

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors of Radford Capital Investment Limited 萊福資本投資有限公司 (the “Board”) announced that for the 12 months ended 31st December 2005 (the “Year”), turnover of Radford Capital Investment Limited (the “Company”) and its subsidiaries (collectively the “Group”) had increased from HK\$154,085,366 to HK\$246,265,715, representing an increase of about 59.82%. However, the Group recorded a net loss attributable to shareholders of HK\$92,273,442 (2004: HK\$28,435,675), representing 224.5% year-to-year change. Loss per share was HK\$0.061 (2004: HK\$0.303). The Board did not recommend the payment of dividend for the Year.

BUSINESS REVIEW

The Year under review is of course not a pleasant year to the Company and its shareholders. The losses were principally attributable to decline in the market value of certain listed securities held and provisions made against certain unlisted investment.

Among the listed securities, the Group witnessed relatively substantial losses in its investment in several small companies which prices were relatively volatile in the Year. The Board is of the opinion that most of its listed investments are of good quality and have long-term growth potential. However, the Board will review its portfolio from time to time so as to eliminate or reduce losses resulted from short-term market volatility. As for the unlisted investments, the Group had made a provision in the sum of HK\$9.4 million for its investment in an investment company whose principal activities were investment in gambling, entertainment and related business in Macau as the Macau concept had faded away. Also, the Group had made a provision of HK\$15 million for an investment in non-performing debts for prudent sake.

To improve the overall performance of the Group and upgrade its corporate governance, the Company had appointed additional independent non-executive directors, including Mr. Raymond Wong and Mr. Albert Kan. Their professional knowledge in accounting and investment should be able to benefit the Group.

Market sentiment has been improving since the second half of the Year, leading the Board to believe more investment opportunities will be available. As such, the Company had proposed to enlarge its capital base by way of share placing, subscription and rights issue. On 21st February 2005, 4th March 2005, and 17th October 2005, the Company respectively issued and allotted 452,958,000, 500,000,000 and 68,800,000 new shares at HK\$0.22, HK\$0.0328 and HK\$0.10 each by placing and subscription. On 4th March 2005 the Company proposed, a rights issue of one rights share for every share then held by members at an issue price of HK\$0.088 per rights share, resulting in the issue of 344,422,700 shares and raising approximately HK\$29,000,000. Additionally, on 21st February 2005, 31st October 2005, 2nd November 2005 and 8th November 2005, 226,479,000, 13,760,000, 6,880,000 and 13,760,000 shares were respectively issued and allotted under the share options scheme.

To meet the investment requirements, the Group also obtained borrowings from financial institutions during the Year. However, the overall gearing of the Group is still manageable at relatively low level.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

With the net cash inflow generated from financing activities of approximately HK\$86.4 million during the Year, and the share margin facilities available to the Group, the Group was able to maintain a healthy liquidity and financial position.

As at 31st December, 2005, the Group's net current assets position was decreased from HK\$161.5 million to HK\$140.7 million. The net current assets comprise of listed and unlisted securities of HK\$162.3 million (2004: 161.8 million), cash and bank balances of about HK\$5 million (2004: HK\$0.5 million), and current liabilities of about HK\$26.8 million (2004: HK\$0.7 million).

During the Year, the Group principally financed its operations and investing activities by raising fund in the stock market and the share margin facilities available to the Group. The capital structure of the Company solely consists of share capital. As at 31st December 2005, the shareholders' equity of the Group amounted to about HK\$141.1 million (2004: HK\$162 million). Total interest-bearing borrowings of the Group amounted to about HK\$15 million (2004: Nil) and carried at commercial lending interest rates. All of the total interest-bearing borrowings as at 31st December 2005 was repayable within a year. The Group's gearing ratio for the Year represented by the interest-bearing borrowings as a percentage of the Group's shareholders' equity was 10.6% (2004: Nil) which is relatively below the market average. On the whole, the Group has maintained a suitable gearing ratio during the Year.

The sales and purchases of listed and unlisted investments of the Group are mostly denominated in Hong Kong dollars. The cash and cash equivalents and interest-bearing borrowings of the Group are denominated in Hong Kong dollars. Since the Group's exposure to fluctuations in foreign exchange rates is minimal, the Group has not considered using hedging instruments to minimise the exposure to foreign currency fluctuations.

As at 31st December 2005, the Group has operating lease commitments in the sum of HK\$0.9 million (2004: HK\$0.5 million). The Group did not have any significant contingent liabilities as at 31st December 2005 (2004: Nil).

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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EMPLOYEES

As at 31st December 2005, the Group had approximately 5 employees with remuneration of approximately HK\$1,428,000 (2004: HK\$1,451,000) for the Year. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year.

The Group has established a share option scheme for its employees and other eligible participants with a view to providing an incentive to or as a reward for their contribution to the Group. During the Year, the Group had issued 260,879,000 (2004: 80,000,000) options to employees and other eligible participants.

APPRECIATION

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

CHUNG Yuk Lun

Chairman

Hong Kong, 3rd April 2006.