

## OUTLOOK

The global economy is expected to maintain its momentum in the coming year, and in particular, we shall continue to benefit from China's continued robust growth. We will strive to strengthen our position in the niche markets of providing wireless integrated solutions tailored to customers' specialised requirements, as well as enhancing our value-added services to help our customers achieve significant savings.

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 continued to maintain strong financial position throughout the period under review. The Group financed its operation and business development with internally generated resources, capital markets instruments, and banking facilities provided by its principal bankers. In October 2005, Kantone completed a top-up placing of 240 million Kantone shares at the issue price of HK\$0.73 per share (the "Placing"). Kantone raised net proceeds of about HK\$168 million, which would be applied to the investment in and future development of the e-lottery business, and the general working capital of Kantone Group. As a result of the Placing, the Group's shareholder base has been enlarged and its liquidity position has been further enhanced.

As at 31 December 2005, the Group had HK\$287 million (30 June 2005: HK\$139 million) liquid assets made up of deposits, bank balances and cash. Equity attributable to equity holders of the Company stood at HK\$1,433 million (30 June 2005: HK\$1,081 million). With net current assets of HK\$421 million, the Group maintained a comfortable level of liquidity. The gearing ratio of the Group as at 31 December 2005, defined as the Group's total borrowings to equity attributable to equity holders of the Company, was 0.09 (30 June 2005: 0.12). The change in gearing ratio was mainly attributable to the Placing.

Total borrowings mainly comprise bank borrowings of HK\$62 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\$62 million). Finance costs for the Period amounted to HK\$2.6 million (Previous Period: HK\$3.5 million).

Included in the bank borrowings of HK\$62 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 comprised 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\$51 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 repayable in three to five years.

As at 31 December 2005, the Company 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 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 authorised but not contracted for was HK\$171 million (30 June 2005: HK\$112 million). 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.