

OVERVIEW

SUNDAY continued to deliver on its promises in 2001. In October the Group won a 3G Licence in Hong Kong. This is an important milestone and an integral part of SUNDAY's strategy to deliver innovative new services to its customers.

SUNDAY achieved sustained growth in its subscriber base as well and in service revenues despite intense market competition. This, combined with tight financial controls and efficiency improvement initiatives, meant that operating results continued to show significant improvement. The Group recorded 18% growth in mobile services revenue in 2001 as compared with 2000, and an EBITDA of HK\$102 million in 2001 as compared with a negative EBITDA of HK\$119 million in 2000. Operating expenses (excluding depreciation) reduced by HK\$64 million or 7%; and as a percentage of turnover dropped from 63% in 2000 to 60% in 2001.

MOBILE SERVICES

The Group recorded an 18% increase in revenue from HK\$989 million in 2000 to HK\$1,165 million in 2001. The increase in revenue was mainly attributable to steady growth in the subscriber base. SUNDAY's mobile subscriber base grew 34% to 551,000 in 2001 as compared with 2000.

However, the average revenue per user ("ARPU") decreased and the churn rate increased in line with the industry as a whole due to fierce price competition in the market. ARPU for the year decreased by 19% to HK\$219. The average monthly churn rate in 2001 was 8.3%.

Since its launch in April 2000, the number of subscribers using the rechargeable stored value prepaid SIM cards grew to more than 131,000 by 31st December, 2001. The ARPU from these subscribers was HK\$97 in 2001.

The gross profit percentage of mobile services was 81% in 2001, which was comparable to that of 2000. The percentage of bad debt provision to total service revenue improved in 2001 because of 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 decreased by 40% to HK\$243 million in 2001. This decrease in revenue was mainly attributable to a reduction in sales volume as only a few new models of mobile phones were launched during the year. The gross loss from the sales of mobile phones and accessories was significantly reduced to HK\$2 million in 2001 from HK\$20 million in 2000. This resulted from a combination of the drop in the average handset subsidy per handset sold and the forfeiture of subsidies from subscribers who left the network.

DATA SERVICES

The inter-operator short messaging services ("IOSMS") between the six operators in Hong Kong commenced in December 2001, and the market has since shown strong growth in both the usage and awareness of such services. In 2002, SUNDAY expects that more data services and applications will be available in the market and more GPRS (general packet radio services) terminals, such as mobile phones and PDAs (personal data assistants) will be launched. While the revenue generated by Internet and data related services was insignificant in 2001 because of a delay in the launch of the IOSMS and GPRS-enabled terminals, SUNDAY believes that it will benefit from the trend towards higher usage of data services in 2002.

The acquisition of a 3G Licence is a key part of SUNDAY's long-term strategy and will enable it to offer existing and new customers the next generation of top-notch, multi-faceted wireless services.

RETAIL INTERNATIONAL CALLING SERVICES ("RETAIL IDD SERVICES")

The Group outsourced the sales, service and billing functions of the "SUNDAY 1622" Retail IDD services to a subsidiary of e-Kong Group Limited in August 2000, while it continues to operate the IDD infrastructure and the SUNDAY brand. The revenue and the gross profit from Retail IDD services in 2001 remained relatively small.

MARKETING, SALES AND DISTRIBUTION

SUNDAY has continued to receive awards in recognition of its strong and successful brand. In September 2001, SUNDAY was awarded the well-recognised Kam Fan Award for its strategic brand-building campaign by the Association of Accredited Advertising Agents of Hong Kong.

The Group expanded its distribution network and broadened the use of other distribution channels, such as convenience and chain stores. 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

Total turnover for the year was flat as compared with 2000, mainly due to a 40% decrease in revenue from the sales of mobile phones and accessories explained above. Revenues from mobile services and the sales of mobile phones and accessories accounted for 82% and 17% respectively of total turnover in 2001.

The gross profit of the Group has improved by HK\$163 million, or 21%, to HK\$953 million in 2001 due to the steady growth in subscribers and reduction in handset subsidies.

EBITDA

Operating expenses (excluding depreciation) decreased by 7% from HK\$918 million in 2000 to HK\$854 million in 2001, while as a percentage of turnover, operating expenses dropped from 63% in 2000 to 60% in 2001. This was a direct result of stringent cost controls and improvements in operating efficiencies that come with an expanded subscriber base and lowering marginal costs.

This was combined with a sustained growth in revenue and gross profit, and the Group recorded an EBITDA of HK\$102 million, an improvement of HK\$221 million as compared with 2000.

Loss for the year

Loss for the year reduced by 55% from HK\$466 million in 2000 to HK\$212 million. The reduction was mainly attributable to a significant decrease in interest expenses. Interest expenses decreased by 49% from HK\$136 million in 2000 to HK\$69 million in 2001 due to a reduction in loan balance and a drop in interest rates.

CAPITAL EXPENDITURES

The Group's mobile network has been substantially completed. Capital expenditures incurred in 2001 amounted to HK\$110 million and were mainly for the ongoing enhancement of the mobile network and IT facilities and the installation of the 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 during the year as follows:

- HK\$147 million for capital expenditures;
- HK\$251 million for the payment of 3G Licence fees in advance and certain related expenses;
- HK\$44 million for the repayment of bank and vendor loans; and
- HK\$98 million for working capital and general corporate purposes.

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 operations decreased in 2001 by HK\$180 million or 82% to HK\$39 million. The reduction in net cash outflow from operations primarily resulted from the improvement in operating revenues.

Financing

The Group funded its capital expenditures, working capital requirements and operating activities mainly with bank loans, vendor financing and proceeds from the global offering in 2000. As at 31st December, 2001, the cash and bank balances of the Group amounted to HK\$182 million. In addition, the undrawn credit facility amounted to US\$117 million (HK\$913 million) as at 31st December, 2001.

The bank loans and vendor loans are repayable within three 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 2002 for the expansion and upgrade of the network and IT facilities and for investment in new wireless applications and services would be approximately HK\$160 million. The financial impact of 3G is not expected to be felt until 2004.

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 2002. As at 31st December, 2001, the total debt to equity ratio was 138%, and total debt comprises bank loans, vendor loans, obligations under finance leases and 3G Licence fees liability.

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, 2001, the outstanding vendor loan amounted to US\$22.5 million but the Group also had a bank deposit of US\$16 million. The international roaming payables and receivables are netted and settled on a monthly basis in Special Drawing Rights ("SDR"). As at 31st December, 2001, the net SDR-denominated payables were insignificant. The Group has not experienced foreign exchange movement and does 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 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 approximately 800 employees as at 31st December, 2001, a slight increase over 2000. However, total salaries and related costs incurred in 2001 dropped by almost 9% to HK\$233 million. The Group offers comprehensive remuneration and benefits packages to all employees. Remuneration of employees is maintained at competitive levels, and promotion and salary increments are assessed based on individual and Group performance. Other staff benefits include a mandatory provident fund scheme, subsidised medical care and subsidies for external educational and training programmes.

The Group adopted a share option scheme on 1st March, 2000. During the year, a total of 4.2 million options were granted to employees. Details of the share option scheme are disclosed in note 20 to the accounts.



Ah Man
(Taxi Driver)
SUNDAY covers
wherever I go!

