1 Group reorganisation and basis of preparation of the accounts

(a) Group reorganisation

SUNDAY Communications Limited (the "Company") was incorporated in the Cayman Islands on 24th November, 1999 as a company with limited liability under the Companies Law (Revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") completed on 24th February, 2000 to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Hong Kong and the NASDAQ National Market (the "NASDAQ") in the United States of America, the Company became the holding company of its subsidiaries (the "Group"). The Company's shares were successfully listed on the NASDAQ and the Stock Exchange on 15th March, 2000 and 16th March, 2000 respectively. The Reorganisation was effected as follows:

(i) The Company issued one ordinary share of HK$0.10 at par for cash on 24th November, 1999, the date of incorporation. On the same date, this share was transferred to a shareholder of Mandarin Communications Limited ("Mandarin"), the then holding company of the Group, and 99 ordinary shares of HK$0.10 each were issued at par for cash to the shareholders of Mandarin. These 100 ordinary shares were issued to the shareholders of Mandarin in the same proportion as their shareholding interests in Mandarin.

(ii) On 26th January, 2000, Mandarin transferred the one share in SUNDAY Holdings Corporation, which was incorporated in the British Virgin Islands on 1st August, 1997, to a shareholder of Mandarin. SUNDAY Holdings Corporation was formerly a wholly-owned subsidiary of Mandarin and known as SUNDAY (Holdings) Limited. On 10th February, 2000, SUNDAY Holdings Corporation issued 99 ordinary shares of US$1 each to the shareholders of Mandarin. The 100 shares were issued or transferred to the shareholders of Mandarin in the same percentages as their shareholding interests in Mandarin.

(iii) On 10th February, 2000, the shareholders of Mandarin converted their shares in Mandarin into non-voting deferred shares which have no voting rights and no dividend and distribution rights except in the event of winding up. If Mandarin is wound up, after the distribution of the first HK$100,000 trillion in value of Mandarin's assets to the holders of the ordinary shares, the holders of the non-voting deferred shares will be entitled to 1% of the remaining balance of such assets. On the same date, Mandarin issued for cash 99 ordinary shares of HK$1 each to SUNDAY Holdings Corporation and one ordinary share of HK$1 to a nominee of SUNDAY Holdings Corporation.

(iv) On 24th February, 2000, the shareholders of SUNDAY Holdings Corporation exchanged their shares in SUNDAY Holdings Corporation for 7,900 issued and fully paid ordinary shares of HK$0.10 each in the Company.

The respective shareholders' percentage interests in the Company following the Reorganisation remained the same as their percentage interests in Mandarin prior to the Reorganisation. Share capital on the consolidated balance sheet has been restated retroactively as at 31st December, 1999 for the Company's 8,000 ordinary shares in issue after the Reorganisation completed on 24th February, 2000.

On 15th March, 2000, 690,000,000 ordinary shares of HK$0.10 each were issued to the public and institutional investors at HK$3.78 per share pursuant to the global offering of the Company's shares (the "Global Offering"). On the same date, 2,299,992,000 ordinary shares of HK$0.10 each were issued and allotted as fully paid at par to the shareholders on the register of members of the Company as at 1st March, 2000 by way of capitalisation of a sum of HK$229,999,200 standing to the credit of the share premium account of the Company (the "Bonus Issue").

(b) Basis of preparation of the accounts

Although the current group structure resulting from the Reorganisation did not legally exist until 24th February, 2000, the directors consider that it is more appropriate and meaningful to treat the Group as a continuing entity. Accordingly, the consolidated accounts have been prepared on the basis of merger accounting as if the current group structure has been in existence and the Company has been the holding company of the other companies comprising the Group throughout the years presented. All significant intra-group transactions and balances have been eliminated on consolidation.

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.

The Company remained inactive during the period from 24th November, 1999 (date of incorporation) to 31st December, 1999 and had no results for the period, or assets or liabilities as at 31st December, 1999 except for cash of HK$10 received on issue of shares. Accordingly, no balance sheet as at 31st December, 1999 has been presented for the Company.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are as follows:

(a) Revenue recognition

The Group recognises revenues on the following bases:

(i) Telecommunications revenues

Telecommunications revenues comprise revenue in respect of mobile services and international telecommunications services. Revenue from mobile services comprises fees for usage of the Group's network and facilities by SUNDAY subscribers and international calls by such subscribers from mobile phones. Revenue from international telecommunications services comprises revenue from fixed line international calls by SUNDAY subscribers and international calls by non-SUNDAY subscribers. 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 comprise the up-front subscription fees received from subscribers upon purchase of mobile phones and other prepaid subscription fees received from subscribers. The up-front subscription fees are deferred and amortised on a straight line basis over an agreed period of time in accordance with the terms of the sales and services agreements. Other prepaid subscription fees are recognised as revenues when the relevant services have been provided or calls have been made.

(ii) Revenue from 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 telecommunications 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 telecommunications service 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) Data and internet revenues

Data and internet revenues comprise revenue in respect of internet access services and mobile data services. Monthly fees for usage of these services are recognised on an accrual basis.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) 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 sales and cost of sales of mobile phones and accessories respectively. Commission expenses are included in advertising, promotion and other selling costs.

(c) Pre-launch costs

Operating and overhead costs incurred during the development of the Personal Communications Service network prior to the launch date are expensed as incurred.

(d) Advertising and promotion costs

Advertising and promotion costs are charged to the profit and loss account as incurred.

(e) Warranty costs

The Group is provided with warranty from manufacturers in respect of the manufacturers' defects of mobile phones and accessories. The Group provides warranty to customers upon sales of mobile phones and accessories with similar terms and conditions to the warranty offered by the manufacturers. Provision is made for warranty costs not recoverable from the manufacturers.

(f) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, 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 rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(i) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(j) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost over their estimated useful lives, using a straight line basis. Estimated useful lives are summarised as follows:

Network equipment	Shorter of 10 years or lease period of 1 to 3 years
Computer equipment	Shorter of 5 years or lease period of 1 to 3 years
Leasehold improvements	Lease period of 2 to 10 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

The cost of the network equipment comprises the purchase cost of network assets and equipment and direct expenses in respect of the development of the network.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts and provision is made for any shortfall identified. Expected future cash flows have not been discounted in determining the recoverable amount.

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.

(k) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(l) 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.

(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) 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.

(o) Retirement benefit costs

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds of respective schemes.

(p) Convenience translations

The consolidated profit and loss account and consolidated cash flow statement for the year ended 31st December, 2000 and consolidated balance sheet and company balance sheet as at 31st December, 2000 contain certain translations of Hong Kong dollars to U.S. dollars at the rate of HK$7.7999 to the U.S. dollar. Such translations should not be construed as representations that the Hong Kong dollar amounts represent or have been or could be converted into U.S. dollars at that or any other rate.

3 Revenues and turnover

The Group is principally engaged in three business segments in Hong Kong: mobile services, sales of mobile phones and accessories, and international telecommunications, data and internet services. Revenues recognised during the year are as follows:

	2000 HK$'000	1999 HK$'000
Mobile services	988,718	825,491
Sales of mobile phones and accessories	404,444	190,693
International telecommunications, data and internet services	57,231	9,177
Turnover	1,450,393	1,025,361
Interest income	51,053	2,218
Other revenues	8,702	–
Total revenues	1,510,148	1,027,579

Turnover and contribution to loss from operations by business segment for the years ended 31st December, 1999 and 2000 are as follows:

	Turnover HK$'000	Contribution to loss from operations HK$'000
For the year ended 31st December, 1999		
Mobile services	825,491	(277,338)
Sales of mobile phones and accessories	190,693	(394,414)
International telecommunications, data and internet services	9,177	(76,138)
	1,025,361	(747,890)
Interest income		2,218
Finance costs		(178,255)
		(923,927)
For the year ended 31st December, 2000		
Mobile services	988,718	(146,150)
Sales of mobile phones and accessories	404,444	(96,092)
International telecommunications, data and internet services	57,231	(138,441)
	1,450,393	(380,683)
Interest income		51,053
Finance costs		(136,938)
		(446,568)

4 Loss from operations

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

	2000 HK$'000	1999 HK$'000
Cost of mobile phones and accessories sold	424,549	507,572
Depreciation:		
- owned fixed assets	253,480	225,994
- leased fixed assets	7,811	1,318
(Gain)/loss on disposals of fixed assets	(60)	942
Operating lease charges:		
- land and buildings, including transmission sites	190,983	177,570
- leased lines	102,265	94,316
Provision for doubtful debts	28,501	55,570
Auditors' remuneration	840	464

5 Finance costs

	2000 HK$'000	1999 HK$'000
Interest on bank loans and overdrafts	65,102	64,204
Interest on vendor loans repayable within five years	35,508	77,540
Interest on convertible notes	34,428	12,948
Interest element of finance lease payments	814	266
Loan arrangement fees	–	16,879
Other incidental borrowing costs	1,086	6,418
	136,938	178,255

6 Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (1999: Nil).

The Group has not recorded a deferred tax credit in its consolidated profit and loss account for the years ended 31st December, 2000 and 1999 in respect of tax losses due to the uncertainty that the resultant deferred tax asset will be recovered in the foreseeable future.

Deferred taxation (charge)/credit for the year has not been provided in respect of the following:

	2000 HK$'000	1999 HK$'000
Accelerated depreciation allowances	(795)	(18,090)
Tax losses	100,715	144,024
Other temporary differences	(2,987)	2,151
	96,933	128,085

7 Loss for the year

The loss for the year is dealt with in the accounts of the Company to the extent of HK$15,932,000 (1999: Nil).

8 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the year of HK$466,568,000 (1999: HK$923,927,000) and the weighted average number of 2,850,491,803 shares (1999: 2,300,000,000 shares) deemed to be in issue during the year.

The weighted average number of shares in issue during the year ended 31st December, 1999 has been calculated as if 2,300,000,000 ordinary shares, consisting of the 8,000 shares of the Company in issue and outstanding after the Reorganisation completed on 24th February, 2000 and the 2,299,992,000 shares issued to the then shareholders of the Company in the Bonus Issue upon the completion of the Global Offering, were outstanding throughout the year.

The weighted average number of shares in issue during the year ended 31st December, 2000 has been calculated as if the 2,300,000,000 shares were in issue on 1st January, 2000 and on the basis that the 690,000,000 shares were issued on 15th March, 2000 pursuant to the Global Offering.

(b) Diluted loss per share

There is no dilutive effect upon exercise of the share options on the loss per share for the year.

9 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 with retrospective effect from 1st July, 1997 (the "Retirement Scheme").

All permanent full time employees 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 employer's contributions were calculated at 5% of the employee's monthly salaries.

With effect from 1st December, 2000, the Group has set up another defined contribution scheme, the MPF Scheme, for all the eligible employees of the Group 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. The remaining assets of the Retirement Scheme are maintained for the benefits of the relevant employees.

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 employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions") and an additional 5% of the amount of the employee's monthly salaries exceeding 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 employer's voluntary contributions after seven years of completed service or at a reduced scale of employer's voluntary contributions after completion of two to six years' service. Under the Retirement Scheme, the employees are entitled to 100% of the employer's contributions after seven years of completed service or at a reduced scale after completion of two to six years' service.

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

	2000 HK$'000	1999 HK$'000
Gross employer's contributions	8,104	6,160
Less: Forfeited contributions utilised	(3,593)	(1,609)
Net employer's contributions charged to the profit and loss account	4,511	4,551

Contributions payable as at 31st December, 2000 were HK$1,633,000 (1999: HK$506,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December, 2000 were nil (1999: HK$78,000). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

10 Directors' and management's emoluments

(a) Directors' emoluments

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

	2000 HK$'000	1999 HK$'000
Fees	558	–
Salaries, other allowances and benefits in kind	11,700	3,620
Bonuses	24,863	5,649
Retirement schemes contributions	198	125
	37,319	9,394

The above amounts include directors' fees of HK$372,000 (1999: Nil) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors 2000	1999
Nil - HK$1,000,000	11	11
HK$1,000,001 - HK$1,500,000	5	–
HK$8,000,001 - HK$8,500,000	–	1
HK$29,000,001 - HK$29,500,000	1	–

Options to subscribe for 90,000,000 ordinary shares of the Company at a price of HK$1.01 per share were granted to the executive directors on 31st May, 2000 under the share option scheme set out in note 17 to the accounts. During the year no options were exercised by the directors.

(b) Management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include one (1999: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (1999: four) individuals during the year are as follows:

	2000 HK$'000	1999 HK$'000
Salaries, other allowances and benefits in kind	8,667	6,423
Bonuses	2,999	1,877
Retirement schemes contributions	289	321
	11,955	8,621

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

Emolument bands	Number of individuals 2000	 1999
HK$1,500,001 - HK$2,000,000	–	2
HK$2,000,001 - HK$2,500,000	1	1
HK$2,500,001 - HK$3,000,000	2	1
HK$4,000,001 - HK$4,500,000	1	–

11 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, 2000	1,359,721	4,784	10,944	188,462	2,659	261,413	1,827,983
Additions	272,017	2,835	2,064	14,648	695	47,014	339,273
Disposals	(11,687)	(186)	(276)	(205)	–	(8,612)	(20,966)
At 31st December, 2000	1,620,051	7,433	12,732	202,905	3,354	299,815	2,146,290
Accumulated depreciation							
At 1st January, 2000	218,312	1,878	3,807	67,884	1,302	151,165	444,348
Charge for the year	157,420	1,379	2,375	41,406	580	58,131	261,291
Disposals	(836)	(116)	(127)	(100)	–	(8,158)	(9,337)
At 31st December, 2000	374,896	3,141	6,055	109,190	1,882	201,138	696,302
Net book value							
At 31st December, 2000	1,245,155	4,292	6,677	93,715	1,472	98,677	1,449,988
At 31st December, 1999	1,141,409	2,906	7,137	120,578	1,357	110,248	1,383,635

At 31st December, 2000, the net book value of fixed assets held by the Group under finance leases amounted to HK$10,436,000 (1999: HK$10,154,000).

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

12 Restricted cash deposits

As at 31st December, 1999, a bank deposit of HK$815,000 was pledged to a bank in return for a bank guarantee issued in respect of the tenancy agreement for the Group's office. During the year ended 31st December, 2000, the lease and the bank guarantee were cancelled.

As at 31st December, 2000, a bank deposit of HK$2,385,000 (1999: HK$2,385,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the airport for the provision of mobile services. The guarantee will expire in March 2007.

As at 31st December, 2000, another bank deposit of HK$93,640,000 (1999: Nil) was restricted to settle the bank loans, vendor loans and the relevant interest repayable within six months.

13 Inventories

The carrying values of the inventories are as follows:

	Group 2000 HK$'000	Group 1999 HK$'000
Mobile phones and accessories		
Cost	29,504	21,099
Less: Provision	(13,429)	(13,279)
	16,075	7,820

As at 31st December, 2000, the carrying amount of inventories that were stated at net realisable value amounted to HK$13,852,000 (1999: HK$7,820,000).

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

14 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 2000 HK$'000	Group 1999 HK$'000
0-30 days	63,953	87,532
31-60 days	17,479	22,565
61-90 days	10,550	7,165
Over 90 days	7,371	2,503
	99,353	119,765

15 Trade payables

The ageing analysis of the trade payables is as follows:

	Group 2000 HK$'000	Group 1999 HK$'000
0-30 days	72,939	127,522
31-60 days	4,965	864
61-90 days	1,763	316
Over 90 days	10,610	1,628
	90,277	130,330

16 Convertible notes

With effect from 3rd December, 1999, a subsidiary of the Company issued HK$700,000,000 of convertible notes (the "convertible notes"). The convertible notes carried interest at 24% per annum. The proceeds from the issue of the convertible notes were received during the period from 3rd December to 10th December, 1999.

Upon completion of the Global Offering on 15th March, 2000, all convertible notes in an aggregate amount of HK$747,376,000 in principal and accrued interest thereon were either converted to ordinary shares of the Company as part of the Global Offering or repaid in cash.

17 Share capital

	Company	
	2000	1999
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (1999: 3,800,000) ordinary shares of HK$0.10 each	1,000,000	380
Issued and fully paid:		
2,990,000,000 (1999: 100) ordinary shares of HK$0.10 each	299,000	–

The following changes in the Company's share capital took place from the Company's date of incorporation to 31st December, 2000:

(i) Upon incorporation on 24th November, 1999, the Company's authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.10 each and one share was issued at par for cash. On the same date, 99 ordinary shares of HK$0.10 each were issued at par for cash.

(ii) On 24th February, 2000, the Company issued a further 7,900 shares of HK$0.10 each at par in exchange for shares of SUNDAY Holdings Corporation.

(iii) Pursuant to special resolutions in writing passed on 1st March, 2000, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 shares of HK$0.10 each.

(iv) On 15th March, 2000, pursuant to the Global Offering, 690,000,000 shares of HK$0.10 each were issued to the public and institutional investors at HK$3.78 per share (the "New Issue") for cash. The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

(v) Immediately following the New Issue, the Bonus Issue of 2,299,992,000 shares of HK$0.10 each were issued at par to the shareholders on the register of members of the Company as at 1st March, 2000 by way of capitalisation of a sum of HK$229,999,200 standing to the credit of the share premium account of the Company.

(vi) The shares of the Company were listed on the NASDAQ and the Stock Exchange on 15th March, 2000 and 16th March, 2000 respectively.

Share option scheme

On 1st March, 2000, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme"). Under the Share Option Scheme, the directors of the Company may, at their discretion, grant to any employee of the Group, including executive directors of the Group, options to subscribe for the Company's shares. The subscription price for the Company's shares under the Share Option Scheme is determined by the directors of the Company and will not be less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares, whichever is the higher. The maximum number of shares over which options may be outstanding may not exceed 10% of the ordinary share capital in issue from time to time. The maximum option term is ten years from the respective grant dates. Of the options granted during the year, generally, 40% become exercisable after one year from the grant date and 30% per annum during each of the following two years.

On 23rd March, 2000, options to subscribe for 39,586,616 shares were granted to employees hired on or before 22nd March, 2000 for a total consideration of HK$630. The share options are exercisable at HK$3.05 per share, which was the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days prior to 23rd March, 2000 less a discount of 7.855%.

On 31st May, 2000, options to subscribe for 149,592,081 shares were granted for a total consideration of HK$775. The share options to subscribe for 3,108,961 shares were granted to employees hired after 22nd March, 2000 and are exercisable at HK$3.05 per share. The share options to subscribe for 90,000,000 shares and 56,483,120 shares were granted to the executive directors and employees respectively, and they are exercisable at HK$1.01 per share, which was the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days prior to 31st May, 2000.

During the year ended 31st December, 2000, no options were exercised and options to subscribe for 14,038,561 shares were forfeited upon termination of employment of certain employees. No compensation cost to employees is required to be recognised in respect of the grant of share options.

18 Reserves

	Group			
	Reserve arising from the Reorganisation HK$'000	Accumulated losses HK$'000	Share premium HK$'000	Total HK$'000
At 1st January, 1999	1,253,999	(1,287,185)	–	(33,186)
Reserve arising from the Reorganisation	1	–	–	1
Loss for the year	–	(923,927)	–	(923,927)
At 31st December,1999	1,254,000	(2,211,112)	–	(957,112)
At 1st January, 2000	1,254,000	(2,211,112)	–	(957,112)
Shares issued	–	–	2,539,200	2,539,200
Bonus Issue	–	–	(229,999)	(229,999)
Expenses incurred in connection with the issue of shares	–	–	(184,777)	(184,777)
Loss for the year	–	(466,568)	–	(466,568)
At 31st December, 2000	1,254,000	(2,677,680)	2,124,424	700,744

The reserve arising from the Reorganisation represents the difference between the nominal value of the share capital of the subsidiaries and the nominal value of the Company's shares issued pursuant to the Reorganisation completed on 24th February, 2000.

		Company	
	Accumulated losses HK$'000	Share premium HK$'000	Total HK$'000
At 1st January, 2000	–	–	–
Shares issued	–	2,539,200	2,539,200
Bonus Issue	–	(229,999)	(229,999)
Expenses incurred in connection with the issue of shares	–	(184,777)	(184,777)
Loss for the year	(15,932)	–	(15,932)
At 31st December, 2000	(15,932)	2,124,424	2,108,492

19 Long-term loans and obligations under finance leases

	Group 2000 HK$'000	Group 1999 HK$'000
Bank loans (secured)	600,000	600,000
Vendor loans (secured)	194,998	621,517
Obligations under finance leases	8,085	8,746
	803,083	1,230,263
Less: Current portion included under current liabilities	(49,400)	(5,589)
	753,683	1,224,674

At 31st December, 2000 and 1999, the Group's long-term loans and obligations under finance leases were repayable as follows:

	Bank loans 2000 HK$'000	Bank loans 1999 HK$'000	Vendor loans 2000 HK$'000	Vendor loans 1999 HK$'000	Obligations under finance leases 2000 HK$'000	Obligations under finance leases 1999 HK$'000
Within one year	24,000	–	19,500	–	5,900	5,589
In the second year	156,000	24,000	39,000	97,290	1,997	2,665
In the third to fifth year	420,000	576,000	136,498	524,227	188	492
	600,000	600,000	194,998	621,517	8,085	8,746

The Group has available bank loan facilities of HK$600,000,000 which have been fully drawn down as at 31st December, 2000 (1999: HK$600,000,000).

In addition, Nortel Networks (Asia) Limited ("Nortel"), a major vendor of the Group, provided a long-term loan facility (the "vendor loan facility") of US$155,000,000 (approximately HK$1,209,000,000) to the Group for financing certain of its capital and other expenditures.

As at 31st December, 1999, the Group had a short-term revolving facility granted by Nortel for general corporate purposes of US$45,200,000 (approximately HK$351,000,000) up to 29th February, 2000. On 29th February, 2000, the outstanding principal of the revolving facility became part of the vendor loan facility.

During the year ended 31st December, 2000, the vendor loan facility was fully utilised. The Group then temporarily repaid Nortel an aggregate of US$130,000,000 (approximately HK$1,013,000,000) and at the same time, Nortel granted a short-term revolving facility of the same amount to the Group for general corporate purposes with an expiry date on 12th March, 2001. As at 31st December, 2000, the outstanding vendor loan was HK$194,998,000 (1999: HK$621,517,000) and the revolving facility was not utilised. The revolving facility has been extended to 11th March, 2002 as set out in note 25 to the accounts.

The bank loans and the vendor loans bear interest at prevailing market rates and will be repayable in 15 quarterly instalments commencing from 11th March, 2001.

As at 31st December, 2000, the bank loans and the vendor loans were secured, amongst other things, by a charge over all the assets, revenue and shares of Mandarin.

Pursuant to the Amended and Restated Sponsor Support Agreement dated 18th February, 2000 entered into between the bank, Nortel and certain beneficial shareholders of the Group (namely, Distacom Communications Limited, USI Holdings Limited, Lai Sun Development Company Limited, The Hong Kong Parkview Group Limited and China Travel Service (Holdings) Hong Kong Limited), these beneficial shareholders have certain non-financial obligations. Any breach of the obligations under the Sponsor Support Agreement provides the bank and Nortel with rights of actions against these beneficial shareholders only and has no impact on the bank loan and vendor loan facilities.

On 18th February, 2000, the Group has renegotiated the terms, in particular the covenants, of the bank loans and the vendor loans with the bank and Nortel respectively.

The revised bank loan and the vendor loan facilities effective from 18th February, 2000 contain a number of covenants that restrict Mandarin's ability to take certain actions without prior approval of the bank and Nortel. These covenants include the following:

- Mandarin must operate its business in accordance with business plans approved by the bank and Nortel except for variations that would not have a material adverse effect on the Mandarin's financial condition, its operations or its ability to repay the debt;

- Mandarin cannot incur capital expenditure in any budget period greater than 15% above the levels specified in its business plan then in effect;

- Mandarin is required to continuously meet certain subscriber, earnings (EBITDA), tangible net worth and debt service ratio targets;

- Mandarin must continue to be managed by such person or persons who, in the reasonable opinion of the bank and Nortel, have sufficient expertise and experience in the Hong Kong or international telecommunications industry so as to be able to provide adequate managerial personnel to implement and execute Mandarin's business plan then in effect in accordance with good industry practice;

- Mandarin is prohibited from declaring or paying dividends until the combined outstanding balance of the facilities is less than HK$600,000,000. When Mandarin pays a dividend, it is required to make a prepayment to the facilities which equals the total amount of a dividend, and that dividend and the matching prepayment can only be funded from the excess cash flow of Mandarin;

- Mandarin is required to deposit all of its revenues into an account from which it may only withdraw amounts for its operating expenses, working capital and capital expenditures, as provided in the business plan then in effect. The rest of its revenue goes toward paying principal and interest on the facilities and into a minimum six months debt service reserve account for future payments. If there is any excess cash flow after these commitments, Mandarin may use 50% of that excess cash, but it must use the other 50% to prepay the facilities;

- Mandarin generally cannot, without consent from the bank and Nortel, incur new debt except for certain permitted indebtedness incurred in the ordinary course of business;

- Mandarin cannot use its assets to secure any additional debt, subject to certain exceptions; and

- Mandarin will be in default:
  (a) if it defaults on any other loan in excess of US$2,000,000 (approximately HK$15,600,000);
  (b) if the Company, SUNDAY Holdings Corporation or SUNDAY Investment Limited default on any other loan in excess of US$10,000,000 (approximately HK$77,999,000); or
  (c) if, in the opinion of the bank and Nortel, an event occurs which has a material adverse effect on Mandarin's financial condition, operations or ability to repay debt.

Failure to comply with these covenants and restrictions, subject to a 14-day grace period in the case of a remediable event, would entitle the bank and Nortel to accelerate the maturity of the outstanding debt under the facilities and exercise their security rights over substantially all of Mandarin's assets.

20 Notes to the consolidated cash flow statement

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

	2000 HK$'000	1999 HK$'000
Loss from operations	(380,683)	(747,890)
Depreciation	261,291	227,312
(Gain)/loss on disposals of fixed assets	(60)	942
(Increase)/decrease in inventories	(8,255)	11,608
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	19,127	(35,953)
(Decrease)/increase in trade payables, other payables and accrued charges	(15,011)	69,948
(Decrease)/increase in subscriptions received in advance	(95,212)	202,162
Net cash outflow from operating activities	(218,803)	(271,871)

(b) Analysis of changes in financing during the year

	Share capital HK$'000	Share premium HK$'000	Long-term loans HK$'000	Convertible notes HK$'000	Obligations under finance leases HK$'000
At 1st January, 1999	1	–	1,079,645	–	–
Net cash inflow/(outflow) from financing	–	–	(169,981)	700,000	(3,536)
Inception of finance leases	–	–	–	–	12,282
Purchases of fixed assets by directly assuming long-term loans	–	–	311,853	–	–
At 31st December, 1999	1	–	1,221,517	700,000	8,746
At 1st January, 2000	1	–	1,221,517	700,000	8,746
Net cash inflow/(outflow) from financing	61,502	2,075,656	(632,511)	(430,900)	(8,753)
Convertible notes converted into shares	7,498	278,767	–	(269,100)	–
Bonus Issue	229,999	(229,999)	–	–	–
Inception of finance leases	–	–	–	–	8,092
Purchases of fixed assets by directly assuming long-term loans	–	–	205,992	–	–
At 31st December, 2000	299,000	2,124,424	794,998	–	8,085

(c) Major non-cash transactions

	2000 HK$'000	1999 HK$'000
Convertible notes and interest converted into shares	286,265	–
Inception of finance leases	8,092	12,282
Purchases of fixed assets by directly assuming long-term vendor loans	205,992	311,853

21 Deferred taxation

The potential deferred tax assets/(liabilities) not provided for as at 31st December, 2000 and 1999 amounted to:

	Group	
	2000	1999
	HK$'000	HK$'000
Accelerated depreciation allowances	(137,619)	(136,824)
Tax losses	465,302	364,587
Other temporary differences	98	3,085
	327,781	230,848

22 Capital commitments

	Group	
	2000	1999
	HK$'000	HK$'000
In respect of purchases of fixed assets:		
- contracted but not provide for	19,767	287,988
- authorised but not contracted for	282,000	414,000
	301,767	701,988

The Company did not have any capital commitments as at 31st December, 2000 (1999: Nil).

23 Commitments under operating leases

At 31st December, 2000 and 1999, the Group had commitments to make payments in the next twelve months under non-cancellable operating leases which expire as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
In respect of land and buildings, including transmission sites:		
- within one year	45,950	38,113
- in the second to fifth year inclusive	97,751	99,171
- after the fifth year	5,002	10,214
	148,703	147,498
In respect of leased lines:		
- within one year	25,200	10,469
- in the second to fifth year inclusive	23,437	65,886
	48,637	76,355
	197,340	223,853

The Company did not have any commitments under operating leases as at 31st December, 2000 (1999: Nil).

24 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	
	2000	1999
	HK$'000	HK$'000
International telecommunications service and other revenues received from a related company (note a)	12,045	–
Operating lease charges paid to related companies (note b)	(5,304)	(4,977)
Customer service support, consultancy and technical service fees paid to a beneficial shareholder (note c)	(510)	(8,111)
Managament fee paid to a beneficial shareholder (note d)	–	(3,000)

(a) During the year ended 31st December, 2000 the Group entered into certain agreements based on normal commercial terms with a wholly-owned subsidiary of a related company, e-Kong Group Limited ("e-Kong"). Under these agreements the Group enabled the customers of e-Kong to make international calls by providing it interconnection to the Group's international telecommunications service facility and referred the Group's subscribers of international telecommunications service to make international calls directly through a subsidiary of e-Kong. The revenue from international telecommunications service was HK$4,471,000 and the referral revenue included in other revenues was HK$7,574,000 in respect of these transactions.

Mr. Richard John Siemens is a director of both the Company and e-Kong.

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

(c) Distacom Communications Limited ("Distacom"), a beneficial shareholder of the Company, provided the Group with customer service support, consultancy service for project financing and technical service for fees which were agreed based on the resources spent, expertise allocated and actual staff costs incurred by Distacom for providing these services.

Messrs. Richard John Siemens, Kuldeep Saran, William Bruce Hicks, Johnson Chan, Simon Murray and Michael Triguboff are directors of both the Company and Distacom.

(d) USI Holdings Limited ("USI"), a beneficial shareholder of the Company, provided the Group with management services during the year ended 31st December, 1999 for a fee which was agreed based on resources spent and expertise allocated by USI for providing these services.

Mr. Edward Wai Sun Cheng is a director of both the Company and USI.

25 Subsequent events

On 8th March, 2001, the Group extended the expiry date of the revolving facility of US$130,000,000 (approximately HK$1,014,000,000) granted by Nortel to 11th September, 2001 which can be further extended to 11th March, 2002. During the extended period to 11th March, 2002, there will be four scheduled repayments of the vendor loans on 11th March, 11th June, 11th September and 11th December, 2001 ("Repayment Dates") respectively. On these Repayment Dates, the scheduled loan repayments to Nortel will be reduced by a cancellation of the revolving facility of an amount equal to 2.5% of the available revolving facility. On the expiry date, the outstanding principal of the revolving facility will become part of the vendor loan facility. The repayment schedule of the vendor loans set out in note 19 to the accounts has reflected the extension and availability of the revolving facility together with these changes in the scheduled loan repayments.

26 Subsidiaries

	Company 2000 HK$'000
Unlisted shares at cost	1
Loan to a subsidiary	2,421,735
Amount due to a subsidiary	(10,755)
	2,410,981

The loan to and the amount 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, 2000:

Name	Place of incorporation	Issued and fully paid up share capital	Principal activities
Shares held directly			
SUNDAY HOLDINGS CORPORATION	British Virgin Islands	100 ordinary shares of US$1 each	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, international telecommunications, data and internet services, and sales of mobile phones and accessories
SUNDAY INVESTMENT LIMITED	Cayman Islands	1 ordinary share of US$1	Financing

The principal activities of the subsidiaries are undertaken in one geographic area, Hong Kong.

27 Approval of accounts

The accounts were approved by the Board of Directors on 15th March, 2001.