(910)

(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 "1622" 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.

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 of the Company to lease a number of premises for the Group's operating activities.

(c) The Group entered into certain agreements based on normal commercial terms with Lifetree Convergence Limited ("Lifetree") during the year ended 31st December 2002, 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.

(d) 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 Tak Sing Yip are directors of both the Company and Distacom.

29 SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares at cost	1	1
Loan to a subsidiary	2,421,735	2,421,735
Amounts due to subsidiaries	(50,971)	(24,952)
	2,370,765	2,396,784

The loan to and the amounts 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 2002:

Name	Place of incorporation	Issued and fully paid up capital	Principal activities
Shares held directly			
SUNDAY HOLDINGS (HONG KONG) 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
SUNDAY IP HOLDINGS 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 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	Hong Kong	2 ordinary shares of HK$1 each	Licensee of Hong Kong 3G Licence
SUNDAY IP LIMITED	British Virgin Islands	1 ordinary share of US$1	Holding the Group's intellectual property rights and trade marks
SUNDAY COMMUNICATIONS SERVICES (SHENZHEN) LIMITED ("SCSSL")	The PRC	US$1,500,000 (note below)	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.

Note: SCSSL is registered as a wholly foreign-owned enterprise in the PRC. The registered capital of SCSSL had been fully paid up as at 31st December 2002.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25th March 2003.