OUTLOOK

With better global economic prospects and China's stable and continued robust economy, the Directors are confident that the Group is well-positioned to benefit from further business growth. A strong financial position and low gearing ratio will also place the Group favourably in capturing viable investment opportunities as these arise.

While the Group is reinforcing its core wireless business and striving for other growth drivers such as e-gaming and online entertainment to pave way for top-line growth and bottom-line improvement in the years ahead, there emerges increasingly different macro-economic dynamics that may affect the performance of global corporations and therefore their results, ourselves included. Among the unforeseen events, the latest threat is a possible widespread outbreak of avian flu. We believe we have the experience and the contingency plans in place to cope with such circumstances and to mitigate the effects, but fundamentally, we are not immune to such short term shocks.

FINANCIAL POSITION

Liquidity and Financial Resources

The Group's financial position remained strong with a low gearing and a net cash position. As at 31 December 2005, the Group had HK$999 million made up of deposits, bank balances and cash. Current assets were approximately HK$1,827 million (30 June 2005: HK$1,637 million) and current liabilities amounted to approximately HK$310 million (30 June 2005: HK$329 million). With net current assets of HK$1,516 million, the Group had maintained a high level of financial liquidity. The gearing ratio at the period-end, which calculation was based on the Group's total borrowings of HK$219 million (30 June 2005: HK$193 million) and equity attributable to equity holders of the parent of HK$5.0 billion (30 June 2005: HK$4.7 billion), was 0.04 (30 June 2005: 0.04).

Total borrowings comprise bank borrowings of HK$145 million (30 June 2005: HK$59 million); other borrowings, which represent block discounting loans, of HK$6 million (30 June 2005: HK$9 million); and convertible bonds of HK$68 million, after taking into account of the fair value changes with the adoption of new accounting standards (see Note 3 for details) (30 June 2005: HK$125 million). Finance costs for the Period amounted to HK$4.4 million (Previous Period: HK$4.2 million).

Included in the bank borrowings of HK$145 million were bank loans and overdrafts of HK$11 million (30 June 2005: HK$3 million) being secured by the Group's land and buildings with a net book value of HK$10 million (30 June 2005: HK$10 million). These borrowings comprise debts of HK$9 million, HK$1 million and HK$1 million repayable within one year, two years and in three to five years respectively. The unsecured bank borrowings of HK$134 million were repayable on demand.

The other borrowings of HK$6 million are unsecured, with HK$4 million repayable within one year, HK$1 million repayable in two years and the remaining in three to five years.

As at 31 December 2005, Kantone had outstanding convertible bonds in the principal amount of US$4.6 million which will mature on 1 April 2008.

Except for the US$ convertible bonds, all other borrowings were used by the subsidiaries of the Group, bearing interest at floating rates, and were denominated in local currencies and the currency risk exposure associated with the Group's borrowings was insignificant.

Capital Commitments

As at 31 December 2005, the Group's capital commitments contracted for but not provided was HK$20,000 (30 June 2005: HK$69,000) and the Group's capital commitments authorised but not contracted for was HK$465,500,000 (30 June 2005: HK$388,000,000). These commitments were set aside for the acquisition of property, plant and equipment, and systems and networks.

Exposure to Exchange Rate Fluctuations

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

In the normal course of business, the Group has entered into forward contracts with creditworthy financial institutions in order to limit its exposure to adverse fluctuations in foreign currency exchange rates. These contracts serve as hedges to offset fluctuation that would otherwise impact the Group's financial results. Costs associated with entering into such contracts are not material to the Group's financial results.