Notes to the Accounts

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").

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. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings 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 the joint venture for the year, and the consolidated balance sheet includes the Group's share of the net assets of the 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 certain manufacturers in respect of such manufacturers' defects on mobile phones and accessories. The Group provides warranties to customers upon sales of such mobile phones and accessories with similar terms and conditions to the warranties 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 the 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. 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.

Deferred taxation is provided on temporary differences arising from depreciation on fixed assets, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(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 the straight-line basis. Estimated useful lives are summarised as follows:

Network equipment	Shorter of 10 years or lease period, if any, of 1 to 3 years
Computer equipment	Shorter of 5 years or lease period, if any, 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 (i) the purchase cost of network assets and equipment and direct expenses in respect of the development of the network; and (ii) the minimum annual fees payable prior to the launch of 3G commercial services, and are depreciated over the shorter of the remaining 3G licence period or their estimated useful lives.

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 is 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 consist 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 the straight-line basis over the lease terms.

(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 sheets of subsidiaries and a joint venture expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while 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 2003, and the consolidated balance sheet and company balance sheet as at 31st December 2003 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.764 to the U.S. dollar. Such translations should not be construed as representations that the Hong Kong dollar amounts represent, have been or could have been converted into U.S. dollars at that or any other rate.

3 SEGMENT INFORMATION

The Group is principally engaged in three business segments in Hong Kong, namely, mobile services, sales of mobile phones and accessories and other services.

	Mobile services 2003 HK$'000	Sales of mobile phones and accessories 2003 HK$'000	Other services 2003 HK$'000	Group 2003 HK$'000
Turnover	1,149,875	109,471	695	1,260,041
Profit/(Loss) from operations	145,685	(61,076)	(2,750)	81,859
Interest income				2,526
Finance costs				(52,787)
Share of loss from a joint venture				(4,426)
Profit for the year				27,172
Segment assets	1,378,228	29,757	10,824	1,418,809
Unallocated assets				313,879
Total assets				1,732,688
Segment liabilities	291,447	20,379	276	312,102
Unallocated liabilities				722,682
Total liabilities				1,034,784
Capital expenditure	119,934	1,841	—	121,775
Depreciation	(226,988)	(6,107)	(198)	(233,293)

	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	815	(38,239)	(5,264)	(42,688)
Interest income				3,553
Finance costs				(59,520)
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)

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 unallocated cash. Segment liabilities comprise operating liabilities and mainly exclude unallocated 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 the 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 PROFIT/(LOSS) FROM OPERATIONS

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

	2003 HK$'000	2002 HK$'000
Charging:		
Cost of inventories sold	133,315	113,414
Depreciation:		
— owned fixed assets	233,055	253,668
— leased fixed assets	238	2,725
Loss on disposals of fixed assets	414	377
Operating lease charges:		
— land and buildings, including transmission sites	195,945	220,207
— leased lines	73,283	87,130
Provision for doubtful debts	30,228	31,016
Restructuring costs	—	26,606
Auditors' remuneration		
— charge for the year	1,100	1,128
— underprovision in prior year	—	35
Net exchange losses	—	313
Crediting:		
Net exchange gains	614	—

6 FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank loans	24,718	37,923
Interest on vendor loans repayable within five years	27,579	20,816
Interest element of finance lease payments	17	129
Other incidental borrowing costs	473	652
	52,787	59,520

7 TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made as the Group had sufficient tax losses brought forward to set off against the assessable profits for the year (2002: Nil).

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

	2003 HK$'000	2002 HK$'000
Profit/(Loss) for the year	27,172	(117,264)
Taxation charge/(credit) at the applicable rate of 17.5% (2002: 16%)	4,755	(18,762)
Add/(Deduct) tax effect of:		
Income not subject to taxation	(303)	(431)
Expenses not deductible for taxation purposes	3,713	8,295
Utilisation of previously unrecognised tax losses	(30,389)	(10,860)
Reversal of temporary differences arising from accelerated depreciation	22,224	21,758
Taxation charge	—	—

8 LOSS FOR THE YEAR

The loss for the year is dealt with in the accounts of the Company to the extent of HK$9,401,000 (2002: HK$24,131,000).

9 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share is based on the Group's profit for the year of HK$27,172,000 (2002: loss of HK$117,264,000) and the 2,990,000,000 shares (2002: 2,990,000,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

There is no dilutive effect upon exercise of the share options on the earnings per share for the years ended 31st December 2003 and 2002 since the exercise prices for the share options were above the average fair value of the shares.

10 EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of loss from a joint venture. In 2002, restructuring costs of HK$26,606,000 were incurred and charged to the operating expenses. No such costs were incurred during the year. EBITDA amounted to HK$315,152,000 in 2003 (2002: HK$240,311,000, before the restructuring costs).

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 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 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 of 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 of service. Forfeited contributions are to be refunded to the Group under both the MPF Scheme and the Retirement Scheme.

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 above schemes are as follows:

	2003	2002
	HK$'000	HK$'000
Gross employer's contributions	7,313	8,776
Less: Forfeited contributions utilised	(1,951)	(2,123)
Net employer's contributions charged to the profit and loss account	5,362	6,653

Contributions payable as at 31st December 2003 amounted to HK$545,000 (2002: HK$502,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December 2003 were HK$7,000 (2002: HK$994,000). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

12 SALARIES AND RELATED COSTS

Salaries and related costs for the years ended 31st December 2003 and 2002, including directors' fees and emoluments (note 13), are as follows:

	2003	2002
	HK$'000	HK$'000
Salaries, bonuses and allowances	145,348	212,338
Retirement scheme contributions	5,362	6,653
Termination benefits	1,310	24,899
	152,020	243,890

13 DIRECTORS' AND MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

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

	2003	2002
	HK$'000	HK$'000
Fees	628	600
Other emoluments:		
Salaries, other allowances and benefits in kind	9,960	11,858
Bonuses	—	1,500
Retirement scheme contributions	620	30
	11,208	13,988

Directors' fees disclosed above include fees of HK$428,000 (2002: HK$400,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands	2003	2002
Nil — HK$1,000,000	8	8
HK$1,000,001 — HK$1,500,000	—	5
HK$1,500,001 — HK$2,000,000	4	—
HK$4,000,001 — HK$4,500,000	1	—
HK$5,500,001 — HK$6,000,000	—	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 two (2002: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: four) individuals during the year are as follows:

	2003 HK$'000	2002 HK$'000
Salaries, other allowances and benefits in kind	4,653	10,861
Bonuses	—	3,083
Retirement scheme contributions	78	120
Compensation for loss of office:		
— contractual payments	754	5,805
— other	—	410
	5,485	20,279

The emoluments of these three (2002: four) individuals fell within the following bands:

	Number of individuals	
Emolument bands (including compensation for loss of office)	2003	2002
HK$1,500,001 — HK$2,000,000	2	—
HK$2,000,001 — HK$2,500,000	1	—
HK$3,000,001 — HK$3,500,000	—	1
HK$3,500,001 — HK$4,000,000	—	1
HK$4,000,001 — HK$4,500,000	—	1
HK$9,000,001 — HK$9,500,000	—	1

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 2003	1,835,136	7,449	17,948	221,740	3,080	324,264	2,409,617
Additions (Note 16)	105,581	181	691	3,022	4	12,296	121,775
Disposals	(39)	(981)	(609)	(1,828)	(647)	(16,594)	(20,698)
Reclassifications	—	—	(58)	58	—	—	—
At 31st December 2003	1,940,678	6,649	17,972	222,992	2,437	319,966	2,510,694
Accumulated depreciation							
At 1st January 2003	727,513	5,154	10,129	187,151	2,212	263,561	1,195,720
Charge for the year	185,419	940	2,440	14,878	228	29,388	233,293
Disposals	(26)	(894)	(574)	(1,824)	(530)	(16,370)	(20,218)
Reclassifications	—	—	(7)	7	—	—	—
At 31st December 2003	912,906	5,200	11,988	200,212	1,910	276,579	1,408,795
Net book value							
At 31st December 2003	1,027,772	1,449	5,984	22,780	527	43,387	1,101,899
At 31st December 2002	1,107,623	2,295	7,819	34,589	868	60,703	1,213,897

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

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 2003 HK$'000	Group 2002 HK$'000
Share of net liabilities	(4,000)	(1,905)
Advance	6,331	5,227
Provision for diminution in value	(2,331)	—
	—	3,322

Details of the joint venture as at 31st December 2003 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.

The Group regularly performs an assessment on its investment in and advances to the joint venture with reference to the expected recoverability. For the year ended 31st December 2003, a provision of HK$2,331,000 (2002: Nil) was considered necessary to write down the carrying value of these assets. Such provision is included in the share of loss from a joint venture in the consolidated profit and loss account.

16 PREPAYMENT OF 3G LICENCE FEES

	Group 2003 HK$'000	Group 2002 HK$'000
At 1st January	191,667	241,667
Amount capitalised as fixed assets	(50,000)	(50,000)
At 31st December	141,667	191,667
Classified as:		
Current asset	50,000	50,000
Non-current asset	91,667	141,667

In 2001, the Group paid an amount of HK$250,000,000, equivalent to the aggregate of the first five years' annual fees for its 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 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 to 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 in an amount equivalent to the 6th and 7th years' Minimum Annual Fees on 22nd October 2003. On 30th August 2003, OFTA granted a one-year waiver to the Group on the submission of such performance bond. From 22nd October 2004 onwards, the Group will be required to provide additional performance bonds in amounts such that the total of such performance bonds and the Minimum Annual Fees prepaid is equivalent to the next five years' Minimum Annual Fees due (or the remaining Minimum Annual Fees due where less than five years remains).

17 RESTRICTED CASH DEPOSITS

As at 31st December 2003, a bank deposit of HK$1,699,000 (2002: HK$1,682,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. The guarantee will expire in March 2007.

As at 31st December 2003, another bank deposit of HK$209,643,000 (2002: HK$156,939,000) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within the expiry of six months. The bank and vendor loans had been repaid in full after year-end (see note 29).

18 INVENTORIES

The carrying values of the inventories are as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Mobile phones and accessories		
Cost	15,940	13,155
Less: Provisions	(4,319)	(3,160)
	11,621	9,995

As at 31st December 2003, the carrying amount of inventories that are stated at net realisable value amounted to HK$8,281,000 (2002: HK$3,129,000).

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

19 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 2003 HK$'000	Group 2002 HK$'000
0 — 30 days	56,107	59,380
31 — 60 days	15,243	15,931
61 — 90 days	8,430	9,433
Over 90 days	1,289	2,665
	81,069	87,409

20 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
0 — 30 days	30,974	17,731
31 — 60 days	19,436	9,460
61 — 90 days	3,307	15,546
Over 90 days	17,883	13,611
	71,600	56,348

21 SHARE CAPITAL

	Company 2003 HK$'000	Company 2002 HK$'000
Authorised:		
10,000,000,000 (2002: 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 (2002: 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"). 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 options 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 or exercised under the New Option Scheme or the Share Option Scheme during the year ended 31st December 2003. Details of the share options outstanding as at 31st December 2003 which have been granted under the Share Option Scheme are as follows:

	Options held at 1st January 2003	Options lapsed during the year	Options cancelled during the year	Options held at 31st December 2003	Exercise price HK$	Grant date [1]	Exercisable until
Executive directors	75,000,000	—	75,000,000[2]	—	1.01	31/05/2000	30/05/2010
Non-executive directors	15,000,000	15,000,000[3]	—	—	1.01	31/05/2000	30/05/2010
Continuous contract	17,999,077	4,316,720[4]	—	13,682,357	3.05	23/03/2000	22/03/2010
employees	20,932,545	6,624,293[4]	—	14,308,252	1.01	31/05/2000	30/05/2010
	1,450,632	1,153,788[4]	—	296,844	3.05	31/05/2000	30/05/2010
	1,959,561	174,511[4]	—	1,785,050	1.01	19/01/2001	18/01/2011
	132,341,815	27,269,312	75,000,000	30,072,503			

Notes:

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

(2) In March 2003, a total of 75,000,000 share options of the five executive directors of the Company, namely, Messrs. Richard John Siemens, Edward Wai Sun Cheng, William Bruce Hicks, Kuldeep Saran and Andrew Chun Keung Leung, were cancelled at a total consideration of HK$5. No share options remained exercisable by the executive directors as at 31st December 2003.

(3) Mr. Craig Edward Ehrlich was re-designated as a non-executive director on 1st January 2003 upon expiry of his executive director service contract. His 15,000,000 share options automatically lapsed on 1st January 2003. Mr. Ehrlich retired as a non-executive director of the Company on 22nd May 2003.

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

22 LONG-TERM LOANS AND OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans (secured — note a)	240,000	420,000
Vendor loans (secured — note a)	481,368	365,316
Obligations under finance leases	—	138
	721,368	785,454
Less: Current portion included under current liabilities		
— bank loans	(240,000)	(180,000)
— vendor loans	(56,368)	(58,491)
— obligations under finance leases	—	(138)
	(296,368)	(238,629)
Long-term portion	425,000	546,825

(a) Bank and vendor loans

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

	Bank loans		Vendor loans	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	240,000	180,000	56,368	58,491
In the second year	—	240,000	175,000	306,825
In the third to fifth year	—	—	250,000	—
	240,000	420,000	481,368	365,316

The bank loans and the loans from Nortel Networks (Asia) Limited ("Nortel"), a major vendor of the Group, ("the vendor loans") bore interest at prevailing market rates, i.e. HIBOR and LIBOR, respectively, plus a progressively increasing rate, and were repayable in 15 quarterly instalments commencing from 11th March 2001 up to 11th September 2004.

As at 31st December 2003, 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, as well as a loan facility of US$155,000,000 (approximately HK$1,209,000,000) provided by Nortel (the "vendor loan facility"). All of these facilities had been fully drawn down as at 30th September 2003.

(c) Bank and vendor loan covenants

The bank loan and the vendor loan facilities provided for a corporate guarantee by the Company to secure all the obligations and liabilities of its wholly-owned subsidiaries. In addition, they contained a number of covenants which included, maintenance of certain performance targets such as number of subscribers, earnings level, tangible net worth and debt service ratios and operation of the business in accordance with approved business plans.

(d) Post-balance sheet bank and vendor loan repayments

On 30th December 2003, Mandarin gave notice to the lenders of the loan facilities of its intention to make full repayment of all the outstanding loan principal and accrued interest of the bank loans and vendor loans of HK$721,368,000. On 12th January 2004, all the bank and vendor loans were fully paid off through operating cash flows of Mandarin and a term loan of HK$500,000,000 provided by Huawei Tech. (see note 29 for details).

HK$75,000,000 of the new term loan from Huawei Tech. is payable in July 2004, while the remaining balance is repayable from January 2005 to July 2006. As a result, HK$425,000,000 of the term loan has been classified as non-current liabilities as at 31st December 2003.

The term loan from Huawei Tech. is unsecured and repayable in five progressively increasing semi-annual instalments after drawdown and carries a floating interest rate tied to HIBOR.

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK$'000	2002 HK$'000
Profit/(Loss) from operations	81,859	(42,688)
Depreciation	233,293	256,393
Loss on disposals of fixed assets	414	377
Operating profit before working capital changes	315,566	214,082
(Increase) /decrease in inventories	(1,626)	10,453
Decrease in trade receivables, deposits, prepayments and other receivables	20,877	666
Increase/(decrease) in trade payables, other payables and accrued charges	1,835	(13,852)
Decrease in subscriptions received in advance	(37,971)	(26,329)
Cash inflow from operations	298,681	185,020
Interest received	2,791	3,422
Interest paid	(56,892)	(58,307)
Interest element of finance lease payments	(17)	(129)
Other incidental borrowing costs paid	(2,649)	(663)
Net cash inflow from operating activities	241,914	129,343

(b) Analysis of changes in financing during the year

	Long-term loans HK$'000	Obligations under finance leases HK$'000
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
At 1st January 2003	785,316	138
Net cash outflow from financing	(61,772)	(138)
Exchange differences	(2,176)	—
At 31st December 2003	721,368	—

(c) Major non-cash transactions

	2003 HK$'000	2002 HK$'000
Purchases of fixed assets by directly assuming long-term vendor loans	—	49,461

24 DEFERRED TAXATION

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$3,382,281,000 (2002: HK$3,555,929,000) to carry forward against future taxable income; these tax losses can be carried forward indefinitely.

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

Deferred tax assets	2003 HK$'000	2002 HK$'000
At 1st January	476,859	478,119
Increase/(Decrease) in tax losses	14,165	(1,260)
At 31st December	491,024	476,859

Deferred tax liabilities	2003 HK$'000	2002 HK$'000
At 1st January	(102,991)	(113,160)
Reversal of temporary differences	12,581	10,169
At 31st December	(90,410)	(102,991)

Other temporary differences	2003 HK$'000	2002 HK$'000
At 1st January	—	49
Reversal of other temporary differences	—	(49)
At 31st December	—	—

Summary status	2003 HK$'000	2002 HK$'000
Deferred tax assets	491,024	476,859
Less: Deferred tax liabilities	(90,410)	(102,991)
	(400,614)	(373,868)

25 CAPITAL COMMITMENTS

	Group 2003 HK$'000	Group 2002 HK$'000
In respect of purchases of fixed assets:		
— contracted but not provided for	38,509	53,898
— authorised but not contracted for	2,456	2,223
	40,965	56,121

The Company did not have any capital commitments as at 31st December 2003 (2002: Nil).

26 COMMITMENTS UNDER OPERATING LEASES

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

	Group 2003 HK$'000	Group 2002 HK$'000
In respect of land and buildings, including transmission sites:		
Not later than one year	127,719	156,473
Later than one year and not later than five years	67,773	97,482
Later than five years	—	236
	195,492	254,191
In respect of leased lines:		
Not later than one year	21,286	43,871
Later than one year and not later than five years	5,019	5,048
	26,305	48,919
	221,797	303,110

The Company did not have any commitments under operating leases as at 31st December 2003 (2002: 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 2003 HK$'000	Group 2002 HK$'000
Operating lease charges paid to related companies (note a)	(1,346)	(4,334)
Consulting service fees paid to a related company (note b)	(105)	(1,580)

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

(b) The Group entered into certain agreements based on normal commercial terms with Lifetree Convergence Limited ("Lifetree") which provided various software development and consulting services to the Group. Certain executive directors of the Company are also directors of Lifetree.

28 INVESTMENTS IN SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Unlisted shares, at cost	1	1
Loan to a subsidiary	2,421,735	2,421,735
Amounts due to subsidiaries	(61,235)	(50,971)
	2,360,501	2,370,765

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 2003:

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")	People's Republic of China	US$1,500,000	Provision of back office support services to the Group

The principal activities of the subsidiaries, except for SCSSL which operates in the People's Republic of China ("PRC"), are undertaken in Hong Kong.

SCSSL is registered as a wholly foreign-owned enterprise in the PRC. The registered capital of SCSSL had been fully paid up.

29 SUBSEQUENT EVENT

On 12th January 2004, pursuant to the Heads of Agreement of Facility Agreements executed in December 2003 with Mandarin, Huawei Tech. Investment Co., Limited ("Huawei Tech."), a subsidiary of Huawei Technologies Co., Ltd., provided a term loan of HK$500,000,000 to Mandarin. The loan was used to repay part of the outstanding principal and accrued interest and charges in respect of certain bank and vendor loans as set out in Note 22. The term loan from Huawei Tech. is unsecured and is repayable in five progressively increasing semi-annual instalments after drawdown and carries a floating interest rate tied to HIBOR.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 1st April 2004.