

## OVERVIEW

Year 2000 was another successful year for SUNDAY. The Group managed to achieve sustained growth in the subscriber base as well as a relatively stable ARPU despite intense competition. Combining tight financial controls and efficiency improvement initiatives, the Group's operating results have shown significant improvement: EBITDA loss for the year reduced by 77% as compared with 1999. SUNDAY is confident that it will achieve EBITDA breakeven within the first half of 2001.

The successful dual listing of the Company's shares on the NASDAQ and the Stock Exchange of Hong Kong in March 2000 raised HK\$2,600 million share capital. This helped to strengthen the Group's financial position substantially to cater for the network expansion, enhancements and the development and introduction of new services and applications based on new technologies.

## MOBILE SERVICES

The Group recorded a 20% increase in revenue from HK\$825 million in 1999 to HK\$989 million in 2000. The increase in revenue was mainly attributable to strong growth in the subscriber base as well as a relatively stable ARPU.

In 2000, SUNDAY's mobile subscriber base grew 43% to 410,000. The growth in subscriber base resulted mainly from the introduction of various new tariff plans to the high value market and the expansion of the distribution network. The new tariff plans offered more choice to the customers and helped to keep a relatively stable ARPU. The opening of more shops and a broader use of different distribution channels also ensured consumers easy and simple access to SUNDAY's services and products throughout Hong Kong.

This year, we have adopted the more conservative accounting treatment to net off retention discounts and temporary sales incentives given to subscribers directly against revenue. As such, the ARPU of the first half year of 2000 was restated from HK\$282 to HK\$277. The amount of these discounts and sales incentives was insignificant in 1999.

The Group managed to maintain a relatively stable ARPU throughout the year. The average ARPU in 2000 was HK\$272 - only 7% lower than that in 1999 (HK\$292). Maintaining a relatively stable ARPU while successfully expanding the subscriber base in Hong Kong's competitive market was mainly achieved through setting tariffs responsive to consumer needs, higher usage and roaming revenues and a high proportion of the subscriber base using value added services.

The average monthly churn rate in 2000 was 6.1% which was comparable to that in 1999 (5.8%). Churn was a result of the aggressive price promotions, the free access to MNP (Mobile Number Portability) and significantly tighter credit controls.

In addition, the Group launched rechargeable stored value SIM cards in April 2000 in order to attract the so-called "casual users" - a fast growing market segment. By 31st December, 2000, 54,000 subscribers were using the rechargeable stored value SIM cards.

The gross profit percentage of mobile services was 81% in 2000, which was a slight improvement over 1999 (79%). The increase was mainly attributable to a reduction in bad debt provision which resulted from the increased use of auto-pay arrangements and tighter credit controls.

### SALES OF MOBILE PHONES AND ACCESSORIES

Revenue earned from the sales of mobile phones and accessories increased by 112% from HK\$191 million in 1999 to HK\$404 million in 2000. The loss on sales of mobile phones and accessories decreased by 94% from HK\$317 million in 1999 to HK\$20 million in 2000. This substantial increase in revenue and the reduction in loss were a direct result of the ongoing reduction of the average handset subsidy per handset sold, decrease in sales volume, and the forfeiture of subsidies from subscribers who left the network.

### RETAIL INTERNATIONAL CALLING SERVICES ("RETAIL IDD SERVICES")

The "SUNDAY 1622" retail IDD services were launched in September 1999. As part of an ongoing commitment to improving operating results, the Group outsourced the sales, service and billing functions of the retail IDD services to a subsidiary of e-Kong Group Limited in August 2000 and received a referral revenue of HK\$8 million. The referral revenue was included in other revenues of the Group. The Group continues to operate the IDD infrastructure, connectivity and the SUNDAY brand. This outsourcing arrangement offers the SUNDAY 1622 subscribers more choice and lower pricing and reduces the Group's operating expenses. The revenue from retail IDD services in 2000 amounted to HK\$53 million.

### INTERNET AND DATA RELATED SERVICES

With the advent of new technologies in wireless communications, the Group believes that demand for wireless data services will grow as data transmission speed and ease of use improve.

The Group launched its sunday.com Internet services and WAP data services in 2000. While the WAP applications have created initial interest in wireless data services, the revenue generated was insignificant in 2000 because of a delay in the launch of WAP enabled devices worldwide and the limited WAP applications and content available in the market.

The Group believes that the 2.5G technology, GPRS (General Packet Radio Service), will revolutionise the user's experience in wireless applications and services. The Group has been actively preparing for the advent of 2.5G technology in 2000 and its network has been GPRS ready since December 2000. In addition, the Group has established a dedicated team to work with vendors of both devices and software and develop innovative and user friendly wireless applications and services. These services and applications are expected to be available to SUNDAY subscribers in 2001 through mobile phones and other wireless devices, such as personal computers and PDAs, and are expected to provide the Group with new sources of revenues.



## MARKETING, SALES AND DISTRIBUTION

### Branding

SUNDAY continued to receive awards from the advertising industry in recognition of its brand in 2000. SUNDAY was awarded the Gold Prize and the Citation for Outstanding TV Campaign in the Hong Kong Management Association / TVB Awards for Marketing Excellence 2000. SUNDAY also won *MEDIA* magazine's Asian Advertising Campaign of the Year and ranked second (behind McDonald's) in the annual brand recall for 2000 published by *MEDIA* magazine.

### Distribution

In 2000, the Group has been aggressive in expanding its distribution network and broadening its use of different distribution channels to extend its coverage and to target new market segments.

The Group has doubled its number of shops to 24 in 2000 and increased both the number of dealers and the use of other distribution channels, such as convenience and chain stores. The number of independent dealers which sell the Group's products and services increased from 10 in 1999 to 19 in 2000. At December 2000, SUNDAY's rechargeable stored value SIM cards were carried by over 1,000 retail outlets. In addition, the Group has a direct sales force that sells handsets and services to corporate and individual customers.

## FINANCIAL REVIEW

### Turnover and gross profit

Both turnover and gross profit of the Group have improved significantly in 2000 due to the continued growth in subscribers and reduction in handset subsidies.

Turnover grew by 41%, or HK\$425 million, from HK\$1,025 million in 1999 to HK\$1,450 million in 2000. The increase was mainly attributable to increases in revenues from mobile services (HK\$164 million) and the sales of mobile phones and accessories (HK\$213 million). Revenues from mobile services and the sales of mobile phones and accessories accounted for 68% and 28% respectively of total turnover in 2000.

Gross profit increased by HK\$454 million, or 135%, from HK\$336 million in 1999 to HK\$790 million in 2000 and gross profit percentage increased from 33% in 1999 to 54% in 2000. The increase in gross profit was mainly attributable to an increase in gross profit of mobile services (HK\$152 million) and a reduction in loss from the sales of mobile phones and accessories (HK\$297 million).

### EBITDA

Operating expenses (excluding depreciation) increased by 7% from HK\$857 million in 1999 to HK\$918 million in 2000 while as a percentage of turnover, it dropped from 84% in 1999 to 63% in 2000. This was a direct result of a combination of strong revenue growth and continued improvements in operating efficiencies gained through an expanded subscriber base and lowering marginal costs.

As a result, the EBITDA loss decreased by 77% from HK\$521 million in 1999 to HK\$119 million in 2000.

## Loss for the year

Depreciation showed a 15% increase in 2000, which was in line with the investment in network expansion.

Interest income increased from HK\$2 million in 1999 to HK\$51 million in 2000. The increase was mainly attributable to interest income earned from the proceeds of the global offering being kept in the form of bank deposits.

Interest expenses were also reduced by 12% from HK\$155 million in 1999 to HK\$136 million in 2000. The change was mainly attributable to a reduction in outstanding vendor loan balances in 2000 as HK\$1,013 million of the proceeds from the global offering were used to temporarily repay part of the vendor loans.

As a result, net loss for the year reduced by 50% from HK\$924 million in 1999 to HK\$466 million.

## CAPITAL EXPENDITURES

The Group's mobile network has been substantially completed. Capital expenditures incurred in 2000 amounted to HK\$339 million and were mainly for the ongoing enhancement of the mobile network and IT facilities and the installation of the WAP platform and GPRS technologies for the development of wireless data applications and services.

## USE OF PROCEEDS

Part of the net proceeds raised from the global offering of the Company's shares in March 2000 have been used in 2000 as follows:

- HK\$461 million for the repayment of holders of convertible notes to the extent they did not elect to receive shares in the global offering
- HK\$122 million for capital expenditures
- HK\$286 million for working capital and general corporate purposes

In addition, US\$130 million (HK\$1,013 million) has been applied during the year to temporarily repay part of the vendor loans from Nortel Networks (Asia) Limited ("Nortel").

The remaining balance of the proceeds is currently kept in the form of short-term bank deposits and will be applied towards the intended uses as stated in the prospectus of the initial public offering of the Company's shares.

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash flows from operations

The net cash outflow from operating activities decreased in 2000 by HK\$53 million or 20% to HK\$219 million. The reduction in net cash outflow from operating activities primarily resulted from the improvement in operating revenues.





## Financing

The Group funded its capital expenditures, working capital requirements and negative cash flow from operating activities mainly with bank loans, vendor financing and proceeds from the global offering in 2000. As at 31st December, 2000, the cash and bank balances of the Group amounted to HK\$722 million. In addition, there is an undrawn credit facility of US\$130 million (HK\$1,014 million).

The bank loans and vendor loans are repayable within four years and are secured by a charge over all the assets, revenues and shares of Mandarin Communications Limited, the main operating subsidiary of the Company. The bank loans and vendor loans bear interest at prevailing market rates.

It is expected that capital expenditures required in 2001 for the expansion and upgrade of the network and IT facilities and for investment in new wireless applications and services would be slightly less than the expenditures incurred in 2000. The financial impact of 3G is not expected to be felt until 2003 at the earliest.

The Group is confident that it has the resources to fund its capital expenditures and ongoing operations and to fulfill its loan obligations due in 2001. As at 31st December, 2000, the debt to equity ratio was 80%.

## FOREIGN EXCHANGE EXPOSURE

Substantially all the revenues, expenses, assets and liabilities are denominated in Hong Kong dollars except for the US\$155 million vendor loan facility provided by Nortel. As at 31st December, 2000, the outstanding vendor loan amounted to US\$25 million but the Group also had a bank deposit of US\$27 million. The international roaming payables and receivables are netted and settled on a monthly basis in Special Drawing Rights ("SDR"). As at 31st December, 2000, the net SDR-denominated payables were insignificant. The Group has not experienced foreign exchange movement and do not anticipate foreign exchange losses as long as the Hong Kong government's policy to peg the Hong Kong dollar to the U.S. dollar remains in effect. The Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required.

## EMPLOYEES AND SHARE OPTION SCHEME

The Group had a total of 759 employees as at 31st December, 2000. Total salaries and related costs incurred in 2000 amounted to HK\$255 million. The Group offers a comprehensive remuneration and benefits package to all employees. Pay rates of employees are maintained at competitive levels, and promotion and salary increments are assessed based on a performance related basis. The Group has set up a defined contribution scheme with a major assurance company to provide retirement benefits to its employees since July 1997. On 1st December, 2000, the Group set up a new defined contribution scheme, the Mandatory Provident Fund Scheme, to provide retirement benefits for its employees. Other staff benefits include subsidised medical care and subsidies for external educational and training programmes.

The Group adopted a share option scheme on 1st March, 2000 and issued share options to all permanent employees during the year.



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