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 Institute of Certified Public Accountants ("HKICPA").

2 RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and related interpretations ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 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 any 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.

When an indication of impairment exists, the carrying amount of the investment in joint venture is assessed and written down immediately to its recoverable amount.

(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 pre-paid 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 the straight-line basis over the agreed period, except for prepaid subscription fees from pre-paid 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 consolidated profit and loss account as incurred.

(e) Warranty costs

The Group is provided with warranties 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.

(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 are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated 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 as 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 only 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 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 (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 consolidated 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 are any indications that fixed assets are impaired. If any such indications exist, the recoverable amounts of the fixed assets are estimated and, where relevant, impairment losses are recognised to reduce the fixed assets to the recoverable amounts. Such impairment losses are recognised in the consolidated 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 consolidated 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 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 consolidated 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) Facility transaction costs and deferred charges

Facility transaction costs are incremental costs that are directly attributable to the borrowing of long-term loans.

Facility transaction costs include fees and commissions paid to agents, advisers, brokers, and dealers; levies by regulatory agencies and securities exchanges; and transfer taxes and duties, if applicable. Facility transaction costs do not include debt premiums or discounts, financing costs, or allocations of internal administrative or holding costs.

Long-term loans are recognised initially at their cost which is the fair value of the consideration received in respect thereof. Facility transaction costs are included in the initial measurement of loans, and are presented as deferred charges which are offset against loans and amortised using the straight-line method over the expected loan periods.

(q) Convenience translations

The consolidated profit and loss account and consolidated cash flow statement for the year ended 31st December 2004, and the consolidated balance sheet and company balance sheet as at 31st December 2004 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.7723 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.

4 SEGMENT INFORMATION

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

	Mobile services 2004 HK$'000	Sales of mobile phones and accessories 2004 HK$'000	Group 2004 HK$'000
Turnover	1,031,689	126,920	1,158,609
Profit/(Loss) from operations	82,081	(50,197)	31,884
Interest income			218
Finance costs			(26,300)
Share of losses from a joint venture			(258)
Profit for the year			5,544
Segment assets	1,482,478	33,870	1,516,348
Unallocated assets			115,694
Total assets			1,632,042
Segment liabilities	312,970	13,395	326,365
Unallocated liabilities			602,229
Total liabilities			928,594
Capital expenditure	353,346	2,217	355,563
Depreciation	(226,595)	(2,050)	(228,645)

	Mobile services 2003 HK$'000	Sales of mobile phones and accessories 2003 HK$'000	Group 2003 HK$'000
Turnover	1,150,570	109,471	1,260,041
Profit/(Loss) from operations	142,935	(61,076)	81,859
Interest income			2,526
Finance costs			(52,787)
Share of losses from a joint venture			(4,426)
Profit for the year			27,172
Segment assets	1,389,052	29,757	1,418,809
Unallocated assets			313,879
Total assets			1,732,688
Segment liabilities	291,723	20,379	312,102
Unallocated liabilities			722,682
Total liabilities			1,034,784
Capital expenditure	119,934	1,841	121,775
Depreciation	(227,186)	(6,107)	(233,293)

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 15).

5 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.

6 PROFIT FROM OPERATIONS

Profit from operations is stated after charging and crediting the following:

	2004 HK$'000	2003 HK$'000
Charging:		
Write-down of inventories to net realisable value	4,389	1,159
Cost of inventories sold	143,915	133,315
Depreciation:		
Owned fixed assets	228,645	233,055
Leased fixed assets	—	238
Loss on disposals of fixed assets	338	414
Operating lease charges:		
Land and buildings, including transmission sites	182,383	195,945
Leased lines	58,638	73,283
Provision for doubtful debts	25,573	30,228
Auditors' remuneration		
Audit services	1,288	1,100
Audit-related services	248	251
Other permitted services	368	198
	1,904	1,549
Crediting:		
Net exchange gains	194	614

During the year ended 31st December 2004, the Group incurred operating expenses of HK$70,738,000 in relation to the development of its 3G business, out of which HK$29,965,000 have been capitalized as fixed assets (Note 15). The remainder has been included in the Group's results before arriving at the profit from operations.

7 FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on bank loans	434	24,718
Interest on vendor loans:		
Wholly repayable within five years	983	27,579
Not wholly repayable within five years	18,632	—
Interest element of finance lease payments	—	17
Other incidental borrowing costs	11,794	473
Total financing costs incurred	31,843	52,787
Amounts capitalised in fixed assets in the course of construction		
Interest expenses (Note 24(c))	(932)	—
Other incidental borrowing costs	(4,611)	—
Total financing costs capitalised	(5,543)	—
	26,300	52,787

Interest expenses capitalised in fixed assets were incurred for the loan drawn down of equipment supply facility.

Other incidental borrowing costs mainly represented commitment fees, finance charges and amortisation of deferred charges incurred for acquiring the long-term loans.

8 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 (2003: 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% (2003: 17.5%) as follows:

	2004 **HK$'000**	**2003** **HK$'000**
Profit for the year	5,544	27,172
Taxation charge at the applicable rate of 17.5% (2003: 17.5%)	970	4,755
Add/(Deduct) tax effects of:		
Income not subject to taxation	(36)	(303)
Expenses not deductible for taxation purposes	3,308	3,713
Reversal of temporary differences arising from accelerated depreciation	24,602	22,224
Utilisation of previously unrecognised tax losses	(28,844)	(30,389)
Taxation charge	—	—

9 PROFIT FOR THE YEAR

Profit for the year includes a loss of HK$10,117,000 (2003: HK$9,401,000) which has been dealt with in the accounts of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit for the year of HK$5,544,000 (2003: HK$27,172,000) and the 2,990,000,000 shares (2003: 2,990,000,000 shares) in issue during the year.

(b) Diluted earnings per share

There is no dilutive effect upon exercise of the share options on the earnings per share for the years ended 31st December 2004 and 2003 since the exercise prices for the share options were above the average fair value of the shares.

11 EBITDA

EBITDA represents earnings of the Group before interest income, finance costs, taxation, depreciation, amortisation and share of losses from a joint venture.

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 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:

	2004 HK$'000	2003 HK$'000
Gross employer's contributions	7,171	7,313
Less: Forfeited contributions utilised	(649)	(1,951)
Net employer's contributions charged to the consolidated profit and loss account (Note 13)	6,522	5,362

Contributions payable as at 31st December 2004 amounted to HK$573,000 (2003: HK$545,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December 2004 were HK$8,000 (2003: HK$7,000). 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 2004 and 2003, including directors' fees and emoluments (Note 14), are as follows:

	2004 HK$'000	2003 HK$'000
Salaries, bonuses and allowances	122,367	145,348
Retirement scheme contributions (Note 12)	6,522	5,362
Termination benefits	—	1,310
	128,889	152,020

14 DIRECTORS' AND MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

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

Directors	Fees	Salary, other allowances and benefits-in-kind	Retirement scheme contributions	Total	2003 Total
	2004				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Richard John Siemens	—	1,500	30	1,530	1,630
Edward Wai Sun Cheng	—	1,500	30	1,530	1,630
William Bruce Hicks	—	3,976	30	4,006	4,060
Kuldeep Saran	—	1,500	30	1,530	1,630
Andrew Chun Keung Leung	—	1,500	30	1,530	1,630
John William Crawford (Note 1)	200	—	—	200	28
Henry Michael Pearson Miles	200	—	—	200	200
Simon Murray (Note 2)	146	—	—	146	200
Robert John Richard Owen	200	—	—	200	200
Kenneth Michael Katz (Note 3)	—	—	—	—	—
Hongqing Zheng	—	—	—	—	—
	746	9,976	150	10,872	11,208

Notes:

(1) Appointed on 10th November 2003.

(2) Resigned on 24th September 2004.

(3) Appointed on 16th January 2004.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors 2004	2003
Nil — HK$1,000,000	6	8
HK$1,500,001 — HK$2,000,000	4	4
HK$4,000,001 — HK$4,500,000	1	1

During the year no options were granted to or exercised by the directors (2003: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2003: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: three) individuals during the year are as follows:

	2004 HK$'000	2003 HK$'000
Salaries, other allowances and benefits-in-kind	6,550	4,653
Retirement scheme contributions	120	78
Compensation for loss of office — contractual payment	168	754
	6,838	5,485

The emoluments of these four (2003: three) individuals fell within the following bands:

Emolument bands (including compensation for loss of office)	Number of individuals 2004	 2003
HK$1,500,001 — HK$2,000,000	4	2
HK$2,000,001 — HK$2,500,000	—	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 2004	1,940,678	6,649	17,972	222,992	2,437	319,966	2,510,694
Additions (Note 17)	298,398	375	605	12,921	287	42,977	355,563
Disposals	(505)	(14)	(1,092)	(189)	—	(6,871)	(8,671)
At 31st December 2004	2,238,571	7,010	17,485	235,724	2,724	356,072	2,857,586
Accumulated depreciation							
At 1st January 2004	912,906	5,200	11,988	200,212	1,910	276,579	1,408,795
Charge for the year	191,180	810	2,120	11,544	236	22,755	228,645
Disposals	(282)	(13)	(912)	(187)	—	(6,776)	(8,170)
At 31st December 2004	1,103,804	5,997	13,196	211,569	2,146	292,558	1,629,270
Net book value							
At 31st December 2004	1,134,767	1,013	4,289	24,155	578	63,514	1,228,316
At 31st December 2003	1,027,772	1,449	5,984	22,780	527	43,387	1,101,899

At 31st December 2004, all fixed assets were pledged as security for the vendor loan facilities of the Group (Note 23).

Expenditures of HK$29,965,000 and borrowing costs of HK$5,543,000 were capitalised as fixed assets in the course of constructing the 3G network (2003: Nil).

16 INVESTMENT IN A JOINT VENTURE

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net liabilities	(4,192)	(4,000)
Advance	6,589	6,331
Provision for impairment loss	(2,397)	(2,331)
	—	—

Details of the joint venture as at 31st December 2004 are as follows:

Name	Nature	Place of incorporation	Voting power	Principal activities and place of operation
Atria Limited	Corporate	Hong Kong	50%	Inactive

The advance to Atria Limited is unsecured, interest-free and has no fixed repayment terms.

For the year ended 31st December 2004, the Group recognised the share of losses from a joint venture of HK$258,000 (2003: HK$4,426,000) in the consolidated profit and loss account. The amounts included share of net liabilities of HK$192,000 (2003: HK$2,095,000) and additional provision for impairment of HK$66,000 (2003: HK$2,331,000).

The Group regularly performs an assessment on its investment in and advances to the joint venture with reference to the expected recoverability. As of 31st December 2004, a provision of HK$2,397,000 (2003: HK$2,331,000) was considered necessary to write down the carrying value of these assets.

17 PREPAYMENT OF 3G LICENCE FEES

	Group	
	2004	2003
	HK$'000	HK$'000
At 1st January	141,667	191,667
Amount capitalised as fixed assets	(50,000)	(50,000)
At 31st December	91,667	141,667
Classified as:		
Current assets	50,000	50,000
Non-current assets	41,667	91,667
	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. As at 31st December 2004, the net present value of which, at an assumed cost of capital to the Group at 9%, is HK$532,460,000.

In accordance with the 3G licence, on 22nd October each year, the Group is required to provide additional performance bond(s) during the licence period such that the total amount of such performance bond(s) 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). On 22nd October, 2004, the Group provided a performance bond through drawdown of a 3G performance bond facility in an aggregate amount of the 6th, 7th and 8th years' Minimum Annual Fees (Note 26).

18 RESTRICTED CASH DEPOSITS

As at 31st December 2004, a bank deposit of HK$1,130,000 (2003: HK$1,699,000) 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.

No restricted cash deposit was required as at 31st December 2004 under the conditions of the long-term loans (2003: HK$209,643,000).

19 INVENTORIES

The carrying values of the inventories are as follows:

	Group	
	2004	**2003**
	HK$'000	**HK$'000**
Mobile phones and accessories:		
Cost	22,414	15,940
Less: Provisions	(8,546)	(4,319)
	13,868	11,621

As at 31st December 2004, the carrying amount of inventories that are stated at net realisable value amounted to HK$8,173,000 (2003: HK$8,281,000).

All inventories were pledged as security for the vendor loan facilities of the Group (Note 23).

20 TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade debtors. The ageing analysis of the trade receivables, net of provision is as follows:

	Group	
	2004	**2003**
	HK$'000	**HK$'000**
0-30 days	52,840	56,107
31-60 days	13,547	15,243
61-90 days	5,993	8,430
Over 90 days	1,285	1,289
	73,665	81,069

All trade receivables were pledged as security for the vendor loan facilities of the Group (Note 23).

21 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2004	**2003**
	HK$'000	**HK$'000**
0-30 days	35,476	30,974
31-60 days	7,818	19,436
61-90 days	5,708	3,307
Over 90 days	11,225	17,883
	60,227	71,600

22 SHARE CAPITAL

	2004	**2003**
	HK$'000	**HK$'000**
Authorised:		
10,000,000,000 (2003: 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 (2003: 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 thereunder 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 share value.

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 a general meeting.

No share options have been granted or exercised under the New Option Scheme during the year ended 31st December 2004 (2003: Nil). Details of the share options outstanding as at 31st December 2004 which have been granted under the Share Option Scheme are as follows:

	Options held at 1st January 2004	Options lapsed during the year[2]	Options cancelled during the year	Options held at 31st December 2004	Exercise price HK$	Grant date[1]	Exercisable until
Continuous contract employees	13,682,357	488,281	—	13,194,076	3.05	23/03/2000	22/03/2010
	14,308,252	570,281	—	13,737,971	1.01	31/05/2000	30/05/2010
	296,844	41,000	—	255,844	3.05	31/05/2000	30/05/2010
	1,785,050	342,852	—	1,442,198	1.01	19/01/2001	18/01/2011
	30,072,503	1,442,414	—	28,630,089			

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

23 LONG-TERM LOANS

	Group 2004 HK$'000	Group 2003 HK$'000
Bank loans (secured)	—	240,000
Vendor loans (secured)	603,148	481,368
	603,148	721,368
Less: Deferred charges	(10,408)	—
	592,740	721,368
Current portion of long-term loans	—	(296,368)
Long-term portion	592,740	425,000

At 31st December 2004 and 2003, the Group's long-term loans were repayable as follows:

	Bank loans		Vendor loans	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Within one year	—	240,000	—	56,368
In the second year	—	—	75,000	175,000
In the third to fifth year	—	—	239,074	250,000
After the fifth year	—	—	289,074	—
	—	240,000	603,148	481,368

Pursuant to the Heads of Agreement of Facility Agreement executed in December 2003 with Mandarin Communications Limited ("Mandarin"), the principal operating subsidiary of the Group, Huawei Tech. Investment Co., Limited ("Huawei Tech.") extended a term loan of HK$500,000,000 (the "New Loan") to Mandarin in January 2004.

On 12th January 2004, Mandarin repaid the outstanding loan principal of HK$721,368,000 and accrued interest of the bank and vendor loans using its operating cash flows and the New Loan from Huawei Tech.

On 13th May 2004, Mandarin, the Company and Huawei Tech. entered into a conditional supply contract for HK$859,000,000 (the "Supply Contract") and a conditional facility agreement for the provision of the long-term financing required (the "Facility Agreement"), subject to the satisfaction of certain conditions precedent. The Facility Agreement comprises the following facilities:

- a HK$859,000,000 equipment supply facility with a term of 7.5 years. This facility is to be drawndown against invoices issued under the Supply Contract. The loan carries a floating interest rate tied to HIBOR, and is repayable by eight semi-annual instalments commencing four years from the date of the Facility Agreement;

- a HK$500,000,000 general facility to replace the New Loan, with a term of 2.5 years from the date of the original drawdown of the New Loan. The loan carries a floating interest rate tied to HIBOR, and is repayable by five semi-annual instalments; and

- a 3G performance bond facility for the issuance of the performance bonds required by the OFTA in the years 2004 — 2010 (inclusive) under the terms of the 3G licence.

As security for the provision of the loan and credit facilities under the Facility Agreement, Huawei Tech. has been granted a security package with terms that are standard for similar project financing arrangements and which includes a charge over all the assets, revenues and shares of certain wholly-owned subsidiaries of the Company and a corporate guarantee by the Company.

Both the Supply Contract and the Facility Agreement, as well as the security arrangements, became effective on 2nd July 2004.

On 15th November 2004, Mandarin entered into the supplemental agreement to the Supply Contract ("the Supplemental Agreement") and the amendment and restatement agreement relating to the Facility Agreement (the "Amendment and Restatement Agreement") with Huawei Tech. in respect of amendments to the above Supply Contract and Facility Agreement.

The Supplemental Agreement aims to give Mandarin flexibility to purchase and install the most technologically advanced equipment available. Payment for all equipment and services provided under the Supplemental Agreement will be satisfied by drawdown of the equipment supply facility under the Facility Agreement as increased by the Amendment and Restatement Agreement.

The Amendment and Restatement Agreement provides for:

(a) the equipment supply facility under the Facility Agreement to be increased by HK$349,000,000 from HK$859,000,000 to HK$1,208,000,000;

(b) the repayment schedule for the general facility within the Facility Agreement to be amended to provide for the next payment to be extended to July 2006 and for the remaining balance to be paid by instalments until July 2011; and

(c) amendment of certain of the covenants given by Mandarin to the lenders to take account of the changes to the Facility Agreement.

Both the Supplemental Agreement and the Amendment and Restatement Agreement became effective on 23rd December 2004.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK$'000	2003 HK$'000
Profit from operations	31,884	81,859
Depreciation	228,645	233,293
Loss on disposals of fixed assets	338	414
Operating profit before working capital changes	260,867	315,566
Increase in inventories	(2,247)	(1,626)
Decrease in trade receivables, deposits, prepayments and other receivables	206	20,877
(Decrease)/Increase in trade payables, other payables and accrued charges	(38,699)	1,835
Decrease in subscriptions received in advance	(19,239)	(37,971)
Cash inflow from operations	200,888	298,681
Interest received	228	2,791
Interest paid	(11,204)	(56,892)
Interest element of finance lease payments	—	(17)
Other incidental borrowing costs paid	(4,961)	(473)
Exchange difference (Note 24(b))	(44)	(2,176)
Net cash inflow from operating activities	184,907	241,914

(b) **Analysis of changes in financing during the year**

	Long-term loans HK$'000	Obligations under finance leases HK$'000
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	—
At 1st January 2004	721,368	—
Net cash outflow from financing	(223,407)	—
Non-cash transaction (Note 24(c))	105,231	—
Exchange differences	(44)	—
Payment of deferred charges	(11,467)	—
Amortisation of deferred charges	1,059	—
At 31st December 2004	592,740	—

(c) **Major non-cash transactions**

	2004 HK$'000	2003 HK$'000
Purchases of fixed assets by directly assuming long-term loans (Note 24(b))	105,231	—
Interest expenses capitalised in fixed assets in the course of network construction (Note 7)	932	—

25 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 17.5% (2003: 17.5%).

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 forward purposes to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$3,217,454,000 (2003: HK$3,382,281,000) to carry forward against future taxable income. These tax losses can be carried forward indefinitely.

Deferred tax assets	2004 HK$'000	2003 HK$'000
At 1st January	491,024	476,859
Utilisation of previously unrecognised tax losses	(28,844)	(30,389)
Increase in tax rate	—	44,554
At 31st December	462,180	491,024

Deferred tax liabilities	2004 HK$'000	2003 HK$'000
At 1st January	(90,410)	(102,991)
Reversal of temporary differences	24,602	22,224
Increase in tax rate	—	(9,643)
At 31st December	(65,808)	(90,410)

Summary of net status	2004 HK$'000	2003 HK$'000
Deferred tax assets	462,180	491,024
Deferred tax liabilities	(65,808)	(90,410)
Net unrecognised deferred tax assets at 31st December	396,372	400,614

26 CAPITAL COMMITMENTS

	Group	
	2004 HK$'000	2003 HK$'000
In respect of purchases of fixed assets:		
Contracted but not provided for	1,129,775	38,509

The outstanding commitment is mainly to be financed by the unutilised balance of equipment supply facility of the Amendment and Restatement Agreement entered with Huawei Tech. as set out in Note 23.

As of 31st December 2004, the Group provided a performance bond of HK$210,746,000 to OFTA, representing the aggregate amount of the 6th, 7th and 8th years' Minimum Annual Fees.

27 COMMITMENTS UNDER OPERATING LEASES

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

	Group	
	2004	2003
	HK$'000	HK$'000
In respect of land and buildings, including transmission sites:		
Not later than one year	147,408	127,719
Later than one year and not later than five years	84,711	67,773
	232,119	195,492
In respect of leased lines:		
Not later than one year	70,398	21,286
Later than one year and not later than five years	49,833	5,019
	120,231	26,305
	352,350	221,797

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	
	2004	2003
	HK$'000	HK$'000
Operating lease charges paid to certain related companies	126	1,346

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.

29 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	1	1
Loan to a subsidiary	2,421,735	2,421,735
Amounts due to subsidiaries	(72,845)	(61,235)
	2,348,891	2,360,501

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 2004:

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 each of HK$1	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 has been fully paid up.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 30th March 2005.