MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Wang Xingdong
Managing Director

BUSINESS OVERVIEW

In 2004, the consolidated turnover of ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") amounted to approximately HK$86.6 million (2003: HK$160.9 million), representing a 46% decrease as compared with last year.

The Group recorded a consolidated net profit of approximately HK$84.6 million in 2004 (consolidated net loss in 2003: HK$35.7 million). As the percentage of the businesses with higher gross profit margin in the Group's whole business profile increased, the Group recorded a consolidated gross profit of approximately HK$43.8 million in 2004 (2003: HK$38.8 million). Its consolidated gross profit margin rose from 24% in 2003 to 51%.

During the year under review, turnover of the Group declined as several under-performing subsidiaries of the Company underwent liquidation and ownership restructuring. The consequential termination or slow down of businesses of those subsidiaries resulted in reduced turnover, but also greatly reduced their negative contribution to the result of the Group. In addition, gain on deconsolidation of subsidiaries of approximately HK$78.7 million in 2004 (2003: HK$38.7 million) was recorded. Together with the stabilisation of the Hong Kong property market which resulted in a positive profit contribution from the revaluation of its investment properties, the Group achieved a profit turn around.

The Group is principally engaged in three types of businesses, namely, specialised construction contracting, manufacturing and trading and property development and property leasing.

Front row: (from right to left) Mr. Wang Xingdong, Mr. Lin Xizhong, Mr. Yan Xichuan, Ms. Tam Wai Chu, Maria
Back row: (from right to left) Mr. Qian Wenchao, Mr. Lam Chun, Daniel, Ms. He Xiaoli, Mr. Li Tan, Mr. Selwyn Mar

OPERATIONAL REVIEW

A. Specialised Construction Contracting

Specialised construction contracting business was one of the major businesses of the Group in 2004, with turnover of approximately HK$20.4 million (2003: HK$86.1 million), representing a 76% decline as compared with last year, and accounted for 24% of the Group's consolidated turnover (2003: 53%). Nevertheless, the segment result improved from a loss of approximately HK$38.2 million in 2003 to a profit of approximately HK$0.7 million in 2004.

Decreased turnover and recorded profit of the business mainly resulted from the liquidation of the under-performing and poorly managed Polycrown Engineering (Holdings) Limited ("**PEHL**") and Polycrown Engineering Limited ("**PEL**") with the results of those companies excluded from the consolidated accounts of the Group with effect from 11 August 2004. In addition, other subsidiaries of the Group that engaged in specialised construction contracting business, namely, Condo Curtain Wall Company Limited ("**CCW**") and Condo Engineering (China) Limited ("**CEC**"), underwent liquidation in 2003, while Enful Holdings Limited ("**EHL**") and its subsidiaries (collectively, "**Enful Group**") had focused their resources on internal consolidation during the year under review, thus greatly reducing their turnover contribution to the Group. However, due to improved management control, the overall losses of Enful Group have been tapered.

OPERATIONAL REVIEW *(cont'd)*

A. Specialised Construction Contracting *(cont'd)*

(i) Condo Group Limited and its subsidiaries

CCW and CEC were ordered by the High Court of Hong Kong in September 2003 to be wound up and had since been put under receivership. The liquidation is currently in progress. The Group is actively attempting to recover the debts owed to the Group by these two companies and their minority shareholders.

The Group acquired the entire shareholding of Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**"), which was previously owned as to 90.39% and 9.61% by the liquidator of CEC and an independent third party respectively. From October 2004, SJQ's results have been included in the Group's consolidated accounts. SJQ is mainly engaged in the design and installation of curtain walls. Its business was not affected by its ownership restructuring and has contributed to most of the turnover of this business segment.

Looking forward, as the Chinese economy continues to grow steadily, driven by the business opportunities arising from the 2008 Olympics Games in Beijing, the 2010 World Expo in Shanghai and the Asian Games in Guangzhou, SJQ will strive to further enhance its competitive advantages in order to win more construction contracts. This will, in turn, allow SJQ to provide better returns for the shareholders.

(ii) Enful Group

Enful Group underwent an ownership restructuring and a business restructuring in the first half and the second half of 2004 respectively. As a result, the turnover of Enful Group generated from specialised construction contracting business declined significantly during the year under review. Losses incurred were a result of turnover being unable to cover the fixed costs such as administrative expenses.

The Group acquired a 48% equity interest of EHL from Sinowise Development Limited in April 2004 and increased its beneficial interest in Enful Group from 52% to 100%. The acquisition had strengthened the Group's overall control over the operation of Enful Group and enabled better alignment of its strategy with those of the Group.

During the year under review, the Group also focused on improving the management control, and formulating regulations and systems of Enful Group, resulting in better cost controls so that Enful Group could operate on a more solid footing for future development.

The core business of Enful Group is manufacturing and installation of "Bridgman" timber doors. It is also an accredited agent and contractor of fireproof and acoustic soundproof plaster. Looking forward, Enful Group will focus on its door business with spray coating as its ancillary business. Seizing the business opportunities arising from the robust economic development in China, the rebounding Hong Kong economy and the flourishing gaming sector in Macau, Enful Group will expand its business aggressively, adhering to good management practices and aiming for stable growth.

OPERATIONAL REVIEW *(cont'd)*

A. Specialised Construction Contracting *(cont'd)*

*(iii) PEHL and its subsidiaries (collectively, "**Polycrown Group**")*

The pre-liquidation turnover and segment loss of Polycrown Group in 2004 was approximately HK$3.6 million (2003: HK$68.1 million) and HK$0.6 million (2003: HK$24.0 million) respectively.

The board of directors of PEL, a wholly owned subsidiary of PEHL, resolved to liquidate the company on 15 June 2004. PEHL was subsequently ordered by the High Court of Hong Kong on 11 August 2004 to be wound up as it had failed to pay the debts owed to the Group. The aforesaid events did not have a material adverse impact on the Group except that the Group had repaid a bank loan of approximately HK$28.5 million on behalf of PEL in performing its obligation as a guarantor.

The Group is committed to recovering the debts owed to the Group by the liquidated PEL and PEHL and their minority shareholders.

*(iv) Wilson Murray Far East Limited ("**WMFE**")*

In July 2004, an indirect wholly owned subsidiary of the Company, WMFE, entered into an agreement with Guangzhou Tian He Orienmet Property Company Limited, an associate of the Company's controlling shareholder, China Minmetals H.K. (Holdings) Limited, to provide construction project management services to Guangzhou Tian He Jin Hai Building ("**Jin Hai Building**") development project. During the year under review, the revenue arising from project management business was approximately HK$7.6 million with a segment profit of approximately HK$6.5 million.

WMFE commenced provision of construction project management services to the Jin Hai Building in July 2004. It succeeded in obtaining the completion acceptance document for the building's main structure as scheduled, securing extension of the construction permit, resuming construction works and completely controlling the construction progress during the year under review.

The Group expects the construction and installation works of the Jin Hai Building to be completed by the end of 2005. All project management work and finalisation of accounts of the relevant contracts are expected to be done by the middle of 2006. Since WMFE only took over the project management role of the Jin Hai Building in the middle stage of construction, it had had to cope with the legacy of its predecessor and faced difficulties in taking over the supervision of such development project. WMFE will continue to exercise stringent control to ensure that the completion of the project can be achieved on schedule.

The project management agreement is not only expected to generate good returns for the Group, but also to blaze the trail for the construction project management and consultancy business for the Group, hence broadening the Group's business scope and creating new development opportunities for its specialised construction contracting business as a whole. In the meantime, the experience and expertise gained from this project will also benefit the research and investment of the property development activities of the Group.

OPERATIONAL REVIEW *(cont'd)*

B. Manufacturing and Trading

Turnover from manufacturing and trading business amounted to approximately HK$55.1 million in 2004 (2003: HK$57.8 million), representing a decline of 5% as compared with 2003. This segment accounted for 64% of the Group's consolidated turnover in 2004 (2003: 36%) and recorded a segment loss of approximately HK$0.8 million (2003: HK$3.7 million).

(i) Enful Group

In 2004, Enful Group contributed very little to the revenue of this business segment because it has undergone restructuring of its shareholding structure and business. However, this move improved business performance in this segment. (For more details, please refer to the business of Enful Group in the above "Specialised Construction Contracting" section.)

*(ii) Jaeger Oil & Chemical Holdings Limited and its subsidiaries (collectively, "**Jaeger Group**")*

Jaeger Group is mainly engaged in the processing, manufacturing and distribution of industrial lubricants for the middle to high-end markets. In 2004, Jaeger Group successfully made its first foray into the relatively low-end market. However, with oil price fluctuations during the year under review, customers became more cautious with their spending. Fierce competition also drove down gross profit margins for the newly launched low-end products. As a result, revenue of Jaeger Group in 2004 edged up only slightly, while its segment profit decreased substantially.

In the year under review, about 89% and 10% of the turnover of Jaeger Group came from China and Hong Kong respectively, the rest was from the Southeast Asian markets. Jaeger Group strengthened its distribution network in eastern and central China and added a few big industrial buyers to its customer base in the year under review. Facing intense competition in southern China, Jaeger Group leveraged its distribution network to reach new industrial customers. It also tried to boost the sales of mid to high-end products by expanding the market share of the British "Korniche" products, of which sales of this brand rose as compared with 2003.

To enhance its competitive strengths in China's high-end market, Jaeger Group secured in mid-2004 the right to distribute in China the full range of products of one of the United States' top die-casting lubricants brand. The products have helped to further open market for Jaeger Group in the automobile manufacturing and various heavy industries in eastern China. Jaeger Group will endeavour to maximise economies of scale, further control cost and broaden its sales channel to boost market share and profitability.

C. Property Development and Property Leasing

Zhuhai Haitian Garden in China ("**Haitian Garden**") is the major property development project of the Group while the turnover of the property leasing business was mainly derived from the rental income of the ONFEM Tower in Hong Kong.

OPERATIONAL REVIEW *(cont'd)*

C. Property Development and Property Leasing *(cont'd)*

(i) Haitian Garden

The Group successfully acquired a 20% equity stake in Zhuhai (Oriental) Blue Horrison Properties Company Limited ("**ZOBHP**") from Zhuhai Shining Metals Group Inc. on 8 January 2004. The acquisition made ZOBHP a wholly owned subsidiary of the Company and enabled the Group to own 100% equity interest in the project.

During the year under review, construction work of the Haitian Garden was held up due to a litigation and the Group had made a provision for net realisable value of the project of approximately HK$25.0 million in 2004 (2003: HK$11.3 million). As a result, segment loss rose to approximately HK$19.9 million in 2004 (2003: HK$10.9 million).

The Haitian Garden was repositioned as "The New Generation Panoramic Seaview Deluxe Apartments in Zhuhai" as recommended in a consultant research report. Its basement construction works had been completed, and superstructure works are expected to resume in the second half of 2005. The project is expected to obtain a permit for pre-sale by the end of 2005.

It is expected that the completion of the Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Zhuhai Railway shall make commuting between Zhuhai, Hong Kong, Macau and the western parts of China more convenient and will help derive demand for properties there especially with Zhuhai's superior natural environment and the favourable policies implemented by its local government. Given that the prices of new flats in Zhuhai had been rising in 2004, this will facilitate the sale of the Haitian Garden, which is one of a very few luxury apartment projects available in the Zhuhai property market.

(ii) ONFEM Tower and other properties for leasing

Revenue from the property leasing business slightly decreased by 2% to approximately HK$10.6 million (2003: HK$10.8 million) during the year under review, and accounted for 12% of the Group's consolidated turnover (2003: 7%). The decrease was due to the expiry and renewal of the leases for some units in mid-2004. However, improvement in operational efficiency and a gain on revaluation of investment properties of approximately HK$23.0 million in the year under review (revaluation loss in 2003: HK$8.3 million) turned the Group's property leasing business around to a segment profit of approximately HK$30.7 million in 2004 (segment loss in 2003: HK$4.7 million).

In 2004, the average occupancy rate of the ONFEM Tower reached 92% (2003: 88%). Although the local office leasing market was on an up-trend since the second half of 2004, the Group did not benefit from this change because most of the ONFEM Tower's leases were signed in the past two years, and certain leases are of the duration of three years. In 2005, some of the leases are expected to expire and the Group is optimistic that the ONFEM Tower will maintain its present occupancy rate, gradually achieving increasing rental income in the second half of 2005.

Since the Group has appointed a renowned property management company to manage, inter alia, the leasing activities of the ONFEM Tower. A good quality tenant mix with more than half of the tenants being well-known multinational companies has been achieved for the ONFEM Tower. The Group will continue to improve the building's quality and image with the aim to enhancing future income.

OPERATIONAL REVIEW *(cont'd)*

D. Other Businesses

Greater Beijing First Expressways Limited ("**First Expressways**"), a major subsidiary of Greater Beijing Region Expressways Limited, of which the Group had made an equity investment, was wound up in June 2000, and its four toll road projects in Beijing were sold. The Group will continuously monitor the progress of the liquidation process and strive for the best interest of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the gearing ratio (total borrowings over shareholders' funds) of the Group reduced to 8% from 15% as at 31 December 2003. Cash and bank deposits (excluding pledged deposits) of the Group as at 31 December 2004 amounted to approximately HK$120.8 million (2003: HK$199.3 million), of which 56%, 14% and 30% (2003: 46%, 8% and 30%) are denominated in Hong Kong dollars, Renminbi ("**RMB**") and United States ("**US**") dollars respectively.

The Group obtained its source of fund through various means in order to maintain a balance between cost and risk. Apart from the fund generated from normal operations, the Group also obtained financial resources from bank borrowings and other borrowings, which amounted to approximately HK$36.4 million (2003: HK$66.7 million) and HK$6.7 million (2003: HK$4.6 million) respectively as at 31 December 2004. All of the borrowings are repayable within one year.

As at 31 December 2004, borrowings denominated in RMB were approximately RMB44.7 million (2003: RMB33.5 million) while the remaining balances were bank borrowings denominated in Hong Kong dollars. Except the bank borrowings denominated in Hong Kong dollars that were obtained by the Group at floating interest rates, all the Group's borrowings were on a fixed rate basis. For the year ended 31 December 2004, finance costs were reduced to approximately HK$1.4 million (2003: HK$4.9 million).

Capital commitments of the Group as at 31 December 2004 amounting to approximately HK$29.5 million (2003: HK$145.8 million), for properties under development, are to be financed by bank borrowings and internal funds.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the transactions of the Group were denominated in Hong Kong dollars, RMB and US dollars. Given that the foreign currency risk exposure is minimal during the year ended 31 December 2004, no respective hedging or other alternative measures were arranged by the Group. As at 31 December 2004, 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 2004, the Group pledged an investment property with the carrying amount of approximately HK$215.0 million (2003: HK$195.0 million) and fixed bank deposits of approximately HK$38.1 million (2003: HK$53.2 million) as securities for the Group's general banking facilities. Certain inventories of the Group were also held under trust receipt loan arrangements during the year ended 31 December 2004.

CONTINGENT LIABILITIES

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

EMPLOYEES

As at 31 December 2004, the Group employed 300 staff, including directors of the Company (2003: 309). The total remunerations and benefits of the directors of the Company and staff of the Group during the year were approximately HK$35.2 million (2003: HK$43.1 million). The Group adopts a remuneration policy in line with market practice.

By Order of the Board
Wang Xingdong
Managing Director

Hong Kong, 15 April 2005