

# Management Discussion and Analysis

The board of directors (the "Board") of Radford Capital Investment Limited 萊福資本投資有限公司 (the "Company") and its subsidiaries (collectively the "Group") announces that for the financial year ended 31st December 2004 (the "Year"), the Group's turnover was increased to HK\$154,085,366, representing an increase of approximately 180.62% as compared to HK\$54,907,966 in last year. However, net loss attributable to shareholders increased from HK\$1,386,612 in the previous year to HK\$28,435,675 for the Year. Hence, the Board does not recommend the payment of dividend for the Year.

## BUSINESS REVIEW

During the Year, the Group continued to principally engage in investing in listed and unlisted enterprises established and/or conducting business in Hong Kong and/or the People's Republic of China (the "PRC"). The Group's investment objective to achieve earnings in the form of short to medium term capital appreciation through investing in a diversified portfolio of investments during the Year remained unchanged.

To achieve the objective, the Group further diversified its portfolio by adding new investment in both listed and unlisted companies during the Year. As at 31st December 2004, the Group's portfolio covers a wide array of industries and sectors, including property development and investment, investment holdings, manufacturer and trading of car audio products, investment in securities, provision of brokerage and financial services, secretarial services, packaging business, developing and trading of communication equipment, metals trading, provision of marketing consultancy services, manufacture of cement, hotel operation, manufacture of tires, production of flour, monosodium glutamate and related food products, construction and operation of toll highway, as well as manufacture and trading of pharmaceutical products. Turnover of the Group was increased by approximately 180.62% because the Group traded in listed securities more oftenly during the Year. On the other hand, the increase of net loss attributable to shareholders to HK\$28,435,675 was mainly due to provisions against the Group's unlisted investments on prudent sake and in conformity with the accounting policy adopted by the Group.

Hong Kong stock market experienced a roller coaster ride in 2004. The Hang Seng Index, after seeing a major downswing in the first half of 2004, managed to witness a strong recovery in the Index in the second half of 2004. To capture such market opportunities and to build up a more diversified investment portfolio, the Group raised approximately HK\$44.7 million primarily for investment purposes during the Year from (i) subscription of 200 million shares at HK\$0.12 per share by Sojitz (Hong Kong) Limited (formerly known as Nissho Iwai Hong Kong Corporation Limited); (ii) placing of 218.3 million shares at HK\$0.03 per share through the placing agent, Chung Nam Securities Limited; and (iii) the open offer of 754,930,000 shares underwritten by Get Nice Investment Limited. As at 31st December 2004, the Group's current liabilities decreased to HK\$739,320, as compared to HK\$6,030,096 in the previous year, representing a decrease of approximately 87.7%. For the Year, the Group's finance costs amounted to HK\$205,757, comparing to HK\$130,468 in the previous year.

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Subsequent to the Year, the Group raised approximately HK\$25.95 million for working capital requirements and repayment of borrowings from (i) subscription of 500 million shares at HK\$0.0328 per share by Success Future Limited; and (ii) placing of 452,958,000 shares at HK\$0.022 per share through the placing agent, Chung Nam Securities Limited.

The Group also proposed a capital reorganisation in order to (i) ensure compliance with Rule 13.64 of the Listing Rules and to bring about a corresponding upward adjustment in the trading price of the consolidated shares on the Stock Exchange which will then reduce the overall transaction costs for dealings in the consolidated shares of the Company; and (ii) apply the credit of approximately HK\$62 million from the distributable reserve account that arises from the cancellation of the paid up capital of the Company to set off the accumulated loss of the Company in full. Therefore, the Company can pay dividend when it makes profit in the future.

The Group also proposed the rights issue of 344,422,700 rights shares at HK\$0.088 per rights share to raise approximately HK\$30.3 million which is underwritten by Get Nice Investment Limited. Both the capital reorganisation and the rights issue will be subject to the approval of the shareholders at the extraordinary general meeting of the Company to be held on or about 18th May 2005. The net proceed of the rights issue is approximately HK\$29 million and will be used for investment purposes. The Board believes that the capital raising exercises and the rights issue are in the best interest of the Group and its shareholders as a whole because the local economy has been recovering. Furthermore, the new capital can efficiently improve the Group's gearing ratio and reduce its interest expenses.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st December 2004, the cash and bank balance of the Group was approximately HK\$512,000 (2003: HK\$274,000). Most of the investments made during the Year were substantially financed by internal cash resources and margin financing granted by two broker firms.

## **FOREIGN CURRENCY FLUCTUATION**

All of the underlying investments and business transactions of the Group are denominated in Hong Kong dollars. The Board believes the foreign exchange risk is minimal.

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## PROSPECTS

Investment environment in 2005 is expected to be different from that of 2004. Hong Kong economy is on the way to an overall recovery after a relatively long sluggish period. This means more investment opportunities are emerging. Although political issues may lead to jitters in the capital market, long-term prospects of the domestic market remain promising with the support from PRC. Therefore, the Group will continue to adhere to its investment strategy of achieving capital appreciation through building up a diversified investment portfolio with growth potential.

However, the Board will also closely monitor the upward movement of the oil price and the rising interest rate which will adversely affect both the global and domestic economies. In view of the soaring oil price and the rising interest rate, the Board will consider necessary measures to control its operating and financing costs. The Board is confident that after the Company's capital base is strengthened by placing and subscription of new shares and the proposed rights issue, the Company is well-positioned to capture any good investment opportunities in the market should they arise, on one hand, and to cope with the challenges in the coming year, on the other.

## EMPLOYEES

Currently, the Group has 5 employees, including 4 executive directors. For the year ended 31st December 2004, the total staff costs incurred by the Group were approximately HK\$1,808,000 (2003: HK\$1,811,000) and there has been no significant change in the Group's remuneration policy.

## APPRECIATION

On behalf of the Board, I would like to express our appreciation to the management and staff members for their continued contribution. I would also like to express our gratitude to our shareholders for their support to the Group.

**CHUNG Yuk Lun**

*Chairman*

Hong Kong, 13th April 2005.