Mr. Wang Xingdong
Managing Director

BUSINESS OVERVIEW

In 2005, ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") posted a consolidated turnover of approximately HK$231.3 million (2004: HK$86.6 million), representing an increase of 167.1% compared with last year.

This remarkable increase in the Group's turnover during the year under review was mainly attributable to the inclusion of a full year turnover of approximately HK$140.1 million of Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**"), which became a wholly owned subsidiary of the Group since October 2004.

The Group reported a consolidated profit for the year of approximately HK$28.1 million in 2005 (2004: HK$85.1 million), a decrease of 67.0% compared with last year. In 2004, the Group's profit included items which were of non-recurring nature, such as gain on deconsolidation of subsidiaries, provision for properties under development, and a write-back of provision for a bank guarantee. If these items were excluded for comparison purposes, the profit for 2004 would have been approximately HK$21.3 million, and the Group's performance in 2005 would have shown a growth in earnings of 31.9% over that of 2004.

Presently, the Group is principally engaged in four categories of businesses, namely, real estate development, specialised construction, property leasing and manufacturing and trading. Performance of each of these categories is discussed under the section entitled "Operational Review" below.

Front row: (from right to left) **Mr. Zhou Zhongshu, Mr. Wang Xingdong**
Back row: (from right to left) **Mr. Yan Xichuan, Ms. He Xiaoli, Mr. Li Tan, Mr. Qian Wenchao**
Executive Directors and Senior Management

OPERATIONAL REVIEW

A. Real Estate Development Business

The Group's real estate development business comprises the development of residential and commercial properties and the provision of construction project management services. With dedicated resources, the Group continues to conduct research on the real estate market in China, and to explore the opportunities of investing in real estate projects. During the year under review, the Group has performed feasibility studies on a number of projects.

In 2005, turnover of this segment, which was wholly derived from provision of construction project management services, was approximately HK$15.0 million (2004: HK$7.6 million), an increase of 97.4% compared with last year, and accounted for 6.5% of the Group's consolidated turnover (2004: 8.8%). In 2004, a provision of approximately HK$25.0 million was made for reduction in value of properties under development. As such provision was not required for the year under review, the result of this segment turned from a loss of approximately HK$13.4 million in 2004 to a profit of approximately HK$12.6 million in 2005.

OPERATIONAL REVIEW *(cont'd)*

A. Real Estate Development Business *(cont'd)*

(i) Real Estate Development

The Group devoted much effort to the preparation work for the Haitian Garden project in Zhuhai, China ("**Haitian Garden**") during the year under review. The modified design and construction blueprints were approved by the local government in Zhuhai and the construction contract was awarded to a main contractor under more reasonable terms and conditions.

Site of Haitian Garden

Based on the current development plan, the Group will complete a substantial portion of the superstructure of the Haitian Garden in 2006. With the overall marketing strategy of the project already formulated, the Group is well positioned to launch the pre-sale of units in the Haitian Garden once permits are obtained. The entire project is expected to be completed for occupation in 2007 and will form a foundation for the Group to build a brand for its real estate development business.

In December 2005, the Group was awarded a bid for a piece of land with an area of approximately 300,000 square metres located at the Science Park on Xue Si Lu East and Xue Qi Lu North of the Jiang Ning District in Nanjing at the price of RMB160.0 million (approximately HK$153.8 million). A joint venture company would be formed by the Group with a joint venture partner, who has extensive knowledge and experience in property development in China and particularly Nanjing, to undertake the property development on the aforesaid land. The joint venture company would be owned as to 71% by the Group and 29% by the joint venture partner. This project marks a step forward for the Group's real estate development business. By deploying more resources on research of China's real estate market and strengthening communication with local governments and relevant departments, the Group hopes to be able to invest in more real estate development projects in the near future.

OPERATIONAL REVIEW *(cont'd)*

A. Real Estate Development Business *(cont'd)*

(ii) Construction Project Management Service

During the year under review, the construction works of Guangzhou Tian He Jin Hai Building, to which the Group provides project management services, have been substantially completed. The works performed by the Group included checking of curtain walls, steel frames and elevator works, supervision of the design, works and contracts, and verification of costs. It is expected that the work under this service contract will be completed in the second half of 2006.

Jin Hai Building

B. Specialised Construction Business

The Group's specialised construction business includes: design and installation of curtain wall and aluminium windows business operated by SJQ, and manufacture, installation and selling of doors and fire-proof and acoustic plaster project business operated by Enful Holdings Limited and its subsidiaries (collectively, "**Enful**").

In 2005, specialised construction business reported a turnover of approximately HK$144.1 million (2004: HK$15.4 million), an increase of 835.7% over last year, and accounted for 62.3% of the Group's consolidated turnover. In 2004, this segment accounted for 17.8% of the Group's turnover as SJQ's accounts were not consolidated until October 2004. With the inclusion of a full year result of SJQ and the gain on disposal of property, plant and equipment of approximately HK$6.2 million resulting from acquisition by the Liao Bu Town Government of the land on which Enful's production facilities were previously located, the segment results turned from a loss of approximately HK$7.3 million in 2004 to a profit of approximately HK$8.1 million in 2005.

(i) Curtain Wall Business

The growth in the real estate sector in China over the years has led the development of China's curtain wall industry to a considerable scale. Curtain walls are used not only in hotels and commercial buildings as in the past, but are also used in residential buildings to enhance their image and status. SJQ stands to benefit substantially from this trend.

During the year under review, SJQ experienced significant growth in business with turnover of approximately HK$140.1 million in China. The total outstanding value of SJQ's contracts on hand amounted to approximately HK$122 million as at the end of 2005.

OPERATIONAL REVIEW *(cont'd)*

B. Specialised Construction Business *(cont'd)*

(i) Curtain Wall Business (cont'd)

With a renowned brand name, a considerable size of operation and experienced management, SJQ holds a significant position in Shanghai's curtain wall market. To cope with the increasingly competitive market, SJQ will strive to improve product quality by continuously focusing on contract management and exploring the possibility of adopting new techniques, materials and workmanship. These initiatives will enhance its core competencies and help to establish brand identity, which are conducive to securing more contracts with higher profit margins. Following the completion of the design project in relation to the roof of the Shanghai Science and Technology City, which was the landmark project of the Shanghai Municipal Government, SJQ completed a number of medium-scale curtain wall projects, including the German Centre in Shanghai during the year under review. SJQ also succeeded in winning a bid for the large-scale curtain wall contract of a commercial property development project located on Da Ning Lu of Zha Bei District. SJQ's business strategy is to focus primarily on the Shanghai and Beijing markets while actively exploring other markets in China and overseas.

Looking forward, the continuing growth of China's economy and the forthcoming major events such as the 2008 Olympics Games in Beijing, the 2010 World Expo in Shanghai and the Asian Games in Guangzhou will present a significant market for the curtain wall industry. In addition, curtain walls will continue to gain popularity as an important component of buildings as the construction industry develops and people's living standard continues to rise in China. On the back of such favourable environment and armed with strong competitive edge, SJQ is well positioned to look for high quality projects with better margins.

(ii) Door and Plaster Business

During the year under review, the turnover of Enful was approximately HK$4.0 million (2004: HK$2.9 million), comprising turnover from manufacturing, installation and selling of doors and plaster project business. Approximately 55.4% of the turnover came from Hong Kong, while China contributed the remaining 44.6%. In 2005, Enful received approximately HK$10.1 million compensation from the Liao Bu Town Government for the land requisition and thus recorded a gain on disposal of property, plant and equipment of approximately HK$6.2 million. As a result, Enful's loss reduced as compared with 2004.

In the first half of 2005, Enful underwent a series of shareholding and management restructuring and relocated its manufacturing facilities to the present location as the Liao Bu Town Government acquired the land on which the previous production factory was situated. It was unable to deploy resources for its operations until May 2005. As such, its business was affected for a considerable period of time. During the second half of 2005, Enful devoted its effort to developing new business and enhancing internal management. It managed to effectively control its operating costs and undertook more large-scale contracts. As a result of these exercises, Enful has laid a groundwork for new business, thereby establishing a solid base for business development in the coming year.

OPERATIONAL REVIEW *(cont'd)*

B. Specialised Construction Business *(cont'd)*

(ii) Door and Plaster Business (cont'd)

Looking forward, the door business will be the focus of Enful, supplemented by the plaster business. Furthermore, Enful will seek to capture the opportunities brought about by China's stable economic growth, the continuing improvement of Hong Kong's economic indicators, and Macau's flourishing tourism and entertainment industry.

C. Property Leasing Business

The Group's property leasing business covers mainly the leasing of units in the ONFEM Tower ("**Tower**") located in Central of Hong Kong and five other residential units in Hong Kong and Shanghai.

ONFEM Tower

In 2005, the turnover of the property leasing business increased by 14.2% to approximately HK$12.1 million (2004: HK$10.6 million), accounting for 5.2% of the Group's consolidated turnover (2004: 12.2%). The segment profit amounted to approximately HK$24.8 million, a decrease of 20.8%, compared with that of approximately HK$31.3 million in 2004. After excluding the revaluation gain on investment properties of approximately HK$15.2 million (2004: HK$23.6 million), the segment profit rose approximately 24.7% compared with last year.

Benefiting from the upturn of the Hong Kong economy, the Tower recorded an average occupancy rate of 94% in 2005, against 92% last year. The Tower is currently 100% occupied.

The Group believes that Hong Kong's rental market will continue to grow steadily and expects the Tower to maintain a high occupancy rate with a slight increase in rent in 2006 and provide the Group with stable profit and cash flow. In addition, the Group plans to launch appropriate maintenance and renovation works in 2006 to enhance the quality and rental value of the Tower.

D. Manufacturing and Trading

The Group's manufacturing and trading business consists of the manufacture and distribution of industrial lubricants operated by Jaeger Oil & Chemical Holdings Limited and its subsidiaries (collectively, "**Jaeger**").

Turnover from Jaeger was approximately HK$59.8 million in 2005 (2004: HK$52.5 million), an increase of 13.9% over last year, accounting for 25.9% of the Group's consolidated turnover (2004: 60.6%). Jaeger recorded a segment profit of approximately HK$2.7 million (2004: HK$0.8 million). About 82.8% and 16.5% of turnover of Jaeger came from China and Hong Kong respectively, while the rest was from the Southeast Asian markets.

OPERATIONAL REVIEW *(cont'd)*

D. Manufacturing and Trading *(cont'd)*

Jaeger's main focus is specialised petrochemical downstream products. It manufactures primarily high-value metal working, cutting and corrison inhibitors. In addition to expanding its sales network in the Yangtze River Delta region, Jaeger has expanded its sales network to Sichuan, China's main die-cast manufacturing base. Through implementing an array of market expansion plans, Jaeger achieved satisfactory business growth in both eastern and central China, the turnover of which increased by over 30% compared with 2004. Meanwhile, new product launch enabled Jaeger to increase its market share in southern China. Jaeger obtained purchase orders for such products from a number of large-scale Japanese enterprises, resulting in an increase in turnover from southern China compared with 2004.

On the product promotion front, Jaeger focused on promoting the full range of GWS – the US die-casting lubricant series, and employed a research specialist in metal working inhibitor from the United Kingdom ("**U.K.**") to improve the formula of U.K. Korniche's series. Furthermore, to meet the needs of its target markets and customers, Jaeger has developed a number of environmental-friendly industrial lubricant products.

Despite that the price of crude oil shows no sign of falling in the near future, Jaeger believes that with the global economy growing steadily, rise in crude oil price is unlikely to have a significant impact on Jaeger's business. Looking forward, Jaeger will deploy more resources to enrich product offerings and sales and marketing. Jaeger is considering building new manufacturing facilities in areas outside southern China, where raw materials and technical specialists are accessible. Utilising these facilities, Jaeger intends to manufacture a wide range of high value-added products with higher profit margins as its prime objective. In addition, Jaeger will continue to focus on promoting GWS and the Korniche series products and to make inroads into the high-growth industrial market by introducing new high-end quality brands. With plans to expand sales, develop new markets and introduce new products, Jaeger is cautiously optimistic about its future and will continue to bring in stable income to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group derived its funds mainly from cashflows generated from operations as well as financial resources from bank borrowings and borrowing from a fellow subsidiary. During the year ended 31 December 2005, the Group successfully secured various banking facilities which amounted to approximately HK$194.7 million, including a banking facility denominated in Renminbi ("**RMB**") to the extent of RMB40.0 million.

As at 31 December 2005, cash and bank deposits (excluding pledged deposits) of the Group amounted to approximately HK$143.3 million (2004: HK$120.8 million), of which 50.9%, 18.1% and 31.0% (2004: 14.4%, 55.8% and 29.8%) were denominated in RMB, Hong Kong dollars and United States ("**US**") dollars respectively.

LIQUIDITY AND FINANCIAL RESOURCES *(cont'd)*

Short-term borrowings amounted to approximately HK$63.1 million as at 31 December 2005 (2004: HK$43.1 million). This led to a rise in the gearing ratio (total borrowings over total equity) of the Group from 7.7% at 31 December 2004 to 10.5% at 31 December 2005. All the short-term borrowings outstanding as at 31 December 2004 were fully repaid during the year, and new borrowings, comprising bank borrowings and borrowing from a fellow subsidiary, were arranged for funding the daily operations. Majority of the Group's banking facilities remained unutilised as at 31 December 2005.

As at 31 December 2005, borrowings denominated in RMB amounted to approximately RMB64.5 million (2004: RMB44.7 million), while the remaining balances were bank borrowings denominated in Hong Kong dollars. All of the Group's borrowings were payable within one year and on a floating interest rate basis. Despite the increase in borrowings as at 31 December 2005, finance costs for the year ended 31 December 2005 decreased to approximately HK$0.6 million (2004: HK$1.4 million), which was mainly due to the higher average balance of the borrowings in 2004, and majority of the borrowings in 2005 were arranged for funding the Haitian Garden, of which the relevant finance cost was fully capitalised.

Capital commitments of the Group as at 31 December 2005 amounted to approximately HK$275.9 million (2004: HK$29.5 million). These commitments mainly relate to property development and are to be financed by internal funds and borrowings.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the transactions of the Group were denominated in Hong Kong dollars, RMB and US dollars. The Group had not implemented major hedging or other alternative measures during the year ended 31 December 2005 as the expected appreciation of RMB will benefit the Group as a whole and other foreign currency risk exposure was considered to be minimal. As at 31 December 2005, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS

As at 31 December 2005, the Group pledged certain investment properties and leasehold land and buildings with carrying amounts of approximately HK$236.3 million (2004: HK$215.0 million) and HK$8.8 million (2004: Nil) respectively and fixed bank deposits of approximately HK$5.0 million (2004: HK$38.1 million) as securities for the Group's general banking facilities.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in Note 31 to the financial statements.

EMPLOYEES

As at 31 December 2005, the Group employed 438 staff, including directors of the Company ("**Directors**") (2004: 300 staff). The total remuneration and benefits of the Directors and staff of the Group during the year ended 31 December 2005 were approximately HK$34.6 million (2004: HK$35.2 million). The Group adopts a remuneration policy in line with market practice.

By Order of the Board
Wang Xingdong
Managing Director

Hong Kong, 13 April 2006