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<b>ASSETS</b>	<b>\$12 billion</b>
<b>EMPLOYEES</b>	<b>83,000</b>

Onex' objective is to create long-term value  
by building industry-leading businesses  
and to have that value reflected in our share price.

**ONEX**

Onex Corporation December 31, 2004 Report

# ONEX CORPORATION

Onex is a diversified company with 2004 annual revenues of \$16 billion, assets of \$12 billion and 83,000 employees worldwide.

We operate through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, theatre exhibition, healthcare, customer management services, automotive products, personal care products and communications infrastructure.

Onex' objective is to create long-term value by building industry-leading businesses and to have that value reflected in our share price.

## Table of Contents

<b>2</b>	To Our Shareholders
<b>5</b>	2004 Review of Onex Operating Companies
<b>21</b>	Management's Discussion and Analysis
<b>66</b>	Consolidated Financial Statements
<b>104</b>	Summary Historical Financial Information
<b>IBC</b>	Shareholder Information

Our website is your source for complete,  
up-to-date information about Onex.  
We invite you to visit [www.onex.com](http://www.onex.com).

Get to know our people  
and the individual  
strengths they bring  
to our team.

Here is what we look for in  
businesses we want to own  
and what we provide.

Get our financial results in  
a simple, comprehensible  
format, with interactive  
annual and quarterly  
financial statements.

Learn about our operating  
principles and values,  
and why you should own  
Onex shares.

See how Onex has  
performed against key  
market indices.

Find out about  
our companies.

Learn about our  
directors and corporate  
governance practices.

The screenshot shows a web browser window displaying the Onex Corporation website. The browser's address bar shows the URL <http://www.onex.com/>. The website header features the Onex logo on the left and navigation links for News, Careers, Site Map, Search, Contact Us, and Legal on the right. Below the header is a horizontal menu with buttons for ABOUT ONEX, ONEX TEAM, TRACK RECORD, PARTNERING WITH ONEX, ONEX BUSINESSES, INVESTOR INFORMATION, and GOVERNANCE. The main content area has a dark blue background with a globe image. It features the headline "Onex is a diversified company." followed by a table of key statistics:

REVENUES	\$16 billion
ASSETS	\$12 billion
EMPLOYEES	83,000

Below the table, the text states: "Onex' objective is to create long-term value by building industry-leading businesses and to have that value reflected in our share price."

## To Our Shareholders

Onex had excellent performance in 2004.

We made four important acquisitions or investments during the year and added two more early in 2005. We completed substantial realizations on the value we created in Loews Cineplex, Armtec and the Commercial Vehicle Group. And, as the discussion and analysis that follows this letter shows, we recorded solid financial performance at Onex and most of our operating companies.

All of this was reflected in our share price, which increased 34 percent during the year to close at \$19.75 at year end.

The closing of the Onex Partners private equity fund in February 2004 was a key event in the evolution of Onex. This \$2 billion Fund, to which Onex has committed \$480 million for a 24 percent interest, provides capital for new Onex-sponsored acquisitions. As the General Partner, Onex earns management fees that help offset Onex' corporate expenses, as well as a carried interest on the other investors' capital. Equally important, ready access to a substantial pool of committed capital is enabling us to be highly responsive to attractive investment opportunities.

## Excellent value realizations

We sold Loews Cineplex but retained the Canadian operations, primarily units of Cineplex Galaxy Limited Partnership. That transaction brought Onex' total value from the theatre exhibition segment, including the year-end market value of the CGLP units we hold, to just over \$1 billion on an investment of about \$540 million. In late July, Armtec Limited, owned by ONCAP, our small cap fund, completed a successful initial public offering of income trust units. ONCAP, in which Onex owns a 28 percent interest and earns a carried interest as General Partner, sold all of its ownership of Armtec for proceeds of \$76 million, more than double its original investment.

After several years of restructuring, cost reductions, quality improvements and changes in senior management, the companies in our automotive products segment are performing well. Terrific operating performance by Commercial Vehicle Group and a strong resurgence in the heavy truck market enabled CVG to complete an initial public offering of equity, which raised \$180 million. We sold some of our holdings in CVG in the offering and retained a 24 percent minority interest. Onex' total value to date with respect to CVG, including the value of shares held at the end of 2004, is close to \$200 million on an investment of \$69 million.

### Six significant investments

Onex made four important acquisitions or investments during 2004 and two that closed in early 2005, despite very competitive private equity markets. We believe it's important to note that whether these transactions were acquisitions of controlling interests or minority-interest investments, our objective is to work in partnership with the management teams to build the value of the companies for all shareholders.

In early January 2004, Onex Partners invested \$131 million in the equity of Magellan Health Services. The company, which is the leading provider of managed behavioural health-care in the United States, has performed beyond our expectations. Our investment was made at US\$9.78 per share. Magellan shares at year end were US\$34.16.

In June, Onex Partners made a \$114 million equity investment in Res-Care, Inc. to help fund its business expansion and to provide liquidity to some shareholders. That company delivers a range of valuable social services through two major divisions and is the largest U.S. provider of residential services for persons with developmental disabilities. Through the end of 2004, ResCare had recorded 52 consecutive quarters of revenue growth.

In November 2004, Onex Partners completed a \$102 million investment in convertible subordinated bonds of Compagnie Générale de Géophysique. CGG is a leading global supplier of products and services to the oil and gas industry. We received and accepted a very attractive offer to sell just over half of our CGG bonds in early 2005 at 138 percent of our cost. We continue to hold the balance of our original position.

In December, Onex Partners also acquired Cosmetic Essence in a transaction valued at approximately \$300 million; the total investment made by Onex Partners was \$138 million for 92 percent of the equity ownership. Cosmetic Essence is a leading provider of outsourced supply chain management services – a business model we understand well – to the personal care products industry.

Subsequent to year end, Onex Partners made two important additions to Onex' growing healthcare segment, completing acquisitions that had been agreed to in 2004. In early January 2005, Onex Partners acquired Center for Diagnostic Imaging, Inc., a leading provider of diagnostic and therapeutic radiology services. The transaction, valued at \$225 million, was completed with an \$88 million equity investment by Onex Partners for 84 percent of the equity of this company.

In early February, Onex Partners acquired two subsidiaries of Laidlaw International, American Medical Response, Inc. and EmCare Holdings Inc., investing \$270 million for 97 percent of the equity in a transaction valued at approximately \$1 billion. AMR is the largest provider of ambulance transport in the United States; EmCare is the largest supplier of outsourced services for hospital emergency department physician staffing and management.

We're also creating other opportunities to put Onex' cash to work to achieve superior returns by investing in businesses that meet our benchmarks for entrepreneurial management and value-creation potential. In early 2005, we established Onex Real Estate Partners LP, a \$250 million opportunity fund focused on acquiring and adding value to real estate properties in North America. Onex Real Estate Partners is led by a talented team of professionals who bring a strong track record and share Onex' investment philosophy of value creation. We are evaluating opportunities in other alternative asset categories where we believe we can earn appropriate returns and also generate attractive acquisition opportunities.

### Looking ahead

We expect the acquisition environment to remain competitive during 2005 as an increasing number of private equity firms with readily available financing seek attractive investments throughout North America. Onex Partners is proving its value by enabling us to commit to acquisitions more efficiently and on a more timely basis. While it is too early at this writing to have certainty, the success of the first Onex Partners fund may encourage us to create a second fund. If we do so, it is likely that we will use a substantial portion of our current \$1.7 billion in cash resources to take a larger equity position in any new fund.

Our intention, as always, is to be prudent managers of the cash and companies under our care. Our objective remains to buy for value and build for value and then to have that value reflected in our share price.



Gerald W. Schwartz  
Chairman & Chief Executive Officer  
March 2005

## 2004 REVIEW OF ONEX OPERATING COMPANIES

This is an introduction to Onex' significant operating companies as at December 31, 2004 and is presented by industry segment. Onex has major operating companies in eight industries, which are reviewed in the pages that follow. As a preface to these discussions, the table below provides a brief description of each operating company, Onex' ownership and voting interest in that company, and 2004 revenue and asset information.

		2004 Ownership/ Voting	2003 Ownership/ Voting
<b>Electronics Manufacturing Services</b>			
	<b>Celestica Inc.</b> , one of the world's largest electronics manufacturing services companies for original equipment manufacturers. <b>2004 Revenues – \$11.5 billion</b> <b>2004 Assets – \$5.9 billion</b>	<b>18%/84%</b>	19%/85%
	<hr/>		
<b>Theatre Exhibition</b>			
	<b>Cineplex Galaxy Limited Partnership</b> , Canada's second-largest film exhibition company, which operates 86 theatres with a total of 775 screens under the Cineplex Odeon and Galaxy Entertainment brands. <b>2004 Revenues – \$356 million</b> <b>2004 Assets – \$368 million</b>	<b>31%/100%</b>	31%/100%
	<hr/>		
<b>Healthcare</b>			
	<b>Magellan Health Services, Inc.</b> , the largest provider of managed behavioural healthcare and insurance services in the United States. <b>2004 Revenues – \$2.2 billion</b> <b>2004 Assets – \$1.5 billion</b>	<b>6%/50%</b> <b>24%/50%<sup>(a)</sup></b>	–
		<b>Res-Care, Inc.</b> , the largest U.S. provider of residential, therapeutic, job training and educational support services to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.	<b>7%/34%</b> <b>28%/34%<sup>(a)</sup></b>
		<b>Center for Diagnostic Imaging, Inc. (acquired in January 2005)</b> , a leading provider of diagnostic and therapeutic radiology services in the United States.	<b>20%/100%</b> <b>84%/100%<sup>(a)</sup></b>
		<b>Emergency Medical Services Corporation (acquired in February 2005)</b> , the largest U.S. provider of ambulance transport services, operating as American Medical Response, and EmCare, the largest provider of outsourced services for hospital emergency department physician staffing and management.	<b>37%/100%</b> <b>97%/100%<sup>(a)</sup></b>
			<hr/>
	<b>Customer Management Services</b>		
	<b>ClientLogic Corporation</b> , a leading business process outsourcer in the contact centre and fulfillment industries; the company provides customer care services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies. <b>2004 Revenues – \$730 million</b> <b>2004 Assets – \$303 million</b>	<b>68%/88%</b>	71%/89%

(a) Represents the ownership and voting percentages of Onex Partners LP, including Onex.

		2004 Ownership/ Voting	2003 Ownership/ Voting
<b>Automotive Products</b>			
	<b>J.L. French Automotive Castings, Inc.</b> , a leading manufacturer of aluminum die-cast components for North American and European automotive original equipment manufacturers. <b>2004 Revenues – \$691 million      2004 Assets – \$452 million</b>	<b>77%/100%</b>	56%/100%
	<b>Commercial Vehicle Group, Inc.</b> , a leading supplier of interior systems, vision safety solutions and other cab-related products to the global commercial vehicle market and other specialized transportation markets.	<b>24%/24%</b>	(1)
	<b>Performance Logistics Group</b> , a leading North American provider of automotive transportation and logistics services for light vehicle OEMs.	<b>26%/26%</b>	50%/100%
<b>Other Businesses</b>			
<b>Personal Care Products</b>			
	<b>Cosmetic Essence, Inc.</b> , a leading provider of outsourced supply chain management services to the personal care products industry.	<b>21%/100%</b> <b>92%/100%<sup>(a)</sup></b>	–
<b>Communications Infrastructure</b>			
	<b>Radian Communication Services Corporation</b> , a leading North American wireless communications infrastructure and network services company. <b>2004 Revenues – \$113 million      2004 Assets – \$70 million</b>	<b>89%/100%</b>	71%/80%
<b>Small-capitalization Opportunities</b>			
	<b>ONCAP LP</b> , a \$400 million fund focused on acquiring and building the value of small-capitalization companies based in North America, which actively manages investments in CMC Electronics Inc., Western Inventory Service Ltd., Futuremed Health Care Products L.P. and Canadian Securities Registration Systems Ltd. <b>2004 Revenues – \$431 million      2004 Assets – \$820 million</b>	<b>28%/100%</b>	25%/100%

(1) In 2003, Onex had ownership and voting in Bostrom (49%/100%) and Trim Systems (79%/100%), which were merged in August 2004 to form Commercial Vehicle Group. The logos in this table are the property of the particular companies listed.

Additional information on the industry segments in which the Onex companies operate is provided in the Management's Discussion and Analysis and in note 27 to the audited annual consolidated financial statements.

(a) Represents the ownership and voting percentages of Onex Partners LP, including Onex.



Onex represents more value than the simple addition of the individual operating companies and investments discussed below. Onex has substantial cash resources for investment in attractive opportunities that can quickly alter the overall valuation of the Company, as the six acquisitions completed or announced in 2004 attest. We are a highly entrepreneurial enterprise, with extensive experience and expertise in acquisitions, strategy, negotiations and financing that enable us to identify and acquire attractive companies. Moreover, we have a long history and strong track record of success in partnering with management teams to build acquired businesses into industry leaders, which has enabled significant growth in value for Onex shareholders over the long term.

The discussion that follows is a brief summary of significant activities at Onex and its operating companies during 2004. The 2005 outlook for each operating company begins on page 57 of this report.

## ELECTRONICS MANUFACTURING SERVICES

### Celestica

Celestica, Inc. (“Celestica”) (NYSE, TSX: CLS, CLS.SV, respectively) is a world leader in the delivery of innovative electronics manufacturing services (“EMS”). The company operates a highly sophisticated global manufacturing network with operations in Asia, Europe and the Americas, providing a broad range of integrated services and solutions to leading original equipment manufacturers (“OEMs”) such as Avaya, Inc., Cisco Systems, EMC Corporation, Hewlett-Packard, IBM, Lucent Technologies, Motorola, NEC and Sun Microsystems.



**CELESTICA**

The resurgence in business volumes evident at the end of 2003 continued during the first half of 2004. While still above prior-year levels, growth during the second half of the year was lower than expectations as some of Celestica’s largest communications and information technology (“IT”) customers reduced their orders in response to lower end-market demand.

Given this environment of improved, but unpredictable demand, Celestica management continued transforming Celestica with a focus on reducing capacity in high-cost geographies, diversifying revenue and expanding its service offerings. The company embarked on a US\$175–US\$200 million restructuring program that will be completed during the first quarter of 2005. Five plants were closed under the program during 2004. In early 2005, the

company announced an additional US\$225–US\$275 million restructuring initiative that will, during 2005 and early 2006, reduce capacity in its high-cost geographies in North America and Europe and shift greater levels of production to lower-cost regions.

Diversifying revenue remained a key initiative during 2004, and annualized revenue from new business increased throughout the year. This, along with the results from acquisitions in 2004, resulted in a more diversified customer base. Customers outside Celestica’s traditional communications and IT segments – industries such as aerospace and defence, automotive, industrial and consumer – represented 19 percent of total revenues in 2004 compared to just 10 percent in 2003. The company also increased its efforts on growing its revenues and capabilities in its service offerings, such as design, fulfillment and after-market services, as customers look for its EMS providers to offer broader supply chain solutions beyond traditional manufacturing services.

### Stronger financial performance

Revenues increased 31 percent to US\$8.8 billion in 2004 from US\$6.7 billion in 2003. Approximately 17 percent of the revenue growth was due to improved base business volumes from some of Celestica’s largest customers and from new business wins. The acquisitions of Manufacturers’ Services Limited (“MSL”) in March 2004 and NEC Corporation’s operations in the Philippines in April 2004 contributed a 14 percent increase in revenues. All of the company’s regions – the Americas, Europe and Asia – increased revenues year-over-year. In addition, the Asia region, which increased revenues by 44 percent from 2003 levels, benefitted from the shift of

manufacturing capabilities and volume from Celestica operations in other geographic areas.

Celestica reported operating earnings of US\$178 million, before charges relating to the writedowns of receivables and inventory. This compared to the US\$1 million of operating earnings reported in 2003. During 2004, Celestica benefitted from higher volumes, the inclusion of operating earnings from acquisitions and improvements resulting from its restructuring initiatives. This was partially offset by approximately US\$161 million of writedowns taken in the fourth quarter of 2004 due to uncertainty over the recoverability of certain receivables and inventory of one of the company's customers whose financial condition had deteriorated.

## Celestica

FIGURE 1	(US\$ millions)	2004	2003
Revenues		<b>8,840</b>	6,735
Operating earnings <sup>(1)</sup>		<b>178</b>	1
Acquisition, restructuring and other expenses		<b>(154)</b>	(95)
Writedowns of goodwill and intangible assets		<b>(319)</b>	(25)
Writedowns of long-lived assets		<b>(69)</b>	(58)
Net loss		<b>(863)</b>	(266)
Total assets		<b>4,940</b>	5,135
Total long-term debt (including current portion)		<b>624</b>	211
Onex' ownership/voting		<b>18%/84%</b>	19%/85%
Employees		<b>46,800</b>	40,100

The above amounts are based on Onex' accounting policies (Canadian) and therefore may differ from those presented in Celestica's financial results.

(1) Excludes US\$178 million of charges related to writedown of receivables and inventory in 2004.

To drive further gains in profitability, Celestica deployed lean manufacturing techniques and six sigma quality practices across its facilities. Additionally, management divested non-core businesses such as its Power Systems business during the third quarter of 2004 and it signed a supply agreement to manufacture certain products for the buyer, C&D Technologies. In order to better align its capabilities to the needs of its largest OEM customers, Celestica also discontinued the development of its own 64-bit reference designs and exited its channel distribution activities for these products.

## THEATRE EXHIBITION

In July 2004, Onex completed the sale of Loews Cineplex for approximately \$2 billion. Onex received proceeds of about \$739 million for its interest and retained Loews Cineplex' interest in the Canadian operations. Those operations include units of Cineplex Galaxy Limited Partnership ("CGLP") and Cineplex Odeon Corporation ("Cineplex Odeon Canada"), which owns a small number of theatres and real property not included in CGLP at the time of its initial public offering. These combined operations now represent Onex' holdings in the theatre exhibition industry.

Onex' total value from the theatre exhibition segment, including the market value at December 31, 2004 of its CGLP units, is just over \$1 billion compared to a total investment of approximately \$540 million made primarily in 2001. Onex currently owns 31 percent of the outstanding CGLP units and has a 100 percent voting interest.

## Cineplex Galaxy Income Fund

In November 2003, Cineplex Galaxy Income Fund ("CGIF") completed an initial public offering of trust units and used the proceeds from this offering to purchase an interest in the operating entity CGLP. At December 31, 2004, CGIF had a 42 percent interest in CGLP, while Onex and other shareholders held the other 58 percent ownership interest.



CGLP acquired and combined the Canadian operations of Loews Cineplex, known as Cineplex Odeon, and Onex' Galaxy Entertainment subsidiary. This transaction created one of the leading Canadian cinema companies. Moreover, it brought together two of the most experienced management teams in the business whom we were confident could achieve strong synergies between the two circuits.

We have not been disappointed. The management team at Cineplex Galaxy, energized by industry veteran Ellis Jacob, merged the two organizations quickly and seamlessly, taking the best practices of both and implementing them throughout Cineplex Galaxy. The combined organization has improved its purchasing efficiencies and reduced overheads by more than \$2 million. Cineplex Galaxy has also pursued multiple re-branding opportunities in the past year to ensure that its circuit is exploiting the best of its two strongest brands.

The company continued to expand its high-quality circuit during 2004. It opened three new theatres – ten screens in Guelph, Ontario, six screens in Orillia, Ontario and ten screens in Pitt Meadows, B.C. – and expanded and upgraded its Lethbridge, Alberta theatre by four screens. Cineplex Galaxy now has 775 screens in 86 locations. Three-quarters of these screens are in theatres that are less than eight years old, ensuring patrons an outstanding entertainment experience.

### Box-office revenues outpace industry

Box-office revenues for Cineplex Galaxy advanced 5 percent in 2004 compared to a 1 percent increase in box-office revenues for the North American theatre exhibition industry. Concession revenues grew by more than 7 percent. Ancillary revenues from on-screen advertising, electronic games in theatre lobbies and events in theatres were up 10 percent for the year. While still a relatively small part of overall sales, ancillary revenues will be a key strategic focus of Cineplex Galaxy management in 2005 and beyond.

Overall, 2004 revenues reported by Onex' theatre segment were \$356 million, a 6 percent increase compared to the \$336 million reported in 2003. As noted, new theatres, higher average admission prices and concession revenues were the major drivers of the revenue increase. Operating earnings advanced 10 percent in 2004 to \$43 million from \$39 million in the prior year due primarily to higher revenues, purchasing efficiencies and reduced overhead costs.

### Cineplex Galaxy

FIGURE 2   (Cdn\$ millions)	2004	2003
Revenues	<b>356</b>	336
Operating earnings	<b>43</b>	39
Earnings before taxes	<b>35</b>	147
Total assets	<b>368</b>	359
Total long-term debt (including current portion)	<b>129</b>	114
Onex' ownership/voting	<b>31%/100%</b>	31%/100%
Employees	<b>3,950</b>	3,860

The above amounts are based on Onex' consolidated results of Cineplex Galaxy Income Fund and Cineplex Odeon Canada, which has operations not included in Cineplex Galaxy Income Fund. Therefore these results will differ from those financial results published by Cineplex Galaxy Income Fund.

## HEALTHCARE

In 2002, we identified the healthcare industry in the United States as an attractive sector in which to apply our approach to value creation. Not only is the industry as a whole large and multi-disciplinary, it is also highly fragmented. With an aging population requiring increasing care, and with governments expanding the scope of services they provide to employees and communities, we believe there is a significant opportunity to deliver cost-effective services that create value for patients, payors and shareholders. During 2004 and early 2005, Onex made four important acquisitions or investments in the healthcare sector, as described below.

### Magellan Health Services

In early January 2004, Onex completed its investment in Magellan Health Services, Inc. ("Magellan") (NASDAQ: MGLN) as part of the plan for Magellan's emergence from bankruptcy. The company is the leading provider of managed behavioural healthcare in the United States. Its customers include major health plans, state and local government agencies funded under Medicaid, and Fortune 1000 employers. Onex made a \$131 million investment in Magellan for a 24 percent equity interest and effective voting control of the company. This was funded by Onex and Onex Partners LP ("Onex Partners") with Onex' share of the investment being \$30 million for an approximate 6 percent equity interest.

While Magellan was under bankruptcy protection, Onex worked with the company's management and was an integral part of the reorganization plan. The reorganization enabled the company to emerge from bankruptcy with a US\$500 million reduction in debt and an equity infusion of US\$150 million, which includes the investment made by Onex. This strengthened capital structure created a very solid base for strategic growth at Magellan in an industry that we believe offers attractive opportunities for expansion.

In its core business, Magellan offers clients an integrated suite of products under three broad categories of care. Behavioural care management provides cost-effective solutions for managed mental health and substance abuse benefits. Condition care management offers integrated solutions that address the challenges of co-morbid

behavioural and medical conditions, such as depression associated with chronic illness. The company's employee assistance and life management programs focus on problem resolution that combines traditional employee assistance programs with work/life services.

### Strong performance in 2004

Under the guidance of an excellent management team led by CEO Steve Shulman, Magellan was quick to deliver on the promise we saw throughout the bankruptcy process. Contract retention was strong during 2004, with minimal rate concessions in negotiations with customers. Magellan reduced its cost of care expenses during 2004 by more than five percent through initiatives such as tighter utilization management, improved claims recovery and lower unit costs. Administrative expenses were also driven down by the closure of four call centres, ongoing migration to an integrated information technology platform and company-wide process improvements.

These meaningful gains resulted in financial performance for 2004 that exceeded our expectations. Revenues were US\$1.7 billion and operating income was US\$184 million. Revenues and operating earnings increased over 2003 due to cost of care that was not only lower than anticipated but also lower than the historical trends built into contract pricing. Margins were strong as a result and were further buoyed by lower administrative costs. Importantly, Magellan generated significant cash flow in 2004 – more than US\$330 million – leaving the company with virtually no net debt and substantial resources with which to pursue new opportunities for growth.

### Magellan

FIGURE 3	(US\$ millions)	2004 <sup>(a)</sup>
Revenues		1,687
Operating earnings		182
Acquisition, restructuring and other expenses		(5)
Net earnings		84
Total assets		1,183
Total long-term debt (including current portion)		374
Onex' ownership/voting		6%/50%
Employees		4,300

The above amounts are based on Onex' accounting policies (Canadian) and therefore may differ from those financial results published by Magellan Health Services.

(a) Includes Magellan's financial results from the date of Onex' investment, January 5, 2004.

### Attractive avenues to long-term growth

We share management's view that Magellan has many strengths that will enable it to grow profitably in the coming years. A diversified base of high-quality customers, solid financial position, very experienced management team, industry-leading information systems and demonstrated expertise in behavioural healthcare – each of these will play a key role in Magellan's pursuit of growth. In the company's core business of managed healthcare, an important opportunity is emerging from state and local governments responsible for administering Medicaid services. With medical costs outstripping inflation, governments are increasingly looking to the managed care model as an attractive alternative, and Magellan is actively seeking to administer more of its customers' total healthcare spending.

Longer term, Magellan believes it can do more to serve the millions of lives it insures by developing new products that take advantage of its information systems and established delivery system. Magellan intends to test predictive modelling of high-cost members of its plans, with a focus on depression, and then expand its modelling to a wider base of behavioural conditions that are dramatically increasing the total cost of care to health plans. During the first half of 2005, Magellan will also launch a pilot program designed to provide more-effective screening and care for the seriously obese, who tend to have significantly greater medical costs, drug benefits and time lost than the general population.

### Res-Care, Inc.

Res-Care, Inc. ("ResCare") (NASDAQ: RSCR) is a human service company providing residential, therapeutic, job training and educational support to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment. In June 2004, Onex completed a \$114 million equity investment in ResCare for an approximate 28 percent ownership interest in the company; this followed overwhelming approval of our participation from ResCare shareholders. This investment was funded through Onex Partners LP; Onex' portion of the investment was about \$27 million. ResCare is using the investment proceeds to fund its growth plans.



### Largest U.S. provider of residential services

ResCare delivers a range of valuable social services through two major divisions. Disabilities Services, representing about 80 percent of revenues and operating earnings, provides a full array of services from more than 2,500 locations to people with developmental disabilities such as Down's syndrome and autism. ResCare is by far the largest provider of these services in the United States, operating in 33 states, Washington, DC, as well as Ontario, Canada. These services are primarily funded by Medicaid.

In its Training Services division, ResCare is the second-largest provider of Job Corps programs funded by the U.S. Department of Labor. The company operates 16 Job Corps centres in 12 states and Puerto Rico that provide training services to nearly 6,000 16 to 24-year-olds each day and 12,000 each year. ResCare also delivers training services to more than 6,000 under-skilled persons who are experiencing barriers to employment. The division provides services to more than 20,000 Americans annually under local programs funded by the Department of Health and Human Services and the Department of Labor.

### Quality care, quality performance

In making the investment in ResCare, we were particularly impressed with the quality and dedication of the management team led by CEO Ron Geary. His team has created a caring, mission-driven culture that lives its slogan of "building lives, reaching potential." That quality of care for clients has also led to an outstanding record of financial success for shareholders. At year-end 2004, ResCare had delivered 52 consecutive quarters of revenue increases. We believe management has a compelling strategy for further growth, and we are pleased to be partners with them to help facilitate their objectives.

ResCare is pursuing expansion on a variety of fronts. After successfully integrating 48 acquisitions made between 1997 and 2000 on a single business platform, the company is returning to an active acquisition program that will take advantage of the continuing consolidation of this highly fragmented industry. Management's intention is to add to existing clusters of group homes surrounding the company's core offices. ResCare completed two acquisitions

during 2004 that will add approximately US\$26 million in annual revenues. Just prior to year end, ResCare's education and training unit was awarded a three-year, US\$90 million contract by New York City to provide a range of services to people with disabilities.

### Growing opportunity in in-home services

The company is also growing organically. The provision of periodic in-home services, in which state governments hire ResCare to provide services to the elderly and to aging parents with developmentally disabled adult children at home, has been growing at double-digit rates over the past three years. That trend is expected to continue, and capturing a growing share of the market for periodic in-home services will remain a key initiative for ResCare. The company is also pursuing revenue and margin enhancement at its core offices by adding new homes. ResCare also purchases operations from competitors that can be integrated into its existing clusters; in 2004, the company completed "tuck-ins" representing annualized revenues of approximately US\$20 million.

### Center for Diagnostic Imaging

In early January 2005, we completed the previously announced acquisition of Center for Diagnostic Imaging, Inc. ("CDI") in a transaction valued at approximately

CENTER FOR  
DIAGNOSTIC IMAGING



\$225 million. The company is the leading provider of diagnostic and therapeutic radiology services in the

United States, operating 32 diagnostic imaging centres in nine major markets and having annual revenues of more than \$125 million. The acquisition was funded through Onex Partners, which invested \$88 million of equity in the transaction for an 84 percent ownership interest. Onex' portion of the equity investment was \$21 million for an approximate 20 percent ownership interest.

CDI's imaging services include magnetic resonance imaging ("MRI"), computed tomography ("CT"), diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound.

We believe the diagnostic imaging industry provides an excellent opportunity for growth. An aging population is driving increased demand for these services, while technological advances are making diagnostic imaging increasingly important for physicians and their patients. CDI's industry leadership, strong management team and advanced processes make it a strong foundation for value creation in Onex' healthcare segment.

### American Medical Response and EmCare

In late 2004, Onex announced an agreement to acquire American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. in a transaction valued at approximately



\$1 billion. In February 2005, we completed the purchase directly and through Onex Partners, which together with certain limited partner co-investors provided approximately \$270 million in equity for a 97 percent ownership

interest; Onex' share of the total equity was \$100 million for an approximate 37 per-cent ownership interest. Senior management of the businesses are also co-investors. Approximately \$770 million of debt was raised to provide the balance of the funding for the transaction.

AMR, headquartered in Denver, Colorado, is the largest U.S. provider of ambulance transport and emergency response services, operating 4,400 vehicles in more than 260 locations in 34 states. EmCare, based in Dallas, Texas, is the leading provider of outsourced services for hospital emergency department physician staffing and management. The company provides its hospital clients with services such as employee recruiting, quality assurance, risk management and record-keeping. EmCare has more than 300 contracts with facilities in 38 states.

AMR and EmCare give Onex very strong foundations for expansion in the emergency medical sector. The companies have industry-leading market positions, excellent customer bases and highly experienced management teams led by William Sanger, who is CEO of both companies. We look forward to working with management to take advantage of growth opportunities that will build value not only for shareholders but also for customers.

## CUSTOMER MANAGEMENT SERVICES

### ClientLogic

ClientLogic Corporation ("ClientLogic") is a leading international provider of business process outsourcing ("BPO") services in the customer care, fulfillment, item processing



and marketing services industry. The company has 55 facilities in North America, Europe, Africa

and Asia, including five distribution centres, that are staffed by more than 20,000 associates. Customer care – around-the-clock customer service, sales and technical support – represented 88 percent of revenues in 2004, while fulfillment – cost-effective "pick, pack and ship" of client products – comprised 10 percent. ClientLogic manages more than 140 million customer transactions each year.

The market for outsourced customer contact continued to expand during 2004 as corporations sought customer-care strategies that not only optimize their expenditures but also protect their brand image with consumers. ClientLogic's solution for clients is known as its "Right Shore Strategy", which focuses on partnering with clients to determine their core customer care needs and selecting the service offerings and locations that best meet those needs. Under this strategy, ClientLogic typically blends domestic contact centre capabilities with a 'near-shore' component where similarities in language skills and time zone ensure a seamless transition to outsourced services. A low-cost offshore component is added where appropriate to get the best overall cost profile at the lowest risk.

### Comprehensive right-shore footprint

After a very active 2004, ClientLogic has substantially completed its right-shore infrastructure. The company added more than 1,100 seats at two new facilities in New Brunswick and 500 seats at contact centres in Bangalore, India. The acquisition of Service Zone, Inc., which was completed in December 2003, and new construction in 2004 added 1,400 seats at contact centres in the Philippines. A call centre in Rabat, Morocco was established to provide near-shore support for clients based in France. ClientLogic is aggressively selling this increasingly comprehensive right-shore footprint to clients requiring scalable, cost-effective solutions for their customer contact.

With the ongoing consolidation of the industry, capable international competitors in offshore markets and the growing presence of non-traditional BPO providers in the customer care space, competition has remained intense. Client demands for ongoing cost and process improvements favour large, stable providers, like ClientLogic, with a reputation for quality delivery and cost-effective solutions. Improving operational quality and productivity against clear metrics were key initiatives at ClientLogic. The company achieved best-in-class status on both measures in its North American operations in 2004 and will implement similar strategies in its European operations in 2005. As one measure of the success of the management team's focus on quality, ClientLogic was named a "Top 5 Global Provider" in the 2004 Teleservices Agencies Awards, a major recognition by its industry.

### New business wins and solid performance

ClientLogic's quality, cost-effectiveness and compelling right-shore strategy led to net new business with Fortune 500 companies of about US\$65 million during 2004, the majority of it with clients based in North America. ClientLogic's fulfillment business completed a transition year in 2004 as the company refocused the segment on a true "pick, pack and ship" operation. Management implemented new information systems and resolved the execution issues that had hampered the fulfillment area in 2003, and the operation entered 2005 with a very robust pipeline of new contracts.

Thanks largely to the sharp focus of CEO Dave Garner and his management team, ClientLogic achieved a significant turnaround in its financial results in 2004. Revenues increased 30 percent to US\$562 million compared to US\$433 million in 2003. Part of that increase was attributable to ClientLogic's acquisition of Service Zone in late December 2003, which added US\$75 million of revenue growth in North America in 2004. In addition, new business wins with clients such as DirecTV and Bell Canada contributed US\$31 million of revenue growth in 2004. Higher revenues and the benefits of cost-reduction initiatives that began in 2003 led to a substantial increase in operating earnings, which rose US\$50 million to US\$34 million in 2004 from an operating loss of US\$16 million in the prior year.

### ClientLogic

FIGURE 4	(US\$ millions)	2004	2003
Revenues		562	433
Operating earnings (loss)		34	(16)
Acquisition, restructuring and other expenses		(3)	(6)
Writedowns of goodwill and intangible assets		(3)	(4)
Net loss		(11)	(52)
Total assets		253	263
Total long-term debt (including current portion)		198	184
Onex' ownership/voting		68%/88%	71%/89%
Employees		20,300	14,400

The above amounts are based on Onex' accounting policies (Canadian) and therefore may differ from those presented in ClientLogic's financial results.

## AUTOMOTIVE PRODUCTS

With our partner, Hidden Creek Industries (“HCI”), we have pursued a three-part strategy at Onex automotive products companies during the past three years: strengthen the management teams at each company, implement structural cost reductions to enable the companies to better address OEM pricing demands and improve their capital structures so that each company had more financial flexibility to grow. These initiatives take perseverance if they are to lead to sustainable value creation. As described below, during 2004 we began to see tangible benefits from the consistent execution of these performance improvement strategies by our operating teams.

### Partnership with Hidden Creek Industries

The exclusive partnership Onex created with Hidden Creek Industries has been very successful in creating value for shareholders by acquiring and building major suppliers to automotive and commercial vehicle OEMs. In the six platform company investments since 1989, Onex and HCI have created approximately \$700 million in value for Onex in these platforms – a remarkable record of achievement. During the time of our partnership, both Onex and HCI have evolved. The original partners at HCI have moved on. The automotive sector, while still of interest to Onex, has been reduced as a percentage of our total holdings, and our focus is now on large-scale transactions. As a result, we agreed with HCI management to end our formal partnership, effective the end of 2004. HCI staff, under a new company, will continue to be involved with our holdings for a period of time, but will also be free to provide advice to other parties. We thank them for the key role they have played in helping us to identify and build value in this sector.

### Onex ownership interests

Onex has ownership interests in three leading companies in the automotive products sector:

- **J.L. French Automotive Castings, Inc.:** One of the world’s largest independent designers and manufacturers of high-pressure aluminum die castings and assemblies for the automotive marketplace;

- **Performance Logistics Group:** The second-largest transporter of new automobiles in North America; and
- **Commercial Vehicle Group, Inc.:** The world’s largest supplier of interior systems, vision safety solutions and other cab-related products for the global commercial vehicle market.

In April 2004, Onex sold its remaining interest in Dura Automotive Systems, Inc. (“Dura Automotive”) for proceeds of approximately \$23 million. The sale is the culmination of a 13-year partnership between Onex and Dura Automotive, during which Onex received total proceeds of \$44 million from its \$7 million investment in the company.

North American car and light truck production declined slightly to 15.8 million units in 2004 from a volume of 15.9 million units in 2003. As has been the case in recent years, retail sales were spurred by domestic OEM offers of purchase incentives such as attractive lease rates and cash bonuses. Overall, retail sales rose by 2 percent, with light trucks – pickups and sport utility vehicles – commanding the major share of sales.

### J.L. French Automotive Castings, Inc.

J.L. French Automotive Castings, Inc. (“J.L. French Automotive”) is a vertically integrated manufacturer with captive smelting operations, advanced engineering capabilities, large-scale, high-pressure die-casting operations, as well as machining and assembly expertise. The company, which operates five manufacturing locations in North American and three in Europe, is the leading supplier of aluminum parts on two of the highest-volume domestic automotive platforms and provides significant content on 12 of the 20 best-selling vehicles in North America.

The senior management team that took over the leadership of J.L. French Automotive in the second half of 2003 has done an excellent job on its mandate of generating new business to fill existing capacity. During 2004, the company’s focused sales approach and enhanced financial flexibility led to more than US\$120 million in new business awards that will benefit 2005 and future years. A portion of this business is with new customers, part of a deliberate initiative to diversify J.L. French Automotive’s customer base in North America by 2007.





### Good financial and operating performance

Revenues increased 2 percent to US\$530 million in 2004 compared to US\$521 million in 2003; approximately US\$10 million of the increase was attributable to new business awards over the past two years. Stronger production on key platforms for Ford – J.L. French Automotive's largest customer – added US\$5 million in revenues, though the impact was partially offset by lower production volumes on specific General Motors models. In addition, J.L. French Automotive's European operations increased revenues by US\$16 million in 2004 due primarily to the benefit of favourable changes in foreign currency rates, partially offset by changes in product mix.

Operating income at J.L. French Automotive, however, declined slightly to US\$49 million in 2004 from US\$51 million in 2003 due primarily to an additional US\$4 million increase in materials costs and a growing reluctance by OEMs to accept a full pass-through of higher aluminum prices. Under a multi-year program initiated by CEO Jack Falcon, the company achieved more than US\$10 million in additional cost savings with the implementation of the first phase of a new expense-reduction system based on six sigma practices. Improved productivity and better use of raw scrap in North America added to overall efficiency. Despite these initiatives, performance in J.L. French Automotive's United Kingdom operations that were not as efficient offset a portion of the productivity gains achieved in North America. A consolidation plan to right size the business to an appropriate level of employment in the UK is in place to improve performance in 2005.

### J.L. French Automotive

FIGURE 5	(US\$ millions)	2004	2003
Revenues		530	521
Operating earnings		49	51
Acquisition, restructuring and other expenses		(5)	(3)
Writedown of goodwill		-	(157)
Net loss		(33)	(201)
Total assets		376	367
Total long-term debt			
(including current portion)		638	656
Onex' ownership/voting		77%/100%	56%/100%
Employees		2,700	2,900

The above amounts are based on Onex' accounting policies (Canadian) and therefore may differ from those presented in J.L. French Automotive's financial results.

In August 2004, the company completed a refinancing of its outstanding indebtedness. The new financing gives J.L. French Automotive improved liquidity, extends the maturity of the debt by nearly six years and provides the financial stability and flexibility to pursue business growth. As a result of the refinancing, the company's balance sheet was significantly de-leveraged and interest costs were reduced by US\$25 million annually, allowing further debt reduction. Onex invested US\$39 million in new equity as part of the refinancing transaction, increasing its ownership of J.L. French Automotive to 77 percent from 56 percent. Financial stability and the flexibility to invest in new programs are increasingly conditions of winning – or keeping – business in the automotive supply industry.

### Commercial Vehicle Group, Inc.

Commercial Vehicle Group, Inc. ("CVG") (NASDAQ: CVGI) is a leading supplier of interior systems, vision safety solutions and other cab-related products for the global commercial vehicle market, including the heavy-duty (Class 8) truck market, the construction market and other specialized transportation markets.



In August 2004, CVG completed a \$180 million initial public offering. As part of that offering, Onex sold approximately 45 percent of its CVG shares, receiving \$54 million in net proceeds and recording a gain of \$60 million after considering previously recorded losses. In addition, Onex received approximately \$27 million on the repayment of debt held by Onex, which resulted in a further gain of \$15 million. The total value Onex has received on CVG, including the value of shares still held, totalled \$196 million at the end of 2004 compared to an investment of approximately \$69 million. Following the offering, Onex retained a 24 percent ownership interest in CVG but ceased to control the company.

### Resurgence of demand in 2004

During the past several years we have discussed the factors that impeded Class 8 heavy truck production in North America. By late 2003, those factors, which included overbuilding by OEMs in the late 1990s and a reluctance by trucking companies to purchase new equipment, had given over to more favourable dynamics. Pent-up demand

for new trucks to replace aging vehicle fleets, increased use of trucks as a more efficient alternative to rail shipments and overall economic expansion are pushing production rates up substantially. OEMs built 170,000 units in 2003. Production increased by more than 50 percent in 2004 to 260,000 units.

Two important trends in this expansion favour CVG's business model. In the first, OEMs are awarding business to suppliers like CVG who can provide complete cab solutions. In the second, large fleet operators, in an effort to retain drivers, are acquiring vehicles with more comfortable, fully fitted interiors. For CVG, higher content per vehicle not only drives revenues but margins as well. As a result, revenues soared 32 percent in 2004 to US\$380 million from US\$288 million in 2003. Revenues were also driven by substantial growth in European and Asian markets. Three years of sharp focus on reducing fixed costs by CVG enabled the company to record a substantial increase in operating earnings on higher revenues.

### Performance Logistics Group

Performance Logistics Group ("PLG") is the second-largest transporter of new automobiles in North America. The company delivers more than 3.8 million vehicles annually from OEM plants to dealers.



In March 2004, Onex and HCI negotiated PLG's acquisition of Leaseway Auto Carrier Group ("Leaseway") from Penske Truck Leasing Co. ("Penske") in a share-exchange transaction. Onex' equity ownership in the new, larger PLG was reduced to 26 percent from 50 percent due to the issuance of additional shares by PLG, and Onex ceased to have voting control of the company on completion of the transaction but retained significant board representation.

We believe the Leaseway acquisition was a very good strategic fit for PLG. The combination created a company with three well-respected brands that serve all major automotive OEMs. The company became the second largest in the industry, touching more than 25 percent of all new cars and light trucks in North America. There are

strong operating synergies as well. PLG's strength is in the southern and western United States; Leaseway primarily serves markets in the eastern and Midwestern areas of the country and Canada. Where their operations overlap in the Midwest, there is significant opportunity to eliminate empty miles through improved logistics. By year-end, PLG and HCI had completed about half of their planned integration of Leaseway, including conversion of all Leaseway information systems onto the PLG platform. The conversion was accomplished with a very low incremental cost and is expected to lead to US\$1 million in savings in 2005. The company believes that the total opportunity for merger-related savings exceeds US\$7 million.

## OTHER BUSINESSES

### Communications Infrastructure Radian Communications Services

Radian Communications Services Corporation ("Radian") is a provider of communications infrastructure, including network design, installation and management, as well as tower engineering and construction to the telecommunications, broadcast and government sectors in North America. The company has a broad product offering and the capability to be a single-source provider of network communications, infrastructure technology and life-cycle service.

Contrary to expectations at the end of 2003, the rebound in capital expenditures by wireless carriers anticipated for 2004 by the communications infrastructure industry did not materialize in Canada, and spending increases in the United States during the second half of 2004 were modest. While sales of new towers did not achieve the levels expected for the year, Radian was successful in winning over \$9 million in new broadcast tower contracts, primarily in the U.S. and international markets.



### Further cost reductions in 2004

During the first half of 2004, Radian struggled with poor margins in its tower business and uneven execution in its U.S. operations. In June 2004, we appointed a new CEO, Jack Pulkinen, an executive with strong financial credentials and excellent general management experience. Jack has restructured Radian in recent months by simplifying the organizational structure, closing or consolidating branch operations, moving the head office to the Oakville plant, reducing administrative and senior management staff and improving job execution and margins. These and other initiatives have resulted in annual cost reductions of approximately \$3.5 million and position Radian to be more efficient and effective in the future.

Late in 2003, Radian acquired certain assets of ROHN Industries out of that company's bankruptcy protection. By late 2004, all purchased equipment had been installed in the Peoria, IL facility and a single shift was fully manned. ROHN continues to be a well-respected brand with both domestic and international customers, and sales are increasing each month. Radian expects the facility to contribute to profitability during 2005.

Revenues for 2004 increased 5 percent to \$113 million. Approximately \$12 million of the increase was attributable to the ROHN business. Radian reported an operating loss of \$11 million in 2004 compared to an operating loss of \$7 million in the prior year. The significant turnaround plan implemented by the new management team began to show positive results in the fourth quarter.

### Radian

FIGURE 6   (Cdn\$ millions)	2004	2003
Revenues	113	108
Operating loss	(11)	(7)
Acquisition, restructuring and other expenses	(4)	(2)
Writedowns of goodwill	-	(8)
Net loss	(19)	(23)
Total assets	70	76
Total long-term debt (including current portion)	57	47
Onex' ownership/voting	89%/100%	71%/80%
Employees	600	600

The above amounts are based on Onex' accounting policies (Canadian) and therefore may differ from those presented in Radian's financial results.

### Personal Care Products

#### Cosmetic Essence

In early December 2004, Onex completed the acquisition of Cosmetic Essence, Inc. ("CEI"), in a transaction valued at approximately \$300 million. CEI is a leading provider



cosmetic essence, inc.

of outsourced supply chain management services to the personal care products industry, including formulating, manufacturing, filling, packaging and distribution. The company manufactures products such as fragrances, crèmes, lotions and colour cosmetics for a diversified customer base of leading branded manufacturers and major retailers. Annual revenues exceed \$250 million. Onex and Onex Partners made a \$138 million investment in the business comprised of \$66 million of debt and \$72 million of equity for a 92 percent ownership interest. Management of CEI have the balance of the ownership. Onex' share of the investment was \$16 million of debt and \$17 million in the equity for a 21 percent ownership interest.

#### Compelling value proposition for customers

We believe CEI represents a very attractive opportunity to build value by helping to accelerate the growth of an established market leader. The company's fully integrated outsourcing model presents a strong value proposition to customers, enabling them to increase their speed-to-market, focus on their own core strengths while reducing their cost structures. Nine of CEI's top ten customers rely extensively on CEI to manage key aspects of the supply chain on their behalf.

CEI is run by a highly respected and experienced management team, led by John Croddick, Sr., the company's CEO and founder, that has rapidly grown the company's market leadership with a strong group of customers. Sales are well diversified across its supply-chain capabilities, distribution channels and products. Moreover, the company enjoys excellent relationships with a loyal, high-quality customer base of leading marketers and retailers of personal care products such as Bath & Body Works,

Elizabeth Arden, Wal-Mart and Target. As a result, CEI's compound annual growth in revenues from 1999–2004 was more than 22 percent; operating income advanced at a compound rate of more than 35 percent annually over the same period.

### Attractive growth potential

We find the longer-term opportunity in the US\$33 billion personal care products industry in the United States to be very attractive. Strong stable growth is expected to be at a compound annual rate slightly higher than the 4.5 percent rate of recent years. Consumer demand for greater multi-functional and therapeutic benefits from products, favourable demographics and growth in private-label brands are expected to drive the need for outsourced services such as research and development, manufacturing and distribution. CEI operates in a large, highly fragmented market, where meeting customer demands for speed-to-market, quality assurance and relationship management are the key drivers of success. In our view, CEI has both the management capability and physical infrastructure to leverage its significant competitive advantages into future growth, beginning in 2005.

### Small-capitalization Opportunities

#### ONCAP

ONCAP LP (“ONCAP”) is Onex’ dedicated vehicle for pursuing value creation in small- and mid-cap companies.

## ONCAP

The ONCAP fund was established with \$400 million of committed capital from major investors, of which Onex’ commitment was \$120 million. ONCAP’s objective is to acquire significant equity positions in companies with leading positions in their industries or industry segments, in partnership with those companies’ management teams. ONCAP typically makes equity investments of \$20 to \$80 million in established companies in North America. These companies usually have enterprise values that range from \$50 million to \$500 million. Like Onex, ONCAP’s investment objective is to create superior value for its partners over the long term.

The ONCAP team, under the direction of its Managing Partner Michael Lay, is doing an excellent job of delivering on the primary objective for its first fund. The commitment period for initial investments by the first fund expired at the end of December 2004, though ONCAP has the ability to make follow-on investments for another two years. ONCAP has made six acquisitions to date and has realized fully on two of those. At the end of 2004, the fund had returned more than 80 percent of investors’ capital and held four attractive companies with excellent prospects for continuing value creation. The two investments on which ONCAP has realized value – Enerflex Systems and Armtec Limited (“Armtec”) – generated an internal rate of return of nearly 28 percent on invested capital. ONCAP management has initiated discussions with potential investors for a new, slightly larger fund to be raised in 2005, in which Onex expects to be a major partner. The investment goals of the second fund are expected to mirror those of the first.

The environment for small- and mid-cap acquisitions continued to be very competitive during 2004. Canadian and U.S. private equity firms, flush with cash and readily available financing, aggressively pursued attractive investments; in Canada specifically, the very strong market for income trusts also increased competitive pressures for quality assets. Nevertheless, during the first half of 2004 ONCAP completed two acquisitions, Futuremed Health Care Products L.P. (“Futuremed”) and Canadian Securities Registration Systems Ltd. (“CSRS”) – both leaders in their industry segments – that it believes have excellent prospects for value growth.

In July, ONCAP used the income trust market to complete an initial public offering of trust units of Armtec, a leading manufacturer and marketer of drainage products and engineered solutions for infrastructure applications. ONCAP sold its entire interest in the company as part of the offering for gross proceeds of \$76 million; Onex’ share of those proceeds was \$25 million. The realization was more than twice ONCAP’s initial investment, representing a 33.7 percent internal rate of return over the three years of Armtec ownership.

The ONCAP companies reported consolidated revenues of \$431 million in 2004, up from \$275 million in 2003. The growth in revenues was due primarily to the inclusion of Futuremed from its February 2004 acquisition date and CSRS from its April 2004 acquisition date. Operating earnings of \$41 million in 2004, however, were slightly lower than the \$43 million earned in 2003 due primarily to the impact of the strengthening Canadian dollar on the results of CMC Electronics during 2004.

### **CMC Electronics**

CMC Electronics, Inc. (“CMC Electronics”), acquired in 2001, is a world-class leader in the design, manufacture and marketing of electronics and communications products for commercial and military applications. Late in 2004, CMC Electronics sold its CMC Electronics Cincinnati division, a manufacturer of infrared sensors and space electronics, for US\$179 million. The sale leaves CMC Electronics with a strategic focus on the aviation electronics business, with a primary emphasis on commercial and military cockpit avionics. In September 2004, CMC Electronics hired Jean-Pierre Mortreux as President and CEO to champion CMC Electronics’ next phase of growth. He brings 25 years of industry experience and extensive capabilities in leading the development, marketing, manufacture and support of aerospace electronics products and systems. Mr. Mortreux was formerly CEO of Thales Avionics North America.

CMC Electronics’ commercial aviation business had an excellent year in 2004. The division found a very positive reception to its new enhanced vision systems and electronic flight bag for the business jet market. Its flight management systems sold well, and component manufacturing rebounded nicely from lacklustre performance during 2003. CMC Electronics’ NovAtel had an outstanding year with sales of its high-end GPS-based avionics safety system. CMC Electronics’ 50-percent ownership interest in publicly traded NovAtel (NASDAQ: NGPS) was valued at \$239 million at December 31, 2004. In early 2005, CMC Electronics sold approximately 73 percent of its ownership in NovAtel for proceeds of about \$118 million.

### **Western Inventory Service**

Western Inventory Service (“WIS”), acquired early in 2003, is the largest data collection and verification company in Canada and the third largest in the United States. WIS provides services such as inventory counting and consulting, retail price verification and information management. The company has a strong management group and excellent relationships with customers that include major department, drug and electronics chains.

WIS executed its business plan in Canada efficiently and profitably during 2004, also winning attractive new business from a national grocery retailer. While the company is continuing to explore opportunities to expand beyond its traditional retail clients, the strategic focus of the business over the past year remained on inventory counting. In the United States, WIS pursued and won additional business, although not the volume of new business anticipated for 2004. The company continues to pursue rapid growth in the U.S. market and potential new service offerings.

### **Futuremed Health Care Products**

In February 2004, ONCAP invested \$25 million in the equity of Futuremed in partnership with the company’s founder and CEO Raymond Stone. Futuremed is Canada’s leading supplier of medical supplies, equipment and furniture to long-term care facilities. The company is the largest supplier in Ontario and has a strong presence in Alberta and in British Columbia.

ONCAP is working closely with the company in evaluating opportunities to expand the company’s geographic coverage and the range of products it provides to nursing-home customers. The demographics of an aging population base and the opportunity to create a national presence suggest that Futuremed has substantial room to grow in both size and revenues.

### **Canadian Securities Registration Systems**

In April 2004, ONCAP invested \$29 million in equity in the acquisition of CSRS. CSRS is a leading Canadian provider of registration and search services to financial institutions and auto finance and leasing companies. CSRS specializes in registering *Personal Property Security Act* (“PPSA”) charges on assets, conducting PPSA searches and registering security under the *Bank Act*. The Burnaby, B.C.-based company is the only national provider of these services, processing up to 17,000 transactions each business day. CSRS has performed very well since ONCAP’s acquisition, executing on its strategic initiatives and strengthening its reporting capabilities.

### **Seismic services and equipment**

#### **Compagnie Générale de Géophysique**

In early November 2004, Onex and Onex Partners completed a \$102 million investment in the convertible subordinated bonds of Compagnie Générale de Géophysique (“CGG”) (Paris: GA\_FP, NYSE: GGY). The eight-year bonds bear interest at the rate of 7.75 percent per annum and are convertible by Onex at any time into freely tradeable ordinary shares of CGG at a conversion price of US\$60.70 per share. At their conversion price, the bonds would have converted into approximately 1.4 million ordinary shares of CGG, representing approximately 10.5 percent of the diluted ordinary shares. The bonds are not generally callable by CGG prior to maturity. Onex’ portion of this investment was \$24 million.

CGG is a leading global supplier of applied reservoir solutions, geophysical services and products to the worldwide oil and gas industry. We believe our investment in CGG to be both attractive and timely. CGG is expected to experience growing demand for its services as oil producers increase their exploration budgets in response to high commodity prices and declining reserve levels.

In January 2005, Onex sold approximately \$55 million principal amount of its convertible subordinated bonds of CGG for proceeds of \$76 million after receiving an attractive offer from a third party. The remaining bonds would convert into approximately 650,000 ordinary shares of CGG having a value of \$54 million based on the December 31, 2004 market price.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") analyzes significant changes in the consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows of Onex Corporation ("Onex" or the "Company"). It should be read in conjunction with the audited annual consolidated financial statements and notes thereto on pages 72 to 103 of this report. The MD&A and the Onex consolidated financial statements have been prepared to provide information on Onex on a consolidated basis and should not be considered as providing sufficient information to make an investment decision in regard to any particular Onex operating company.

The MD&A is presented in the following sections:

- 21 Forward-Looking/Safe Harbour Statement and Fair Disclosure Statement**
- 22 Overview**
  - 22 Onex Business Objective and Strategy
  - 23 Key Performance Indicators
- 24 Financial Review**
  - 27 Significant Events in 2004
  - 29 Consolidated Operating Results
  - 45 Consolidated Financial Position
  - 52 Liquidity and Capital Resources
- 57 Outlook**
- 62 Risk Management**

The MD&A is prepared as of March 3, 2005.

### FORWARD-LOOKING/SAFE HARBOUR STATEMENT AND FAIR DISCLOSURE STATEMENT

This MD&A may contain, without limitation, certain statements that include words such as "believes", "expects", "anticipates" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause actual performance or results to be materially different from those anticipated in these forward-looking statements. Onex is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors.

## OVERVIEW

Onex is a diversified company that operates through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, theatre exhibition, healthcare, customer management services, automotive products, personal care products and communications infrastructure.

### ONEX BUSINESS OBJECTIVE AND STRATEGY

Onex' primary objective is to create long-term value by acquiring and building industry-leading businesses, and to have that value reflected in the Company's share price. Onex employs various strategies to achieve this long-term objective, including:

#### Industry leadership

We seek to acquire companies that we believe offer a clear opportunity to create value for shareholders. The company must have exhibited leadership or the potential for leadership within its own industry. Opportunities for significant growth may be in rapidly growing industries or in mature industries where there is the scope to build a leadership position through consolidation. We look to work in partnership with a strong and committed management team that is willing to make a sizeable personal financial commitment to the business.

#### Diversification of capital

Onex deliberately diversifies its capital across a variety of companies and industries in order to limit its exposure to a single company or industry. This strategy also enables Onex to better weather the ebbs and flows of economic and/or industry business cycles. At December 31, 2004, Onex had significant businesses in the following reportable segments:

Reportable Segments	Companies
Electronics Manufacturing Services	<b>Celestica Inc.</b> , one of the world's largest electronics manufacturing services companies for original equipment manufacturers ("OEMs").
Theatre Exhibition	<b>Cineplex Galaxy Limited Partnership</b> , Canada's second-largest film exhibition company, which operates 86 theatres with a total of 775 screens under the Cineplex Odeon and Galaxy Entertainment brands.
Healthcare	<p><b>Magellan Health Services, Inc.</b>, a leading provider of managed behavioural healthcare and insurance services in the United States.</p> <p><b>Res-Care, Inc.</b>, a leading U.S. provider of residential, therapeutic, job training and educational support services to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.</p> <p><b>Center for Diagnostic Imaging, Inc. (acquired in January 2005)</b>, a leading provider of diagnostic and therapeutic radiology services in the United States.</p> <p><b>Emergency Medical Services Corporation (acquired in February 2005)</b>, the largest U.S. provider of ambulance transport services operating under American Medical Response and EmCare, a leading provider of outsourced services for hospital emergency department physician staffing and management.</p>
Customer Management Services	<b>ClientLogic Corporation</b> , a leading business process outsourcer in the contact centre and fulfillment industries; the company provides customer care services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies.



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## Automotive Products

**J.L. French Automotive Castings, Inc.**, a leading manufacturer of aluminum die-cast components for North American and European automotive OEMs.

**Commercial Vehicle Group, Inc.**, a leading supplier of interior systems, vision safety solutions and other cab-related products to the global commercial vehicle market and other specialized transportation markets.

**Performance Logistics Group**, a leading North American provider of automotive transportation and logistics services for light vehicle OEMs.

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## Other Businesses

- *Personal Care Products*
- *Communications Infrastructure*
- *Small-capitalization Opportunities*

**Cosmetic Essence, Inc.**, a leading provider of outsourced supply chain management services to the personal care products industry.

**Radian Communication Services Corporation**, a leading North American wireless communications infrastructure and network services company.

**ONCAP LP**, a \$400 million fund focused on acquiring and building the value of small-capitalization companies based in North America, which actively manages investments in CMC Electronics Inc., Western Inventory Service Ltd., Futuremed Health Care Products L.P. and Canadian Securities Registration Systems Ltd.

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## Maintain a financially strong parent company

Onex, the parent company, maintains a strong financial position with substantial liquidity in order to be responsive to new opportunities to create long-term value and, if required, support existing operating companies. Onex also has committed capital through its private equity funds, Onex Partners LP ("Onex Partners") and ONCAP LP ("ONCAP"). Onex has committed \$480 million (US\$400 million) to the \$2 billion (US\$1.7 billion) Onex Partners fund and controls the General Partner and Manager. ONCAP is a \$400 million fund committed to acquiring and building value in small- to medium-cap companies based in North America. Onex has committed approximately \$120 million to ONCAP and controls ONCAP's General Partner.

At December 31, 2004, Onex, the parent company, had approximately \$1.7 billion of cash and near-cash items. In addition, the uncalled committed capital available through Onex Partners from other limited partners was \$1.1 billion at the end of 2004.

## Ownership by management

Each member of Onex' management has a meaningful personal financial interest in Onex and its operating companies. The Onex management team's depth and breadth of experience on acquisitions, integration, strategy, negotiations and financing supports the management teams of the operating companies in building the value of their businesses. In addition, the senior management teams at each operating company typically have a meaningful personal ownership in that business.

During 2004, Onex' management and Onex' board of directors invested \$32 million in the investments or acquisitions completed by Onex in 2004.

## KEY PERFORMANCE INDICATORS

### Onex operating companies performance

Onex uses a number of key performance indicators to monitor the performance of its various operating companies. Some of these performance indicators are specific to the industry in which each company operates. While Onex considers net earnings to be an important measure of performance, we believe that revenues and operating earnings (as defined on page 36) are more relevant in assessing the performance of Onex' operating companies because operating earnings, in particular, eliminate interest charges, which are a function of the particular financing structure, as well as any unusual charges. The discussion of these factors by industry segment provides an informative analysis of the components of the consolidated financial results of Onex. Accordingly, we have used these measures for much of our discussion on performance in this MD&A.

### Share performance

Onex' success in building its businesses, the completion of significant acquisitions and investments during 2004, and significant value realizations led a 34 percent increase in Onex' share price in 2004. At December 31, 2004, the market value of an Onex share had increased to \$19.75 per share from \$14.69 per share at December 31, 2003.

## FINANCIAL REVIEW

This section discusses significant changes in Onex' consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows for the fiscal year ended December 31, 2004 compared to those for the year ended December 31, 2003 and in selected areas to those for the year ended December 31, 2002.

### Accounting policies and estimates

Onex prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in preparation of the financial statements are described in note 1 to the audited annual consolidated financial statements. Onex and its operating companies evaluate their estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in Onex' consolidated financial statements are estimates used in determining allowance for doubtful accounts, inventory valuation, the useful lives of property, plant and equipment and intangible assets, pension and post-employment benefits, restructuring costs, liability for medical claims incurred but not reported ("IBNR") and other matters. Actual results could differ materially from those estimates and assumptions.

The assessment of goodwill and intangible assets for impairment and the determination of income tax valuation allowances requires the use of judgments, assumptions and estimates. Due to the material nature of these factors, they are discussed here in greater detail.

### Goodwill, intangible assets and long-lived assets impairment tests

The impairment tests of goodwill, intangible assets and long-lived assets involve consideration of future cash flows and fair values of individual assets, groups of assets or reporting units. The process of determining fair value

and future cash flows is subjective and requires management of the particular operating companies to exercise judgment in making assumptions about future results, including revenues, operating expenses, capital expenditures and discount rates. When an impairment test is undertaken, the underlying assumptions are re-evaluated and could give rise to future impairment charges. Included in Onex' audited annual consolidated financial statements for the year ended December 31, 2004 is a writedown of goodwill and intangible assets of \$393 million and a \$94 million writedown of long-lived assets related to Onex' operating companies. These writedowns are discussed on pages 40 and 41 of this MD&A. Notes 18 and 19 to the audited annual consolidated financial statements also provide information on these charges.

### Income tax valuation allowance

The income tax valuation allowance is recorded against future income tax assets when it is more likely than not that some portion or all of the future income tax assets will not be realized. The reversal of future income tax liabilities, projected future taxable income, the character of income tax assets, tax planning strategies and changes in tax laws are some of the factors taken into consideration when determining the valuation allowance. A change to these factors would affect the estimated valuation allowance and income tax expense. Included in Onex' audited annual consolidated financial statements for the year ended December 31, 2004 was a \$302 million charge recorded by Celestica relating to a valuation allowance for most of the company's remaining deferred tax assets in the United States and Europe. Note 20 to the audited annual consolidated financial statements provides additional disclosure on income taxes.

## New accounting policies in 2004

### Generally accepted accounting principles

In the first quarter of 2004, Onex adopted *Canadian Institute of Chartered Accountants ("CICA") Handbook* Section 1100, "Generally Accepted Accounting Principles". This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining the appropriate disclosure if a matter is not explicitly dealt with in the primary sources of GAAP. In addition, Onex has adopted *CICA Handbook* Section 1400, "General Standards of Financial Statement Presentation", which provides updated guidance on general concepts associated with financial statements. The adoption of these sections did not have a material impact on Onex' audited annual consolidated financial statements.

### Hedging relationships

Effective January 1, 2004, Onex adopted Accounting Standards Board Accounting Guideline 13 ("AcG-13"), "Hedging Relationships", which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. This guideline also establishes certain conditions for applying hedge accounting and deals with the discontinuance of hedge accounting. Onex also adopted Emerging Issues Committee Abstract 128 ("EIC-128"), "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which requires that any derivative financial instrument that is not designated as a compliant hedge under AcG-13 be measured at fair value, with changes in fair value recorded in current year income.

At December 31, 2004, Onex, the parent company, had two types of derivative instruments in place – exchangeable debentures and forward sales contracts related to approximately 11 million shares of Celestica held by Onex – that were affected by these new pronouncements. These instruments were entered into in 2000 and 2001. Onex determined that these instruments did not qualify for hedge accounting based on the new guidance, and accordingly Onex is required to mark-to-market these instruments to the value of the underlying securities, which are Celestica subordinate voting shares, with the change in value since January 1, 2004 being credited to income. Previously deferred gains of \$730 million

on these instruments are deferred until such time as the instruments are settled. As a result of these pronouncements, Onex recorded income of \$29 million in the 2004 audited annual consolidated financial statements even though there was no economic or financial impact to Onex. The recorded income reflects the decline in value of the debenture liability and an increase in the value of the forward sales contracts.

### Asset retirement obligations

Onex adopted the new *CICA Handbook* Section 3110, "Asset Retirement Obligations", in the first quarter of 2004. This section establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. It applies to all legal obligations associated with the retirement of a tangible long-lived asset that result from its acquisition, construction, development or normal operation. The adoption of this section did not have a material impact on Onex' audited annual consolidated financial statements.

### Stock-based compensation and other stock-based payments

Effective January 1, 2004, Onex' operating companies adopted the revised *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires that a fair-value-based method of accounting be applied to all stock-based compensation payments to employees. Previously, only non-employee and employee awards that called for settlement with cash or other assets, or stock appreciation rights that called for settlement by the issuance of equity instruments, were required to be recorded as compensation expense. Onex has been recording the change in value of options on its shares and investment rights under the Management Investment Plan as a charge or credit to earnings since January 1, 2002. The current change affects only the accounting for certain stock option plans at Onex' operating companies. The operating companies adopted this new requirement on a retroactive basis for awards made since January 1, 2002 that had not previously been recognized as compensation expense in the consolidated statements of earnings; there was no restatement of prior periods. Accordingly, as at January 1, 2004, the adoption of this new requirement reduced retained earnings by \$5 million and decreased non-controlling interests by \$5 million.

The adoption of this revised section resulted in Onex' operating companies recording \$69 million of expense in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2004, which was in addition to the expense recorded by the parent company. Note 14 to the audited annual consolidated financial statements provides pro forma net loss and loss per share for the year ended December 31, 2003 adjusted for the effect of the stock option plans of operating companies not recorded through the statements of earnings.

#### **Revenue recognition**

Effective January 1, 2004, Onex adopted the new pronouncements under EIC-141, "Revenue Recognition", EIC-142, "Revenue Arrangements with Multiple Deliverables" and EIC-143, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". These sections provide more specific guidance on *CICA Handbook* Section 3400, "Revenue", and improve the harmonization of revenue standards between Canadian and U.S. GAAP. The adoption of these EIC standards did not have a material impact on Onex' audited annual consolidated financial statements.

#### **Employee future benefits**

In the second quarter of 2004, Onex adopted the amended *CICA Handbook* Section 3461, "Employee Future Benefits", which requires additional disclosures about the assets, cash flows and net periodic benefit costs of defined benefit pension plans and other post-retirement benefits plans. The new annual disclosures were effective for fiscal years ending on or after June 30, 2004, and the new interim disclosures were effective for quarters ending on or after that date. Note 25 to the audited annual consolidated financial statements includes the additional disclosure of pension plans and other post-retirement benefits plans.

#### **Financial instruments – presentation and disclosure**

In December 2004, Onex adopted the amendment to *CICA Handbook* Section 3860, "Financial Instruments – Presentation and Disclosure". This amendment requires obligations of a fixed amount that may be settled, at the

issuer's option, by a variable number of the issuer's own equity instrument to be presented as liabilities. Any securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or the equivalent value of its own equity instruments will no longer be presented as equity. This standard is applicable on a retroactive basis, with restatement of prior periods. As a result of adopting this standard, Onex reclassified \$149 million and \$273 million, respectively, of the principal component of convertible debt held by Celestica from non-controlling interests liability to long-term debt as at December 31, 2004 and 2003.

#### **Consolidation of variable interest entities**

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities". Variable interest entities ("VIEs") are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. This guideline provides specific guidance for determining when an entity is a VIE, and who, if anyone, should consolidate the VIE. This guideline is effective on a prospective basis for Onex' 2005 fiscal year. The effect of the adoption of this guideline is currently being evaluated.

#### **Investment companies**

In January 2004, the CICA issued Accounting Guideline 18 ("AcG-18"), "Investment Companies". AcG-18 provides guidance regarding an investment company's measurement of its investments, determining whether an entity is an investment company; and when an investor in an investment company should account for the investment company's investments in the same manner as the investment company accounts for those investments. Generally, the guideline is effective for fiscal years beginning on or after July 1, 2004, and may be applied prospectively or retroactively. However, certain provisions are not required to be adopted until fiscal years beginning on or after July 1, 2005. Onex has determined that the adoption of this guideline will not have a material effect on Onex' audited annual consolidated financial statements.

## SIGNIFICANT EVENTS IN 2004

There were a number of significant events that occurred during the year that affected Onex' consolidated results for 2004 and their comparability to results for 2003. These events are provided here in chronological order.

### Investment in Magellan

In January 2004, Onex and Onex Partners completed their investment in Magellan Health Services, Inc. ("Magellan"), a leading provider of managed behavioural healthcare in the United States. The total investment by Onex and Onex Partners was \$131 million, of which Onex' portion was \$30 million for a 6 percent equity ownership in the company. Onex has effective voting control of Magellan through Onex Partners. As a result, Magellan's operations have been consolidated and reported in a new reportable segment – Healthcare – from the date of acquisition. Note 3 to the audited annual consolidated financial statements provides additional information on this acquisition.

### Performance Logistics Group acquired Leaseway Auto Carrier Group

In late March 2004, Performance Logistics Group ("PLG") acquired Leaseway Auto Carrier Group ("Leaseway") from Penske Truck Leasing Co., L.P. in a share-exchange transaction. As part of this acquisition, PLG issued additional shares, which diluted Onex' ownership in PLG to 26 percent from 50 percent, at which time Onex ceased to have voting control of the company. Consequently, PLG's operating results have been included on an equity accounting basis in 2004, with the presentation of the company's revenues and operating earnings being collapsed to one line in the audited consolidated statement of earnings – "Equity-accounted investments." For comparison, included in Onex' fiscal 2003 audited annual consolidated statement of earnings were PLG's revenues and operating earnings of \$260 million and \$4 million, respectively.

Onex also recorded a \$58 million non-cash gain relating to the Leaseway transaction, which has been included in the "Gains on shares of operating companies" line in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2004. The gain was comprised of a \$22 million non-cash accounting dilution gain and \$36 million of losses of PLG previously recognized by Onex that were in excess of other shareholders' equity in PLG.

### Sale of Dura Automotive

In April 2004, Onex sold its remaining interest in Dura Automotive. Onex received net proceeds of approximately \$23 million and recorded a pre-tax gain of \$4 million. This brings total proceeds from Onex' ownership in Dura Automotive to \$44 million compared to a total investment of \$7 million in the company made since 1990. As a result of the sale, Dura Automotive's operating results up to the date of sale in 2004 and for the full year ended December 31, 2003 have been reclassified to be presented as earnings from discontinued operations in Onex' audited annual consolidated statements of earnings. Note 2 to the audited annual consolidated financial statements discloses those amounts in the December 31, 2003 balance sheet that have been reclassified to show the assets and liabilities as discontinued.

### Investment in ResCare

In June 2004, Onex and Onex Partners completed their \$114 million equity investment in Res-Care, Inc. ("ResCare") for an approximate 28 percent ownership interest in the company. Onex' share of this investment was \$27 million for a 7 percent ownership interest. ResCare provides residential, therapeutic, job training and educational support to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment. ResCare's operating results from the date of acquisition have been included on an equity accounting basis in Onex' audited annual consolidated financial statements. Onex' share of the net earnings of ResCare is reported in the "Equity-accounted investments" line in Onex' audited annual consolidated statements of earnings and reported in the Healthcare segment in note 27 to the audited annual consolidated financial statements.

### Sale of Loews Cineplex Entertainment and Cinemex

In July 2004, Onex and Oaktree Capital Management, LLC ("Oaktree"), its partner in Loews Cineplex Entertainment Corporation and Grupo Cinemex (collectively "Loews Cineplex"), sold Loews Cineplex for approximately \$2 billion. Onex received proceeds of approximately \$739 million for its interest and retained Loews Cineplex' interest in the Canadian operations – primarily its units of Cineplex Galaxy Limited Partnership ("CGLP") – which had a value of \$112 million at the time of sale, and certain assets of the holding company, Cineplex Odeon Corporation ("Cineplex Odeon Canada"). As a result, Onex recorded a pre-tax gain

of \$238 million on this sale, which excluded the value of the Canadian operations. The total value Onex has received from the theatre exhibition segment, including the market value at December 31, 2004 of the CGLP units it holds, is just over \$1 billion compared to a total investment of approximately \$540 million. As a result of the sale, Onex has presented Loews Cineplex' results as earnings from discontinued operations in the audited annual consolidated financial statements; the comparative 2003 full-year results of Loews Cineplex have also been reclassified to be presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses those amounts in the December 31, 2003 balance sheet that have been reclassified to show the assets and liabilities as discontinued.

The Canadian operations of Loews Cineplex that were retained by Onex and Oaktree include CGLP and Cineplex Odeon Canada, which has operations not included in CGLP. Collectively these operations represent the reported results of the theatre exhibition segment for the year ended December 31, 2004 and the comparative results for the same period of 2003.

#### **Commercial Vehicle Group initial public offering**

In August 2004, Commercial Vehicle Group, Inc. ("CVG") completed a \$180 million initial public offering. As part of that offering, Onex sold approximately 45 percent of its CVG shares, which had a cost of \$31 million, receiving \$54 million in net proceeds, and recording a gain of \$60 million after accounting for previously recorded losses. In addition, Onex received approximately \$27 million on the repayment of debt held by Onex, which resulted in a further gain of \$15 million. Onex' equity ownership in CVG was reduced to 24 percent from 55 percent as a result of the offering and sale of shares, and Onex ceased to have voting control of the company at that time. As a result, CVG has been accounted for by the equity method following the offering. At December 31, 2004, Onex held 4.2 million CVG shares with a market value of \$113 million compared to a cost of \$38 million.

#### **Acquisition of Cosmetic Essence, Inc.**

In early December 2004, Onex acquired Cosmetic Essence, Inc. ("CEI") in a transaction valued at approximately \$300 million. The investment made through Onex Partners was approximately \$138 million for a 92 percent ownership interest. Onex' share of this investment was approximately \$33 million for a 21 percent ownership interest. CEI is a leading provider of outsourced supply chain management services to the personal care products industry, which includes formulating, manufacturing, filling, packaging and distribution services. The company manufactures products such as fragrances, crèmes, lotions and colour cosmetics for a diversified customer base of leading branded manufacturers and major retailers. CEI's financial results from the date of acquisition in December 2004 are not significant to Onex' consolidated results, and therefore, are not consolidated in the audited annual statement of earnings for the year ended December 31, 2004. As at December 31, 2004, CEI's balance sheet has been included in the audited balance sheet.

#### **Sale of Cincinnati Electronics business**

In December 2004, ONCAP's subsidiary, CMC Electronics, Inc. ("CMC Electronics"), sold its Cincinnati Electronics business ("Cincinnati Electronics") for net proceeds of \$226 million, which the company used to repay its senior debt. As a result of this sale, Onex recorded an after-tax gain of \$49 million.

In January 2005, CMC Electronics paid a dividend to all its shareholders. ONCAP received approximately \$136 million of that dividend, of which Onex' portion was approximately \$40 million. Onex received an additional dividend of \$77 million due to its direct ownership interest in CMC Electronics not held through ONCAP.

The results of Cincinnati Electronics have been presented as earnings from discontinued operations in Onex' audited annual consolidated financial statements. The comparative 2003 full-year results of Cincinnati Electronics have also been reclassified and presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses those amounts in the December 31, 2003 balance sheet that have been restated to show the assets and liabilities as discontinued.

### Sale of InsLogic

In late December 2004, Onex signed an agreement to sell InsLogic Corporation ("InsLogic") for approximately \$22 million. This compares to a total investment of equity and debt in InsLogic of \$52 million. The sale was completed in mid-January 2005. As a result of the agreement to sell InsLogic as at December 31, 2004, Onex has presented InsLogic's results as earnings from discontinued operations on the audited annual consolidated financial statements; the comparative fiscal 2003 results of InsLogic have also been reclassified to be presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses those amounts in the December 31, 2003 balance sheet that have been restated to show the assets and liabilities as discontinued.

### Weakening of the U.S. dollar relative to the Canadian dollar

Most of Onex' operating companies are based in the United States or report in U.S. dollars. As Onex reports its consolidated financial results in Canadian dollars, the movement of the U.S. dollar to Canadian dollar exchange rate directly affects Onex' audited annual consolidated statements of earnings and audited consolidated balance sheets. The U.S. dollar's average value was 1.3015 Canadian dollars for the year ended December 31, 2004 compared to 1.4015 Canadian dollars for the prior year. The lower U.S. dollar to Canadian dollar exchange rate used to convert Onex' U.S.-based operating companies' results was a contributing factor in the variance of the 2004 full-year results compared to last year.

In addition, Onex, the parent company, holds a significant portion of its cash in U.S. dollars. The revaluation of U.S.-dollar-denominated cash based on the current exchange rate has resulted in an exchange loss of \$124 million being recorded for the year ended December 31, 2004. This compares to a loss of \$139 million recorded for the year ended December 31, 2003.

### Share repurchases under Onex' Normal Course Issuer Bids

Onex' consolidated balance sheet as at December 31, 2004 reflects the impact of Onex' repurchases of its Subordinate Voting Shares under the Company's Normal Course Issuer

Bids. During 2004, the Company repurchased 9,143,100 Subordinate Voting Shares at a total cost of \$150 million. This compares to 11,586,100 Subordinate Voting Shares repurchased at a total cost of \$166 million in the prior year.

## CONSOLIDATED OPERATING RESULTS

This section should be read in conjunction with the audited annual consolidated statements of earnings, found on page 69 of this report, and the corresponding notes thereto.

### Variability of results

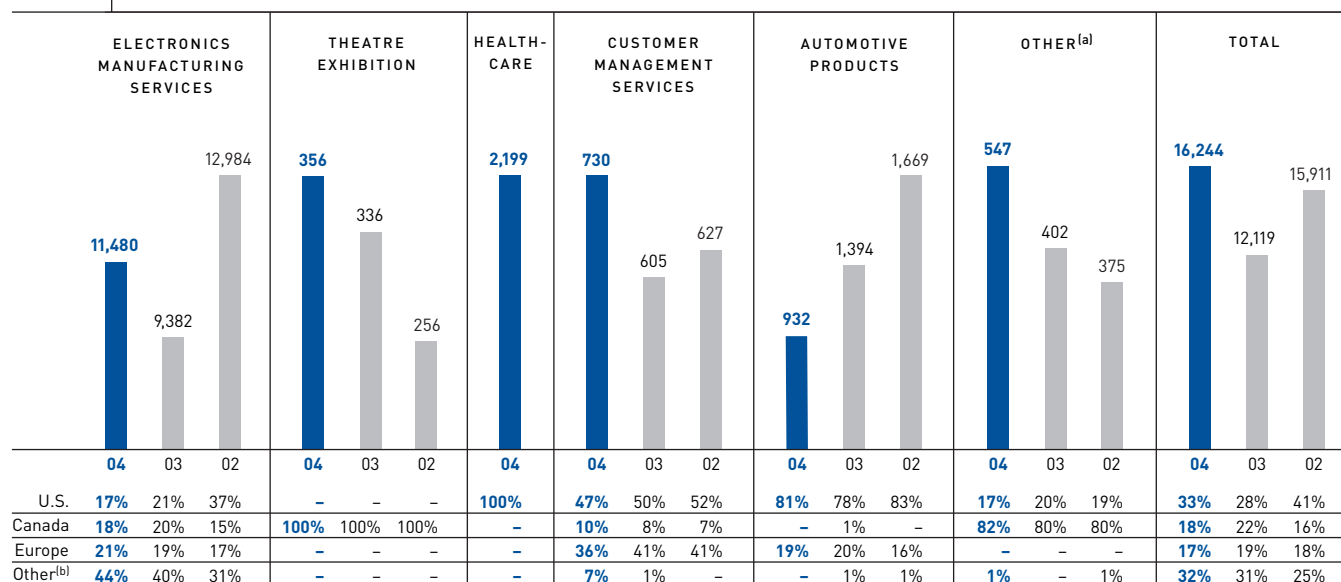
Onex' annual consolidated operating results may vary substantially from year to year for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the U.S. dollar and the Canadian dollar; the change in market value of stock-based compensation and derivative instruments; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand, materials and employee-related costs; changes in the mix of products and services produced and charges to restructure operations. The discussion that follows identifies some of the material factors that affected each of Onex' operating segments and Onex' audited annual consolidated financial results.

### Consolidated revenues

Consolidated revenues were \$16.2 billion in 2004 compared to \$12.1 billion in 2003 and \$15.9 billion in 2002. Chart 1 shows consolidated revenues in Canadian dollars by industry and geographic segments for 2004, 2003 and 2002. Table 1 provides a breakdown of revenues by industry segment in the functional currencies of the companies for 2004, 2003 and 2002 and the change in revenues from those periods. We provide revenues in the operating companies' functional currencies to show the impact of foreign exchange translation on revenues.

## Revenue Diversification by Industry and Geographic Segments

CHART 1 | (\$ millions)



(a) Includes Radian, ONCAP and parent company.

(b) Other includes primarily operations in Central and South America, Asia and Australia.

## Revenues by Industry Segment in the Functional Currency

TABLE 1 | (\$ millions)

	Functional Currency				
	2004	2003	Revenue Increase/ (Decrease) 2004-2003	2002	Revenue Increase/ (Decrease) 2003-2002
Electronics Manufacturing Services	US\$8,840	US\$6,735	US\$2,105	US\$8,272	US\$(1,537)
Theatre Exhibition	C\$356	C\$336	C\$20	C\$256	C\$80
Healthcare	US\$1,687	-	US\$1,687	-	-
Customer Management Services	US\$562	US\$433	US\$129	US\$399	US\$34
Automotive Products	US\$710	US\$994	US\$(284)	US\$1,064	US\$(70)
Other <sup>(a)</sup>	C\$547	C\$402	C\$145	C\$375	C\$27

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes Radian, ONCAP and parent company.

### Electronics Manufacturing Services ("EMS")

Celestica reported revenues of \$11.5 billion in 2004, a 22 percent increase from \$9.4 billion in 2003. In the company's functional currency, Celestica reported revenues of US\$8.8 billion, up 31 percent from US\$6.7 billion in 2003. Revenues increased due to improved base business

volumes from some of Celestica's top customers and new business wins, which collectively accounted for a 17 percent increase in revenue. Revenue from the acquisitions of Manufacturers' Services Limited ("MSL") in March 2004 and NEC Corporation's operations in the Philippines in April 2004 contributed a further 14 percent increase in revenues.



All of the company's regions – the Americas, Europe and Asia – increased revenues year-over-year as they benefitted from new business wins from existing and new customers and from acquisition revenue. In addition, the Asia region, which increased revenues by 44 percent in 2004, benefitted from its expanded manufacturing capabilities and volume from Celestica operations in other geographic areas.

For the year ended December 31, 2003, Celestica reported revenues of \$9.4 billion, a 28 percent decline from \$13 billion in 2002. Excluding the impact of foreign currency translation, the company reported revenues in its functional currency of US\$6.7 billion, down 19 percent from US\$8.3 billion in 2002. Lower volumes due to prolonged weakness in end-markets in the communications and computing sectors and reduced prices on components and services related to excess capacity in the EMS industry were the significant factors in the decline of revenues. Most of the revenue decrease was from Celestica's Americas and Europe regions, which collectively reported revenues of US\$4.5 billion in 2003, down from US\$6.4 billion in 2002, due to reduced customer orders resulting from the downturn in end-market demand and from product transfers to some of the company's lower cost operations in Asia. Partially offsetting the lower revenues in the Americas and Europe regions were higher revenues in Asia, up 17 percent, due to new business wins, the transfer of production from Celestica operations located in higher-cost geographic areas and the inclusion of full-year revenues from acquisitions completed in 2002.

### Theatre Exhibition

The theatre exhibition segment includes the operations of CGLP and Cineplex Odeon Canada, which operates a small number of theatres in Canada not included in CGLP. CGLP and Cineplex Odeon Canada generate revenues primarily from box-office and concession sales, which are affected by attendance levels and by changes in the average per patron admission and concession revenues, as well as by the commercial appeal of the films released and the successful marketing and promotion of those films by the film studios and distributors. Theatres opened or closed in the year will also affect revenues.

During 2004, CGLP and Cineplex Odeon Canada reported combined revenues of \$356 million, up 6 percent from \$336 million in 2003. The revenue growth was due

primarily to additional revenues from the inclusions of new theatres (\$19 million), an improvement in average admission and concession revenues per patron (\$5 million), partially offset by decreased attendance levels (\$7 million). That revenue increase was split between box-office revenue of \$11 million and concession revenue of \$6 million.

The 2003 combined operations of CGLP and Cineplex Odeon Canada reported revenues of \$336 million, up \$80 million from \$256 million in 2002. Much of the revenue growth in 2003 was due to the inclusion of a full year of revenues for CGLP and Cineplex Odeon Canada, which Onex acquired in March 2002.

### Healthcare

The healthcare segment is a new reportable segment in 2004 following Onex' investment in Magellan in early January 2004. Reported revenues for Magellan totalled \$2.2 billion in 2004. In the company's functional currency, Magellan reported revenues of US\$1.7 billion in Canadian GAAP. The company is a leading provider of managed behavioural healthcare and insurance services in the United States. The company reports financial results in four segments – Health Plan Solutions, Employer Solutions, Public Sector Solutions and Corporate and Other. Health Plan Solutions accounted for US\$923 million of revenues from contracts with managed care companies, health insurers and other health plans. Employee Solutions, which accounted for US\$136 million of revenues, provides employee assistance program services, managed behavioural healthcare services and integrated products under contracts with employers, including corporations, government agencies and labour unions. Public Sector Solutions, which generated US\$628 million in revenues, provides managed behavioural healthcare services to Medicaid recipients under contracts with state and local governmental agencies. The Corporate and Other clients segment comprises operational support functions such as information technology and sales and marketing as well as corporate support functions such as executive, finance, human resources and legal.

## Customer Management Services

ClientLogic Corporation ("ClientLogic") reported revenues of \$730 million in 2004, up 21 percent from \$605 million in 2003. In the company's local currency and Canadian GAAP, ClientLogic's revenues grew 30 percent to US\$562 million in 2004 from US\$433 million in 2003. ClientLogic's acquisition of Service Zone, Inc. ("Service Zone") in late December 2003 contributed US\$75 million of the revenue growth in North America. In addition, net new business wins with clients such as DirecTV and Bell Canada provided US\$31 million, or 24 percent, of the revenue growth in 2004 over last year.

In 2003, revenues for ClientLogic reported in Canadian dollars declined to \$605 million from \$627 million in 2002. In the company's functional currency, however, ClientLogic reported an 8 percent increase in revenues to US\$433 million in 2003 from US\$399 million in 2002. The revenue increase was due primarily to a 6 percent increase in North American warehouse management services associated with a new client, SBC Communications; a US\$4 million increase in revenues from the inclusion of a new joint-venture call centre in India that commenced operations in the second quarter of 2003; and the strengthening of the euro and the British pound against the U.S. dollar in 2003. These increases were partially offset by customer disengagements and lower North American and European customer contact management revenues caused by pricing pressures.

## Automotive Products Revenues

TABLE 2	(\$ millions)	Canadian Dollars			Functional Currency		
		2004	2003	2002	2004	2003	2002
J.L. French Automotive	691	732	865	US530	US521	US550	
Commercial Vehicle Group <sup>(1)</sup>	241	402	490	US180	US288	US313	
Performance Logistics Group <sup>(2)</sup>	-	260	314	-	US185	US201	
Total	932	1,394	1,669	US710	US994	US1,064	

(1) Includes CVG's revenues up to the time of the company's initial public offering in August 2004 when Onex ceased to have voting control of the company and thereafter began to account for CVG's operations on an equity basis.

(2) PLG's operating results were accounted for on an equity basis in 2004 and therefore the company's revenues were not included in Onex' consolidated audited annual financial statements.

## Automotive Products

Onex' automotive products segment includes the operations of J.L. French Automotive Castings, Inc. ("J.L. French Automotive"), PLG and CVG. In 2004, there were significant events affecting the accounting for PLG and CVG in the automotive products segment. The issuance of shares by PLG for its acquisition of Leaseway in March 2004 and the initial public offering ("IPO") of CVG and corresponding sale of CVG shares by Onex as part of that IPO in August 2004, resulted in Onex ceasing to have voting control of both companies. As a result, the revenues for each of PLG and CVG have been consolidated up to the time that Onex ceased to have voting control. Thereafter, Onex began to report the operations of PLG and CVG on an equity accounting basis, which is reported in the "Equity-accounted investments" line in the audited annual consolidated statement of earnings in 2004.

The automotive products segment reported consolidated revenues of \$932 million in 2004 compared to \$1.4 billion in 2003 and \$1.7 billion in 2002. Table 2 provides comparative revenues by operating company in the automotive segment for 2004, 2003 and 2002 in both Canadian dollars and the companies' functional currencies.

### **J.L. French Automotive**

North American car and light truck production declined slightly to 15.8 million units in 2004 from 15.9 million units in 2003 and 16.4 million units in 2002 as non-domestic automotive companies gained market share and the Big Three North American automotive companies – General Motors, Ford and DaimlerChrysler – experienced lower sales in 2004. J.L. French Automotive, a leading independent supplier of complex die-cast aluminum components for automotive original equipment manufacturers (“OEMs”), reported revenues of \$691 million, down 6 percent from \$732 million in 2003. Excluding the impact of foreign exchange translation, the company reported a 2 percent increase in revenues to US\$530 million in 2004 from US\$521 million in 2003. Approximately US\$5 million of the revenue growth was due to stronger production on specific Ford platforms and US\$10 million from new business with new and existing customers. Partially offsetting these growth factors were lower revenues of US\$6 million, caused by lower production on specific platforms. In addition, J.L. French Automotive’s European operations increased revenues by US\$16 million in 2004 due primarily to the benefit of favourable changes in foreign currency rates, partially offset by changes in product mix.

In 2003, J.L. French Automotive’s revenues declined to \$732 million from \$865 million in 2002. In its functional currency, J.L. French Automotive reported revenues of US\$521 million in 2003, a 5 percent decline from 2002 revenues of US\$550 million. Much of that year-over-year decline was due to lower automotive production volumes at one of its primary customers, Ford. Partially offsetting this decline were favourable changes in European currencies relative to the U.S. dollar, which improved revenues from J.L. French Automotive’s European operations by \$19 million.

### **Commercial Vehicle Group**

In early August 2004, CVG, a supplier of interior systems, vision safety solutions and other cab-related products to the global commercial vehicle market, completed a \$180 million initial public offering. As part of that offering, Onex sold some its CVG shares, which reduced its equity ownership to 24 percent from 55 percent, and Onex ceased to have voting control of the company at the time of the offering. CVG’s reported revenues of \$241 million

(US\$180 million) represent that company’s revenues up to the time of the August initial public offering, after which Onex’ ownership in CVG was accounted for on an equity basis with the company’s revenues and operating earnings being collapsed to one line in the statement of earnings. A comparative discussion of 2004 revenues to those of 2003 is not relevant as the 2003 revenues represent 12 months of operations.

CVG reported revenues of \$402 million in 2003, an \$88 million decline from \$490 million in 2002. Excluding the foreign currency translation impact, the company reported revenues of US\$288 million, down US\$25 million from US\$313 million in 2002. Approximately US\$17 million of the revenue decline was due primarily to overall lower production volumes in the heavy truck and bus markets. In addition, approximately US\$15 million of the decline was due to the completion of projects with some of CVG’s existing customers and customer-driven change in product mix to fewer value-added components. Partially offsetting these unfavourable factors was approximately US\$16 million in revenues from stronger OEM revenues in the Asian construction seating market and new business wins.

### **Performance Logistics Group**

The acquisition of Leaseway by PLG in late March 2004 in a share-exchange transaction resulted in PLG issuing additional shares. This issuance of shares by PLG diluted Onex’ ownership in PLG to 26 percent from 50 percent, at which time Onex ceased to have voting control of the company. Therefore, PLG’s operating results have been included on an equity accounting basis in 2004 with the presentation of the company’s revenues and operating earnings being collapsed to one line in the audited annual consolidated statement of earnings – “Equity-accounted investments.”

PLG’s revenues in 2003 declined 17 percent to \$260 million from \$314 million in 2002, due primarily to lower new vehicle deliveries associated with lower automotive production volumes from PLG’s major customer. The company reported revenues in its functional currency of US\$185 million, down 8 percent from US\$201 million in 2002.

## Other Businesses

### Communications Infrastructure

Radian's revenues were up slightly to \$113 million in 2004 from \$108 million reported in 2003 and down from \$120 million in 2002. Radian's revenue growth in 2004 was due primarily to the purchase of ROHN Industries' operations in December 2003, which contributed \$12 million of revenues in 2004. Much of this revenue growth was offset by the effect of the consolidation of major carriers in the United States and Canada, which created strong competition and price pressures in 2004. Similarly, strong competition and pricing pressures drove the revenue decline in 2003 from 2002.

### Small-capitalization Opportunities

ONCAP's companies – CMC Electronics, Western Inventory Service Ltd. ("WIS"), Futuremed Health Care Products L.P. ("Futuremed") and Canadian Securities Registration Systems Ltd. ("CSRS") – reported combined revenues of \$431 million in 2004, up \$156 million from \$275 million reported in 2003. Substantially all of the revenue growth for 2004 was due to the inclusion of revenues of Futuremed and CSRS from their respective February and April 2004 acquisition dates.

ONCAP's companies reported combined revenues of \$275 million in 2003, up \$22 million from those reported in 2002. The revenue growth was due primarily to the inclusion of WIS from its March 2003 acquisition date.

### Consolidated cost of sales

Consolidated cost of sales was \$14.5 billion in 2004 compared to \$10.9 billion in 2003. Table 3 provides a detailed breakdown of reported cost of sales by industry segment for 2004 and 2003 and the change in cost of sales from those periods in both Canadian dollars and the functional currencies of the companies. We provide the cost of sales in the companies' functional currencies to show the impact of foreign exchange translation on cost of sales. Table 4 provides additional details on cost of sales as a percentage of revenues by industry segment for 2004 and 2003.

## Cost of Sales by Industry Segment

	2004	2003	Cost of Sales Increase/ (Decrease)
Electronics Manufacturing Services	10,913	8,831	2,082
Theatre Exhibition	271	259	12
Healthcare	1,762	–	1,762
Customer Management Services	458	399	59
Automotive Products	743	1,077	(334)
Other <sup>(a)</sup>	363	293	70
<b>Total</b>	<b>14,510</b>	<b>10,859</b>	<b>3,651</b>

	2004	2003	Cost of Sales Increase/ (Decrease)
Electronics Manufacturing Services	US8,413	US6,342	US2,071
Theatre Exhibition	C271	C259	C12
Healthcare	US1,354	–	US1,354
Customer Management Services	US352	US285	US67
Automotive Products	US567	US768	US(201)
Other <sup>(a)</sup>	C363	C293	C70

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes Radian, ONCAP and parent company.

## Cost of Sales as a Percentage of Revenues by Industry Segment

	2004	2003
Electronics Manufacturing Services	95%	94%
Theatre Exhibition	76%	77%
Healthcare	80%	–
Customer Management Services	63%	66%
Automotive Products	80%	77%
Other <sup>(a)</sup>	66%	73%
<b>Total</b>	<b>89%</b>	<b>90%</b>

Results are reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes Radian, ONCAP and parent company.

### Electronics Manufacturing Services

Celestica's cost of sales was \$10.9 billion in 2004 compared to \$8.8 billion in 2003. In the company's functional currency, cost of sales increased 33 percent to US\$8.4 billion from US\$6.3 billion, while revenues were up 31 percent. Cost of sales as a percentage of revenues was 95 percent in 2004 compared to 94 percent in 2003. Included in the cost of sales for 2004 were \$217 million (US\$178 million) of charges associated with the writedown of receivables and inventory. Of that amount approximately US\$161 million was taken in the fourth quarter of 2004 due to uncertainty over the recoverability of certain receivables and inventory related to the deterioration in the financial condition of one of the company's customers. Despite these unfavourable charges, Celestica reported gross profit in 2004 of US\$427 million, a US\$34 million increase over 2003 due primarily to increased base business volumes, reduced pricing pressures, improved operating efficiency and the benefits derived from the company's restructuring activities and acquisitions. Celestica's Americas operations improved margins over last year as a result of the factors discussed above and the exiting of the reference design activities. The company's European operations had significantly better margins compared to last year as a result of improved utilization, restructuring benefits and cost reductions. In addition, Celestica's Asia operations benefitted from higher production volumes.

### Theatre Exhibition

The theatre exhibition segment reported cost of sales of \$271 million in 2004, a 5 percent increase from \$259 million reported in 2003. This compares to a 6 percent increase in revenues for the same period. Cost of sales as a percentage of revenues of 76 percent in 2004 was slightly lower than the 77 percent reported in 2003. Approximately 45 percent and 7 percent of the total cost of sales was attributable to film and concession costs, respectively. During 2004, film costs increased \$5 million, or 4 percent. As a percentage of box-office revenue, film cost decreased slightly to 51 percent in 2004 from 52 percent in 2003. Cost of concessions also increased 6 percent, or \$1 million, due primarily to \$1 million in incremental costs associated with new theatres that were opened in 2004. As a percentage of concession revenues, cost of concessions of 20 percent in 2004 was equal to that of 2003.

### Healthcare

Magellan's reported cost of sales was \$1.8 billion in 2004, or 80 percent as a percentage of revenues. Under Canadian GAAP and in the company's functional currency, cost of sales was US\$1.4 billion. Approximately US\$667 million of the total cost of sales was associated with Health Plan Solutions; approximately US\$103 million with Employer Solutions; and US\$584 million with Public Sector Solutions.

### Customer Management Services

ClientLogic reported cost of sales of \$458 million in 2004, up \$59 million from the cost of sales last year. In ClientLogic's functional currency, the company reported cost of sales of US\$352 million in 2004 compared to US\$285 million in 2003, an increase of 24 percent. This compares to an increase of 30 percent in revenues for the same period. ClientLogic's cost of sales as a percentage of revenues declined to 63 percent in 2004 from 66 percent in 2003. This improvement was due primarily to tighter cost management, cost-reduction initiatives implemented in the fourth quarter of 2003 and the benefit of a US\$8 million settlement on previously reserved contingent liabilities.

### Automotive Products

Consolidated cost of sales in the automotive products segment was \$743 million in 2004 compared to \$1.1 billion in 2003. A breakdown of cost of sales in the automotive products segment by company is shown below in Table 5.

#### Automotive Products Cost of Sales

TABLE 5	(\$ millions)	2004	2003
J.L. French Automotive		551	572
Commercial Vehicle Group		192	321
Performance Logistics Group		-	184
Total		743	1,077

#### J.L. French Automotive

J.L. French Automotive reported cost of sales of \$551 million in 2004, a 4 percent decrease from \$572 million in 2003. In the company's functional currency, cost of sales increased by US\$16 million to US\$423 million in 2004 from US\$407 million in 2003. Cost of sales as a percentage of revenues increased to 80 percent in 2004 from 78 percent

in 2003 due primarily to higher aluminum prices in 2004 that could not be fully recovered in pricing to customers. Partially offsetting this increase were improved labour productivity and tighter control of a variety of manufacturing expenses.

### Commercial Vehicle Group

Included in Onex' audited annual consolidated financial statements is CVG's cost of sales of \$192 million, or US\$144 million in the company's functional currency. This amount represents the cost of sales up to the time of CVG's initial public offering in August 2004, when Onex ceased to consolidate the operations of CVG. This compares to full-year cost of sales of \$321 million reported for 2003. The operations of CVG from August 2004 were included on an equity accounting basis.

### Performance Logistics Group

There was no cost of sales reported for PLG in 2004 as the company was accounted for on an equity basis following its acquisition of Leaseway as previously discussed. PLG reported cost of sales of \$184 million, or US\$132 million in its functional currency, in 2003.

### Other Businesses

#### Communications Infrastructure

Radian's cost of sales was \$100 million in 2004, up from \$88 million in 2003. As a percentage of revenues, the company's cost of sales was 88 percent in 2004 compared to 82 percent in 2003. The decline in Radian's gross margin to \$13 million in 2004 from \$20 million in 2003 was due primarily to price competition, which reduced margins. In late 2004, the company, led by a new Chief Executive Officer, began to implement a detailed turnaround plan, which is focused on reducing costs, improving project execution and restructuring its U.S. operations to improve efficiencies.

#### Small-capitalization Opportunities

ONCAP's companies reported a combined cost of sales of \$263 million in 2004 compared to \$204 million reported in 2003. As was the case with revenues, essentially all of the increase in cost of sales was associated with the acquisitions of Futuremed and CSRS in February and April 2004, respectively.

### Operating earnings

We define operating earnings as EBIAT, or earnings before interest expense, amortization of intangibles and deferred charges, acquisition and restructuring expenses, other non-recurring items and income taxes. Table 6 provides a reconciliation of the audited annual consolidated statements of earnings to operating earnings for the years ended December 31, 2004 and 2003.

### Operating Earnings Reconciliation

TABLE 6	(\$ millions)	2004	2003
Earnings before the undernoted items		<b>781</b>	494
Amortization of property, plant and equipment		<b>(416)</b>	(407)
Interest and other income		<b>111</b>	81
Equity-accounted investments		<b>(8)</b>	-
Foreign exchange loss		<b>(116)</b>	(122)
Stock-based compensation		<b>(104)</b>	14
<b>Operating earnings</b>		<b>248</b>	60
Amortization of intangible assets and deferred charges		<b>(94)</b>	(91)
Interest expense of operating companies		<b>(253)</b>	(191)
Derivative instruments		<b>29</b>	-
Gains on shares of operating companies, net		<b>182</b>	129
Acquisition, restructuring and other expenses		<b>(211)</b>	(151)
Debt prepayment costs		<b>(8)</b>	(11)
Writedown of goodwill and intangible assets		<b>(393)</b>	(402)
Writedown of long-lived assets		<b>(94)</b>	(88)
Loss before income taxes, non-controlling interests and discontinued operations		<b>(594)</b>	(745)

Onex uses EBIAT to evaluate each operating company's performance because it eliminates interest charges, which are a function of the operating company's particular financing structure, as well as any unusual or non-recurring charges. Onex' method of determining operating earnings may differ from other companies' methods and, accordingly, EBIAT may not be comparable to measures used by other companies. EBIAT is not a performance measure under Canadian GAAP and should not be considered either in isolation or as a substitute for net earnings (loss) prepared in accordance with Canadian GAAP.

Consolidated operating earnings were \$248 million in 2004, up \$188 million from \$60 million in 2003. Table 7 provides a breakdown and change in operating earnings by industry segment for the years ended December 31, 2004 and 2003.

### Operating Earnings (Loss) by Industry Segment

TABLE 7	(\$ millions)	2004	2003	Operating Earnings Increase/ (Decrease)
Electronics Manufacturing Services		7	31	(24)
Theatre Exhibition		43	39	4
Healthcare		236	-	236
Customer Management Services		44	(23)	67
Automotive Products		75	112	(37)
Other <sup>(a)</sup>		(157)	(99)	(58)
<b>Total operating earnings</b>		<b>248</b>	<b>60</b>	<b>188</b>

Results are reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes Radian, ONCAP and parent company.

The \$188 million improvement in operating earnings in 2004 over last year was due primarily to the inclusion of Magellan, which contributed \$236 million and a \$67 million increase in ClientLogic's operating earnings, which was driven primarily by cost-reduction initiatives implemented in late 2003. Celestica's reported operating earnings were \$24 million lower than in the prior year due mainly to \$217 million in charges related to the writedown of receivables and inventory associated with one customer. The writedowns offset the substantial benefits achieved at Celestica from the inclusion of operating earnings from acquisitions, higher volumes, operational efficiencies and improvements resulting from its restructuring initiatives. The automotive products segment also reported \$37 million in lower operating earnings. As shown in Table 8, the decline was due to accounting for PLG and CVG on an equity basis from the first and third quarters of 2004, respectively.

Included in the 2004 operating earnings were a \$104 million expense from stock-based compensation compared to a \$14 million benefit in 2003, and a \$116 million foreign exchange loss compared to a loss of \$122 million in the prior year. A discussion of the changes in both stock-based compensation and foreign exchange in 2004 compared to 2003 is provided below.

### Automotive Products Operating Earnings (Loss)

TABLE 8	(\$ millions)	2004	2003	Operating Earnings Increase/ (Decrease)
J.L. French Automotive		66	71	(5)
Commercial Vehicle Group		11	35	(24)
Performance Logistics Group		-	4	(4)
Other		(2)	2	(4)
<b>Total</b>		<b>75</b>	<b>112</b>	<b>(37)</b>

### Stock-based compensation

Since January 2002, the change in the value of stock-based compensation at the parent company has been recorded through the statements of earnings. As a result, operating earnings may increase or decrease depending upon changes in the market value of the shares underlying the stock-based compensation.

Effective January 1, 2004, Onex' operating companies adopted new accounting rules for stock-based compensation, which require a fair-value-based method to be applied to all stock-based compensation payments to employees. Previously, only those non-employee and employee awards that called for settlement with cash or other assets, or stock appreciation rights that called for settlement by the issuance of equity instruments, were required to be recorded as compensation expense. While Onex' operating companies have adopted this policy change on a retroactive basis, prior year earnings have not been restated. Instead, retained earnings and non-controlling interests have each been reduced by \$5 million. As a result of this new policy, Onex' operating companies, excluding the parent company, recorded stock compensation charges of \$69 million, all relating to 2004. There were no such charges in 2003. Note 14 to the audited annual consolidated financial statements provides additional disclosure on stock-based compensation in 2003.

In 2004, stock-based compensation was an expense of \$104 million compared to a benefit of \$14 million in 2003. The 2004 expense for stock-based compensation was contributed primarily by the overall increase in value of Onex' stock options and investment rights of \$35 million from their value at December 31, 2003; a \$14 million expense recorded by CVG; a \$35 million expense recorded by Magellan; and a \$20 million expense recorded by Celestica.

During 2003, stock-based compensation added \$14 million to earnings. This was due primarily to the decline in the market value of the stock-based compensation liability from December 31, 2002. The decline in market value was primarily due to the revaluation of the Onex stock options and the investment rights associated with Celestica.

### Foreign exchange loss

The foreign exchange loss reflects the impact of changes in foreign currency exchange rates, primarily on the U.S.-dollar-denominated cash held at Onex, the parent company. While changes in foreign currency exchange rates may apply to multiple currencies, the primary impact of foreign currency translation on Onex' consolidated results is due to the conversion of the U.S. dollar to the Canadian dollar.

A net foreign exchange loss of \$116 million was recorded in 2004 compared to a loss of \$122 million in 2003 and a foreign exchange gain of \$18 million reported in 2002. Onex, the parent company, recorded \$124 million of the foreign exchange loss in 2004, as it holds a significant portion of its cash in U.S. dollars. During 2004, the U.S. dollar declined by approximately C\$0.0945 relative to the Canadian dollar, or from 1.2965 Canadian dollars to 1.2020 Canadian dollars. This compares to a foreign exchange loss at the parent company of \$139 million in 2003 and a foreign exchange gain of \$17 million in 2002. Note 27 to the audited annual consolidated financial statements provides a breakdown of foreign exchange gains (loss) by industry segment.

### Interest expense of operating companies

Onex has a policy to structure each of its operating companies with sufficient equity in the company to enable it to self-finance a significant portion of its acquisition cost with a prudent level of debt. The level of debt assumed is commensurate with the operating company's available cash flow, including consideration of funds required to pursue growth opportunities. It is the responsibility of the acquired operating company to service its own debt obligations. The debt of each operating company is without recourse to Onex or to any other Onex operating company.

Consolidated interest expense increased 32 percent to \$253 million in 2004 from \$191 million in 2003. Celestica accounted for \$56 million of interest expense in 2004 compared to \$36 million in 2003 due primarily to its issuance in June 2004 of US\$500 million of senior subordinated notes. In addition, the inclusion of Magellan in 2004 added \$48 million in interest expense in 2004. Partially offsetting these factors was lower interest expense in the automotive segment due primarily to lower borrowing rates at J.L. French Automotive associated with that company's refinancing and debt repayment in 2004, and lower interest expense consolidated for CVG in 2004 due to Onex' sale of CVG shares that resulted in Onex ceasing to control that company in August 2004. Table 9 details the change in consolidated interest expense from 2003 to 2004.

### Change in Interest Expense

TABLE 9 | (\$ millions)

Reported interest expense for 2003	<b>191</b>
Additional interest expense in 2004 due to:	
Celestica's senior subordinated debt	<b>20</b>
Acquisitions completed in 2004	<b>56</b>
Other	<b>4</b>
Interest expense reduction due to:	
Non-controlled entities in 2004	
Commercial Vehicle Group and Performance Logistics Group	<b>(18)</b>
Reported interest expense for 2004	<b>253</b>



### Interest and other income

Interest and other income totalled \$111 million in 2004, up 37 percent from \$81 million reported in 2003. Included in the 2004 interest and other income was \$30 million of income realized on the sale of public securities by Onex, the parent company, and \$8 million from the inclusion of Magellan in 2004. Partially offsetting these factors was lower interest income earned on cash balances primarily at Onex, the parent company, and at Celestica due mainly to lower average cash balances and lower rates of return on those balances in 2004. Onex used \$150 million in cash to repurchase 9,143,100 of its Subordinate Voting Shares during 2004.

### Equity-accounted investments

Onex reported a loss from equity accounted investments of \$8 million in 2004. This amount represents Onex' share in the net earnings (loss) of four businesses – ResCare, CVG, PLG and Cypress Property & Casualty Insurance Company (“Cypress”). Onex' share of ResCare's earnings contributed approximately \$1 million of the total equity-accounted investments following Onex Partners' investment in that company in late June 2004. Cypress, a Florida homeowners insurance company, contributed a \$9 million loss to equity-accounted investments due to an unprecedented number of hurricanes in Florida during 2004. There were no earnings recognized in 2004 for PLG and CVG as the losses booked by Onex on these investments in prior years have exceeded the earnings to date.

### Derivative instruments

Effective January 1, 2004, Onex adopted the new guideline AcG-13, “Hedging Relationships”, which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. This guideline also establishes certain conditions for applying hedge accounting and deals with the discontinuation of hedge accounting. Onex also adopted EIC-128, “Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments”, which requires those derivative instruments that do not qualify for hedge accounting to be marked-to-market values. At December 31, 2003, Onex, the parent company, had two derivative instruments in place – exchangeable debentures and forward sales contracts related to shares of Celestica held by Onex – that were affected by these new pronouncements.

Onex determined that these instruments did not qualify for hedge accounting based on the new accounting guidance and accordingly Onex is required to mark-to-market these instruments to the value of the underlying securities, which are Celestica subordinate voting shares.

During 2004, Onex recorded a \$29 million benefit to earnings for the decrease in the exchangeable debentures liability and an increase in value of the forward sales contracts as a result of the decrease in market value of the underlying Celestica shares since December 31, 2003. While these accounting adjustments were required to be made in accordance with the new accounting guideline, they do not have a cash impact on Onex. In February 2005, Onex settled the exchangeable debentures with the delivery of Celestica shares that it held and that were pledged as security.

### Gains on shares of operating companies

Onex recorded gains on shares of operating companies of \$182 million in 2004 compared to \$129 million of such gains in 2003. Table 10 details the nature of the gains recorded in 2004 compared to 2003.

#### Gains on Shares of Operating Companies

TABLE 10	(\$ millions)	2004	2003
Gains (loss) on:			
	Issue of shares of Commercial Vehicle Group	75	-
	Performance Logistics Group	58	-
	Issue of shares by Celestica	9	-
	Sale of Tower Automotive	6	-
	Gain on initial public offering of Cineplex Galaxy Income Fund	-	118
	Vencap sale of operating company	-	16
	Other, net	34	(5)
Total		182	129

In August 2004, CVG completed a \$180 million initial public offering. As part of that offering, Onex sold approximately 45 percent of its CVG shares, receiving \$54 million in net proceeds. The gain on the sale of shares, the dilution gain from the initial public offering and the recovery of previously recorded losses resulted in a gain of \$60 million. In addition, Onex received approximately \$27 million on the repayment of debt held, which resulted in a further gain of \$15 million.

Onex also recorded a \$58 million non-cash gain on PLG relating to its purchase of Leaseway in 2004 through a share exchange. The gain was comprised of a \$22 million non-cash accounting dilution gain and the accounting recovery of \$36 million of losses of PLG previously recognized by Onex that were in excess of other shareholders' equity in PLG.

Onex recorded a \$9 million accounting dilution gain following the issuance of shares by Celestica for the purchase of MSL in March 2004 and a \$6 million gain on the sale of its remaining Tower Automotive shares in the second quarter of 2004. Onex also recorded \$34 million in gains on strategic investments in 2004, which are included in the "Other" line in Table 10 on the previous page.

Included in the 2003 gains on shares of operating companies was a \$118 million gain from the initial public offering of CGIF associated with the cash proceeds on the offering. Also included in the 2003 accounting gains on shares of operating companies was a \$16 million gain recorded by Vencap from the company's sale of its remaining operating company.

Note 15 to the audited annual consolidated financial statements provides additional details on the gains on shares of Onex' operating companies.

### Acquisition, restructuring and other expenses

Acquisition, restructuring and other expenses are considered costs incurred to realign organizational structures or restructure manufacturing capacity to obtain operational synergies critical to building the long-term value of Onex' operating companies. During 2004, acquisition, restructuring and other expenses totalled \$211 million, a 40 percent increase from the \$151 million reported in 2003. Table 11 details acquisition, restructuring and other expenses by operating company.

Celestica accounted for \$184 million of these expenses due primarily to costs associated with the company's previously announced restructuring, partially offset by a \$15 million gain recorded on the sale of its Power Systems business for proceeds of \$68 million. Many of the costs to implement these restructuring plans can only be recorded as they are incurred and thus the costs may be spread over several reporting periods. These plans, which include reducing workforce, consolidating facilities and

repositioning the number and location of production facilities, are primarily intended to align Celestica's capacity with anticipated customer requirements for more production in lower-cost geographies, as well as to rationalize its manufacturing network to lower overall demand levels. Note 16 to the audited annual consolidated financial statements details the nature of the acquisition, restructuring and other expenses, such as employee termination costs, facility and exit costs and other charges, by the year in which the activity was initiated. During 2003, Celestica recorded \$128 million of acquisition, restructuring and other expenses associated primarily with these restructuring plans.

### Acquisition, Restructuring and Other Expenses

TABLE 11	(\$ millions)	2004	2003
Celestica		184	128
Magellan		7	-
ClientLogic		5	8
J.L. French Automotive		7	4
Other		8	11
Total		211	151

### Writedown of goodwill and intangible assets

The management of each operating company undertakes an annual review of the value of its recorded goodwill and intangible assets to assess the recoverability of these assets. An impairment in the value of goodwill and indefinite-lived intangibles is tested at the operating company by comparing the operating company's carrying amount of assets and intangible assets to their estimated fair value. These reviews may be required to be made down to a business unit or plant level. The fair values of the operating companies are estimated using a combination of a market approach and discounted cash flows. The process of determining fair values is necessarily subjective and requires each operating company's management to exercise judgment in making assumptions about future results, including revenue and cash flow projections at the operating company as well as appropriate discount rates.

During 2004, writedowns of goodwill and intangible assets totalled \$393 million compared to \$402 million reported in the prior year. Table 12 presents these charges recorded by operating company, and note 18 to the audited annual consolidated financial statements provides additional disclosure on these writedowns of goodwill and intangible assets.

### Writedown of Goodwill and Intangible Assets

TABLE 12	(\$ millions)	2004	2003
Celestica		388	33
ClientLogic		5	5
J.L. French Automotive		-	214
Performance Logistics Group		-	142
Radian		-	8
Total		393	402

During the fourth quarter of 2004, Celestica performed its annual goodwill impairment test and identified reporting units, specifically the Americas and Europe regions, which it determined to be impaired. These reporting units were recorded on the company's balance sheet at carrying values that were higher than their fair values based on current estimated industry conditions and customer demands for production in lower-cost geographies. As a result of this analysis, Celestica wrote down \$388 million of goodwill and intangible assets associated with these regions in 2004. Included in the 2003 writedown of goodwill and intangible assets was \$33 million recorded by Celestica related to changes in the electronics industry, customer demand and other market conditions.

ClientLogic assessed that the recorded value of several of its customer contracts was impaired in 2004 and 2003, and therefore wrote off the intangible assets associated with those contracts, which totalled \$5 million in both 2004 and 2003.

During 2003, J.L. French Automotive's management assessed the goodwill and intangible assets of its Sheboygan and Ansola facilities in light of lower production volumes from the company's largest customers, Ford and General Motors; some production was also transferred from these plants to J.L. French Automotive's Nelson facility. Management of J.L. French Automotive concluded from its assessment that the recoverability of goodwill

associated with those facilities was not certain, and therefore in the third quarter of 2003 wrote off \$214 million in goodwill associated with those operations. In December 2003, PLG also recorded a \$142 million writedown of goodwill and intangible assets due to lower fair values resulting from reduced business volumes.

Radian recorded a goodwill impairment charge of \$8 million during 2003 due to the adverse impact of the slowdown in the telecommunications sector arising from tightened capital markets and reductions in capital spending by wireless service providers.

### Writedown of long-lived assets

During 2004, there were \$94 million of writedowns of long-lived assets. Celestica recorded approximately \$84 million of the writedowns in long-lived assets, which affected the company's Americas and European operations. In addition, J.L. French Automotive recorded \$8 million of writedowns of long-lived assets associated with the restructuring of its United Kingdom operations. Note 19 to the audited annual consolidated financial statements provides additional disclosure on these writedowns of long-lived assets.

During 2003, writedowns of long-lived assets totalled \$88 million taken primarily by Celestica and J.L. French Automotive. Celestica recorded \$75 million in capital asset writedowns, which included an impairment of \$18 million related to the purchase of a leased facility. When J.L. French Automotive completed its 2003 annual assessment of its long-lived assets, management of the company concluded that its Mexican facility was achieving lower than acceptable profit margins on its operations and that the business would be outsourced to another supplier. As a result, J.L. French Automotive recorded a \$7 million writedown of long-lived assets associated with that facility. J.L. French Automotive also wrote off \$3 million in long-lived assets related to the restructuring of various operations in the United Kingdom.

### Income taxes

During 2004, the provision for income taxes was \$347 million compared to a provision of \$67 million in 2003. Included in the 2004 provision for income taxes is a \$302 million charge recorded by Celestica relating to a valuation allowance for most of the company's remaining deferred tax assets in the United States and Europe. Celestica determined that a valuation reserve was necessary as it evaluated further

restructuring actions to attain profitability and the continued transfer of customer programs from higher cost to lower cost geographies. As a result of this charge, the future income tax asset included in the investments and other assets on the consolidated balance sheet for the year ended December 31, 2004 has been reduced.

### Non-controlling interests of operating companies

In the audited annual consolidated statements of earnings, the non-controlling interest amounts of \$781 million in 2004 and \$256 million in 2003 represent the interests of shareholders other than Onex in the net losses of Onex' operating companies. Table 13 details the losses (earnings) by industry segment attributable to non-controlling shareholders in our operating companies.

#### Non-controlling Interests in Losses (Earnings) of Operating Companies

	2004	2003
Electronics Manufacturing Services	857	281
Theatre Exhibition	(36)	(57)
Healthcare	(100)	-
Customer Management Services	2	-
Automotive Products	47	36
Other <sup>(a)</sup>	11	(4)
<b>Total</b>	<b>781</b>	<b>256</b>

(a) Other includes Radian, ONCAP and parent company.

The change in the non-controlling interests amount was due primarily to Celestica's significant writedowns of goodwill, intangible assets and long-lived assets, restructuring and accounts receivable provisions; these writedowns and provisions totalled approximately \$798 million and shareholders other than Onex have an 82 percent interest in Celestica. Partially offsetting these were the inclusion of Magellan's earnings from the date of Onex' investment in January 2004, and the pick-up for accounting purposes by Onex, the parent company, of lower amounts of losses of

other shareholders in ClientLogic, J.L. French Automotive and Radian. During 2004, Onex recorded income of \$38 million relating to the recovery of prior year losses absorbed on behalf of non-controlling shareholders of J.L. French Automotive, ClientLogic and Radian. This compares to a \$175 million pick-up of losses from non-controlling shareholders in 2003. J.L. French Automotive represented \$153 million of the change, which was from the absorption of losses related to the goodwill write-off in 2003 and a recovery from the refinancing in the third quarter of 2004.

### Loss from continuing operations

Onex' consolidated loss from continuing operations, including gains on sales of shares, was \$160 million (\$1.12 per share) in 2004 compared to a loss from continuing operations of \$556 million (\$3.62 per share) reported in 2003 and a loss of \$63 million (\$0.39 per share) reported in 2002. Table 14 details the loss from continuing operations by industry segment before income taxes and non-controlling interests.

#### Earnings (Loss) from Continuing Operations

	2004	2003	2002
Earnings (loss) before income taxes and non-controlling interests:			
Electronics Manufacturing Services	(752)	(311)	(838)
Theatre Exhibition	35	147	26
Healthcare	163	-	-
Customer Management Services	(2)	(71)	(31)
Automotive Products	(46)	(401)	14
Other <sup>(a)</sup>	8	(109)	141
	<b>(594)</b>	<b>(745)</b>	<b>(688)</b>
Recovery of (provision for) income taxes	(347)	(67)	65
Non-controlling interests of operating companies	781	256	560
<b>Loss from continuing operations</b>	<b>(160)</b>	<b>(556)</b>	<b>(63)</b>

(a) Other includes Radian, ONCAP and parent company.

### Earnings (loss) from discontinued operations

Earnings from discontinued operations were \$195 million (\$1.37 per share) in 2004 compared to \$224 million (\$1.46 per share) in 2003. During 2004, the operations of Loews Cineplex, Dura Automotive, Armtec, Cincinnati Electronics and InsLogic were reclassified as discontinued operations. In addition to these operations, also included

in the 2003 earnings from discontinued operations were the operations of Rogers Sugar and Lantic Sugar and MAGNATRAX that were discontinued in 2003. Table 15 provides a breakdown of earnings (loss) by company, including the net after-tax gains on sales as well as Onex' share of earnings (loss) of those businesses that have been discontinued in 2004 and 2003.

### Earnings from Discontinued Operations

TABLE 15 | (\$ millions)

	2004			2003		
	Gain, net of tax	Onex' share of earnings (loss)	Total	Gain, net of tax	Onex' share of earnings (loss)	Total
Dura Automotive	1	1	2	-	4	4
Loews Cineplex Group	135	5	140	-	-	-
Cincinnati Electronics	49	4	53	-	3	3
Armtec	9	-	9	-	2	2
InsLogic	-	(9)	(9)	-	(15)	(15)
MAGNATRAX	-	-	-	274	(110)	164
Lantic Sugar/Rogers Sugar	-	-	-	53	13	66
<b>Total</b>	<b>194</b>	<b>1</b>	<b>195</b>	<b>327</b>	<b>(103)</b>	<b>224</b>

Included in the 2004 earnings (loss) from discontinued operations were: a \$140 million net after-tax gain from the sale of Loews Cineplex in July 2004, including the operations up to the date of sale; a \$9 million net after-tax gain from the sale of Armtec in August 2004 by ONCAP; \$53 million from the sale of CMC Electronics' Cincinnati Electronics division, including the operations up to the date of sale, and a \$1 million net after-tax gain from the sale of Dura Automotive.

Included in the 2003 earnings from discontinued operations was a \$66 million net after-tax gain from the sale of Rogers Sugar Income Fund and the operations of Rogers Sugar and Lantic Sugar businesses up to the time of sale; and a \$164 million net gain from MAGNATRAX, which represented the negative book value of Onex' investment in MAGNATRAX of \$274 million at the time of disposition, less the company's loss on operations of \$110 million recorded in 2003.

### Consolidated net earnings (loss)

Consolidated net earnings in 2004 were \$35 million compared to a consolidated net loss of \$332 million in 2003 and a loss of \$145 million in 2002. Table 16 identifies the net

earnings (loss) by industry segment as well as the contribution from net after-tax gains on sales of shares of operating companies and discontinued operations.

### Consolidated Net Earnings (Loss)

TABLE 16 | (\$ millions)

	2004	2003	2002
Onex' share of net earnings (loss):			
Electronics Manufacturing Services	(202)	(73)	(119)
Theatre Exhibition	9	56	10
Healthcare	6	-	-
Customer Management Services	(6)	(72)	(35)
Automotive Products	11	(368)	(72)
Other <sup>(a)</sup>	(160)	(109)	134
Net after-tax gains on shares of operating companies	182	10	19
Loss from continuing operations	(160)	(556)	(63)
Earnings (loss) from discontinued operations	195	224	(82)
<b>Consolidated net earnings (loss)</b>	<b>35</b>	<b>(332)</b>	<b>(145)</b>

(a) Other includes Radian, ONCAP and parent company.

Table 17 presents the earnings (loss) per share from continuing operations, discontinued operations and net earnings (loss).

### Earnings (Loss) per Subordinate Voting Share

	2004	2003	2002
Basic and Diluted:			
Continuing operations	\$ (1.12)	\$ (3.62)	\$ (0.39)
Discontinued operations	\$ 1.37	\$ 1.46	\$ (0.51)
Net earnings (loss)	\$ 0.25	\$ (2.16)	\$ (0.90)

### SUMMARY QUARTERLY INFORMATION

Table 18 summarizes Onex' key consolidated financial information for the last eight quarters. The summarized results presented in this table may differ from those results previously reported in 2004 and 2003 as a result of operations that have been discontinued and reclassified as discussed above.

	2004				2003			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Revenues	\$ 3,925	\$ 4,004	\$ 4,421	\$ 3,894	\$ 3,230	\$ 2,889	\$ 2,886	\$ 3,114
Earnings (loss) from continuing operations	(264)	138	(78)	44	(124)	(282)	(137)	(13)
Net earnings (loss)	\$ (214)	\$ 281	\$ (69)	\$ 37	\$ 152	\$ (287)	\$ (162)	\$ (35)
<b>Earnings (loss) per Subordinate Voting Share</b>								
Basic and Diluted:								
Continuing operations	\$ (1.90)	\$ 0.97	\$ (0.55)	\$ 0.30	\$ (0.82)	\$ (1.85)	\$ (0.90)	\$ (0.08)
Net earnings (loss)	\$ (1.54)	\$ 2.02	\$ (0.49)	\$ 0.25	\$ 1.01	\$ (1.88)	\$ (1.06)	\$ (0.23)

Onex' quarterly consolidated financial results do not follow any specific trends due to acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the U.S. dollar and the Canadian dollar; and varying business cycles at Onex' operating companies.

#### Fourth quarter 2004 results

There were a number of significant items that took place during the fourth quarter that affected 2004 results. In the fourth quarter, Celestica wrote down \$388 million of goodwill and intangible assets and \$84 million of long-lived assets as a result of its annual goodwill and long-lived asset impairment reviews. These charges are discussed in

detail on pages 40 and 41 of this report under the full-year discussion of writedowns of goodwill and intangible assets and writedowns of long-lived assets. In addition, Celestica established a provision in the amount of \$142 million for a loss on a receivable from a specific customer and a valuation allowance on deferred income tax assets, which totalled \$302 million.

Onex, the parent company, recorded a \$59 million foreign exchange loss due to the decrease in value of the U.S. dollar during the last three months of 2004. In addition, Onex, the parent company, recorded stock-based compensation expense of \$21 million in the fourth quarter of 2004 due primarily to the increase in value of Onex' stock options and investment rights from their value at September 30, 2004.

## CONSOLIDATED FINANCIAL POSITION

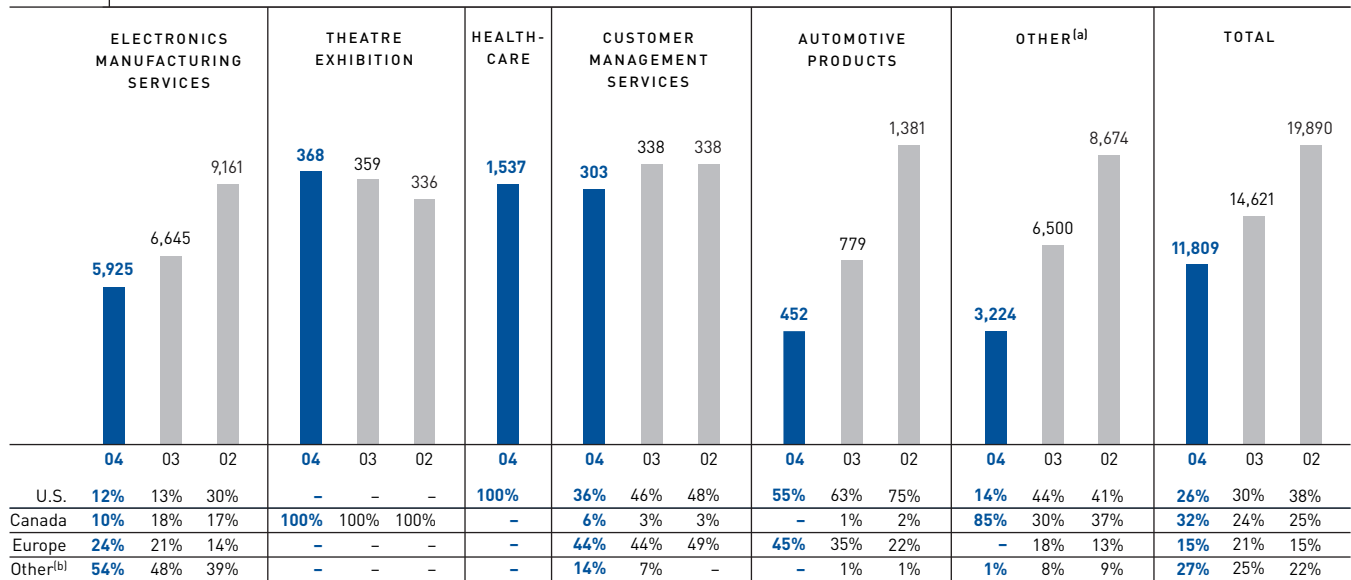
This section should be read in conjunction with the audited annual consolidated balance sheets on page 68 of this report, and the corresponding notes thereto.

## Consolidated assets

Consolidated assets were \$11.8 billion at December 31, 2004, down by \$2.8 billion from \$14.6 billion at December 31, 2003. Chart 2 shows Onex' consolidated assets by industry and geographic segments.

### Asset Diversification by Industry and Geographic Segments

CHART 2 | (\$ millions)



(a) Includes Radian, ONCAP, CEI and parent company. Includes discontinued operations of \$4,762 million and \$6,795 million for 2003 and 2002, respectively.

(b) Other includes primarily operations in Central and South America, Asia and Australia.

The consolidated asset decline in 2004 was due to the sales of Dura Automotive, Loews Cineplex, Cincinnati Electronics and Armtec, which represented \$4.8 billion of the total consolidated assets at December 31, 2003. In addition, the change in accounting for PLG and CVG to equity basis at December 31, 2004 from consolidation at December 31, 2003 provided a further decrease in consolidated assets of \$0.3 billion.

The value of consolidated assets on Onex' consolidated balance sheets was also affected by changes in the U.S. dollar to Canadian dollar exchange rate, as most of the operations of Onex' companies report in U.S. dollars. During 2004, the value of the U.S. dollar relative to the Canadian dollar declined by approximately C\$0.0945. As a result, the total value of Onex' consolidated assets declined from year-end 2003.

Partially offsetting these declines in consolidated total assets were the inclusion of assets of Magellan, which added \$1.5 billion of assets, Celestica's purchase of MSL in mid-March 2004 and certain assets of NEC Corporation, which added \$0.7 billion in assets, and \$0.2 billion in assets from the acquisition of CEI in early December 2004. Table 19 outlines the more significant acquisitions completed by Onex and its operating companies in 2004, 2003 and 2002. Note 3 to the audited annual consolidated financial statements also provides additional disclosure on the acquisitions completed in 2004.

Included in the consolidated assets for the year ended December 31, 2004 were Onex' investments in ResCare and Compagnie Générale de Géophysique ("CGG") completed in 2004. In June 2004, Onex, through Onex Partners, invested \$114 million in equity in ResCare for an approximate 28 percent ownership interest. Onex' portion of that investment was \$27 million, representing a 7 percent ownership interest. ResCare provides residential, therapeutic, job training and educational support services to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing

barriers to employment. In addition, in November 2004, Onex completed a \$102 million investment in convertible subordinated bonds of CGG. This investment was made through Onex Partners, which includes Onex' share of \$24 million. CGG is a publicly traded French company that operates in the land and marine seismic services industry and is a global leader in the manufacture of geophysical equipment. Note 6 to the audited annual consolidated financial statements provides additional disclosure on the breakdown of investments and other assets.

### 2004 Acquisitions

TABLE 19 | *Operating company and total assets of acquisitions*

Celestica – <b>\$832 million</b>	Two acquisitions in 2004: <ul style="list-style-type: none"> <li>• Manufacturers' Services Limited – a full-service global electronics manufacturing and supply chain services company headquartered in the United States</li> <li>• NEC Corporation assets – acquired certain assets located in the Philippines</li> </ul>
Magellan – <b>\$1,629 million</b>	Onex' investment in Magellan Health Services, Inc., a leading U.S. provider of managed behavioural healthcare and insurance services headquartered in Connecticut, United States
ONCAP – <b>\$248 million</b>	Two acquisitions in 2004: <ul style="list-style-type: none"> <li>• Futuemed Health Care Products L.P. – the leading Canadian supplier of medical supplies and equipment to long-term care facilities headquartered in Ontario, Canada</li> <li>• Canadian Securities Registration Systems Ltd. – a leading Canadian provider of registration and search services to financial institutions and auto acceptance and leasing companies headquartered in British Columbia, Canada</li> </ul>
Cosmetic Essence – <b>\$383 million</b>	Onex' acquisition of Cosmetic Essence, Inc., a leading provider of outsourced supply chain management services to the personal care products industry including formulating, manufacturing, filling, packaging and distribution services headquartered in New Jersey, United States

### 2003 Acquisitions

*Operating company and total assets of acquisitions*

ClientLogic – \$90 million	ClientLogic's purchase of Service Zone Holdings, Inc., a provider of high-quality call centre operations headquartered in Florida, United States with facilities in the United States and the Philippines
Radian – \$10 million	Radian's acquisition of certain assets related to the tower and tower accessory manufacturing operations of ROHN Industries, Inc. located in Indiana and Illinois, United States
ONCAP – \$92 million	ONCAP's acquisition of Western Inventory Service Ltd. – a leading North American provider of data collection and inventory counting services headquartered in Ontario, Canada



## 2002 Acquisitions

TABLE 19 | Operating company and total assets of acquisitions

Celestica – \$269 million	<p>Two acquisitions in 2002:</p> <ul style="list-style-type: none"> <li>• NEC Corporation facilities – acquired certain assets in Japan and signed a five-year supply agreement to provide a range of electronics manufacturing services for NEC</li> <li>• Corvis Corporation assets – acquired certain assets and signed a multi-year supply agreement to exclusively manufacture Corvis' terrestrial optical networking products and sub-sea terminating equipment</li> </ul>
ONCAP – \$51 million	CMC Electronics Inc.'s acquisition of Flight Visions, Inc., a U.S.-based aviation company that manufactures heads-up displays and mission computers

Total consolidated assets declined by \$5.3 billion to \$14.6 billion at December 31, 2003 from \$19.9 billion at December 31, 2002. The weakening of the U.S. dollar to Canadian dollar exchange rate by C\$0.28 accounted for part of the decline in consolidated assets. In addition, the use of \$166 million of cash for the repurchase of shares by Onex, the parent company, under its Normal Course Issuer Bid, as well as Celestica's repurchase of some of its shares and outstanding Liquid Yield Option Notes ("LYONs") for \$691 million, accounted for a portion of the decline in the total consolidated assets. Furthermore, the dispositions of Lantic Sugar, Rogers Sugar and MAGNATRAX decreased assets by \$1.1 billion compared to December 31, 2002.

Partially offsetting these declines in consolidated total assets was the inclusion of assets from acquisitions completed by ClientLogic, Radian and ONCAP, which collectively added \$125 million, net of cash used, to total consolidated assets and that are outlined in more significant detail in table 19 on page 46.

### Consolidated long-term debt, without recourse to Onex

Onex, the parent company, has no debt, with the exception of the debentures that are exchangeable into shares of Celestica; these are discussed in greater detail under the heading "Exchangeable debentures" on page 49. It has been Onex' policy to preserve a financially strong parent company that has funds available for new acquisitions and to support the growth of its operating companies. We adhere strictly to this policy, which means that all debt financing is within our operating companies and each

company is required to support its own debt. There are no guarantees by Onex or cross-guarantees between the operating companies. As a result, there can be no calls on Onex or on an operating company for the debt of another operating company.

Total consolidated long-term debt (consisting of the current portion of long-term debt and long-term debt) was \$2.7 billion at December 31, 2004, \$1.7 billion at December 31, 2003 and \$2.0 billion at December 31, 2002. Table 20 summarizes consolidated long-term debt by industry segment.

### Consolidated Long-term Debt, Without Recourse to Onex

TABLE 20	(\$ millions)	2004	2003	2002
Electronics Manufacturing Services		750	273	413
Theatre Exhibition		129	114	36
Healthcare		450	-	-
Customer Management Services		192	206	237
Automotive Products		721	1,026	1,201
Other <sup>(a)</sup>		416	130	161
		<b>2,658</b>	1,749	2,048
Long-term debt of ClientLogic and Performance Logistics Group, reclassified as current		-	(256)	(25)
Current portion of long-term debt of operating companies <sup>(b)</sup>		(295)	(22)	(70)
Total		<b>2,363</b>	1,471	1,953

(a) Other includes CEI, Radian, ONCAP and parent company.

(b) 2003 current portion of long-term debt excludes ClientLogic and PLG.

At December 31, 2004, long-term debt increased by approximately \$1 billion from December 31, 2003 due primarily to a new debt issue at Celestica and the inclusion of debt from acquisitions and investments completed in 2004, which include Magellan, CEI and ONCAP acquisitions – Futuremed and CSRS. The inclusions of debt of Magellan, CEI as well as ONCAP increased long-term debt in 2004 by approximately \$450 million, \$158 million and \$118 million, respectively.

Celestica issued US\$500 million of senior subordinated notes in June 2004 with a 7.875 percent fixed interest rate that are due in 2011. Approximately US\$300 million of the proceeds from this issue were used to repurchase a portion of Celestica's LYONs having a principal amount at maturity of approximately US\$540 million. In addition, effective December 31, 2004, Celestica adopted early the revised *CICA Handbook* Section 3860, "Financial Instruments – Presentation and Disclosure", which becomes effective January 1, 2005. This revised standard requires obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Celestica had LYONs at December 31, 2004 that were affected by early adoption of this standard. As a result, Onex reclassified the principal component of \$149 million of the LYONs as debt, which in prior years had been recorded as non-controlling interests. The option component of the LYONs continues to be accounted for as equity. The revised standard also requires retroactive restatement of prior periods, which resulted in Onex reclassifying \$273 million from non-controlling interests to debt in 2003.

### Contractual Obligations

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt, without recourse to Onex	2,658	295	349	393	1,621
Capital and operating leases	1,038	209	281	171	377
Total contractual obligations	3,696	504	630	564	1,998

Additional disclosure on long-term debt is provided in note 8 to the audited annual consolidated financial statements. Note 9 to the audited annual consolidated

Partially offsetting these increases in debt was the refinancing by J.L. French Automotive in August 2004, which included the repurchase and retirement of a significant portion of that company's 11.5 percent senior subordinated notes at a discount. The company also arranged new credit facilities with total borrowings of US\$465 million that mature in 2011 and 2012. These new facilities replaced the company's previous senior secured credit facilities. In addition, the exclusion of long-term debt of CVG and PLG, which had \$239 million of long-term debt in 2003, partially offset the increase in long-term debt in 2004.

Subsequent to year-end, ClientLogic completed a US\$157 million debt refinancing of its credit facilities, which matured in early 2005. The new credit facilities mature in 2012. Accordingly, the company's debt was classified as long term in the audited annual consolidated financial statements at December 31, 2004.

Long-term debt decreased to \$1.7 billion at December 31, 2003 from \$2.0 billion at December 31, 2002 due primarily to the decline in value of the U.S. dollar relative to the Canadian dollar in 2003 with the currency translation of the U.S.-dollar-denominated debt and Celestica's redemption of a portion of its LYONs in 2003.

### Contractual obligations

Table 21 provides a breakdown of consolidated contractual obligations and the required future payments on those obligations at December 31, 2004 for the Onex operating companies.

financial statements provides further additional disclosure on capital and operating leases.

### Exchangeable debentures

At December 31, 2004, four series of debentures issued by Onex and exchangeable into shares of Celestica remained outstanding, which the Company issued in 2000 for an aggregate carrying amount of \$729 million. At the time Onex entered into these transactions in 2000, Celestica's market value had significantly increased, resulting in Onex' ownership interest in Celestica representing, in Onex' view, too large a portion of the Company's aggregate value. The exchangeable debentures provided Onex with additional liquidity and reduced the risk associated with holding too large a portion of Onex' total value in one operating company. The debentures are exchangeable into approximately 9.2 million Celestica subordinate voting shares, at fixed exchange rates, or at Onex' option, into the cash equivalent based on the market price of Celestica shares at the time of exchange. The debentures by their terms mature in 2025. Onex has the option to repay the debentures at any time by delivering the cash equivalent based on the market price of Celestica shares at the time of exchange, the exchange number of Celestica shares or a combination of shares and cash. Onex' obligation upon the exercise of the holders' exchange right is secured by a pledge of approximately 9.2 million Celestica shares.

At December 31, 2004, the market value of the exchangeable debentures was \$156 million, down from a market value of \$180 million at December 31, 2003 and \$203 million at December 31, 2002. The market value of the exchangeable debentures is directly tied to the market price of Celestica shares, which declined to \$16.90 per share at December 31, 2004 from \$19.56 per share and \$22.05 per share at December 31, 2003 and 2002, respectively.

Effective January 1, 2004, Onex adopted the new AcG-13, "Hedging Relationships" and EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which affected the accounting for the exchangeable debentures at Onex. Onex determined that the debentures did not qualify for hedge accounting based on the new guidance, and accordingly Onex was required to mark-to-market this instrument.

As a result of these pronouncements, Onex recorded income of \$24 million for the year ended December 31, 2004 even though there was no economic or financial impact to Onex. This represents the decline in market value of Celestica shares pledged under the debentures, which reduced the value of the debenture obligation. As at December 31, 2004, there was an unrealized accounting pre-tax gain with respect to the exchangeable debentures of approximately \$550 million.

In February 2005, Onex redeemed the outstanding debentures and settled the obligation through the delivery of approximately 9.2 million Celestica subordinate voting shares. The deferred gain will be taken into income in 2005.

### Off-balance sheet arrangements

In 2000, Onex entered into four series of forward sales contracts relating to the subordinate voting shares of Celestica, of which there were two series outstanding at December 31, 2004. The forward contracts mature in 2025 but may be closed out earlier by Onex. Approximately 1.8 million Celestica shares have been pledged as collateral for these forward sales contracts and it is contemplated that they will be used to satisfy the agreements. These contracts are off-balance sheet arrangements.

Effective January 1, 2004, Onex adopted the new AcG-13, "Hedging Relationships" and EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which affected the accounting for the forward sales contracts at Onex. Onex determined that this instrument did not qualify for hedge accounting based on the new guidance, and accordingly Onex was required to mark-to-market this instrument.

As a result of these pronouncements, Onex recorded income of \$5 million for the year ended December 31, 2004 even though there was no economic or financial impact to Onex. As at December 31, 2004, there was an unrealized accounting pre-tax gain with respect to the forward sales contracts of \$181 million. This gain will continue to be deferred until such time as these instruments are settled.

## Non-controlling interests

The non-controlling interests liability on Onex' consolidated balance sheets represents the ownership interests of shareholders, other than Onex, in Onex' operating companies. As at December 31, 2004, the non-controlling interests balance amounted to \$3.9 billion compared to \$4 billion in 2003. Table 22 details the change in the non-controlling interests balance from December 31, 2003 to December 31, 2004.

### Change in Non-controlling Interests

TABLE 22 | (\$ millions)

Non-controlling interests as at December 31, 2003	<b>4,002</b>
Non-controlling interests in net earnings (loss) of operating companies in 2004	<b>(781)</b>
Investments by shareholders other than Onex in:	
Onex Partners	<b>386</b>
Acquisitions completed in 2004	<b>758</b>
Other, net	<b>(238)</b>
Foreign currency translation	<b>(253)</b>
Non-controlling interests as at December 31, 2004	<b>3,874</b>

## Shareholders' equity

Shareholders' equity decreased to \$227 million at December 31, 2004 from \$293 million at December 31, 2003. The decrease in shareholders' equity was due primarily to the \$150 million spent on share repurchases under Onex' Normal Course Issuer Bids. Partially offsetting these factors were reported net earnings of \$35 million for the year ended December 31, 2004 and a \$68 million increase in equity relating to fluctuations in foreign currency translation, primarily associated with the effect of the change in value of the U.S. dollar on Onex' net equity in U.S.-based consolidated operating companies. Table 23 provides a reconciliation of the change in shareholders' equity from December 31, 2003 to December 31, 2004.

## Change in Shareholders' Equity

TABLE 23 | (\$ millions)

Shareholders' equity as at December 31, 2003	<b>293</b>
Change in stock-based compensation accounting policy <sup>(a)</sup>	<b>(5)</b>
Regular dividends declared	<b>(15)</b>
Issue of shares – Dividend Reinvestment Plan and stock options exercised	<b>1</b>
Shares repurchased and cancelled	<b>(150)</b>
Currency translation adjustment on self-sustaining foreign operations	<b>68</b>
Net earnings for 2004	<b>35</b>
Shareholders' equity as at December 31, 2004	<b>227</b>

(a) Adoption of the revised *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments".

Further information on the components of shareholders' equity as at December 31, 2004 and 2003 is found in the audited annual consolidated statements of shareholders' equity on page 70 of this report.

## Shares outstanding

At February 28, 2005, Onex had 139,015,924 Subordinate Voting Shares issued and outstanding. Dividends are paid on the Subordinate Voting Shares. In mid-October 2004, The Toronto Stock Exchange changed Onex' trading symbol from OCX to OCX.SV. Table 24 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2003 to February 28, 2005.

### Change in Subordinate Voting Shares Outstanding

TABLE 24 |

Subordinate Voting Shares outstanding at December 31, 2003	<b>148,015,300</b>
Issue of shares – Dividend Reinvestment Plan	<b>72,724</b>
Issue of shares – Stock options exercised	<b>71,000</b>
Shares repurchased and cancelled under Onex' Normal Course Issuer Bids	<b>(9,143,100)</b>
Subordinate Voting Shares outstanding at February 28, 2005	<b>139,015,924</b>

Onex also has 100,000 Multiple Voting Shares outstanding, which have a nominal paid-in value, and 176,078 Series 1 Senior Preferred Shares, which have no paid-in amount reflected in Onex' audited annual consolidated financial statements. Note 12 to the audited annual consolidated financial statements provides additional information on Onex' share capital. There was no change in the Multiple Voting Shares and Series 1 Preferred Shares outstanding during 2004.

#### Cash dividends

During 2004, Onex declared dividends of \$0.11 per Subordinate Voting Share to its shareholders, which were paid quarterly at a rate of \$0.0275 per Subordinate Voting Share. The dividends are payable on or about January 31, April 30, July 31 and October 31 of each year. The dividend rate remained unchanged from that of 2003 and 2002. The total payments for dividends have decreased with the repurchase of Subordinate Voting Shares under the Normal Course Issuer Bids as discussed below.

#### Dividend Reinvestment Plan

Onex' Dividend Reinvestment Plan (the "Plan") enables Canadian shareholders to reinvest cash dividends to acquire new Subordinate Voting Shares of Onex at a market-related price at the time of reinvestment. In early March 2004, the Plan was amended to remove the discount to market so that future Subordinate Voting Shares acquired would be priced according to their market value. Eliminating the discount brought the terms of the Plan in line with most of the dividend reinvestment plans of The Toronto Stock Exchange-listed issuers. During 2004, Onex issued 72,166 Subordinate Voting Shares under the Plan at an average cost of \$15.08 per Subordinate Voting Share, creating cash savings of \$1 million for investors. During 2003, 317,599 Subordinate Voting Shares were issued under the Plan at an average cost of \$14.343 per Subordinate Voting Share, creating cash savings of approximately \$5 million. During 2002, Onex issued 189,281 Subordinate Voting Shares under the Plan at an average cost of \$19.49 per Subordinate Voting Share, creating cash savings of approximately \$4 million. In January 2005, Onex issued an additional 558 Subordinate Voting Shares under the Plan at an average cost of \$19.067 per Subordinate Voting Share.

#### Stock Option Plan

Onex, the parent company, has a Stock Option Plan in place that provides for options and/or share appreciation rights to be granted to Onex directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company for a term not exceeding 10 years. The options vest equally over five years. The exercise price of the options is not less than the market value of the Subordinate Voting Shares on the business day preceding the day of the grant. The options are not exercisable unless the average five-day, market price of Onex Subordinate Voting Shares is 25 percent greater than the exercise price. At December 31, 2004, Onex had 13,961,700 options outstanding to acquire Subordinate Voting Shares, of which 2,743,000 were vested and 1,975,200 of those vested options were exercisable. Table 25 provides a detailed reconciliation of the options outstanding at December 31, 2004.

#### Change in Stock Options Outstanding

TABLE 25	Number of Options	Weighted Average Exercise Price
Outstanding at		
December 31, 2002	12,250,600	\$ 9.34
Granted	710,000	\$ 14.90
Exercised or surrendered	(596,600)	\$ 7.78
Expired	(105,000)	\$ 18.45
Outstanding at		
December 31, 2003	<b>12,259,000</b>	<b>\$ 9.66</b>
Granted	<b>10,205,000</b>	<b>\$ 16.54</b>
Exercised or surrendered	<b>(8,345,800)</b>	<b>\$ 7.78</b>
Expired	<b>(156,500)</b>	<b>\$ 18.56</b>
Outstanding at December 31, 2004	<b>13,961,700</b>	<b>\$ 15.71</b>

In February 2004, Onex issued 7,260,000 options to acquire Subordinate Voting Shares at an exercise price of \$15.87, which was the market price of Onex Subordinate Voting Shares at the time of issuance of the options. Similarly, Onex issued 2,945,000 options in November 2004 at an exercise price of \$18.18.

During 2004, 8,345,800 options were exercised or surrendered at an average exercise price of \$7.78. Of those options exercised, 8,274,800 options were surrendered for cash consideration of \$71 million and 71,000 options were exercised for Subordinate Voting Shares of Onex at a total

value of approximately \$1 million. This compares to 596,960 options exercised or surrendered in 2003 and 1,300,600 options in 2002. Of the total options exercised, approximately 55,000 options were exercised for Subordinate Voting Shares in 2003 and 50,000 in 2002 at a total value of \$1 million and \$1 million, respectively.

#### Deferred Share Unit Plan

In November 2004, Onex, the parent company, established a Deferred Share Unit Plan ("DSU Plan"), which allows Onex directors to apply directors' fees to acquire Deferred Share Units ("DSUs") based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex directors from time to time. Holders of DSUs are entitled to receive, for each DSU upon redemption, a cash payment equivalent to the market value of a Subordinate Voting Share at the redemption date. The DSUs vest immediately, are only redeemable once the holder retires from the board of directors and must be redeemed by the end of the year following the year of retirement. Additional units are issued equivalent to the value of any cash dividends that would have been paid on the Subordinate Voting Shares. The Company has recorded a liability for the future settlement of DSUs at the balance sheet date by reference to the value of underlying shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying Subordinate Voting Shares, with the corresponding amount reflected in the consolidated statements of earnings. At December 31, 2004, Onex had 40,000 DSUs outstanding with a cost of \$1 million being recorded as stock-based compensation expense.

#### Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2004 that enabled it to repurchase up to 10 percent of its public float of Subordinate Voting Shares. Onex believes that it is advantageous to Onex and its shareholders to continue to repurchase Onex' Subordinate Voting Shares from time to time when the Subordinate Voting Shares are trading at prices that reflect a significant discount to their intrinsic value. During 2004, Onex repurchased 9,143,100 Subordinate Voting Shares under the Bids at a total cost of \$150 million. Under similar Bids, Onex repurchased 11,586,100 Subordinate Voting Shares at a total

cost of \$166 million during 2003 and 1,587,100 Subordinate Voting Shares at a total cost of \$26 million in 2002.

#### Currency translation adjustment

The currency translation component increased shareholders' equity by \$68 million in 2004 compared to a decrease of \$242 million in 2003. Changes in the currency translation adjustment primarily represent the cumulative effect of changes in foreign currency rates on the value of Onex' ownership in U.S.-based operating companies from their respective acquisition dates.

### LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the audited annual consolidated statements of cash flows on page 71 and the corresponding notes thereto.

Onex believes that maintaining a strong financial position at the parent company with substantial liquidity enables the Company to pursue new opportunities to create long-term value and support Onex' existing operating companies.

#### Major Cash Flow Components

TABLE 26	(\$ millions)	2004	2003
Cash from operating activities, excluding changes in non-cash net working capital and other liabilities		415	107
Increase in non-cash net working capital and other liabilities		(279)	(313)
Cash from (used in) financing activities		608	(879)
Cash used in investing activities		(609)	(147)
Cash from discontinued operations		572	53
Consolidated cash <sup>(a)</sup>		3,310	2,800

(a) Includes cash from discontinued operations.

#### Cash from operating activities

Cash from operations, excluding changes in working capital and other liabilities, totalled \$415 million in 2004 compared to \$107 million in 2003. Table 27 provides a breakdown of cash from (used in) operating activities, excluding changes in non-cash net working capital and other liabilities, by industry segment. The increase in cash generated from operations compared to the same period last year was

related primarily to the inclusion of Magellan, which added \$180 million. In addition, improved operating results, primarily at Celestica and ClientLogic, also contributed to the growth in cash generated from operating activities. A detailed discussion of the consolidated operating results by industry segment can be found under the heading "Consolidated Operating Results" beginning on page 29.

### Cash from (used in) Operating Activities

TABLE 27	(\$ millions)	2004	2003
Electronics Manufacturing Services		200	128
Theatre Exhibition		48	50
Healthcare		180	-
Customer Management Services		54	(1)
Automotive Products		18	37
Other <sup>(a)</sup>		(85)	(107)
Total		415	107

[a] Other includes Radian, ONCAP and parent company.

### Cash from (used in) financing activities

Cash from financing activities was \$608 million in 2004 compared to cash used of \$879 million in 2003. Included in the 2004 cash provided from financing activities was \$386 million of cash received from limited partners of Onex Partners LP for the investments in Magellan, ResCare, CGG, CEI and CDI. In addition, Celestica's 7.875 per cent senior notes offering completed in the second quarter of 2004 contributed US\$500 million of cash from financing activities. Partially offsetting these amounts were cash used by Onex for the repurchase of Subordinate Voting Shares of \$150 million and Celestica's repurchase of LYONs, which used cash of \$405 million in 2004.

Included in the 2003 cash used in financing activities was \$166 million of cash used for Onex' repurchase of its Subordinate Voting Shares and \$691 million of cash used by Celestica for the repurchase of some of its Subordinate Voting Shares under that company's normal course issuer bid and the repurchase of a portion of its LYONs.

### Cash used in investing activities

Cash used in investing activities totalled \$609 million in 2004, an increase from \$147 million of cash used in investing activities in 2003. The increase in cash used in investing

activities was due primarily to acquisitions completed in 2004, which used cash of \$216 million, compared to \$99 million of cash used for acquisitions in 2003. Note 3 to the consolidated financial statements discloses the amount of cash invested in each acquisition completed during 2004 and 2003. Table 19 on page 46 provides details on the acquisitions completed in 2004, 2003 and 2002. In addition, cash used in investing activities includes the \$216 million investment in ResCare and CGG completed in June and November 2004, respectively.

Included in the 2004 cash from investing activities were cash proceeds of \$81 million received by Onex from CVG's initial public offering of shares and debt repayment in August 2004 as well as \$68 million in proceeds recorded by Celestica on the sale of its Power Systems business in the third quarter of 2004. This compares to \$256 million in proceeds from sales of shares in 2003 due primarily to the initial public offering of the Cineplex Galaxy Income Fund in November 2003.

Onex' operating companies spent \$348 million on property, plant and equipment in 2004 compared to \$387 million of such expenditures in 2003. Table 28 details property, plant and equipment expenditures by industry segment.

### Property, Plant and Equipment Expenditures

TABLE 28	(\$ millions)	2004	2003
Electronics Manufacturing Services		180	234
Theatre Exhibition		23	47
Healthcare		39	-
Customer Management Services		43	26
Automotive Products		52	72
Other <sup>(a)</sup>		11	8
Total		348	387

[a] Other includes Radian, ONCAP and parent company.

Celestica recorded \$180 million in property, plant and equipment expenditures relating primarily to the expansion of manufacturing capabilities in lower-cost geographies including Mexico, Malaysia, Romania, Thailand and the Czech Republic. Cineplex Galaxy spent \$23 million in capital expenditures in 2004 compared to \$47 million in 2003 primarily for new theatre construction. Magellan utilized approximately \$39 million of cash on capital

expenditures in 2004 related to management information systems and related equipment. ClientLogic spent \$43 million on property, plant and equipment mainly for call centre capacity expansions in 2004. J.L. French Automotive used US\$30 million in cash on capital expenditures in 2004 primarily for equipment purchases related to new programs and replacement programs.

## Commitments

As at December 31, 2004, Onex and its operating companies had total commitments as follows:

### Commitments

TABLE 29 | (\$ millions)

Corporate investments	<b>161</b>
Capital expenditures	<b>58</b>
Letters of credit, letters of guarantee and surety and performance bonds	<b>95</b>
<b>Total commitments</b>	<b>314</b>

The corporate investment commitments of \$161 million noted in table 29 include primarily Onex' share of commitments (\$121 million) in acquisitions completed by Onex Partners in early 2005. In early January 2005, Onex completed the acquisition of Center for Diagnostic Imaging, Inc. ("CDI"), investing \$88 million for an 84 percent equity ownership. Onex provided approximately \$21 million of that equity investment and the balance of \$67 million was funded through Onex Partners. In addition, in February 2005, Onex acquired American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare") in a purchase valued at approximately \$1 billion. The total equity investment was approximately \$270 million with Onex initially investing \$100 million and the balance through Onex Partners and certain of its limited partners. These corporate investments are discussed in further detail below under the heading "Pending Transactions at December 31, 2004".

Capital expenditures commitments are essentially those of Onex' operating companies. Celestica had US\$20 million in capital commitments, principally for

machinery, equipment and facilities in Asia. In total, Celestica expects capital spending for 2005 to be in the range of 1.5–2.5 percent of the company's revenues, which will be funded from cash on hand. The theatre exhibition segment had capital commitments of \$23 million associated with the construction of five new theatre properties that will comprise 51 screens. These theatres are expected to be completed and opened at various times during 2005 and 2006.

Contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. In addition, certain operating companies have also made guarantees with respect to employee share purchase loans. As at December 31, 2004, the commitments with respect to these guarantees collectively totalled \$95 million. These guarantees are without recourse to Onex.

## Cash from discontinued operations

Cash from discontinued operations represents the cash received on the sale of businesses adjusted for the opening cash positions of those businesses that have been discontinued. The companies that have been reported as discontinued in 2004 are Loews Cineplex, Armtec, Cincinnati Electronics, Dura Automotive and InsLogic. Cash from discontinued operations was \$572 million in 2004 compared to cash provided of \$53 million in 2003. Included in the cash from discontinued operations for the year ended December 31, 2004 were proceeds of \$739 million on the sale of Loews Cineplex; \$226 million on the sale of Cincinnati Electronics; \$22 million on the sale of Armtec; and \$23 million on the sale of Dura Automotive less cash of \$438 million, which was held by these businesses at the beginning of 2004. Note 2 to the audited annual consolidated financial statements provides additional information on cash flows from discontinued operations.

Included in the 2003 cash from discontinued operations were the cash positions of those businesses that were discontinued in 2004, as well as those of MAGNATRAX, Rogers Sugar and Lantic Sugar, which were discontinued in 2003.



### Additional sources of cash

In early February 2004, Onex completed the final closing of Onex Partners, a fund with total commitments of \$2 billion (US\$1.7 billion). Onex Partners provides capital to Onex-sponsored acquisitions not related to Onex' operating companies that existed prior to the formation of Onex Partners or ONCAP. Onex controls the General Partner and the Manager of Onex Partners and has pledged \$480 million (US\$400 million) to Onex Partners. Onex Partners has a diverse group of limited partner investors, including public and private pension funds, banks, insurance companies and endowment funds from the United States, Canada, Europe and Asia. This substantial pool of committed funds enables Onex to be more flexible and timely in responding to investment opportunities. At December 31, 2004, Onex Partners, including Onex, had invested \$485 million in investments or acquisitions completed in 2004. The available committed capital from Onex Partners, excluding Onex, totalled \$1.1 billion at December 31, 2004. Acquisitions completed in 2004 are disclosed in detail in note 3 to the audited annual consolidated financial statements. Onex Partners had equity investment commitments outstanding, which included Onex' share of those commitments, of approximately \$358 million at December 31, 2004 for the acquisitions of CDI (\$88 million), completed in January 2005, and of AMR and EmCare (\$270 million), completed in February 2005; Onex' share of those commitments was \$21 million and \$93 million, respectively.

### Consolidated cash

At December 31, 2004, consolidated cash from continuing operations was \$3.3 billion compared to \$2.4 billion in 2003. Onex, the parent company, had approximately \$1.4 billion of cash, Celestica had more than \$1.1 billion of cash on hand and Magellan had approximately \$0.4 billion of cash at December 31, 2004. In addition, Onex, the parent company, had approximately \$0.3 billion of near-cash items at December 31, 2004. The Company has a conservative cash management policy that limits investment to short-term low-risk money-market products. No amounts of cash from the limited partners of Onex Partners are included in consolidated cash.

### Related party transactions

Related party transactions are primarily investments by the management of Onex and of the operating companies in the equity of the operating companies acquired.

Onex has a Management Incentive Plan (the "MIP") in place that requires its management members to invest in each of the operating companies acquired by Onex. The funds required for investments under the MIP are neither loaned to the management members nor guaranteed by Onex or the operating companies. During 2004, there were investments of \$2 million under the MIP compared to less than \$1 million in 2003. Management members of the MIP participated in the realizations the Company achieved on Loews Cineplex and Armtec, receiving \$35 million in 2004. This compares to \$6 million in realizations under the MIP in 2003. Notes 1 and 24 to the audited annual consolidated financial statements provide additional details on the MIP.

Members of management and the Board of Directors of Onex can invest limited amounts in partnership with Onex in all acquisitions outside of Onex Partners at the same cost as Onex and other outside investors. During 2004, approximately \$9 million in investments were made by Onex management and Onex board members; this compares to less than \$1 million in investments made in 2003 by management and the Onex board, which were related primarily to ONCAP's acquisition of Western Inventory Service.

In addition, Onex Partners requires Onex management to invest 1 percent (US\$16.5 million) in all future acquisitions and Onex management and directors have committed to invest an additional 3 percent of the total capital invested by Onex Partners. This structure will apply to those acquisitions completed through Onex Partners. The total amount invested in 2004 by Onex management and directors on acquisitions and investments completed through Onex Partners was \$21 million.

During the investment period of Onex Partners (up to six years), Onex will receive a management fee of 2 percent on the US\$1.25 billion of committed capital provided by third-party investors. Thereafter, a 1 percent management fee is payable to Onex on invested capital. Onex Partners' General Partner will also receive a carried

interest of 20 percent on the realized gains of the third-party limited partners, subject to an 8 percent compound annual preferred return to such limited partners on all amounts contributed to Onex Partners. This carried interest will be based on the overall performance of Onex Partners and includes typical catch-up and clawback provisions. Consistent with market practice, Onex, as sponsor of Onex Partners, will be allocated 40 percent of the carried interest with 60 percent allocated to the Onex principals.

Onex does not guarantee the debt on behalf of any of its operating companies, nor are there any cross-guarantees between operating companies. Onex will invest in debt of its operating companies, which amounted to \$204 million at December 31, 2004 compared to \$134 million at December 31, 2003. Note 8 to the audited annual consolidated financial statements provides information on the debt of operating companies held by Onex.

Note 24 to the audited annual consolidated financial statements describes related party transactions.

#### **Pending Transactions at December 31, 2004**

In January 2005, Onex, through Onex Partners, acquired CDI in a transaction valued at approximately \$225 million. Onex Partners invested approximately \$88 million in equity for an approximate 84 percent ownership interest. Onex' portion of that investment was approximately \$21 million, representing an approximate 20 percent ownership interest. CDI is a leading provider of diagnostic and therapeutic radiology services. The company operates 32 diagnostic imaging centres in nine markets in the United States. CDI's imaging services include magnetic resonance imaging ("MRI"), computed tomography ("CT"), diagnostic and therapeutic-injection procedures, as well as other procedures such as conventional x-ray, mammography and ultrasound.

In addition, in January 2005, Onex Partners sold more than half of its CGG convertible subordinated bonds after receiving an attractive purchase offer from a third party. The transaction, which generated proceeds of

\$76 million, recognized an increase in the bonds' market value. Onex' share of those proceeds was \$18 million, excluding any carried interest amount that Onex is entitled to. In January 2005, Onex also established Onex Real Estate Partners LP ("Onex Real Estate Partners"), a fund dedicated to acquiring and improving real estate assets in North America. Onex' initial commitment is \$250 million, which will be funded as acquisitions are completed. Onex intends to increase the size of the fund over time with the participation of institutional investors.

In February 2005, Onex acquired AMR and EmCare in a transaction valued at approximately \$1 billion. The investment was made through Onex Partners and certain of its limited partners, which invested approximately \$270 million in equity for a 97 percent ownership interest. Onex' investment was approximately \$100 million for a 37 percent ownership interest. Senior management of the businesses are also investors and owners along with Onex. AMR is the largest U.S. provider of ambulance transport services. The company provides emergency response services on behalf of communities, municipalities and other local government agencies as well as non-emergency transports between healthcare facilities or from a healthcare facility to a patient's home. EmCare is the leading provider of outsourced services for hospital emergency department physician staffing and management. The company assists its clients in the operation of their emergency departments, providing recruiting services, staff coordination, quality assurance, departmental accreditation, risk management, billing, record keeping, third-party payment, and other administrative services.

#### **Other matters**

Onex Corporation's financial filings, including its 2004 Annual Report and interim quarterly reports, Annual Information Form and Management Circular, are available on the Company's website at [www.onex.com](http://www.onex.com) or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

### PARENT COMPANY

Onex ended 2004 with substantial cash resources for the acquisitions of businesses and to support new initiatives to invest in other asset categories. The participants in Onex Partners LP ("Onex Partners") also have remaining commitments to provide \$1.1 billion of funding for future Onex-sponsored acquisitions.

At the end of 2004, Onex had outstanding agreements to acquire three businesses. These transactions were completed in January and February 2005 with funding provided by Onex and Onex Partners.

In early January 2005, Onex completed the acquisition of Center for Diagnostic Imaging, Inc. ("CDI"), investing \$88 million for an 84 percent equity ownership. Approximately \$21 million of the amount was provided by Onex with \$67 million through Onex Partners. CDI is expected to have annual revenues of approximately \$125 million.

In February 2005, Onex acquired American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare") in a purchase valued at approximately \$1 billion. AMR is the largest U.S. provider of ambulance transport services on behalf of communities, municipalities, government agencies and healthcare facilities. EmCare is the largest provider of outsourced services for hospital emergency department physician staffing and management. The total equity investment was approximately \$270 million with Onex investing \$100 million and the balance through Onex Partners and certain of its limited partners. Annual revenues of AMR and EmCare are estimated at \$2 billion.

In late February 2005, Onex announced that it had signed an agreement to acquire the Wichita/Tulsa Division of Boeing Commercial Airplanes in a transaction valued at approximately \$1.5 billion, consisting of \$1.1 billion in cash and the assumption of certain liabilities. The purchase will include Boeing's commercial airplane manufacturing facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma. The operations will be under a new company that will enter into long-term agreements with Boeing to supply components such as fuselage sections, struts and nacelles, and wing elements on all of Boeing's existing 737, 747, 767, and 777 platforms, as well as the new 787 platform. The division currently employs approximately 9,000 people and represented approximately \$2.5 billion in annual costs in 2004. The new company will also seek new business from other customers. Onex, through Onex Partners and certain of its limited partners,

intends to invest approximately \$465 million. Onex' share is expected to be at least \$116 million. Closing of the transaction is subject to the satisfactory completion of a number of conditions and is expected to be completed late in the second quarter or during the third quarter of 2005.

Onex is also pursuing other opportunities to put substantial cash resources to work by investing in initiatives that meet our benchmarks for entrepreneurial management and value-creation potential. Early in 2005, Onex established Onex Real Estate Partners LP ("Onex Real Estate Partners"), a fund dedicated to acquiring and improving real estate assets in North America. Onex' partners in Onex Real Estate Partners are highly experienced real estate professionals who share our philosophy of long-term value growth. Onex' initial commitment of \$250 million will be funded as acquisitions are completed. Onex intends to increase the size of the real estate fund over time with the participation of institutional investors.

In early February 2005, Onex redeemed all four series of its outstanding 25-year debentures exchangeable for Celestica subordinate voting shares. The aggregate principal amount of the debentures redeemed was approximately \$729 million. Onex elected to satisfy the principal amount by providing Celestica subordinate voting shares based upon the fixed exchange rates under the terms of the debentures. In aggregate, 9,214,320 Celestica subordinate voting shares were delivered to the debenture holders on redemption. In addition, an early termination premium of approximately \$12.2 million and accrued interest was paid in cash on redemption.

Onex will record an accounting gain in the first quarter of 2005 on the redemption on the debentures. An estimate of that gain is approximately \$550 million before tax based on the December 31, 2004 carrying values. After these transactions and excluding shares for MIP investment rights and shares pledged under the forward contracts, Onex would continue to hold 27.3 million multiple voting shares of Celestica. The shares Onex will continue to hold represent an equity and voting interest in Celestica of approximately 13 percent and 78 percent, respectively.

At the end of 2004, the commitment period for initial investments by the first ONCAP fund expired. As a result of the success of ONCAP's first fund, ONCAP is intending to raise a second fund with a size of approximately \$500 million. It is currently Onex' intention to have a greater participation in the second ONCAP fund than its approximate 28 percent participation in the first fund.

Onex, the parent company, has approximately \$1.4 billion in cash to meet its commitments to Onex Partners, ONCAP and Onex Real Estate Partners and to support the growth plans of our operating companies. More importantly, the creation of Onex Partners has made available a substantial amount of time and resources previously dedicated to finding investment partners for major transactions. It has enabled us to more efficiently evaluate and act on new opportunities to create value for Onex shareholders and investors in Onex Partners, as the four important acquisitions or investments made during 2004 demonstrate.

### **Certification of disclosures and internal controls**

In early 2004, the Canadian Securities Association ("CSA") issued proposed Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" related to the certification of disclosures and other matters in issuers' annual and interim filings. This instrument requires CEOs and CFOs of all reporting issuers to personally certify the accuracy and completeness of the annual and interim filings of the issuer. Onex, the parent company, implemented this requirement in early 2004 and has filed the necessary certifications for 2004.

In February 2005, the CSA issued proposed Multilateral Instrument 52-111, "Reporting on Internal Control over Financial Reporting". This instrument as proposed will require an evaluation by management of the effectiveness of internal controls over financial reporting against a suitable controls framework; maintenance of evidence providing reasonable support for the evaluation of the effectiveness of internal controls over financial reporting; reporting of material weaknesses in internal controls over financial reporting; and an external audit of internal controls over financial reporting.

In addition, in February 2005 the CSA announced the proposed repeal and replacement of Multilateral Instrument 52-109. Multilateral Instrument 52-111 does not change issuers' certification requirements for disclosure controls and processes, that were effective for years ending on or after March 31, 2005, but rather will require issuers

to certify that they have disclosed significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting and fraud, if any, to their audit committee and auditors when the issuer is required to comply with Multilateral Instrument 52-111.

The implementation of proposed instrument 52-111 for companies with market capitalization in excess of \$500 million is expected to be effective for the year ending on or after June 30, 2006. At December 31, 2004, Onex had a market value of \$2.7 billion and therefore would have to implement this new instrument for the year ended December 31, 2006. Onex, the parent company, has been addressing the requirements under this proposed instrument and anticipates that it will have implemented all necessary procedures to meet this new requirement as it becomes effective.

## **OPERATING COMPANIES**

### **Electronics Manufacturing Services ("EMS")**

Based on the very moderate growth environment anticipated in 2005, Celestica's priorities will be similar to those in 2004. Celestica will continue to focus on restructuring its excess capacity in higher cost geographies, resulting in pre-tax charges of US\$225–US\$275 million. This initiative will align its manufacturing capacity and workforce with the current demand environment. Upon completing this restructuring, the company expects its capacity utilization to increase to approximately 70 percent for its EMS manufacturing capacity, which will be primarily located in lower-cost regions, such as Asia, Mexico, Central and Eastern Europe. Expanding and diversifying the customer base beyond communications and information technology OEMs will remain an important priority, particularly in areas such as industrial, defence and aerospace, automotive and consumer end markets. Celestica also intends to further its deployment of lean manufacturing and six sigma efficiency initiatives, and to continue to broaden its offering outside its core manufacturing business, particularly in areas such as design, fulfillment and after-market services, in an effort to capture more of OEM customers' outsourced business.

## Theatre Exhibition

Cineplex Galaxy Limited Partnership ("CGLP") expects to open new theatres during 2005 in Aurora, Barrhaven and Brockville, all in Ontario, with a total of 23 screens. Management will also promote a variety of new programs intended to build attendance at its theatres: *Jump*, CGLP's proprietary internet ticketing product, a new loyalty program and an innovative marketing and promotions strategy will differentiate Cineplex Odeon and Galaxy theatres from its competitors.

An important long-term growth initiative for CGLP, and an ongoing benefit of combining the two businesses, is to build the level of its ancillary revenues. With 32 million patrons annually, a significant portion of whom are in the 18 to 25-year-old category, CGLP theatres represent an attractive opportunity for advertisers to reach this important demographic group. During the first half of 2005, CGLP will install a digital delivery system in all its Greater Toronto theatres – 215 screens in total. Fifteen-minute digital pre-shows will feature a combination of advertising, sponsored entertainment and movie previews that will generate additional revenues at each theatre.

## Healthcare

### Magellan Health Services Inc. ("Magellan")

Contract pricing will be lower in 2005 as Magellan passes on much of the benefit of the lower cost of care it has achieved in order to provide more value to customers. As a result, margins will return to historical norms. In February 2005, Aetna, Inc. ("Aetna"), a major health plan customer, informed Magellan that, effective December 31, 2005, it will not renew its agreement with Magellan and will exercise its option to purchase the Magellan operations that manage behavioural healthcare for its members. Under the terms of the option, which was negotiated during Magellan's bankruptcy, the purchase price is expected to be US\$50 million to US\$55 million; Magellan will repay its US\$49 million note to Aetna at the time the transaction closes. Net revenue from the Aetna contract was US\$228 million in 2004. Aetna's decision to exercise its option is not expected to have a material impact on Magellan's financial performance during 2005.

As noted, Magellan is pursuing growth on a variety of fronts. The company has stated that it has opportunities in its pipeline that exceed US\$300 million in

annual revenue. However, minimal impact is anticipated in 2005 due to the long lead time in being awarded bids on gaining customer acceptance and in the event of any such successes, the long lead time for contract start-up.

### Res-Care, Inc. ("ResCare")

The growing demand for services to individuals with developmental disabilities, which represents approximately 80 percent of ResCare's revenues and operating earnings, is underpinned by a variety of long-term social and demographic factors: aging family caregivers; pressure to reduce state-compiled waiting lists; legislation and litigation arising from the *Americans with Disabilities Act*; and the trend to privatization of services. These factors, combined with the lengthy average stay of residents and ResCare's ability to meet their needs with services that are both efficient and caring, have led to 52 consecutive quarters of revenue growth at the company.

Given these social and demographic factors, and ResCare's industry leadership and strong reputation, we are confident the company's trend of increasing revenue will continue during 2005. ResCare intends to accelerate its acquisition program and expects that the provision of periodic in-home services will continue to grow. A key strategic priority for 2005 across ResCare's businesses will be to achieve a more normal pattern of reimbursement increases from state governments after two years of essentially unchanged rates for the services provided by the company.

## Customer Management Services

During 2005, ClientLogic Corporation ("ClientLogic") intends to concentrate on achieving organic growth in its core customer contact business. In addition to its strategy to build a high-quality, cost-effective right-shore offering, the company has established an excellent sales and marketing infrastructure. It intends to add scale to that infrastructure in an effort to further penetrate Fortune 1000 companies in key international markets. ClientLogic entered 2005 with a very good new business pipeline and expects a minimal amount of business will be lost due to repricing issues. Margin improvement will be a key operating initiative in the coming year, as will incremental improvements in operational quality and productivity in the company's European operations.

Longer term, we continue to believe with ClientLogic management that the business process outsourcing industry represents a major growth opportunity as companies seek to outsource non-core business functions. Over the past two years, ClientLogic has transformed itself into one of the top-tier providers in the world. We expect to see substantial value growth in the years ahead as the company continues its efforts to diversify its client base, expand its global offering and improve its overall profitability.

### **Automotive Products**

#### **J.L. French Automotive Castings, Inc. (“J.L. French Automotive”)**

While the use of lighter-weight aluminum parts on cars has been slow to gain momentum in North America, we continue to believe there is potential for this segment in the automotive products industry. The company remains dependent upon the success of its major customers, which include Ford and General Motors (representing approximately 80 percent of 2004 revenues), and the platforms upon which they provide parts.

J.L. French Automotive is the leading producer of domestic aluminum transmission cases and is making inroads on the next high-potential product – aluminum engine blocks. During 2004, J.L. French Automotive was awarded the contract for the DaimlerChrysler World Engine Block and will be the sole supplier of four-cylinder blocks to two new DaimlerChrysler plants in southern Michigan. J.L. French Automotive is also aggressively marketing its capability to produce six-cylinder engine blocks to major domestic OEMs. High-pressure aluminum parts like those produced by J.L. French Automotive are attractive not only for their lower weight but also for their lower cost.

During 2005, management will continue its efforts to broaden J.L. French Automotive's customer base with domestic and foreign transplant OEMs, as well as with selected Tier One suppliers. The company will also make further improvements in waste reduction throughout the business.

#### **Performance Logistics Group (“PLG”)**

While revenues at PLG are largely dependent on the success of the OEMs it serves, in 2005 the company will focus on realizing further synergy opportunities from the

combination of PLG and Leaseway operations. Management intends to pursue new revenue opportunities from improved logistics, particularly where the two transportation systems overlap in the Midwest. The company will also explore entry into new geographic and service markets that builds on PLG's reputation for industry-leading service levels. PLG management will aggressively pursue cost-reduction initiatives by eliminating redundant expenses wherever possible. They also intend to take advantage of the substantial buying power of Penske – a 40 percent owner of PLG – to reduce costs for fuel, tires and shop and maintenance supplies. PLG will continue to be accounted for on an equity basis in 2005.

#### **Commercial Vehicle Group, Inc. (“CVG”)**

CVG expects increased production volumes and content in heavy truck cabs in 2005. OEMs are being challenged to meet pent-up demand for new trucks by suppliers that are not yet capable of manufacturing enough components to meet anticipated manufacturing levels after years of below-average production; this is likely to extend the current cycle of new builds. CVG, which has sharply reduced its costs over the past few years, expects to be a major beneficiary of this extended cycle through increased revenues and earnings.

CVG also intends to broaden its revenue opportunities in the coming year. Its capabilities in Class 8 seating will be introduced to European customers, while its European expertise in construction and agricultural markets will be marketed to OEMs in North America. During 2005, CVG will ramp up a wholly owned assembly facility in China to meet rapidly growing demand in that country for safer, more comfortable heavy truck cabs. CVG will continue to be accounted for on an equity basis in 2005.

In early February 2005, CVG announced that it has acquired substantially all of the assets and liabilities of Mayflower Vehicle Systems North American Commercial Vehicle Operations (“MVS”) for cash consideration of US\$108 million. MVS is the only non-captive producer of complete truck cabs for the commercial vehicle sector that offers full-service engineering and development capabilities. The company's products include cab frames and assemblies, sleeper boxes and other structural components. MVS has operations in Norwalk and Shadyside, Ohio and Kings Mountain, North Carolina and has a tech-

nical facility in the Detroit, Michigan area. Its major customers include International, Volvo/Mack and Freightliner.

## Other Businesses

### Communications Infrastructure

Onex continues to believe that Radian Communication Services Corporation ("Radian") has a good foundation on which to grow. The company enjoys strong brand recognition for its towers and has a solid customer base. With the organizational changes implemented under new leadership in the second half of 2004, Radian will be a more efficient organization with more effective sales and marketing.

The major challenge for Radian in recent years has been declining capital spending by its customers. There is reason to believe that the environment is improving, as wireless carriers begin to invest in technology upgrades to their networks and U.S. broadcasters invest to enhance their transmission to digital formats by July 2006. During 2005, the company will also focus on capturing the remaining cost-reduction opportunities in the business, improve its execution in manufacturing and bidding and seek ways to reduce working capital.

### Personal Care Products

Management believes that while the personal care products industry will continue to grow at more than 4.5 percent annually, Cosmetic Essence, Inc. ("CEI") specific categories – cosmetics, skincare and perfumes – will grow at a faster rate. The company also expects to drive organic growth through stronger sales to existing customers, penetration of new customers and distribution channels, and ongoing growth in the trend to outsourcing. The industry is large and highly fragmented, providing further opportunities for growth through consolidation where potential acquisitions are both accretive and strategic.

### Small-capitalization Opportunities

ONCAP added two new members to its investment team during 2004, including a seasoned professional with 12 years of acquisition experience in the United States. While ONCAP's primary focus has been in Canada, the company intends to be more active, and successful, in pursuing potential stand-alone and add-on acquisitions in the U.S. during the coming year. Overall, Canadian private equity markets are expected to remain very competitive.

ONCAP intends to focus its investments primarily on businesses with strong cash flows and low exposure to currency fluctuations.

As the commitment period for initial investments by the first ONCAP fund expired at the end of 2004, ONCAP initiated plans for a second fund. ONCAP expects the second fund to total approximately \$500 million, with Onex making a commitment of up to half of the total.

Year-end order backlogs suggest that CMC Electronics, Inc. ("CMC Electronics") will continue to have success with its suite of new products in flight management systems and components for the commercial aviation segment. The company's NovAtel division, whose Global Positioning System has made it the supplier of choice for aviation enroute and precision-approach applications, is also expected to have a very good year. A major strategic focus for CMC Electronics management during 2005 will be to improve its execution in the Military Aviation division, particularly on new program opportunities. In early January 2005, CMC Electronics sold a portion of its ownership in NovAtel for proceeds of approximately \$118 million.

Western Inventory Service Ltd. ("WIS") intends to continue to develop new opportunities in its primary inventory counting business during 2005. The company's focus in 2005 is to continue to gain market share and expand geographically in the United States.

During 2005, ONCAP and Futuremed Health Care Products L.P. ("Futuremed") intend to pursue growth on two fronts. The companies will explore acquisition growth that can quickly broaden Futuremed's geographic market coverage and broaden its product offering. It will also pursue organic growth of its business through new customer relationships.

Canadian Securities Registration Systems Ltd. ("CSRS") has identified a number of strategic priorities for 2005. The company will focus on diversifying its service offering, securing new customers, exploring new end markets and examining selective strategic acquisitions.

## RISK MANAGEMENT

As managers, it is our responsibility to identify and manage business risk. As shareholders, we require an appropriate return for the risk we accept.

### Managing risk

Onex' general approach to the management of risk is to apply common-sense business principles to the management of the Company and the ownership of its operating companies as well as to the acquisition of new businesses. Each year we conduct detailed reviews of many opportunities to purchase either new businesses or add-on acquisitions for existing businesses. Our primary interest is in acquiring well-managed companies with a strong position in growing industries. In addition, we maintain diversification among Onex' operating companies, which enables us to participate in the growth of a number of high-potential industries with varying business cycles.

As a general rule, we attempt to arrange as many factors as possible to minimize risk without hampering our opportunity to maximize returns. When a purchase candidate meets Onex' criteria, for example, we typically pay a fair price, though not necessarily the lowest price, for a high-quality business. We do not commit all of our capital to a single acquisition and will have equity partners with whom we can share the risk of ownership, especially on large-scale transactions. The creation of Onex Partners LP streamlined Onex' process of sourcing and finalizing commitments from major equity partners.

We do not burden an acquired company with more debt than it can likely sustain, but seek to structure an acquisition so that it has the financial and operating leeway to create as much long-term growth in value as possible. Finally, we buy in financial partnership with management. This strategy not only gives Onex the benefit of experienced managers but also ensures that an operating company is run entrepreneurially for the benefit of all shareholders.

Onex maintains an active involvement with its operating companies in the areas of strategic planning, financial structures and negotiations, and acquisitions. In the early stages of ownership, we may provide resources for business and strategic planning, and financial reporting, while an operating company builds these capabilities in-house. In all cases, we ensure there is oversight of Onex' investment through representation on the acquired company's board of directors.

We encourage operating companies to reduce risk and/or expand opportunities by diversifying their customer bases, broadening their geographic reach or product and service offerings, and improving productivity. In certain instances, we may also encourage an operating company to seek additional equity in the public markets in order to continue its growth without eroding its balance sheet. One element of this approach may be to use new equity investment, when financial markets are favourable, to prepay existing debt and absorb related penalties.

Specific strategies and policies to manage business risk at Onex and its operating companies are discussed below.

### Business cycles

Diversification by industry and geography is a deliberate strategy at Onex to reduce the risk inherent in business cycles. Our practice of owning companies in various industries with differing business cycles reduces the risk of holding a major portion of Onex' assets in just one or two industries. Similarly, the Company's focus on building industry leaders with extensive international operations reduces the financial impact of downturns in specific regions.

### Operating liquidity

It is our view that one of the most important things Onex can do to control risk is to maintain a strong parent company with an appropriate level of liquidity. Onex needs to be in a position to support its operating companies when and if appropriate. Maintaining liquidity is important because Onex, as a holding company, generally does not have guaranteed sources of meaningful cash flow.

In completing acquisitions, it is generally Onex' policy to finance a large portion of the purchase price with debt provided by third-party lenders. This debt is assumed by the company acquired and is without recourse to Onex, the parent company, or its operating companies or partnerships. The foremost consideration, however, in developing a financing structure for an acquisition is identifying the appropriate amount of equity to invest. In Onex' view, that is the amount of equity which maximizes the risk/reward equation for both shareholders and the



acquired company. In other words, it allows the acquired company not only to manage its debt but also to have significant financial latitude for the business to vigorously pursue its growth objectives.

While we seek to maximize the risk/reward equation in all acquisitions, there is the risk that the acquired company will not generate sufficient profitability or cash flow to service its debt requirements or to provide adequate financial flexibility for growth. In such circumstances, additional investment by the equity partners, including Onex, may be required. In severe circumstances, the recovery of Onex' equity and any other investment in that operating company is at risk.

### Timeliness of investment commitments

Onex' ability to create value for shareholders is dependent in part on our ability to be the successful party on large acquisitions, which may be handled through an auction or bidding process with multiple potential purchasers. Bidding is often very competitive for the large-scale acquisitions that are Onex' primary interest, and the ability to make knowledgeable, timely investment commitments is a key component of successful purchases. Our preferred course is to complete acquisitions on an exclusive basis. In such instances, the vendor often establishes a relatively short time frame for Onex to respond definitely. In order to improve the efficiency of Onex' internal processes on both auction and exclusive acquisition processes, and so reduce the risk of missing out on high-quality acquisition opportunities, during 2003 we created Onex Partners LP ("Onex Partners"), a \$2 billion pool of capital raised from Onex and major institutional co-investors in North America, Europe and Asia. Onex has committed \$480 million to the Fund and controls the General Partner and Manager. At December 31, 2004, \$485 million had been invested in acquisitions or investments completed through Onex Partners with Onex' share of that being approximately \$107 million. Onex Partners' committed capital available for acquisitions at December 31, 2004 totalled \$1.5 billion, of which Onex' share was approximately \$350 million. These funds will be drawn as required for acquisitions.

### Financial and commodity risks

In the normal course of business, Onex and its operating companies may face a variety of risks related to financial management. Individual operating companies may also use financial instruments to offset the impact of anticipated changes in commodity prices related to the conduct of their businesses. In all cases, it is a matter of Company policy that neither Onex nor its operating companies engages in derivatives trading or other speculative activities.

**Interest rate risk** As noted above, Onex generally finances a significant portion of its acquisitions with debt taken on by the acquired operating company. An important element in controlling risk is to manage, to the extent possible, the impact of fluctuations in interest rates on the debt of the operating company.

It has generally been Onex' policy to have its operating companies either fix the interest on some or all of the term debt at the time it is entered into or otherwise minimize the effect of interest rate increases on a substantial portion of the debt. This is achieved by taking on debt at fixed interest rates and entering into interest rate swap agreements or financial contracts to control the level of interest rate fluctuation.

The risk inherent in such a strategy is that, should interest rates decline, the benefit of such declines may not be obtainable or may only be achieved at the cost of penalties to terminate existing arrangements. There is also the risk that the counterparty on an interest rate swap agreement may not be able to meet its commitments. Guidelines are in place that specify the nature of the financial institutions that operating companies can deal with on interest rate contracts.

At the end of 2004, approximately 38 percent of the consolidated long-term debt was at fixed rates. In addition, approximately 12 percent had contracts in place to fix interest rates.

**Currency fluctuations** The majority of the activities of Onex' operating companies were conducted outside Canada during 2004. As discussed, approximately 33 percent of consolidated revenues and 26 percent of consolidated assets was in the United States. Approximately

49 percent of consolidated revenues was from outside North America; however, a substantial portion of that business is actually based on U.S. dollars. This makes the value of the Canadian dollar relative to the U.S. dollar the primary currency relationship affecting Onex' operating results. Onex' operating companies may use currency derivatives in the normal course of their business to hedge against adverse fluctuations in key operating currencies but, as previously noted, speculative activity is not permitted.

Onex' results are reported in Canadian dollars, and fluctuations in the value of the Canadian dollar relative to other currencies can have an impact on Onex' reported results and consolidated financial position. During 2004, \$68 million of the net increase in shareholders' equity reflected the increase in the value of Onex' net equity in those operating companies that operate in U.S. dollars.

Onex holds a substantial amount of cash and marketable securities in U.S.-dollar-denominated securities. The portion of securities held in U.S. dollars is based upon Onex' view of funds it will require for future investments in the United States. Onex does not speculate on the direction of exchange rates between the Canadian dollar and the U.S. dollar when determining the balance of cash and marketable securities to hold in each currency, nor does it use foreign exchange contracts to protect itself against translation loss.

**Commodity prices** Certain of Onex' operating companies are vulnerable to price fluctuations in major commodities. The most significant of these is Celestica, which purchases a substantial volume of electronic components that could be viewed as a commodity in nature and subject to fluctuations in price. Celestica substantially manages its exposure in this area by purchasing components only for specific customer contracts, and by having those sale contracts include terms or pricing provisions that pass any product cost fluctuations on to the customer. J.L. French Automotive is also impacted by the fluctuations in the pricing of aluminum and its ability to pass those cost changes to customers.

### Integration of acquired companies

An important aspect of Onex' strategy for value creation is to acquire what we consider to be "platform" companies. Such companies typically have distinct competitive advantages in products or services in their industry that we believe provide a solid foundation for growth in scale and value. In these instances, Onex works with company management to identify and purchase attractive add-on acquisitions that would enable the platform company to achieve its planned goals more quickly than by focusing solely on the development and/or diversification of its customer base, which is known as organic growth. Growth by acquisition, however, carries more risk than organic growth. While as many of these risks as possible are considered in the acquisition planning, in Onex' experience our operating companies also face risks such as unknown expenses related to the cost-effective amalgamation of operations, the retention of key personnel and customers, the future value of goodwill paid as part of the acquisition price, and the future value of the acquired assets and intellectual property. Onex works with company management to understand and potentially mitigate such risks as much as possible.

### Risk-related contracts

With the acquisition of an equity interest in Magellan Health Services, Inc. ("Magellan") in January 2004, Onex entered an industry that poses substantially different risks than those of the manufacturing industries that are the major portion of the Company's assets. Magellan faces a variety of risks in the normal course of its business, including responsibility for risk-related products, reliance on major contracts with a limited number of customers, evolving state and federal regulations, claims for professional liability and dependence on government spending for managed healthcare. Of these, Magellan's management believes Magellan's responsibility for risk-related products, which account for more than 88 percent of the company's revenues, is the most significant risk factor.

In general terms, the major portion of Magellan's revenues is derived primarily from contracts under which it assumes all or some of the responsibility for providing behavioural healthcare treatment services in exchange for a fixed, per-member monthly fee. In order for these contracts to be profitable, the company must accurately estimate the rate of service utilization by beneficiaries and control the costs of treatment services in relation to contract pricing. Increases in behavioural healthcare costs or higher-than-anticipated utilization rates – significant aspects of which are outside Magellan's control – may cause expenses to exceed revenues on certain contracts. Onex' due diligence prior to its investment in the company suggests that Magellan's management has the skill and the procedures in place to deal effectively with the aspects of its risk contracts that are under its control. It should also be noted that, as a provider of managed behavioural healthcare services, Magellan is not burdened by the "catastrophic" claim risk that characterizes the business of healthcare for physical conditions.

### Significant customers

Onex has acquired major operating companies and divisions of large companies. As part of these purchases, the acquired company has often continued to supply its former owner through long-term supply arrangements. It has been Onex' policy to encourage its operating companies to quickly diversify their customer bases to the extent practicable in order to manage the risk associated with serving a single major customer. Celestica primarily relied on one major customer at the time of its acquisition by Onex; the company now has a broadly diversified and global base of significant customers.

Certain Onex operating companies have major customers that represent more than 10 percent of annual revenues. The table in note 23 to the consolidated financial statements provides information on the concentration of business the operating companies have with major customers.

### Environmental considerations

Onex has an environmental protection policy that has been adopted by its operating companies. Senior officers of each of these companies are ultimately responsible for ensuring compliance with this policy. They are required to report annually to their company's board of directors and to Onex regarding compliance with this policy.

Environmental management by the operating companies is accomplished through the education of employees about environmental regulations and appropriate operating policies and procedures; site inspections by environmental consultants; the addition of proper equipment or modification of existing equipment to reduce or eliminate environmental hazards; remediation activities as required; and ongoing waste reduction and recycling programs. Environmental consultants are engaged to advise on current and upcoming environmental regulations that may be applicable.

Most of the operating companies are involved in the remediation of particular environmental issues such as soil contamination. In almost all cases, these issues have occurred prior to Onex' acquisition of those companies. The estimated costs of remedial work and related activities are to be provided for either under agreement by the vendor of the company or through provisions established at the time of acquisition. Manufacturing activities carry the inherent risk that changing environmental regulations may identify additional situations requiring capital expenditures or remedial work, and associated costs to meet those regulations.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

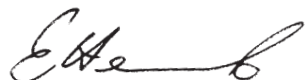
The accompanying consolidated financial statements have been prepared by management, reviewed by the Audit and Corporate Governance Committee and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and in other sections of this Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies which management believes are appropriate for the Company are described in note 1 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit and Corporate Governance Committee of three non-management independent Directors is appointed by the Board.

The Audit and Corporate Governance Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit and Corporate Governance Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

PricewaterhouseCoopers LLP, the Company's external auditors, who are appointed by the holders of Subordinate Voting Shares, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.



Ewout R. Heersink  
Chief Financial Officer  
March 3, 2005



Donald W. Lewtas  
Managing Director

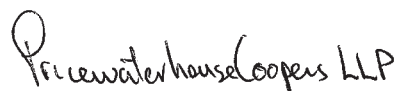
## AUDITORS' REPORT

### To the Shareholders of Onex Corporation:

We have audited the consolidated balance sheets of Onex Corporation as at December 31, 2004 and 2003 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada

March 3, 2005

# CONSOLIDATED BALANCE SHEETS

As at December 31 <i>(in millions of dollars)</i>	2004	2003
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 3,310	\$ 2,362
Accounts receivable	1,666	1,378
Inventories (note 4)	1,447	1,492
Other current assets	604	477
Current assets held by discontinued operations (note 2)	2	1,205
	<b>7,029</b>	6,914
Property, plant and equipment (note 5)	1,709	1,762
Investments and other assets (note 6)	762	613
Intangible assets (note 7)	369	302
Goodwill	1,938	1,473
Long-lived assets held by discontinued operations (note 2)	2	3,557
	<b>\$ 11,809</b>	\$ 14,621
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness, without recourse to Onex	\$ 13	\$ 1
Accounts payable and accrued liabilities	2,986	2,547
Current portion of long-term debt and obligations under capital leases of operating companies, without recourse to Onex	321	298
Current liabilities held by discontinued operations (note 2)	5	945
	<b>3,325</b>	3,791
Long-term debt of operating companies, without recourse to Onex (note 8)	2,363	1,471
Obligations under capital leases, without recourse to Onex (note 9)	25	28
Exchangeable debentures (note 10)	156	180
Other liabilities (note 11)	1,096	925
Future income taxes (note 20)	691	637
Long-term liabilities held by discontinued operations (note 2)	52	3,294
	<b>7,708</b>	10,326
Non-controlling interests	3,874	4,002
<b>Shareholders' equity</b>	<b>227</b>	293
	<b>\$ 11,809</b>	\$ 14,621

Commitments and contingencies are reported in notes 9 and 24.

Signed on behalf of the Board of Directors



Director



Director

## CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2004	2003
<b>Revenues</b>	<b>\$ 16,244</b>	\$ 12,119
Cost of sales	<b>(14,510)</b>	(10,859)
Selling, general and administrative expenses	<b>(953)</b>	(766)
<b>Earnings Before the Undernoted Items</b>	<b>\$ 781</b>	\$ 494
Amortization of property, plant and equipment	<b>(416)</b>	(407)
Amortization of intangible assets and deferred charges	<b>(94)</b>	(91)
Interest expense of operating companies (note 13)	<b>(253)</b>	(191)
Interest and other income	<b>111</b>	81
Equity-accounted investments	<b>(8)</b>	-
Foreign exchange loss	<b>(116)</b>	(122)
Stock-based compensation	<b>(104)</b>	14
Derivative instruments	<b>29</b>	-
Gains on shares of operating companies, net (note 15)	<b>182</b>	129
Acquisition, restructuring and other expenses (note 16)	<b>(211)</b>	(151)
Debt prepayment costs (note 17)	<b>(8)</b>	(11)
Writedown of goodwill and intangible assets (note 18)	<b>(393)</b>	(402)
Writedown of long-lived assets (note 19)	<b>(94)</b>	(88)
<b>Loss before income taxes, non-controlling interests and discontinued operations</b>	<b>(594)</b>	(745)
Provision for income taxes (note 20)	<b>(347)</b>	(67)
Non-controlling interests of operating companies	<b>781</b>	256
<b>Loss from continuing operations</b>	<b>(160)</b>	(556)
Earnings from discontinued operations (note 2)	<b>195</b>	224
<b>Net Earnings (Loss) for the Year</b>	<b>\$ 35</b>	\$ (332)
<b>Net Earnings (Loss) per Subordinate Voting Share</b> (note 21)		
Basic and Diluted:		
Continuing operations	<b>\$ (1.12)</b>	\$ (3.62)
Discontinued operations	<b>\$ 1.37</b>	\$ 1.46
Net earnings (loss)	<b>\$ 0.25</b>	\$ (2.16)

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in millions of dollars except per share data)</i>	Share Capital (note 12)	Retained Earnings (Deficit) (note 12)	Cumulative Translation Adjustment	Total Shareholders' Equity
<b>Balance – December 31, 2002</b>	\$ 658	\$ 279	\$ 107	\$ 1,044
Dividends declared <sup>(a)</sup>	-	(17)	-	(17)
Issue of shares – dividend reinvestment plan and exercise of options	6	-	-	6
Purchase and cancellation of shares	(46)	(120)	-	(166)
Currency translation adjustment	-	-	(242)	(242)
Net loss for the year	-	(332)	-	(332)
<b>Balance – December 31, 2003</b>	<b>\$ 618</b>	<b>\$ (190)</b>	<b>\$ (135)</b>	<b>\$ 293</b>
Change in stock-based compensation accounting policy <sup>(b)</sup>	-	(5)	-	(5)
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Issue of shares – dividend reinvestment plan and exercise of options	1	-	-	1
Purchase and cancellation of shares	(37)	(113)	-	(150)
Currency translation adjustment	-	-	68	68
Net earnings for the year	-	35	-	35
<b>Balance – December 31, 2004</b>	<b>\$ 582</b>	<b>\$ (288)</b>	<b>\$ (67)</b>	<b>\$ 227</b>

(a) Dividends declared per Subordinate Voting Share during 2004 totalled \$0.11 (2003 – \$0.11).

(b) Adoption of the revised *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments" (see note 1).



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 <i>(in millions of dollars)</i>	2004	2003
<b>Operating Activities</b>		
Net loss for the year from continuing operations	\$ (160)	\$ (556)
Items not affecting cash:		
Amortization of property, plant and equipment	416	407
Amortization of intangible assets and deferred charges	94	91
Writedown of goodwill and intangible assets	393	402
Writedown of long-lived assets	94	88
Non-controlling interests in results of operating companies	(781)	(256)
Future income taxes (note 20)	252	8
Stock-based compensation	104	(14)
Derivative instruments	(29)	-
Gains on shares of operating companies, net (note 15)	(182)	(129)
Other	214	66
	415	107
Increase in other liabilities	50	3
Changes in non-cash working capital items:		
Accounts receivable	(294)	25
Inventories	68	(332)
Other current assets	36	(60)
Accounts payable and accrued liabilities	(139)	51
Increase in non-cash net working capital related to operations	(329)	(316)
	136	(206)
<b>Financing Activities</b>		
Issuance of long-term debt	2,543	496
Repayment of long-term debt	(1,797)	(547)
Cash dividends paid	(14)	(12)
Repurchase of share capital	(150)	(166)
Issuance of share capital by operating companies	464	116
Repurchase of share capital by operating companies	(405)	(691)
Decrease in other financing activities	(33)	(75)
	608	(879)
<b>Investing Activities</b>		
Acquisition of operating companies, net of cash in acquired companies of \$319 (2003 - \$11) (note 3)	(216)	(99)
Purchase of property, plant and equipment	(348)	(387)
Proceeds from sales of shares of operating companies	114	256
Net decrease (increase) in investments and other investing activities	(159)	83
	(609)	(147)
Cash from discontinued operations (note 2)	572	53
<b>Increase (Decrease) in Cash and Short-term Investments for the Year</b>	<b>707</b>	<b>(1,179)</b>
Decrease in cash and short-term investments due to changes in foreign exchange rates	(197)	(663)
Cash and short-term investments - beginning of the year*	2,800	4,642
<b>Cash and Short-term Investments - End of the Year</b>	<b>\$ 3,310</b>	<b>\$ 2,800</b>

\*Includes cash from discontinued operations of \$438 at December 31, 2003 (note 2).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions of dollars except per share data)

Onex Corporation (“Onex” or the “Company”) is a diversified company whose subsidiaries operate as autonomous businesses. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP” or “GAAP”).

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

The consolidated financial statements include the accounts of the Company and its subsidiaries.

The principal operating companies and the Company’s ownership and voting interests in these entities are as follows:

	December 31, 2004		December 31, 2003	
	Ownership	Voting	Ownership	Voting
Celestica	18%	84%	19%	85%
Cineplex Galaxy	31%	100% <sup>(a)</sup>	31%	100% <sup>(a)</sup>
Magellan	6%	50%	-	-
ClientLogic	68%	88%	71%	89%
J.L. French Automotive	77%	100%	56%	100%
Bostrom	(b)	(b)	49%	100%
Trim Systems	(b)	(b)	79%	100%
Performance				
Logistics Group	(c)	(c)	50%	100%
Radian	89%	100%	71%	80%
Cosmetic Essence	21%	100%	-	-
ONCAP	28%	100%	25%	100%
Loews Cineplex Group	-	-	51%	96%
Dura Automotive	-	-	8%	51%
InsLogic	52%	57%	52%	57%

(a) Voting is with respect to Cineplex Galaxy Limited Partnership.

(b) Entities combined in August 2004. See note 15 for details.

(c) Entity merged in March 2004. See note 15 for details.

The ownership percentages are before the effect of any potential dilution relating to the Management Investment Plans as described in note 24(e).

The above percentages for Celestica Inc. (“Celestica”) exclude the dilutive effect of the exchangeable debentures and forward agreements on shares of Celestica as described in notes 10 and 22(b). The dilutive effect of these instruments, if exercised or closed out, as well as the effect of the Management Investment Plans as described in note 24(e), would be to reduce the above ownership and voting percentages to 12% (2003 – 13%) and 78% (2003 – 80%), respectively.

The voting interest includes shares that Onex has the right to vote through contractual arrangements or through multiple voting rights attached to particular shares. In certain circumstances, the voting arrangements give Onex the right to elect the majority of the boards of directors.

In addition to the above, investments over which Onex exercises significant influence but does not control at December 31, 2004, are accounted for by the equity method and include Commercial Vehicle Group, Inc. (“CVG”), Performance Logistics Group (“PLG”), Res-Care, Inc. (“ResCare”) and Cypress Property & Casualty Insurance Company.

Joint ventures are accounted for using the proportionate consolidation method. The consolidated financial statements include revenues of \$199 (2003 – nil), net assets of \$17 (2003 – nil) and net earnings before income taxes of \$7 (2003 – nil) with respect to joint ventures.

Other long-term investments are accounted for at cost unless it is determined by management that a diminution in value that is other than temporary has occurred, at which point a provision is recorded.

### SIGNIFICANT ACCOUNTING POLICIES

#### Generally accepted accounting principles

In the first quarter of 2004, the Company adopted Section 1100 of the *Canadian Institute of Chartered Accountants* (“CICA”) *Handbook*, “Generally Accepted Accounting Principles”, and Section 1400, “General Standards of Financial Statement Presentation”. Section 1100 establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining the appropriate disclosures when a matter is not explicitly dealt with in the primary sources of GAAP. Section 1400 provides updated guidance on general concepts associated with financial statements. Adoption did not have a material effect on these audited annual consolidated financial statements.

#### Cash and short-term investments

Cash and short-term investments consist of liquid investments such as term deposits, money market instruments and commercial paper carried at cost plus accrued interest, which approximates market value.

#### Other current assets

Included in other current assets is \$137 of restricted cash and investments that represent amounts held primarily for payment of claims under managed care contracts, for regulatory purposes and in regard to the maintenance of minimum tangible net equity restrictions associated with companies included in the healthcare segment.

Restricted cash and investments consist of liquid investments such as term deposits, money market instruments and commercial paper carried at cost plus accrued interest, which approximates market value. Other current assets also include \$88 of funds held for the acquisition of Center for Diagnostic Imaging, Inc. (“CDI”) in January 2005 (note 26).

### Inventories

Inventories are recorded at the lower of cost and replacement cost for raw materials, and at the lower of cost and net realizable value for work in process and finished goods. For substantially all inventories, cost is determined on a first-in, first-out basis.

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and provision for impairments, if any. For substantially all property, plant and equipment, amortization is provided for on a straight-line basis over the estimated useful lives of the assets: 10 to 40 years for buildings, and up to 35 years for machinery and equipment. The cost of plant and equipment is reduced by applicable investment tax credits more likely than not to be realized.

Leasehold improvements are amortized over the terms of the leases.

Leases that transfer substantially all the risks and benefits of ownership are recorded as capital leases. Buildings and equipment under capital leases are amortized over the shorter of the term of the lease and the estimated useful life of the asset. Amortization of assets under capital leases is on a straight-line basis.

### Impairment of long-lived assets

Property, plant and equipment and intangible assets with limited life are reviewed for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Assets must be classified as either held for use or available for sale. Impairment losses for assets held for use are measured based on fair value, which is measured by discounted cash flows. Available-for-sale assets are measured based on the lower of carrying value and expected proceeds less direct costs to sell.

### Asset retirement obligations

In the first quarter of 2004, the Company adopted *CICA Handbook* Section 3110, "Asset Retirement Obligations", which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. This section applies to all legal obligations associated with the retirement of tangible long-lived assets that result from their acquisition, construction, development or normal operation. Adoption did not have a material impact on these audited annual consolidated financial statements.

### Foreign currency translation

The Company's operations conducted in foreign currencies, other than those operations that are associated with investment-holding subsidiaries, are considered to be self-sustaining operations. Assets and liabilities of self-sustaining operations conducted in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Unrealized gains or losses on translation of self-sustaining operations conducted in foreign currencies are shown as a separate component of shareholders' equity.

The Company, including investment-holding subsidiaries, translates monetary assets and liabilities denominated in foreign currencies at exchange rates in effect at the balance sheet date and non-monetary items at historical rates. Revenues and expenses are translated at average exchange rates for the year. Gains and losses on translation are included in the income statement.

### Income taxes

Income taxes are recorded using the asset and liability method of income tax allocation. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. These future income tax assets and liabilities are recorded using substantively enacted income tax rates. The effect of a change in income tax rates on these future income tax assets or liabilities is included in income in the period in which the rate change occurs. Certain of these differences are estimated based on the current tax legislation and the Company's interpretation thereof.

### Pension and non-pension post-retirement benefits

The operating companies accrue their obligations under employee benefit plans and related costs, net of plan assets. The costs of defined benefit pensions and other retirement benefits earned by employees are accrued in the period incurred and are actuarially determined using the projected benefit method pro-rated on service, based on management's best estimates of items, including expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs. Plan assets are valued at fair value for the purposes of calculating expected return on those assets. Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets and the expected long-term rate of return on plan assets for a period or from changes in actuarial assumptions used to determine the benefit obligation. Actuarial gains (losses) exceeding 10% of the greater of

the benefit obligation and the fair value of plan assets are amortized over the average remaining service period of active employees.

The average remaining service period of active employees covered by the significant pension plans is 11 years (2003 – 11 years) and for those active employees covered by the other significant post-retirement benefit plans is 19 years (2003 – 21 years).

#### Goodwill and intangible assets

Goodwill represents the cost of investments in operating companies in excess of the fair value of the net identifiable assets acquired. Essentially all of the goodwill and intangible asset amounts that appear on the consolidated balance sheets were recorded by the operating companies. The recoverability of goodwill and intangible assets with indefinite lives is assessed annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the carrying value of the reporting unit to its fair value. When the carrying value exceeds the fair value, an impairment exists and is measured by comparing the carrying amount of goodwill to its fair value determined in a manner similar to a purchase price allocation. Impairment of indefinite-life intangible assets is tested by comparing their carrying value to their fair value.

Intangible assets, including intellectual property, are recorded at their allocated cost at the date of acquisition of the related operating company. Amortization is provided for intangible assets with limited life, including intellectual property, on a straight-line basis over their estimated useful lives, which range from five to 25 years. The weighted average period of amortization at December 31, 2004 was approximately 10 years (2003 – 10 years).

#### Hedging relationships

Effective January 1, 2004, the Company adopted Accounting Standards Board Accounting Guideline 13 (“AcG-13”), “Hedging Relationships”, which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. AcG-13 also establishes certain conditions for applying hedge accounting and deals with discontinuance of hedge accounting. The Company also adopted Emerging Issues Committee Abstract 128 (“EIC-128”), “Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments”. This EIC abstract requires that any derivative financial instrument that is not designated as a compliant hedge under AcG-13 be measured at fair value, with changes in fair value recorded in current year income.

Under this pronouncement, the Company’s hedge relationships for its exchangeable debentures and forward sales contracts no longer qualify for hedge accounting and thus, on a prospective basis, the changes in fair values of these instruments from January 1, 2004 have been reflected in the statements of

earnings under “Derivative Instruments”. Previously deferred gains on these instruments, which at January 1, 2004 amounted to \$549 for the exchangeable debentures and \$181 for the forward sales contracts, will continue to be deferred until such items mature or are otherwise closed out. At the date of adoption, the fair value of the exchangeable debentures was a liability of \$180 and for the forward sales contracts an asset of \$181.

#### Exchangeable debentures

The carrying amount of the Company’s exchangeable debentures is based on the market price, at the balance sheet date, of the underlying Celestica shares that would have satisfied the debenture liability if the debentures had been exchanged or Onex had elected to settle with Celestica shares on December 31, 2004.

Each issue of exchangeable debentures is exchangeable for Celestica shares based on a fixed conversion factor determined at the date the debentures were issued or, at the option of the Company, it may deliver the cash equivalent based on the market price of the shares at the time of exchange, or a combination of shares and cash.

Effective January 1, 2004, the Company adopted AcG-13. Accordingly, previously deferred gains, which at January 1, 2004 amounted to \$549, will continue to be deferred until such time as there is a redemption or maturity of the exchangeable debentures, when a realized gain on the exchange will be recorded. Changes in market value of the exchangeable debentures since the date of adoption are recorded in the statement of earnings under “Derivative Instruments”.

#### Derivative financial instruments

The Company’s operating companies use foreign currency contracts and interest rate swap agreements as derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. When determined to be compliant hedges under AcG-13, the carrying value of the financial instruments are not adjusted to reflect their current market value. The current market values of these instruments are disclosed in note 22.

The Company and its operating companies formally document relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge’s inception and at the end of each quarter, whether the derivatives that are used in hedged transactions are highly effective in offsetting changes in cash flows of hedged items.

Gains and losses on hedges of firm commitments are included in the cost of the hedged transaction when they occur. Gains and losses on hedges of forecasted transactions are

recognized in earnings in the same period and on the same line item as the underlying hedged transaction. Foreign exchange translation gains and losses on forward contracts used to hedge foreign currency-denominated amounts are accrued on the balance sheet as current assets or current liabilities and are recognized currently in the income statement, offsetting the respective translation gains or losses on the foreign currency-denominated amounts. The forward premium or discount is amortized over the term of the forward contract. Gains and losses on hedged forecasted transactions are recognized in earnings immediately when the hedge is no longer effective or the forecasted transactions are no longer expected.

#### Deferred charges

Costs incurred by the operating companies relating to the issuance of debt are deferred and amortized over the term of the related debt or as the debt is retired. Deferred charges also include net pension assets.

#### Earnings per share

Basic earnings per share is based on the weighted average number of Subordinate Voting Shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

#### Revenue recognition

Effective January 1, 2004, the Company and its operating subsidiaries adopted EIC-141, "Revenue Recognition", EIC-142, "Revenue Arrangements with Multiple Deliverables" and EIC-143, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". These sections provide more detailed guidance on *CICA Handbook* Section 3400, "Revenue", and improve the harmonization of revenue standards between Canadian and U.S. GAAP. Adoption did not have a material impact on these audited annual consolidated financial statements.

Revenues are principally comprised of product sales and service revenues.

Revenue from product sales is primarily in the electronics manufacturing services and automotive products segments. Product sales revenue is recognized upon shipment, when title passes to the customer. Certain operating companies in the automotive segment enter into agreements to produce products for their customers at the beginning of a given vehicle's production cycle. Once such agreements are entered into by the company, fulfillment of the customers' purchasing requirements is often the obligation of the company for the entire production life of the vehicle, with terms over several years and no provisions to terminate such contracts. In certain instances, the operating company is committed under existing agreements to supply products to its customers at selling prices that are not sufficient to cover all of the costs to produce such products. In such situations, the operating company records a liability for the estimated future amount of the losses. Such losses are

recognized at the time that the loss is probable and reasonably estimable and are recorded at the minimum amount necessary to fulfill the company's obligation to the customer.

Depending on the terms under which the operating companies supply product, the operating companies may also be responsible for some or all of the repair or replacement costs of defective products. The companies establish reserves for issues that are probable and estimable in amounts management believes are adequate to cover ultimate projected claim costs. The final amounts determined to be due related to these matters could differ significantly from recorded estimates.

In the electronics manufacturing services segment, Celestica has contractual arrangements with certain customers that require the customer to purchase certain inventory that Celestica has purchased to fulfill forecasted manufacturing demand provided by that customer. Celestica accounts for raw material returns as reductions in inventory and does not record revenue on these transactions.

Revenue from services is primarily in the customer management services, theatre exhibition and healthcare segments. Service revenue is recognized primarily as services are performed and, for the theatre exhibition segment, when admission and concession sales occur at the theatres.

#### Research and development

Costs incurred on activities that relate to research and development are expensed as incurred unless development costs meet certain criteria for capitalization. Total research and development costs expensed for 2004 were \$46 (2003 – \$36). No amounts have been capitalized.

#### Stock-based compensation

Effective January 1, 2004, the Company adopted revised *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires that a fair-value-based method of accounting be applied to all stock-based compensation payments to employees. Previously, only non-employee awards and employee awards that called for settlement in cash or other assets, or stock appreciation rights that called for settlement by the issuance of equity instruments, were required to be recorded as compensation expense. Onex has been recording the change in value of options on its shares and investment rights under the Management Investment Plan (the "MIP") as a charge or credit to earnings since January 1, 2002. This change will affect the accounting for certain stock option plans at the operating companies. The adoption of this section by the operating companies will be on a retroactive basis for awards made since January 1, 2002 that have not been previously recognized as compensation expense in the consolidated statements of earnings, with no restatement of prior periods. Retained earnings as at January 1, 2004 was reduced by \$5 and non-controlling interests was reduced by \$5.

There are four types of stock-based compensation plans. The first is the Company's Stock Option Plan (the "Plan") described in note 12(e), which provides that in certain situations the Company has the right, but not the obligation, to settle any exercisable option under the Plan by the payment of cash to the option holder. The Company has recorded a liability for the potential future settlement of the value of vested options at the balance sheet date by reference to the value of Onex shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the consolidated statements of earnings.

The second type of plan is the MIP, which is described in note 24(e). The MIP provides that exercisable investment rights may be settled by issuance of the underlying shares or, in certain situations, by a cash payment for the value of the investment rights. Under the MIP, once the targets have been achieved for the exercise of investment rights, a liability is recorded for the value of the investment rights under the MIP by reference to the value of underlying investments, with a corresponding compensation expense recorded in the consolidated statements of earnings.

The third type of plan, which began in 2004, is the Deferred Share Unit Plan. A Deferred Share Unit ("DSU") entitles the holder to receive, upon redemption, a cash payment equivalent to the market value of a subordinate voting share at the redemption date. The DSU Plan enables Onex directors to apply directors' fees to acquire DSUs based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex directors from time to time. The DSUs vest immediately, are only redeemable once the holder retires and must be redeemed within one year following the year of retirement. Additional units are issued for any cash dividends paid on the subordinate voting shares. The Company has recorded a liability for the future settlement of the DSUs at December 31, 2004 by reference to the value of underlying subordinate voting shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the consolidated statement of earnings.

The fourth type of plan is an employee stock option plan in place for employees at various operating companies under which, on payment of the exercise price, stock of the particular operating company is issued. Prior to 2004, this type of plan was not required to be accounted for by the fair-value-based method; however, these plans did require disclosure in the notes to these statements of pro forma net earnings and earnings per share information as if these plans had been accounted for under the fair-value-based method. This information for 2003 is included in note 14.

#### Financial instruments – presentation and disclosure

In December 2004, the Company adopted the amendment to *CICA Handbook* Section 3860, "Financial Instruments – Presentation and Disclosure". The amendment requires obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity to be presented as liabilities. Any securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or the equivalent value of its own equity instruments will no longer be presented as equity. This standard is applicable on a retroactive basis with restatement of prior periods. As a result of adopting this standard, as at December 31, 2004 and 2003 the Company reclassified \$149 and \$273, respectively, of the principal component of convertible debt held by one of its operating companies from non-controlling interests liability to long-term debt.

#### Consolidation of variable interest entities

In June 2003, the CICA issued Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities". Variable interest entities ("VIEs") are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The guideline provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE. The guideline is effective on a prospective basis for the Company's 2005 fiscal year. The adoption of this standard is currently being evaluated.

#### Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management of Onex and its operating companies to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. This includes the liability for healthcare claims incurred but not yet reported for the Company's healthcare segment. Actual results could differ from such estimates.

#### Comparative amounts

Certain amounts presented in the prior year have been reclassified to conform to the presentation adopted in the current year.

## 2. EARNINGS FROM DISCONTINUED OPERATIONS

The following table shows the revenue and the net after-tax results from discontinued operations.

	Revenue		2004			2003		
	2004	2003	Gain, Net of Assets	Onex' Share of Earnings (Loss)	Total	Gain, Net of Assets	Onex' Share of Earnings (Loss)	Total
Dura Automotive <sup>(a)</sup>	\$ 635	\$ 3,329	\$ 1	\$ 1	\$ 2	\$ -	\$ 4	\$ 4
Loews Cineplex Group <sup>(b)</sup>	702	1,436	135	5	140	-	-	-
Cincinnati Electronics <sup>(c)</sup>	80	95	49	4	53	-	3	3
Armtec <sup>(d)</sup>	50	117	9	-	9	-	2	2
InsLogic <sup>(e)</sup>	13	12	-	(9)	(9)	-	(15)	(15)
MAGNATRAX	-	677	-	-	-	274	(110)	164
Lantic Sugar/Rogers Sugar	-	200	-	-	-	53	13	66
	<b>\$ 1,480</b>	<b>\$ 5,866</b>	<b>\$ 194</b>	<b>\$ 1</b>	<b>\$ 195</b>	<b>\$ 327</b>	<b>\$ (103)</b>	<b>\$ 224</b>

a) In April 2004, the Company sold its remaining interest in Dura Automotive Systems, Inc. ("Dura Automotive") for net proceeds of \$23. The accounting gain on the disposition amounted to \$4 before a tax provision of \$3.

b) In July 2004, the Company sold its interest in the Loews Cineplex Group, excluding the Canadian operations, for net proceeds of \$739. The accounting gain on the disposition amounted to \$238 before a tax provision of \$103. The results of Loews Cineplex Group, excluding the Canadian operations, have been reclassified in the audited annual consolidated financial statements as discontinued operations. The Canadian operations retained are comprised of Loews Cineplex Group's interest in Cineplex Galaxy Limited Partnership ("CGLP") and Cineplex Odeon Corporation ("Cineplex Odeon").

Under the terms of the MIP as described in note 24(e), management members participated in the realizations the Company achieved on the Loews Cineplex Group. Amounts paid on account of the sale related to the MIP amounted to \$32 (7.5% of the cash and the unit value gain) and have been deducted in determining the accounting gain on discontinued operations for the Loews Cineplex Group noted above.

c) In December 2004, CMC Electronics Inc. ("CMC Electronics") sold its interest in its Cincinnati Electronics business unit ("Cincinnati Electronics") for net proceeds of \$226, of which Onex' share was \$95. Onex' accounting gain on disposition amounted to \$49, after a tax provision of nil. The MIP component will be determined in 2005 once a distribution has been made to Onex.

d) In July 2004, ONCAP's operating company, Armtec Limited ("Armtec"), completed an initial public offering in Canada of units of Armtec Infrastructure Income Fund ("Armtec Fund"). The proceeds from the Armtec Fund were used to acquire all the

securities and assets of Armtec from ONCAP LP ("ONCAP") and other shareholders and to repay certain existing indebtedness of Armtec. ONCAP sold all of its shares in Armtec in this offering for net proceeds of \$76, of which Onex' share was \$25. Onex' accounting gain on the disposition amounted to \$12 before a tax provision of \$3.

Under the terms of the MIP, management members, including ONCAP management, participated in the realization the Company achieved on Armtec. Amounts related to the MIP paid on account of the sale amounted to \$3 and have been deducted in determining the accounting gain on discontinued operations for Armtec.

e) In November 2004, the Company entered into an agreement to sell InsLogic Corporation ("InsLogic"). The sale was completed in January 2005 and did not result in Onex recovering the full amount of its investment. However, an accounting gain will be recorded in 2005 due to a negative carrying value for InsLogic prior to disposition. There will be no MIP distribution for InsLogic.

The results of operations for the businesses described above have been reclassified in the audited consolidated statements of earnings and audited consolidated statements of cash flows for the years ended December 31, 2004 and 2003 as discontinued operations. The amounts for operations now discontinued that were included in the December 31, 2004 and December 31, 2003 consolidated balance sheets are as follows:

As at December 31, 2004	InsLogic
Current assets held by discontinued operations	\$ 2
Long-lived assets held by discontinued operations	2
Current liabilities held by discontinued operations	5
Long-term liabilities held by discontinued operations	52
Net liabilities of discontinued operations	\$ (53)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2003

	Dura Automotive	Loews Cineplex Group	CMC Electronics	Armtec	InsLogic	Total
Cash and short-term investments	\$ 236	\$ 196	\$ 4	\$ -	\$ 2	\$ 438
Accounts receivable	356	44	13	15	1	429
Inventories	165	6	2	12	-	185
Other current assets	123	23	5	1	1	153
Current assets held by discontinued operations	880	269	24	28	4	1,205
Property, plant and equipment	633	964	27	37	2	1,663
Other assets	158	61	11	-	-	230
Intangible assets	17	152	29	2	-	200
Goodwill	1,114	278	45	27	-	1,464
Long-lived assets held by discontinued operations	1,922	1,455	112	66	2	3,557
Accounts payable and accrued liabilities	560	271	37	12	3	883
Current portion of long-term debt, without recourse to Onex	7	45	-	10	-	62
Current liabilities held by discontinued operations	567	316	37	22	3	945
Long-term debt, without recourse to Onex	1,544	545	64	19	54	2,226
Obligations under capital leases, without recourse to Onex	3	29	-	-	-	32
Other liabilities	156	47	-	3	5	211
Future income taxes	85	-	13	4	-	102
Non-controlling interests and cumulative translation adjustment	428	285	-	10	-	723
Long-term liabilities held by discontinued operations	2,216	906	77	36	59	3,294
Net assets (liabilities) of discontinued operations	\$ 19	\$ 502	\$ 22	\$ 36	\$ (56)	\$ 523

### 3. CORPORATE INVESTMENTS

During 2004 and 2003 several acquisitions, which were accounted for as purchases, were completed either directly by Onex or through subsidiaries of Onex. Any third-party borrowings in respect of acquisitions are without recourse to Onex.

#### 2004 ACQUISITIONS

During 2004 the following acquisitions, which were accounted for as purchases, were completed through subsidiaries of Onex. The significant acquisitions were:

**a)** In January 2004, the Company completed an investment in Magellan Health Services, Inc. ("Magellan"). Magellan, headquartered in Connecticut, United States, is a behavioural managed healthcare organization in the United States. The total equity investment was \$131 for an approximate 24% ownership interest. This was provided through Onex and Onex Partners LP ("Onex Partners"). Onex' net investment was \$30 for a 6% equity ownership. Onex has effective voting control of Magellan through Onex Partners.

**b)** In March 2004, Celestica acquired Manufacturers' Services Limited ("MSL"), a full-service global electronics manufacturing and supply chain services company headquartered in the United States. The purchase was financed with the issuance of 14.1 million subordinate voting shares of Celestica, the issuance of options to purchase 2.1 million subordinate voting shares of Celestica, the issuance of warrants to purchase 1.1 million subordinate voting shares of Celestica and \$69 of cash provided by Celestica. The value of the shares was determined based on the average market price of the shares for a reasonable period before and after the date on which the terms of the acquisition were agreed to and announced. In April 2004, Celestica paid approximately \$10 in cash to acquire certain assets located in the Philippines from NEC Corporation.

**c)** During 2004, ONCAP completed the acquisition of Futuremed Health Care Products L.P. ("Futuremed") and Canadian Securities Registration Systems Ltd. ("CSRS"). Futuremed, headquartered in Ontario, Canada, is a supplier of medical supplies and equipment to long-term care facilities. CSRS, headquartered in British Columbia, Canada, is a national provider of *Personal Property Security Act* registration and search services in Canada. The total



purchase price of the acquisitions of \$208 was financed with \$133 of borrowings, which are without recourse to Onex or ONCAP, and \$75 of equity. Onex' net investment in these acquisitions was \$17. Onex has indirect voting control of Futuremed and CSRS.

d) In December 2004, the Company completed the acquisition of Cosmetic Essence, Inc. ("CEI"). CEI, headquartered in New Jersey, United States, is a provider of outsourced supply chain management services to the personal care industry. The investment of \$66 in debt and \$72 in equity for a 92% equity ownership at the time of acquisition was provided through Onex and Onex Partners. Onex' net investment in this acquisition was \$16 in debt and \$17 in equity for a 21% equity ownership. Onex has effective voting control of CEI through Onex Partners.

e) The purchase prices of the acquisitions were allocated to the net assets acquired based on their relative fair values at the date of acquisition. In certain circumstances where estimates have been made, the companies are obtaining third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices. The results of operations for all acquired operations are included in the consolidated statements of earnings of the Company from their respective dates of acquisition.

The cost of acquisitions made during the year includes restructuring and integration costs of \$25. As at December 31, 2004, accounts payable and accrued liabilities and other long-term liabilities include \$99 and \$2, respectively, for these and earlier acquisitions.

Details of the 2004 acquisitions, which are all accounted for as purchases, are as follows:

#### 2004 Acquisitions

	Magellan <sup>(a)</sup>	Celestica <sup>(b)</sup>	ONCAP <sup>(c)</sup>	CEI <sup>(d)</sup>
Cash	\$ 282	\$ 27	\$ 4	\$ 6
Current assets	510	373	29	89
Intangible assets with limited life	74	46	32	26
Goodwill	576	298	123	205
Property, plant and equipment and other long-term assets	187	88	60	57
	1,629	832	248	383
Current liabilities	(508)	(296)	(40)	(61)
Acquisition financing	(617)	-	(133)	(66)
Long-term liabilities	(7)	(99)	-	(171)
	497	437	75	85
Non-controlling interests in net assets	(366)	(358)	(21)	(13)
Interest in net assets acquired	\$ 131	\$ 79	\$ 54	\$ 72

**2003 ACQUISITIONS**

**a) ONCAP**

In March 2003 ONCAP completed the acquisition of Western Inventory Service Ltd. (“WIS”). WIS is a leading North American provider of data collection and inventory counting services, headquartered in Ontario, Canada. The total purchase price was \$73. ONCAP invested \$18 in the debt and \$12 in the equity of WIS, of which Onex’ share was \$4 and \$3, respectively. Onex has indirect voting control of WIS.

**b) ClientLogic**

In December 2003 ClientLogic Corporation (“ClientLogic”) completed the acquisition of Service Zone Holdings, Inc. (“Service Zone”), headquartered in Florida, United States. Service Zone is a low-cost provider of high-quality call centre operations. The

net purchase price of \$27 was financed with cash on hand at ClientLogic. Onex invested approximately \$24 in the equity of ClientLogic to provide a significant portion of the funds required for the acquisition.

**c) Radian**

In December 2003 Radian Communication Services Corporation (“Radian”) acquired certain assets from ROHN Industries, Inc. located in the United States. The total purchase price of \$10 was funded with cash borrowed by Radian from Onex.

Details of the 2003 acquisitions, which are all accounted for as purchases, are as follows:

**2003 Acquisitions**

	ONCAP <sup>(a)</sup>	ClientLogic <sup>(b)</sup>	Radian <sup>(c)</sup>
Cash	\$ 6	\$ 5	\$ -
Current assets	8	20	4
Goodwill	50	8	-
Intangible assets with limited life	20	10	-
Property, plant and equipment and other long-term assets	8	47	6
	92	90	10
Current liabilities	(12)	(24)	-
Acquisition financing	(61)	-	-
Long-term liabilities	(7)	(39)	-
	12	27	10
Non-controlling interests in net assets	(9)	-	-
Interest in net assets acquired	\$ 3	\$ 27	\$ 10

**4. INVENTORIES**

Inventories comprised the following:

Year ended December 31	2004	2003
Raw materials	\$ 941	\$ 1,034
Work in progress	238	181
Finished goods	268	277
	\$ 1,447	\$ 1,492

## 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following:

As at December 31	2004			2003		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 105	\$ -	\$ 105	\$ 120	\$ -	\$ 120
Buildings	834	239	595	893	251	642
Machinery and equipment	2,346	1,372	974	2,272	1,327	945
Construction in progress	35	-	35	55	-	55
	<b>\$ 3,320</b>	<b>\$ 1,611</b>	<b>\$ 1,709</b>	<b>\$ 3,340</b>	<b>\$ 1,578</b>	<b>\$ 1,762</b>

The above amounts include property, plant and equipment under capital leases of \$148 (2003 – \$125) and related accumulated amortization of \$83 (2003 – \$64).

As at December 31, 2004, property, plant and equipment included \$43 (2003 – \$53) representing assets available for sale.

## 6. INVESTMENTS AND OTHER ASSETS

Investments and other assets comprised the following:

As at December 31	2004	2003
Investments:		
Private entities – at cost <sup>(a)</sup>	\$ 43	\$ 42
Public entities – at cost <sup>(b)</sup>	110	36
Marketable securities – at market values	63	34
Equity-accounted investments <sup>(c)</sup>	135	38
Deferred charges	119	87
Derivative instruments (note 22(b))	186	-
Future income taxes (note 20)	68	343
Other	38	33
	<b>\$ 762</b>	<b>\$ 613</b>

a) The market value of the private entities is not readily determinable with a sufficient degree of precision.

b) The market value of the public entities as at December 31, 2004 was \$148 (2003 – \$69), which includes \$128 for an investment in Compagnie Générale de Géophysique (“CGG”) that was purchased at a cost of \$102 in November 2004. Approximately half of the investment in CGG was sold in January 2005.

c) Included in equity-accounted investments is the June 2004 investment in ResCare. The company and Onex Partners completed a \$114 equity investment in ResCare for an approximate 28% effective ownership interest. Onex’ portion of the investment was approximately \$27, representing a 7% ownership interest in ResCare. ResCare provides residential, therapeutic, job training and educational support to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.

## 7. INTANGIBLE ASSETS

Intangible assets comprised the following:

As at December 31	2004	2003
Intellectual property with limited life, net of accumulated amortization of \$156 (2003 – \$146)	\$ 53	\$ 81
Intangible assets with limited life, net of accumulated amortization of \$214 (2003 – \$175)	292	216
Intangible assets with indefinite life	24	5
	<b>\$ 369</b>	<b>\$ 302</b>

Intellectual property primarily represents the costs of certain intellectual property and process know-how obtained in acquisitions.

Intangible assets include trademarks, non-competition agreements and contract rights acquired in the acquisition of certain facilities.

**8. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX**

Long-term debt of operating companies, without recourse to Onex, is as follows:

As at December 31		2004	2003
<b>Celestica<sup>(a)</sup></b>	7.875% subordinated notes due 2011	\$ 601	\$ -
	Liquid Yield Option Notes, due 2020	149	273
		<b>750</b>	273
<b>Cineplex Galaxy<sup>(b)</sup></b>	Revolving credit facility and term loans due 2006	126	110
	Other	3	4
		<b>129</b>	114
<b>Magellan<sup>(c)</sup></b>	Credit facility due 2008	102	-
	Senior, unsecured notes due 2008	289	-
	Note payable, due 2005	59	-
		<b>450</b>	-
<b>ClientLogic<sup>(d)</sup></b>	Revolving credit facility due 2005	142	139
	Other, including debt denominated in foreign currencies	96	100
		<b>238</b>	239
<b>J.L. French Automotive<sup>(e)</sup></b>	Revolving credit facility and term loans due 2011 and 2012	490	-
	Mandatorily redeemable preferred shares	209	-
	Revolving credit facility and term loans due 2006 and 2007	-	507
	11.5% subordinated notes due 2009	35	227
	8% redeemable shares	-	78
	Other	33	39
	<b>767</b>	851	
<b>Performance Logistics Group<sup>(f)</sup></b>	Revolving credit facility due 2006	-	16
	Term loan due 2006	-	58
		-	74
<b>Bostrom<sup>(g)</sup></b>	Revolving credit facility and term loans due 2006	-	86
	Other	-	16
		-	102
<b>Trim Systems<sup>(h)</sup></b>	Revolving credit facility and term loans due 2006	-	53
	Other	-	10
		-	63
<b>Radian<sup>(i)</sup></b>	Revolving credit facility and term loan due 2006	31	32
	Subordinated secured notes due 2007	16	15
	Other	10	-
		<b>57</b>	47
<b>Cosmetic Essence<sup>(j)</sup></b>	Revolving credit facility and term loan due 2010	152	-
	Subordinated secured notes due 2014	72	-
		<b>224</b>	-
<b>ONCAP companies<sup>(k)</sup></b>	Term loans due 2008 to 2010	187	94
	Subordinated notes due 2009 and 2010	57	21
	Other	3	4
		<b>247</b>	119
<b>Other</b>	-	1	
Less: long-term debt held by the Company	<b>(204)</b>	(134)	
Current portion of long-term debt of operating companies	<b>(295)</b>	(278)	
Consolidated long-term debt of operating companies, without recourse to Onex	<b>\$ 2,363</b>	\$ 1,471	

Onex does not guarantee the debt of any of its operating companies, nor are there any cross-guarantees between operating companies.

The financing arrangements for each operating company typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of investments and acquisitions, and sale of assets. In addition, certain financial covenants must be met by the operating companies which have outstanding indebtedness.

Future changes in business conditions of an operating company may result in non-compliance with certain covenants by the company. No adjustments to the carrying amount or classification of assets or liabilities of any operating company has been made in the consolidated financial statements with respect to any possible non-compliance.

#### a) Celestica

In June 2004, Celestica amended its existing 364-day revolving term credit facility from US\$250 to US\$600 and extended the maturity from October 2004 to June 2007. Concurrent with this amendment and extension, Celestica elected to terminate its US\$500 four-year revolving facility, which would have otherwise matured in June 2005. There were no borrowings under its revolving term credit facility at December 31, 2004.

In June 2004, Celestica also issued senior subordinated notes with an aggregate principal amount of US\$500 and a fixed interest rate of 7.875% that are due in 2011. In connection with the notes offering, Celestica entered into interest rate swap agreements that swap the fixed interest rate on the notes with a variable interest rate based on LIBOR plus a margin. The average interest rate on the notes was 4.92% for the year. The notes may be redeemed by Celestica on July 1, 2008 or later at various premiums above face value.

As discussed in note 1, the Company has adopted amendments to *CICA Handbook* Section 3860, "Financial Instruments – Presentation and Disclosure" which have resulted in the reclassification of the Liquid Yield Option Notes (LYONs) issued by Celestica. The principal component is now included in long-term debt. Previously, the principal and the option components were included in non-controlling interests. At December 31, 2004, US\$124 (2003 – US\$211) was reclassified from non-controlling interests to long-term debt. The option component still included in non-controlling interests is US\$210. At December 31, 2004, the principal amount due at maturity for the outstanding notes is US\$614.

During 2004, the company paid US\$300 (2003 – US\$224) to repurchase LYONs with a principal amount at maturity of US\$540 (2003 – US\$436). The gain/loss on the repurchase of LYONs is apportioned between the principal and non-controlling interests components, based on their relative fair values compared to their carrying values.

No interest is payable on the LYONs and the issue price of the LYONs represented a yield to maturity of 3.75%. The principal component is accreted over the 20-year term through periodic charges to interest expense. The LYONs are subordinated in right of payment to all existing and future senior indebtedness of the company and are convertible at any time, at the option of the holder, unless previously redeemed or repurchased, into 5.6748 subordinate voting shares for each one thousand dollars principal amount at maturity. The holders may require the company to repurchase all or a portion of their LYONs on August 2, 2005, August 1, 2010, and August 1, 2015; the company may also redeem the LYONs at any time on or after August 1, 2005 (and, under certain circumstances, before that date). As a result of the August 2, 2005 holders option, the principal portion of the LYONs has been classified as a current liability at the end of 2004. The company is required to offer to repurchase the LYONs if there is a change in control or a delisting event. The company may elect to settle its repurchase obligation in cash or subordinate voting shares, or any combination thereof.

#### b) Cineplex Galaxy

In November 2003, Cineplex Galaxy entered into credit facilities, comprised of a \$110 senior secured term facility that matures in November 2006 as well as two senior secured revolving credit facilities, one in the principal amount of \$20 (the working capital facility) and the other in the principal amount of \$40 (the development facility). As of December 31, 2004, \$126 (2003 – \$110) was outstanding on the facilities. Both senior secured revolving credit facilities are three-year revolving term loans and are payable at maturity. The senior secured term facility requires that the principal be paid at maturity. The facilities bear interest at the prime business rate plus a margin, depending on certain financial ratios. The average interest rate on the senior secured facilities was 5.7% in 2004 (2003 – 5.4%).

In December 2003 Cineplex Galaxy entered into an interest rate swap to pay a fixed interest rate of 4.29%. The swap is for a term of three years and the initial principal outstanding was \$44. The principal outstanding under the swap increased to \$77 on August 26, 2004 and increases to \$110 on May 26, 2005.

Borrowings under the credit facilities are collateralized by Cineplex Galaxy's assets and are without recourse to Onex.

#### c) Magellan

Magellan has a credit agreement that provides for a term loan facility in an original aggregate principal amount of US\$100, a revolving loan facility providing up to US\$50 and a credit-linked facility for the issuance of letters of credit to Magellan in an aggregate principal amount of up to US\$50. Borrowings under the credit agreement will mature on August 15, 2008 and certain quarterly principal payments on the term loan facility are also required. As of December 31, 2004, Magellan had US\$85 outstanding

under the term loan facility, had not drawn on the revolving loan facility and had issued letters of credit in the amount of US\$45.

Magellan also has US\$233 outstanding of Series A notes, which mature on November 15, 2008, and are general senior unsecured obligations of that company. Interest on the Series A notes is payable semi-annually at a rate of 9.375% per year.

The company has issued US\$7 of Series B notes, which mature on November 15, 2008. The Series B notes were issued to the holders of the general unsecured claims and to others for services rendered during the financial restructuring of Magellan. Interest on the Series B notes is payable semi-annually at a rate of 9.375% per year.

The Series A and Series B notes may be redeemed by the company on November 15, 2005 or later at various premiums above face value.

Magellan also has outstanding an interest-bearing note for US\$49 to Aetna, Inc. ("Aetna"), which will mature on December 31, 2005 as part of a behavioural health services contract. Under this agreement, the company will manage the behavioural healthcare of members of Aetna's healthcare programs through December 31, 2005. Aetna, having given notice under the terms of the contract, will at that time purchase certain assets of the company used solely in the management of the behavioural healthcare of Aetna members (the "Aetna-dedicated assets"). The purchase price of the dedicated assets may be offset against any amounts owing under the Aetna note. The Aetna note is secured by a second lien on substantially all of the assets of Magellan.

#### d) ClientLogic

At December 31, 2004, ClientLogic had US\$118 (2003 – US\$107) outstanding under the terms of a revolving credit facility, due in March 2005. The credit facility bore interest at the lender's base rate or LIBOR plus a margin, depending on certain financial ratios. For the year ended December 31, 2004, the borrowings outstanding had a weighted average interest rate of 4.4% (2003 – 3.8%). Borrowings under the credit facility were collateralized by substantially all of ClientLogic's assets. As described below, ClientLogic entered into a new credit facility in March 2005, and accordingly, this debt has been recorded as long-term in the consolidated financial statements.

In March 2005, ClientLogic entered into a new credit agreement which provides up to US\$157, consisting of a revolving facility of up to US\$30, due 2010, a first lien term facility of up to US\$77 and a second lien term facility of up to US\$50, both due in 2012. The proceeds from this facility were used to repay all amounts owing under the former credit facility. The facilities bear interest at a rate of either LIBOR or the federal funds rate, plus an applicable margin. As a term of this facility, the demand note of US\$38 held by Onex, as described below, was converted to mandatorily redeemable preferred shares. The first lien facility is

due 2012, with quarterly payments required beginning in 2005. The second lien facility is due 2012, with no principal payments due until maturity. The facilities also become due six months prior to the maturity date of certain notes held by a separate party, currently due 2008. The facilities also require prepayment based on 75% of the excess cash flow of ClientLogic. Borrowings under the credit facility are collateralized by substantially all of ClientLogic's assets.

At December 31, 2004 ClientLogic had US\$52 (2003 – US\$54) in other debt instruments with varying terms. Included in this amount is a demand note of US\$38 (2003 – US\$25) to Onex.

ClientLogic has US\$27 (2003 – US\$23) of loan notes outstanding denominated in pounds sterling which bear interest at 6.5% and are repayable in June 2008. Interest compounds and is added to the notes. The amount of accrued interest at December 31, 2004 was US\$5 (2003 – US\$3).

ClientLogic has entered into an interest rate swap agreement that effectively fixes the interest rate at 4.6% on US\$70 of borrowings under the revolving credit facility. The interest rate swap agreement expires in 2006.

#### e) J.L. French Automotive

In August 2004, J.L. French Automotive Castings, Inc. ("J.L. French Automotive") completed a series of refinancing transactions, which included issuing 75,871,089 shares of New Class A voting common stock and 4,881,369 shares of New Class A non-voting common stock to existing shareholders for total consideration of US\$1. Concurrently, the company's former Class Q-1 and Class Q-2 common shares were exchanged for 65,118 New Class A voting and 11,594 New Class A non-voting common shares. Also issued was US\$164 of preferred stock, US\$49 of which was purchased by the company's existing common shareholders. The preferred stock is mandatorily redeemable in 2016 and accrues dividends at a rate of 17% per year increasing to 18.5% in 2007 and beyond. The stock is redeemable at the option of the company prior to 2016 at a premium of 12% decreasing to 8% in 2009. Detachable warrants were also issued with the preferred stock to acquire 11,686,157 shares of New Class A voting common stock. The warrants are exercisable at \$0.01 per share at pre-determined allotments on each anniversary date up through the fourth anniversary, but only in the event that all of the preferred stock has not been redeemed in full. Total warrants issued and outstanding at December 31, 2004 were 16,555,389. In addition, the company entered into new senior secured credit facilities, which provide for total borrowings of US\$465 maturing in 2011 and 2012.

The proceeds from these new sources of financing were used to repurchase substantially all of the company's 11.5% senior subordinated notes. Notes with a face value of US\$146 were repurchased for US\$124, resulting in a gain on early extinguishment of debt. At December 31, 2004, US\$29 of the subordinate notes remain outstanding. Also repaid was US\$313 outstanding

under the old senior credit facility, US\$106 outstanding of second lien term loan, US\$22 related to tender/call premiums and accrued interest. The company also paid US\$15 of financing and other transaction costs. After considering the write-offs of previously deferred financing costs, these transactions resulted in a net loss on the extinguishment of debt of US\$5.

The company's former Class P shareholders surrendered their outstanding shares in exchange for 80 New Class A non-voting shares. The Class P shares were previously shown as liability in these consolidated financial statements. This contribution to the equity of the company by the non-controlling interests has been reflected as an income item representing the funding of the non-controlling interest of past losses. The recovery of losses of other shareholders of J.L. French Automotive recorded in the third quarter of 2004 totalled \$43 and is included in non-controlling interests in the consolidated financial statements.

The company's new senior secured credit facilities consist of a US\$70 revolving credit facility, a US\$225 first lien term loan and a US\$170 second lien term loan. The revolving credit facility is due in 2011. The first lien term loan matures in 2011 with principal payments of US\$2 annually until 2010. US\$106 is due in 2010 with the balance due in 2011. The second lien term loan matures in 2012 with no principal payments until maturity.

Interest on the new senior secured credit facilities, depending on the type and amount of the borrowings under these facilities, can range from prime rate plus 3.5% to 6.0% per annum, or the LIBOR rate plus 4.5%, or the Eurocurrency rate plus 7.0% per annum. Interest payments are due quarterly. At December 31, 2004, US\$13 was drawn on the revolving facility and the term loans were drawn in full.

Borrowings under the new senior secured credit facilities are secured and guaranteed by a first priority lien on substantially all of J.L. French Automotive's assets, including a pledge of all of the capital stock of each of the company's directly-owned domestic subsidiaries and 65% of the capital stock of directly-owned foreign subsidiaries. An element of the credit facilities is secured and guaranteed by a second priority lien on substantially all of J.L. French Automotive's assets.

The new senior secured credit facilities require the company to maintain certain financial ratios including minimum interest coverage ratios and maximum leverage ratios, and also limits capital expenditures and cash dividends, among other restrictions.

#### **f) Performance Logistics Group**

PLG is no longer consolidated but is accounted for by the equity method as a result of a merger transaction in March 2004 that reduced Onex' ownership interest (note 15(b)). In 2003, PLG, under the terms of a credit agreement, had available a revolving credit facility of US\$30 and a term loan of US\$85. Both the revolving

credit facility and the term loan bear interest at LIBOR plus a margin. The outstanding borrowings on the revolving credit facility at December 31, 2003 were US\$12 and on the term loan were US\$45. The weighted average interest rate on borrowings under the credit agreement for 2003 was 4.9%. Quarterly repayments are required on borrowings under the term loan. Borrowings under the credit agreement are collateralized by substantially all of the assets of PLG.

#### **g) Bostrom**

Bostrom Holdings, Inc. ("Bostrom") is no longer consolidated but is accounted for using the equity method following a public offering and the sale of some shares by Onex (note 15(a)).

At December 31, 2003, the company had a credit agreement that provides Bostrom with the ability to denominate a portion of its borrowings in currencies other than the U.S. dollar. At December 31, 2003, total borrowings outstanding on the revolving credit facility were US\$23, of which US\$8 were denominated in pounds sterling. At December 31, 2003, the company had borrowings outstanding on the term loan of US\$43, of which US\$10 were denominated in pounds sterling. The weighted average interest rates on the revolving credit facility and term loans ranged from 4.9% to 7.8% during 2003. Quarterly repayments are required on borrowings under the term loans. The assets of Bostrom collateralize borrowings under the credit agreement.

#### **h) Trim Systems**

Trim Systems, LLC ("Trim Systems") was merged with Bostrom in May 2004 and following the public offering described above, is no longer consolidated but is accounted for using the equity method (note 15).

At December 31, 2003, Trim Systems had available a revolving credit facility of US\$16 and US\$50 of term loans. There were US\$4 and US\$37, respectively, in outstanding borrowings on the revolving credit facility and term loans. Borrowings under both the revolving credit facility and the term loans bear interest at prime plus a margin. The weighted average interest rate on the revolving credit facility and term loans in 2003 was 5.5%. Borrowings under the credit agreements are due in June 2006. Principal repayments are based on excess cash flow and began in April 2003; additional quarterly principal payments began in the second quarter of 2004. Borrowings under the credit agreements are collateralized by substantially all of Trim Systems' assets.

The company has a US\$7 five-year promissory note owed to Onex. Interest is at prime plus 1.25%. The note is collateralized by all of the assets of Trim Systems and is eliminated upon consolidation. At December 31, 2003, principal and interest amounted to US\$8.

**i) Radian**

Radian's credit agreement has a revolving credit facility of \$20 and a term loan of \$15. Borrowings under the credit agreement are due in June 2006. Both the revolving credit facility and term loan bear interest at short-term borrowing rates plus a margin. The outstanding borrowings at December 31, 2004 on the revolving credit facility and term loan were \$16 and \$15 (2003 – \$17 and \$15), respectively. The weighted average interest rate for borrowings under the credit agreement was 6.9% in 2004 (2003 – 7.1%). Borrowings under the credit agreement are collateralized by substantially all of the assets of Radian.

In October 2003 Radian issued \$15 in subordinated secured convertible debentures to Onex. The debentures are convertible at any time, at the option of the holder or at Radian's option, under certain circumstances, into Class A multiple voting shares of Radian.

In December 2001 Radian entered into an interest rate swap agreement that effectively converts \$15 of variable rate loans into fixed rate obligations at 4.0%, plus applicable credit spread. The agreement expired in December 2004.

**j) Cosmetic Essence**

In December 2004, CEI entered into credit agreements with certain financial institutions, which provide for a revolving line of credit with maximum borrowings of US\$25, maturing in 2010; a first lien term loan with borrowings of US\$97; and a second lien term loan with borrowings of US\$29. The first lien term loan is repayable through quarterly instalments of principal and interest to be made through December 2010. The second lien term loan pays interest only until its maturity in December 2011. At December 31, 2004, CEI had US\$129 outstanding under the agreements.

Interest on the borrowings is based, at the option of CEI, upon either a LIBOR rate or a base rate, plus an interest rate margin. Substantially all of CEI's assets are pledged as collateral for the borrowings.

CEI also has a promissory note outstanding in the amount of US\$60, of which US\$55 is owned by the Company. The note is due in 2014, with interest of 9.55% per year, payable in additional notes due in 2014.

**k) ONCAP Companies**

ONCAP's investee companies include CMC Electronics, WIS, Futuemed and CSRS. Each has debt that is included in Onex' consolidated financial statements. There are separate arrangements for each of the investee companies with no cross-guarantees between the companies or by Onex.

Under the terms of credit agreements, combined revolving credit facilities of \$11 and term borrowings of \$200 are

available. The available facilities bear interest at various rates based on prime, U.S. base or LIBOR plus a margin. During 2004 interest rates ranged from 3.9% to 8.2% (2003 – 3.7% to 7.5%) on borrowings under the revolving credit and term facilities. Quarterly repayments of a portion of the term loans commenced in June 2002, while the remainder of the credit facilities are repayable between 2008 and 2010. Borrowings under these credit facilities at December 31, 2004 were \$187 (2003 – \$94). The companies also have subordinated notes of \$57 (2003 – \$21), due in 2009 and 2010, that bear interest ranging from 10% to 18% (2003 – 14.25%), of which the Company owns approximately \$22 (2003 – \$21).

One of the companies has entered into an interest rate swap agreement that effectively fixes the floating rate on \$23 (2003 – \$21) of variable rate loans at 2.31% to 3.71% until 2008.

U) The annual minimum repayment requirements for the next five years on consolidated long-term debt are as follows:

2005	\$ 295
2006	\$ 233
2007	\$ 116
2008	\$ 508
2009	\$ 23

**9. LEASE COMMITMENTS**

The future minimum lease payments are as follows:

	Capital Leases	Operating Leases
For the year:		
2005	\$ 28	\$ 181
2006	12	147
2007	9	113
2008	5	90
2009	2	74
Thereafter	-	377
Total future minimum lease payments	\$ 56	\$ 982
Less: imputed interest	(5)	
Balance of obligations under capital leases, without recourse to Onex	51	
Less: current portion	(26)	
Long-term obligations under capital leases, without recourse to Onex	\$ 25	

Essentially all of the lease commitments relate to the operating companies.



## 10. EXCHANGEABLE DEBENTURES

In 2000 Onex issued the following series of 25-year debentures exchangeable for subordinate voting shares of Celestica:

Maturity Date	Aggregate Principal Amount	Average Interest Rate	Exchange Rate on Principal Amount (number of shares per \$000)
March 15, 2025	\$ 366	1.45%	15.133
July 15, 2025	\$ 113	1.72%	13.333
September 15, 2025	\$ 176	1.65%	8.515
October 30, 2025	\$ 74	1.60%	9.042

The debentures are exchangeable, at the request of the holder, into a fixed number of subordinate voting shares of Celestica or, at the option of the Company, it may deliver the cash equivalent based on the market price of the shares at the time of exchange, or a combination of shares and cash. Onex has pledged shares of Celestica to secure its obligations upon any exercise of the holders' exchange right. The debentures are redeemable at any time by the Company. Upon redemption Onex may, at its option, repay the principal amount by delivering Celestica subordinate voting shares based on the fixed exchange rate or pay the cash equivalent, or a combination of shares and cash. The total number of Celestica subordinate voting shares pledged under the debentures is 9,214,320.

Onex is required to pay interest at a fixed rate for the first interest period of each debenture issue, which is approximately six months, and at a floating rate semi-annually thereafter. The calculated interest rate varies in relation to ordinary Celestica dividends paid, if any, during the preceding interest period and, in the case of the March 2025 debentures, the average closing price of Celestica subordinate voting shares on The Toronto Stock Exchange for all trading days over the preceding interest period.

The market value of the exchangeable debentures is based on the market price, as at the balance sheet date, of the underlying subordinate voting shares of Celestica. The deferred amount represents previously deferred gains, prior to adoption of AcG-13, as described in note 1.

In February 2005 the Company redeemed all of the outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of 9,214,320 Celestica subordinate voting shares.

The market value and deferred amount of the exchangeable debentures were as follows:

As at December 31	2004	2003
Carrying amount (cost)	\$ 729	\$ 729
Deferred amount, included in other liabilities (note 11)	(549)	(549)
Change in fair value	(24)	-
Market value	\$ 156	\$ 180

Interest expense related to the exchangeable debentures amounted to \$11 (2003 - \$12) and was netted against interest and other income.

## 11. OTHER LIABILITIES

Other liabilities comprised the following:

As at December 31	2004	2003
Pension and non-pension post-retirement benefits (note 25)	\$ 117	\$ 122
Exchangeable debentures (note 10)	549	549
Stock-based compensation	58	94
Derivative instruments (note 22(b))	181	-
Other <sup>(1)</sup>	191	160
	\$ 1,096	\$ 925

(1) Other includes acquisition and restructuring accruals as well as amounts for anticipated liabilities arising from indemnifications.

## 12. SHARE CAPITAL

a) The authorized share capital of the Company consists of:

*i)* 100,000 Multiple Voting Shares, which entitle their holders to elect 60% of the Company's Directors and carry such number of votes in the aggregate as represents 60% of the aggregate votes attached to all shares of the Company carrying voting rights. The Multiple Voting Shares have no entitlement to a distribution on winding-up or dissolution other than the payment of their nominal paid-up value.

*ii)* An unlimited number of Subordinate Voting Shares, which carry one vote per share and as a class are entitled: to 40% of the aggregate votes attached to all shares of the Company carrying voting rights; to elect 40% of the Directors; and to appoint the auditors. These shares are entitled, subject to the prior rights of other classes, to distributions of the residual assets on winding-up and to any declared but unpaid cash dividends. The shares are entitled to receive cash dividends, dividends in kind and stock dividends as and when declared by the Board of Directors.

The Multiple Voting Shares and Subordinate Voting Shares are subject to provisions whereby, if an event of change occurs (such as Mr. Schwartz, Chairman and CEO, ceasing to hold, directly or indirectly, more than 5,000,000 Subordinate Voting Shares or related events), the Multiple Voting Shares will thereupon be entitled to elect only 20% of the Directors and otherwise will cease to have any general voting rights. The Subordinate Voting Shares would then carry 100% of the general voting rights and be entitled to elect 80% of the Directors.

*iii)* An unlimited number of Senior and Junior Preferred Shares issuable in series. The Directors are empowered to fix the rights to be attached to each series. There is no consolidated paid-in value for these shares.

b) During 2004, under the Dividend Reinvestment Plan, the Company issued 72,166 (2003 – 317,599) Subordinate Voting Shares at a total value of \$1 (2003 – \$5). As well, 71,000 (2003 – 55,000) Subordinate Voting Shares were issued upon the exercise of stock options of the Company at a value of less than \$1 (2003 – \$1).

The Company repurchased and cancelled under Normal Course Issuer Bids 9,143,100 (2003 – 11,586,100) of its Subordinate Voting Shares at a cash cost of \$150 (2003 – \$166) during 2004. The excess of the purchase cost of these shares over the average paid-in amount was \$113 (2003 – \$120), which was charged to retained earnings.

Onex renewed its Normal Course Issuer Bid in April 2004 for one year, permitting the Company to purchase on the Toronto Stock Exchange up to 10% of the public float of its Subordinate Voting Shares. The 10% limit represents approximately 11 million shares. At December 31, 2004, 5,415,700 shares had been repurchased and cancelled under this bid.

c) At December 31, 2004 the issued and outstanding share capital consisted of 100,000 (2003 – 100,000) Multiple Voting Shares, 139,015,366 (2003 – 148,015,300) Subordinate Voting Shares and 176,078 (2003 – 176,078) Series 1 Senior Preferred Shares. The Series 1 Senior Preferred Shares have no paid-in amount reflected in these consolidated financial statements and the Multiple Voting Shares have nominal paid-in value.

d) The Company has a Deferred Share Unit Plan as described in note 1. At December 31, 2004, there were 40,000 units outstanding for which \$1 has been recorded as compensation expense.

e) The Company has a Stock Option Plan (the "Plan") under which options and/or share appreciation rights for a term not exceeding 10 years may be granted to Directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company at a price not less than the market value of the shares on the business day preceding the day of the grant. Under the Plan, no options or share appreciation rights may be exercised unless the average market price of the Subordinate Voting Shares for the five prior business days exceeds the exercise price of the options or the share appreciation rights by at least 25% (the "exercisable price"). At December 31, 2004, 15,632,000 (2003 – 15,703,000) Subordinate Voting Shares were reserved for issuance under the Plan, against which options representing 13,961,700 (2003 – 12,259,000) shares were outstanding. The Plan provides that the number of options issued may not exceed 10% of the shares outstanding at the time the options are issued.

All options vest at a rate of 20% per year from the date of grant. When an option is exercised, the employee has the right to request that the Company repurchase the option for an amount equal to the difference between the fair value of the stock under the option and its exercise price. Upon receipt of such request, the Company has the right to settle its obligation to the employee by the payment of cash, the issuance of shares or a combination of cash and shares.

Details of options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2002	12,250,600	\$ 9.34
Granted	710,000	\$ 14.90
Exercised or surrendered	(596,600)	\$ 7.78
Expired	(105,000)	\$ 18.45
Outstanding at December 31, 2003	<b>12,259,000</b>	<b>\$ 9.66</b>
Granted	<b>10,205,000</b>	<b>\$ 16.54</b>
Exercised or surrendered	<b>(8,345,800)</b>	<b>\$ 7.78</b>
Expired	<b>(156,500)</b>	<b>\$ 18.56</b>
Outstanding at December 31, 2004	<b>13,961,700</b>	<b>\$ 15.71</b>

During 2004 the total cash consideration paid on options surrendered was \$71 (2003 – \$4). This amount represents the difference between the market value of the Subordinate Voting Shares at the time of surrender and the exercise price, both as determined under the Plan.

Options outstanding at December 31, 2004 consisted of the following:

Number of Options Outstanding	Exercise Price	Number of Options Exercisable	Exercisable Price	Remaining Life (years)
611,600	\$ 7.30	611,600	\$ 9.13	3.1
1,238,600	\$ 8.62	1,238,600	\$ 10.78	3.3
624,000	\$ 20.23	–	\$ 25.29	5.0
657,500	\$ 20.50	–	\$ 25.63	7.5
625,000	\$ 14.90	125,000	\$ 18.63	8.1
7,260,000	\$ 15.87	–	\$ 19.84	9.1
2,945,000	\$ 18.18	–	\$ 22.73	9.9
13,961,700		1,975,200		

### 13. INTEREST EXPENSE OF OPERATING COMPANIES

Year ended December 31	2004	2003
Interest on long-term debt of operating companies	\$ 221	\$ 164
Interest on obligations under capital leases of operating companies	3	5
Other interest of operating companies	29	22
Interest expense of operating companies	\$ 253	\$ 191

Cash interest paid during the year amounted to \$180 (2003 – \$306).

### 14. STOCK-BASED COMPENSATION

Effective January 1, 2004, the Company adopted revised *CICA Handbook* Section 3870, “Stock-based Compensation and Other Stock-based Payments”, as described in note 1.

For the operating companies that did not record the effect of stock options through the consolidated statements of earnings in 2003, the table below shows pro forma net loss and loss per share adjusted for the effect of stock option plans at those operating companies.

Pro forma after the effect of operating companies' stock option plans	2003
Pro forma net loss for continuing operations	\$ (558)
Basic loss per share for continuing operations	\$ (3.64)
Diluted loss per share for continuing operations	\$ (3.64)

## 15. GAINS ON SHARES OF OPERATING COMPANIES, NET

During 2004 and 2003 Onex completed a number of unrelated transactions by selling all or a portion of its ownership interests in certain companies. The major transactions and the resulting pre-tax gains are summarized and described as follows:

Year ended December 31	2004	2003
Gains (loss) on:		
Issue of shares of Commercial Vehicle Group <sup>(a)</sup>	\$ 75	\$ -
Performance Logistics Group <sup>(b)</sup>	58	-
Issue of shares by Celestica <sup>(c)</sup>	9	-
Sale of Tower Automotive <sup>(d)</sup>	6	-
Gain on initial public offering of Cineplex Galaxy Income Fund <sup>(e)</sup>	-	118
Sale of investment by Vencap <sup>(f)</sup>	-	16
Other, net <sup>(g)</sup>	34	(5)
	\$ 182	\$ 129

**a)** In August 2004, Commercial Vehicle Group, Inc. ("CVG") formed from the combination of Bostrom and Trim Systems, filed a registration statement with the U.S. Securities and Exchange Commission for an initial public offering of common stock. A \$180 offering of shares (NASDAQ:CVGI) was completed in early August. The offering included both a primary and a secondary component. The primary sale of shares by CVG resulted in that company receiving net proceeds of approximately \$66, which it used to reduce outstanding indebtedness and for general corporate purposes.

The secondary sale of shares was by Onex and certain other shareholders, with Onex receiving approximately \$54 in net proceeds, resulting in a gain of \$60 after considering previously recorded losses. In addition, Onex received approximately \$27 on the repayment of debt held by Onex, which resulted in a gain of \$15. As a result of this offering and the sale of shares, Onex held approximately 4.2 million shares of CVG. Onex, the largest shareholder in CVG with an approximate 24% ownership interest, ceased to have a controlling ownership interest following this offering.

**b)** In March 2004, PLG acquired Leaseway Auto Carrier Group, a subsidiary of Penske Truck Leasing Co., L.P. Onex did not sell or purchase any shares of PLG in this offering, and Onex' ownership interest in PLG was diluted from a controlling 50% interest to a non-controlling 26% interest as a result of the additional shares issued. Since Onex ceased to control PLG after the issuance of the additional PLG shares, the investment was no longer consolidated but was accounted for using the equity method. As a result of the dilution of Onex' investment in PLG, Onex has recorded a non-cash gain of \$58, reflecting the net liabilities of PLG, which

are now accounted for under the equity method. This gain is comprised of a non-cash dilution gain of \$22 and includes the reversal of \$36 of losses of PLG previously recognized by Onex that were in excess of the other shareholders' equity in PLG.

**c)** In March 2004, Celestica acquired MSL and issued approximately 14.1 million Celestica subordinate voting shares as part of the consideration paid. Onex recorded a dilution gain of \$9 as a result of the reduction in Onex' ownership through the share issuance. Onex' ownership after the dilution was approximately 18% and it retained voting control of Celestica.

**d)** In February 2004, Onex completed the sale of its remaining interest in Tower Automotive, Inc. for net cash proceeds of \$8.

**e)** In November 2003, an initial public offering was made of Cineplex Galaxy Income Fund ("CGIF") of 19.4 million units priced at \$10 per unit. The proceeds of this offering were used by CGIF to invest in 41% of the limited partnership units of Cineplex Galaxy Limited Partnership (the "Partnership"), which in turn acquired substantially all of the assets of Cineplex Odeon from Loews Cineplex and all of the shares of Galaxy Entertainment Inc. ("Galaxy"), another Canadian exhibitor controlled by Onex. Following the closing, the Company retained a 54% interest in the Partnership. The gain includes both a realized gain arising from the cash received and a dilution component.

**f)** During 2003, Vencap received proceeds of \$20 on the disposition of its remaining investments.

**g)** Included in 2004 was a gain of \$23 from the interest in Ripplewood.

## 16. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

Year ended December 31	2004	2003
Celestica	\$ 184	\$ 128
Magellan	7	-
ClientLogic	5	8
J.L. French Automotive	7	4
Other	8	11
	\$ 211	\$ 151

Costs incurred relate to the restructuring activities, implementation of business processes, infrastructure and information systems for operations acquired.

The Company records restructuring charges relating to employee terminations, contractual lease obligations and other exit costs in accordance with CICA abstracts EIC-134 and EIC-135, which the Company adopted for restructuring activities initiated

after March 31, 2003. These standards require the Company to prospectively record restructuring charges only when the liability is incurred. Prior to this, the Company recorded restructuring charges based on detailed plans approved and committed to by management. The recognition of these charges requires management to make certain judgments regarding the nature, timing and amounts associated with the planned restructuring activities, including estimating sublease income and the net recovery from equipment to be disposed of. At the end of each reporting period, the Company evaluates the appropriateness of the remaining accrued balances. Restructuring activities relate to the operating companies.

In January 2003, Celestica recorded a restructuring charge in respect of facility consolidations and a reduction in its workforce as a result of the broad slowdown in technology end-markets experienced by its customers. Also included were charges in respect of restructuring activities initiated in prior years. The charge includes employee termination costs, lease and other contractual obligations, non-cash asset impairments and facility exit and other costs.

In January and April 2004, Celestica recorded a restructuring charge in respect of facility consolidations and a reduction in its workforce to better align capacity with customers' requirements. The charge includes employee termination costs, lease and other contractual obligations, non-cash asset impairments and facility exit costs. The Company expects to complete these actions by early 2005.

In September 2004, Celestica sold certain assets relating to its power operations for proceeds of \$68 and recorded a gain of \$15. Included in the 2004 restructuring costs is \$10 related to the disposition.

In January 2005, Celestica announced that it will incur a pre-tax restructuring charge of between US\$225 and US\$275 to be recorded over the next 15 months, of which approximately 80% will be cash costs.

The tables below provide a summary of restructuring activities undertaken by the operating companies detailing the components of the charges and movement in accrued liabilities. This summary is presented by the year in which the restructuring activities were first initiated.

Years prior to 2003	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 293	\$ 163	\$ 52	\$ 338	\$ 846 <sup>(a)</sup>
Cumulative costs expensed to date	293	163	52	338	846 <sup>(b)</sup>
Expense for the year ended					
December 31, 2004	1	3	1	2	7
Reconciliation of accrued liability					
Closing balance – December 31, 2003	15	78	5		98
Cash payments	(16)	(35)	(6)		(57)
Charges	1	3	1		5
Closing balance – December 31, 2004	\$ –	\$ 46	\$ –		\$ 46

(a) Includes Celestica \$833, J.L. French Automotive \$9, ClientLogic \$1 and Radian \$3.

(b) Includes Celestica \$833, J.L. French Automotive \$9, ClientLogic \$1 and Radian \$3.

Initiated in 2003	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 92	\$ 7	\$ 8	\$ 10	\$ 117 <sup>(a)</sup>
Cumulative costs expensed to date	92	7	7	10	116 <sup>(b)</sup>
Expense for the year ended					
December 31, 2004	9	6	1	(1)	15
Reconciliation of accrued liability					
Closing balance – December 31, 2003	53	1	4		58
Cash payments	(40)	(3)	(3)		(46)
Charges	9	6	1		16
Closing balance – December 31, 2004	\$ 22	\$ 4	\$ 2		\$ 28

(a) Includes Celestica \$95, J.L. French Automotive \$7, ClientLogic \$9 and Magellan \$6.

(b) Includes Celestica \$95, J.L. French Automotive \$6, ClientLogic \$9 and Magellan \$6.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<b>Initiated in 2004</b>	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 149	\$ 12	\$ 16	\$ 44	\$ 221 <sup>(a)</sup>
Cumulative costs expensed to date	117	12	16	44	189 <sup>(b)</sup>
Expense for the year ended					
December 31, 2004	117	12	16	44	189
Reconciliation of accrued liability					
Cash payments	(107)	(6)	(5)		(118)
Charges	117	12	16		145
Closing balance – December 31, 2004	\$ 10	\$ 6	\$ 11		\$ 27

(a) Includes Celestica \$207, ClientLogic \$3, Radian \$4 and CMC Electronics \$2.

(b) Includes Celestica \$176, ClientLogic \$3, Radian \$4 and CMC Electronics \$2.

<b>Total</b>	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 534	\$ 182	\$ 76	\$ 392	\$ 1,184
Cumulative costs expensed to date	502	182	75	392	1,151
Expense for the year ended					
December 31, 2004	127	21	18	45	211
Reconciliation of accrued liability					
Closing balance – December 31, 2003	68	79	9		156
Cash payments	(163)	(44)	(14)		(221)
Charges	127	21	18		166
Closing balance – December 31, 2004	\$ 32	\$ 56	\$ 13		\$ 101

**17. DEBT PREPAYMENT COSTS**

Year ended December 31	2004	2003
J.L. French Automotive	\$ 5	\$ 9
Celestica	2	2
Other	1	-
	\$ 8	\$ 11

**18. WRITEDOWN OF GOODWILL AND INTANGIBLE ASSETS**

Year ended December 31	2004	2003
Celestica <sup>(a)</sup>	\$ 388	\$ 33
J.L. French Automotive <sup>(b)</sup>	-	214
Performance Logistics Group <sup>(c)</sup>	-	142
Radian <sup>(d)</sup>	-	8
ClientLogic <sup>(e)</sup>	5	5
	\$ 393	\$ 402

**a)** During the fourth quarter of 2004, Celestica performed its annual impairment tests of goodwill and intangible assets and determined that writedowns of \$351 in goodwill and \$37 in other intangibles was required. The majority of the writedowns were due to restructuring plans and the continued transfer of major customer programs from higher cost to lower cost geographies whereby these actions reduced the forecasted revenue and net cash flows for many sites. In 2003, the impairment tests resulted in writedowns of \$24 in intellectual property and \$9 in other intangibles due to prolonged declines in the computing and communications end-markets that affected the fair value of the reporting units.

**b)** During the third quarter of 2004, J.L. French Automotive performed its annual impairment tests of goodwill and intangible assets and determined that no writedowns were required. In 2003, the impairment tests resulted in a writedown of \$214 in goodwill due to lower than anticipated production volumes and a relocation of certain assets within the reporting units.

**c)** In 2003, the impairment tests at PLG resulted in a writedown of \$142 in goodwill as a result of the competitive nature of the industry.

**d)** In 2003, Radian performed impairment tests that resulted in a writedown of \$8 in goodwill due to the slowdown in the telecommunications sector arising from tighter capital markets and capital-spending restrictions by wireless service providers. During 2004, Radian did not have any recorded goodwill or intangible assets.

**e)** During 2004, ClientLogic performed its annual impairment tests of goodwill and intangible assets and determined that a writedown of \$5 in intangible assets was required due to the loss of certain client contracts. In 2003, the impairment tests resulted in a writedown of \$5 in intangible assets due to a component of the existing client contracts being impaired.

**19. WRITEDOWN OF LONG-LIVED ASSETS**

Year ended December 31	2004	2003
Celestica <sup>(a)</sup>	\$ 84	\$ 75
J.L. French Automotive <sup>(b)</sup>	8	10
Other	2	3
	\$ 94	\$ 88

**a)** In 2004, Celestica recorded an impairment of \$84 (2003 – \$75) against property, plant and equipment. In 2003, \$18 of the impairment related to the buyout of a leased facility.

**b)** In 2004, J.L. French Automotive implemented restructuring plans for its U.K. operations which resulted in an impairment of \$8 against property, plant and equipment. In 2003, J.L. French Automotive recorded an impairment of \$10 against property, plant and equipment, of which \$7 related to a Mexican facility that was not producing an acceptable profit margin, and it was decided that the business would be resourced to another supplier.

**20. INCOME TAXES**

The reconciliation of statutory income tax rates to the Company's effective tax rate is as follows:

Year ended December 31	2004	2003
Income tax recovery at statutory rates	\$ 214	\$ 273
Increase (decrease) related to:		
Increase in valuation allowance <sup>(1)</sup>	(434)	(261)
Amortization of non-deductible items	(126)	(59)
Income tax rate differential of operating companies	(58)	5
Non-taxable accounting gains	46	1
Other, including permanent differences	11	(26)
Provision for income taxes	\$ (347)	\$ (67)
Classified as:		
Current	\$ (95)	\$ (59)
Future	(252)	(8)
Provision for income taxes	\$ (347)	\$ (67)

(1) During the fourth quarter of 2004, the valuation allowance increased, in large part due to Celestica establishing a valuation allowance of \$302 related to future income tax assets previously recorded in respect of net operating loss carryforwards and certain other deductible temporary differences from its U.S. and European operations.

The Company's future income tax assets and liabilities comprised the following:

As at December 31	2004	2003
Future income tax assets:		
Net operating losses carried forward	\$ 1,031	\$ 661
Net capital losses carried forward	45	-
Accounting provisions not currently deductible	172	207
Scientific research deductions and credits	9	55
Property, plant and equipment, intangible and other assets	117	338
Share issue costs of operating companies	16	10
Acquisition and integration costs	91	53
Pension and non-pension post-retirement benefits	11	12
Other	4	(95)
Less: valuation allowance	(1,411)	(835)
	85	406
Future income tax liabilities:		
Property, plant and equipment, intangible and other assets	(52)	(144)
Pension and non-pension post-retirement benefits	(20)	(9)
Gains on shares of operating companies	(617)	(505)
Other	(2)	21
	(691)	(637)
Future income tax liabilities, net	\$ (606)	\$ (231)
Classified as:		
Current asset	\$ 17	\$ 63
Long-term asset	68	343
Long-term liability	(691)	(637)
Future income tax liabilities, net	\$ (606)	\$ (231)



The Company and its investment-holding operating companies have tax-loss carryforwards of approximately \$695 available to reduce future income taxes to the year 2014.

At December 31, 2004, certain operating companies in Canada and the United States had tax-loss carryforwards available to reduce future income taxes of those companies in the amount of \$2,983, of which \$528 had no expiry, \$594 were available to reduce future taxes between 2005 and 2009, inclusive, and \$1,861 were available to reduce future taxes over a 15-year period beginning in 2010.

Cash taxes paid during the year amounted to \$30 (2003 – \$62).

## 21. NET EARNINGS (LOSS) PER SUBORDINATE VOTING SHARE

The weighted average number of Subordinate Voting Shares for the purpose of the earnings (loss) per share calculations is as follows:

Year ended December 31	2004	2003
Weighted average number of shares (in millions):		
Basic	\$ 142	\$ 154
Diluted	142	154

## 22. FINANCIAL INSTRUMENTS

### a) Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2004 and 2003 are based on relevant market prices and information available at those dates. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values that have not been disclosed elsewhere in these consolidated financial statements include the following:

As at December 31	2004		2003	
	Carrying Amount	Fair Value/ (Unwind Costs)	Carrying Amount	Fair Value/ (Unwind Costs)
Financial liabilities:				
Long-term debt <sup>(i)</sup>	\$ 2,512	\$ 2,536	\$ 1,198	\$ 1,152
Foreign currency contracts	\$ -	\$ (44)	\$ -	\$ (51)
Interest rate swap agreements	\$ -	\$ (25)	\$ -	\$ (6)

(i) The fair value of long-term debt is based on quoted market prices for the financial instruments and for others of similar rating and risk. Certain components of long-term debt primarily comprise term loans and other credit facilities with interest and repayment terms that are not significantly different from current market rates. Accordingly, the carrying values approximate estimated fair values.

### b) Forward sale agreements

The Company entered into the following forward sale agreements relating to subordinate voting shares of Celestica. Shares of Celestica have been pledged as collateral for these forward sale agreements and it is contemplated that they will be used to satisfy the agreements.

Effective January 1, 2004, the Company adopted AcG-13. Accordingly, previously deferred gains, which are included in other liabilities (note 11), and which at January 1, 2004 amounted to \$181, will continue to be deferred until such time as the contracts are closed. The fair value of the forward agreements is included in investments and other assets (note 6). Changes in market value of the forward contracts since the date of adoption are recorded in the statement of earnings under "Derivative Instruments".

Inception Date	Maturity Date	Number of Celestica Shares	Reference Price per Share	2004 Fair Value	2003 Fair Value
August 2000	August 2025	472,840	\$ 111.24	\$ 44	\$ 43
November 2000	November 2025	1,284,627	\$ 128.47	\$ 142	\$ 138

The reference price approximated the market value of a Celestica subordinate voting share at the time the forward sale agreement was entered into. The reference prices under the contracts increase over time.

The fair value represents the difference between the reference price under the contract and the market price of a Celestica share as at December 31, 2004 and 2003 for the number of shares under the contract.

**23. SIGNIFICANT CUSTOMERS OF OPERATING COMPANIES AND CONCENTRATION OF CREDIT RISK**

A number of operating companies, by the nature of their businesses, individually serve major customers that account for a large portion of their revenues. For each of these operating companies, the table below shows the number of significant customers and the percentage of revenues they represent.

Year ended December 31	2004		2003	
	Number of Significant Customers	Percentage of Revenues	Number of Significant Customers	Percentage of Revenues
Celestica	2	26%	4	44%
Magellan	3	35%	-	-
ClientLogic	1	22%	1	24%
J.L. French Automotive	2	83%	2	81%
Performance Logistics Group	-	-	2	83%
Bostrom	-	-	1	11%
Trim Systems	-	-	2	88%
Radian	1	13%	1	14%
Cosmetic Essence	3	59%	-	-

Accounts receivable from the above significant customers at December 31, 2004 and 2003 totalled \$244 and \$337, respectively.

**24. COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS**

a) Contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. At December 31, 2004, the amounts payable in respect of these guarantees totalled \$95. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to \$3 at December 31, 2004. These guarantees are without recourse to Onex.

The Company has commitments in the total amount of approximately \$161 in respect of corporate investments, including those discussed in note 26.

The Company and its operating companies have also provided certain indemnifications, including those related to businesses that have been sold. The maximum amounts from many of these indemnifications cannot be reasonably estimated at this time. However, in certain circumstances, the Company and its operating companies have recourse against other parties to mitigate the risk of loss from these indemnifications.

The Company and its operating companies have commitments in respect of real estate operating leases, which are disclosed in note 9. Onex and its operating companies have aggregate capital commitments of \$58 as at December 31, 2004.

b) The Company and its operating companies may become parties to legal claims, product liability and warranty claims arising in the ordinary course of business. Certain operating companies, as conditions of acquisition agreements, have agreed to accept certain pre-acquisition liability claims against the acquired companies. The operating companies have recorded liability provisions for the estimated amounts that may become payable for such claims to the extent that they are not covered by insurance or recoverable from other parties. It is management's opinion that the resolution of known claims should not have a material adverse impact on the consolidated financial position of Onex. However, there can be no assurance that unforeseen circumstances will not result in significant costs.

c) The operating companies are subject to laws and regulations concerning the environment and to the risk of environmental liability inherent in activities relating to their past and present operations. As conditions of acquisition agreements, certain operating companies have agreed to accept certain pre-acquisition liability claims on the acquired companies after obtaining indemnification from prior owners.

The Company and its operating companies also have insurance to cover costs incurred for certain environmental matters. Although the effect on operating results and liquidity, if any, cannot be reasonably estimated, management of Onex and the operating companies believe, based on current information, that these environmental matters should not have a material adverse effect on the Company's consolidated financial condition.

**d)** In February 2004, Onex completed the closing of Onex Partners LP (the "Fund"), with funding commitments totalling US\$1.7 billion. The Fund is to provide committed capital for future Onex-sponsored acquisitions not related to Onex' operating companies at December 31, 2003, or to ONCAP. Onex has provided a commitment of US\$400 million of the total US\$1.7 billion of capital committed to the Fund. Onex controls the General Partner and Manager of the Fund. Onex management has committed, as a group, to invest a minimum of 1% of the Fund, which may be adjusted annually up to a maximum of 4%. As at December 31, 2004, management had committed 4%. The total amount invested in Fund investments by Onex management for the year ended December 31, 2004 was \$21.

Onex receives annual management fees based upon 2% of the capital committed to the Fund by investors other than Onex and Onex management. The annual management fee is reduced to 1% of the net funded capital at the earlier of the end of the commitment period, when the funds are fully invested, or if Onex establishes a successor fund. Onex is entitled to receive a carried interest on the overall gains achieved by Fund investors, other than Onex, to the extent of 20% of the gains, provided that the Fund investors have achieved a minimum 8% return on their investment in the Fund. The investment by Fund investors for this purpose takes into consideration management fees and other amounts paid in by the Fund investors.

The returns to the Fund investors, other than Onex and Onex management, are based upon all investments made through the Fund, with the result that initial carried interests achieved by Onex on gains could be recovered from Onex if subsequent Fund investments do not exceed the overall target return level of 8%. Consistent with market practice, Onex, as sponsor of the Fund, will be allocated 40% of the carried interest with 60% allocated to the management. Onex defers all gains associated with the carried interest until such time as the Fund is closed. As at December 31, 2004, no amount had been received as carried interest.

**e)** Under the terms of the MIP approved in June 1996, management members of the Company invest in all of the operating entities acquired by the Company.

The aggregate investment by management members under the MIP is limited to 9% of Onex' interest in each acquisition. The form of the investment is a cash purchase for 1/6th (1.5%) of the MIP's share of the aggregate investment, and investment rights for the remaining 5/6th (7.5%) of the MIP's share at the same price. The investment rights to acquire the remaining 5/6th vest equally over four years. If the Company disposes of 90% or more of an investment before the fifth year, the investment rights vest in full. The investment rights related to a particular acquisition are exercisable only if the Company earns a minimum 15% per annum compound rate of return for that acquisition after giving effect to the investment rights.

Under the terms of the MIP, the total amount paid for the interest in the investments in 2004 was \$2 (2003 – less than \$1). Investment rights exercisable at the same price for 7.5% (2003 – 7.5%) of the Company's interest in acquisitions were issued at the same time. Realizations under the MIP including the value of units distributed were \$35 in 2004 and \$6 in 2003.

**f)** Members of management and the Board of Directors of the Company invested \$9 in 2004 (2003 – less than \$1) in Onex' acquisitions at the same cost as Onex and other outside investors. Those investments by management and the Board are subject to voting control by Onex.

**g)** Certain operating companies have made loans to certain directors or officers of the individual operating companies primarily for the purpose of acquiring shares in those operating companies. The total value of the loans outstanding as at December 31, 2004 was \$13. None of these loans is to directors or officers of the Company.

**25. PENSION AND NON-PENSION POST-RETIREMENT BENEFITS**

The operating companies have a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to certain of their employees. The non-pension post-retirement benefits include retirement and termination benefits, health, dental and group life.

The total costs during 2004 for defined contribution pension plans were \$35 (2003 – \$33).

The Company measures its accrued benefit obligations and the fair value of the plan assets for accounting purposes as at December 31 of each year for the largest plans. The most recent actuarial valuation of these pension plans for funding purposes was as of April and December 2002, and the next required valuation will be as of April and December 2005.

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the operating companies to their funded pension plans, cash payments directly to beneficiaries for their unfunded other benefit plans, and cash contributed to their defined contribution plans, were \$68 (2003 – \$86).

For the defined benefit pension plans and non-pension post-retirement plans, the estimated present value of accrued benefit obligations and the estimated market value of the net assets available to provide these benefits were as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2004	2003	2004	2003	2004	2003
Accrued benefit obligations:						
Opening benefit obligations	\$ 144	\$ 235	\$ 637	\$ 744	\$ 164	\$ 191
Current service cost	1	1	13	15	15	14
Interest cost	8	9	25	24	5	6
Contributions by plan participants	-	-	2	3	-	-
Benefits paid	(9)	(9)	(18)	(16)	(18)	(20)
Actuarial losses in year	10	5	24	17	5	8
Foreign currency exchange rate changes	(2)	-	(3)	(34)	(2)	(4)
Acquisitions during the year	-	-	1	-	-	-
Discontinued operations in 2003	-	(112)	-	(72)	-	(14)
Discontinued operations in 2004 (note 2)	(3)	(1)	(174)	(10)	(48)	(2)
Non-controlled entities (note 15)	-	-	(41)	-	-	-
Plan amendments	-	-	-	(9)	-	(2)
Settlements/curtailments	2	-	(12)	(9)	(17)	(13)
Reclassification of plans	(20)	16	20	(16)	-	-
Other changes	-	-	2	-	1	-
Closing benefit obligations	\$ 131	\$ 144	\$ 476	\$ 637	\$ 105	\$ 164
Plan assets:						
Opening plan assets	\$ 152	\$ 238	\$ 459	\$ 452	\$ -	\$ -
Actual return on plan assets	14	14	28	36	-	-
Contributions by employer	4	4	31	54	18	20
Contributions by plan participants	-	-	2	3	-	-
Benefits paid	(9)	(9)	(18)	(16)	(18)	(20)
Foreign currency exchange rate changes	(3)	-	-	(21)	-	-
Acquisitions during the year	-	-	1	-	-	-
Discontinued operations in 2003	-	(94)	-	(40)	-	-
Discontinued operations in 2004 (note 2)	(8)	(1)	(113)	(3)	-	-
Non-controlled entities (note 15)	-	-	(31)	-	-	-
Settlement/termination payments	-	-	(12)	(6)	-	-
Reclassification of plans	(3)	-	3	-	-	-
Closing plan assets	\$ 147	\$ 152	\$ 350	\$ 459	\$ -	\$ -

Asset category	Percentage of Plan Assets	
	2004	2003
Equity securities	50%	50%
Debt securities	45%	42%
Real estate	2%	2%
Other	3%	6%
	100%	100%

Equity securities do not include direct investments in the shares of the Company and its subsidiaries but may be invested indirectly as a result of the inclusion of the Company's and its subsidiaries' shares in certain market investment funds.

The funded status of the plans of the operating subsidiary companies was as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2004	2003 <sup>(1)</sup>	2004	2003 <sup>(2)</sup>	2004	2003 <sup>(3)</sup>
Deferred benefit amount:						
Plan assets, at fair value	\$ 147	\$ 152	\$ 350	\$ 459	\$ -	\$ -
Accrued benefit obligation	(131)	(144)	(476)	(637)	(105)	(164)
Plan surplus (deficit):	\$ 16	\$ 8	\$ (126)	\$ (178)	\$ (105)	\$ (164)
Unamortized past service costs	-	-	(5)	(9)	-	1
Unamortized net gain or loss	31	37	125	101	16	18
Reclassification of plans	22	-	(22)	-	-	-
Discontinued operations in 2004 (note 2)	-	-	-	46	-	8
Deferred benefit amount – asset (liability)	\$ 69	\$ 45	\$ (28)	\$ (40)	\$ (89)	\$ (137)

(1) The ending balance includes discontinued operations of \$5.

(2) The ending balance includes discontinued operations of (\$15).

(3) The ending balance includes discontinued operations of (\$40).

The deferred benefit asset is included in the Company's balance sheet under "Investments and other assets". The deferred benefit liabilities are included in the Company's balance sheet under "Other liabilities".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net expense for the plans, excluding discontinued operations, is outlined below:

Year ended December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2004	2003	2004	2003	2004	2003
Net periodic costs:						
Current service cost	\$ 1	\$ 1	\$ 13	\$ 15	\$ 15	\$ 14
Interest cost	8	9	25	24	5	6
Actual return on plan assets	(14)	(14)	(28)	(36)	-	-
Difference between expected return and actual return on plan assets for period	4	4	5	16	-	-
Actuarial loss	10	5	24	17	5	8
Difference between actuarial loss recognized for period and actual actuarial loss on the accrued benefit obligation for period	(9)	(2)	(18)	(12)	(5)	(8)
Plan amendments (curtailment/settlement (gain) loss)	2	-	(12)	(18)	(17)	(15)
Difference between amortization of past service costs for period and actual plan amendments for period	-	-	8	18	8	5
Settlement benefits	-	-	6	-	-	-
Other	-	-	-	1	-	-
Net periodic costs	\$ 2	\$ 3	\$ 23	\$ 25	\$ 11	\$ 10

The following assumptions were used to account for the plans:

Year ended December 31	Pension Benefits		Non-Pension Post-Retirement Benefits	
	2004	2003	2004	2003
Accrued benefit obligation				
Weighted average discount rate	5.20%-6.50%	5.00%-6.50%	5.75%-6.10%	6.00%-6.75%
Weighted average rate of compensation increase	0.00%-3.75%	0.00%-4.00%	4.00%	4.00%
Benefit cost				
Weighted average discount rate	5.20%-6.50%	5.50%-6.75%	6.40%	6.90%
Weighted average expected long-term rate of return on plan assets	6.40%-8.00%	7.00%-8.00%	n/a	n/a
Weighted average rate of compensation increase	0.00%-4.80%	0.00%-4.80%	4.00%	5.00%
Assumed healthcare cost trend rates				
Initial healthcare cost rate			6.60%-10.00%	5.75%-13.00%
Cost trend rate declines to			3.25%-5.00%	3.59%-5.00%
Year that the rate reaches the rate it is assumed to remain at			Between 2008 and 2011	Between 2008 and 2011

Assumed healthcare cost trend rates have a significant effect on the amounts reported for post-retirement medical benefit plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

Year ended December 31	1% Increase		1% Decrease	
	2004	2003	2004	2003
Effect on total of service and interest cost components	\$ 3	\$ 2	\$ (2)	\$ (2)
Effect on the post-retirement benefit obligation	\$ 14	\$ 10	\$ (11)	\$ (11)

In 2004 curtailments and plan settlement gains and losses were incurred by Celestica due to facilities rationalization. These gains and losses are included in restructuring charges in note 16.

## 26. SUBSEQUENT EVENTS

Onex and certain operating companies have entered into agreements to acquire or make investments in other businesses. These transactions are subject to a number of conditions, many of which are beyond the control of Onex or the operating companies. The effect of these planned transactions, in addition to those described below, if completed, may be significant to the consolidated financial position of Onex.

In January 2005, the Company completed the acquisition of CDI in a transaction valued at \$225. CDI owns and operates diagnostic imaging centres in nine markets in the United States. The total equity investment was \$88 for an 84% equity ownership interest. This was provided by Onex and Onex Partners. Onex' net investment in this acquisition was \$21 for a 20% equity ownership at the time of acquisition. Onex has effective voting control of CDI through Onex Partners.

In January 2005, Onex established Onex Real Estate Partners LP, a fund dedicated to acquiring and improving real estate assets in North America. Onex has initially committed US\$200 million to the fund, which is expected to increase in size over time with the involvement of institutional investors. Onex' commitment will be funded as acquisitions are completed.

In February 2005, the Company redeemed all of the outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of 9,214,320 Celestica subordinate voting shares.

In February 2005, the Company completed the acquisition of American Medical Response ("AMR") and EmCare Holdings Inc. ("EmCare") in a transaction valued at approximately \$1,000. AMR is the largest provider of ambulance transport services in the United States. EmCare is the leading provider of outsourced hospital emergency department physician staffing and management services in the United States. The total equity investment was approximately \$270 for a 97% equity ownership interest. This was provided by Onex and Onex Partners. Onex' net investment in this acquisition was \$100 for a 37% equity ownership at the time of acquisition. Onex has effective voting control of AMR and EmCare through Onex Partners.

In February 2005, the Company entered into an agreement to acquire the Wichita/Tulsa Division of Boeing Commercial Airplanes in a transaction valued at approximately \$1,500. The purchase will include Boeing's commercial airplane manufacturing facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma. The business will operate under a new company that will enter into long-term agreements with Boeing to supply components on all of Boeing's existing 737, 767, 747, and 777 platforms, as well as the new 787 platform. The Division currently employs approximately 9,000 people and represented approximately \$2,500 in annual costs for 2004. The new company will also seek new business from other customers. The equity investment is expected to be \$465 made through Onex Partners LP and certain of its limited partners, including Onex. Onex' share is expected to be at least \$116. Closing of the transaction is subject to the satisfactory completion of a number of conditions and is expected to be completed in the second quarter.

**27. INFORMATION BY INDUSTRY AND GEOGRAPHIC SEGMENT**

Onex' reportable segments operate through autonomous companies and strategic partnerships. Each reportable segment offers different products and services and is managed separately.

The Company had six reportable segments in 2004 and five in 2003: electronics manufacturing services; theatre exhibition; healthcare; customer management services; automotive products; and other. The electronics manufacturing services segment consists of Celestica, which provides manufacturing services for electronics OEMs. The theatre exhibition segment consists of Cineplex Odeon, CGIF and CGLP. The healthcare segment consists of Magellan, a provider of managed behavioural

healthcare and insurance services in the United States; and the equity accounted investment in ResCare, a provider of support services to people with special needs. The customer management services segment consists of ClientLogic, which provides services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies. The automotive products segment consists of J.L. French Automotive, a leading manufacturer of high-pressure aluminum die-cast parts in both 2004 and 2003; Bostrom, a manufacturer of seats for the heavy truck, construction and agricultural vehicle markets; and Trim Systems, which produces heavy truck interior trim systems in 2003. Bostrom and Trim Systems were equity accounted for 2004.

**2004 Industry segments**

	Electronics Manufacturing Services	Theatre Exhibition	Healthcare	Customer Management Services	Automotive Products	Other <sup>(a)</sup>	Consolidated Total
Revenues	\$ 11,480	\$ 356	\$ 2,199	\$ 730	\$ 932	\$ 547	\$ 16,244
Cost of sales	(10,913)	(271)	(1,762)	(458)	(743)	(363)	(14,510)
Selling, general and administrative expenses	(358)	(18)	(137)	(196)	(39)	(205)	(953)
Earnings (loss) before the undernoted items	\$ 209	\$ 67	\$ 300	\$ 76	\$ 150	\$ (21)	781
Amortization of property, plant and equipment	(223)	(25)	(38)	(41)	(65)	(24)	(416)
Amortization of intangible assets and deferred charges	(45)	-	(18)	(15)	-	(16)	(94)
Interest expense of operating companies	(56)	(8)	(48)	(19)	(101)	(21)	(253)
Interest and other income	49	1	8	7	1	45	111
Equity accounted investments	-	-	1	-	-	(9)	(8)
Foreign exchange gains (loss)	(8)	-	-	3	3	(114)	(116)
Stock-based compensation	(20)	-	(35)	(1)	(14)	(34)	(104)
Derivative instruments	-	-	-	-	-	29	29
Gains on shares of operating companies, net	-	-	-	-	-	182	182
Acquisition, restructuring and other expenses	(184)	-	(7)	(5)	(7)	(8)	(211)
Debt prepayment costs	(2)	-	-	-	(5)	(1)	(8)
Writedown of goodwill and intangible assets	(388)	-	-	(5)	-	-	(393)
Writedown of long-lived assets	(84)	-	-	(2)	(8)	-	(94)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (752)	\$ 35	\$ 163	\$ (2)	\$ (46)	\$ 8	\$ (594)
Provision for income taxes							(347)
Non-controlling interests in operating companies							781
Loss from continuing operations							\$ (160)
Earnings from discontinued operations							195
Net earnings							\$ 35
Total assets <sup>(b)</sup>	\$ 5,925	\$ 368	\$ 1,537	\$ 303	\$ 452	\$ 3,224	\$ 11,809
Long-term debt <sup>(c)</sup>	\$ 750	\$ 129	\$ 450	\$ 192	\$ 721	\$ 416	\$ 2,658
Property, plant and equipment additions	\$ 180	\$ 23	\$ 39	\$ 43	\$ 52	\$ 11	\$ 348
Goodwill additions	\$ 298	\$ -	\$ 576	\$ -	\$ -	\$ 328	\$ 1,202

(a) Includes Radian, CEI, ONCAP and parent company.

(b) Other includes discontinued operations described in note 2.

(c) Long-term debt includes current portion and excludes capital leases.



2003 Industry segments

	Electronics Manufacturing Services	Theatre Exhibition	Customer Management Services	Automotive Products	Other <sup>(a)</sup>	Consolidated Total
Revenues	\$ 9,382	\$ 336	\$ 605	\$ 1,394	\$ 402	\$ 12,119
Cost of sales	(8,831)	(259)	(399)	(1,077)	(293)	(10,859)
Selling, general and administrative expenses	(332)	(19)	(187)	(126)	(102)	(766)
Earnings before the undernoted items	\$ 219	\$ 58	\$ 19	\$ 191	\$ 7	\$ 494
Amortization of property, plant and equipment	(240)	(23)	(44)	(80)	(20)	(407)
Amortization of intangible assets and deferred charges	(68)	-	(16)	-	(7)	(91)
Interest expense of operating companies	(36)	(3)	(16)	(128)	(8)	(191)
Interest and other income	42	-	-	-	39	81
Foreign exchange gains (loss)	10	4	4	1	(141)	(122)
Stock-based compensation	-	-	(2)	-	16	14
Gains on shares of operating companies, net	-	113	-	-	16	129
Acquisition, restructuring and other expenses	(128)	(2)	(8)	(10)	(3)	(151)
Debt prepayment costs	(2)	-	-	(9)	-	(11)
Writedown of goodwill and intangible assets	(33)	-	(5)	(356)	(8)	(402)
Writedown of long-lived assets	(75)	-	(3)	(10)	-	(88)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (311)	\$ 147	\$ (71)	\$ (401)	\$ (109)	\$ (745)
Provision for income taxes						(67)
Non-controlling interests in operating companies						256
Loss from continuing operations						\$ (556)
Earnings from discontinued operations						224
Net loss						\$ (332)
Total assets <sup>(b)</sup>	\$ 6,645	\$ 359	\$ 338	\$ 779	\$ 6,500	\$ 14,621
Long-term debt <sup>(c)</sup>	\$ 273	\$ 114	\$ 206	\$ 1,026	\$ 130	\$ 1,749
Property, plant and equipment additions	\$ 234	\$ 47	\$ 26	\$ 72	\$ 8	\$ 387
Goodwill additions	\$ -	\$ -	\$ 8	\$ -	\$ 50	\$ 58

(a) Includes Radian, ONCAP and parent company.

(b) Other includes discontinued operations described in note 2.

(c) Long-term debt includes current portion and excludes capital leases.

Geographic segments

	2004					2003				
	Canada	U.S.	Europe	Other	Total	Canada	U.S.	Europe	Other	Total
Revenue	\$ 2,909	\$ 5,344	\$ 2,838	\$ 5,153	\$ 16,244	\$ 2,635	\$ 3,412	\$ 2,311	\$ 3,761	\$ 12,119
Property, plant and equipment	\$ 514	\$ 497	\$ 343	\$ 355	\$ 1,709	\$ 534	\$ 465	\$ 394	\$ 369	\$ 1,762
Intangible assets	\$ 113	\$ 196	\$ 24	\$ 36	\$ 369	\$ 81	\$ 139	\$ 25	\$ 57	\$ 302
Goodwill	\$ 201	\$ 700	\$ -	\$ 1,037	\$ 1,938	\$ 248	\$ 130	\$ 28	\$ 1,067	\$ 1,473

Revenues are attributed to geographic areas based on the locations of manufacturing facilities for the electronics manufacturing services and automotive products segments; and of operating facilities for the customer management services and theatre exhibition segments.

Other includes primarily operations in Mexico, Central and South America, as well as Asia and Australia. Significant customers of operating companies are discussed in note 23.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

The following is a summary of key consolidated financial information of the Company for the past five fiscal years:

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2004	2003	2002	2001	2000
Revenues	\$ 16,244	\$ 12,119	\$ 15,911	\$ 18,352	\$ 16,376
Cost of sales	(14,510)	(10,859)	(14,004)	(16,200)	(14,664)
Selling, general and administrative expenses	(953)	(766)	(889)	(1,030)	(861)
Earnings before the undernoted items	\$ 781	\$ 494	\$ 1,018	\$ 1,122	\$ 851
Amortization of property, plant and equipment	(416)	(407)	(510)	(454)	(275)
Amortization of goodwill, intangible assets and deferred charges	(94)	(91)	(172)	(293)	(227)
Interest expense of operating companies	(253)	(191)	(151)	(194)	(161)
Interest and other income	111	81	69	121	115
Equity accounted investments	(8)	-	-	-	-
Foreign exchange gains (loss)	(116)	(122)	18	16	10
Stock-based compensation	(104)	14	142	-	-
Derivative instruments	29	-	-	-	-
Gains on shares of operating companies, net	182	129	21	164	209
Acquisition, restructuring and other expenses	(211)	(151)	(673)	(434)	(36)
Debt prepayment costs	(8)	(11)	(25)	-	(3)
Writedown of goodwill and intangible assets	(393)	(402)	(425)	(427)	(22)
Writedown of long-lived assets	(94)	(88)	-	-	-
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	(594)	(745)	(688)	(379)	461
Recovery (provision) for income taxes	(347)	(67)	65	9	(109)
Non-controlling interests of operating companies	781	256	560	230	(201)
Earnings (loss) from continuing operations	(160)	(556)	(63)	(140)	151
Earnings (loss) from discontinued operations <sup>(a)</sup>	195	224	(82)	938	37
Net earnings (loss) for the year	\$ 35	\$ (332)	\$ (145)	\$ 798	\$ 188
Total assets	\$ 11,809	\$ 14,621	\$ 19,890	\$ 20,870	\$ 19,719
Shareholders' equity	\$ 227	\$ 293	\$ 1,044	\$ 2,219	\$ 1,431
Dividends declared per Subordinate Voting Share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11
Earnings (loss) per Subordinate Voting Share:					
Continuing operations	\$ (1.12)	\$ (3.62)	\$ (0.39)	\$ (0.87)	\$ 0.93
Net earnings (loss)	\$ 0.25	\$ (2.16)	\$ (0.90)	\$ 4.95	\$ 1.15
Fully diluted	\$ 0.25	\$ (2.16)	\$ (0.90)	\$ 4.95	\$ 1.07

(a) The earnings from discontinued operations from 2000 to 2001 include the sale of Sky Chefs. The earnings from discontinued operations from 2000 to 2003 include the sale of Lantic Sugar/Rogers Sugar and MAGNATRAX. The earnings from discontinued operations from 2000 to 2004 include the sale of Dura Automotive, Loews Cineplex Group, Cincinnati Electronics, Armtec and InsLogic. Previously reported consolidated revenues and earnings figures for the years 2000 to 2003 have been restated to classify the results of the above entities as discontinued operations.

### Year-end closing share price

As at December 31	2004	2003	2002	2001	2000
The Toronto Stock Exchange	\$ 19.75	\$ 14.69	\$ 16.00	\$ 22.45	\$ 21.90

# SHAREHOLDER INFORMATION

## Shares

The Subordinate Voting Shares of the Company are listed and traded on The Toronto Stock Exchange.

## Share symbol

OCX.SV

## Dividends

Dividends on the Subordinate Voting Shares are payable quarterly on or about January 31, April 30, July 31 and October 31 of each year. At December 31, 2004 the indicated dividend rate for each Subordinate Voting Share was \$0.11 per annum.

## Shareholder Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders of record who are resident in Canada a means to reinvest cash dividends in new Subordinate Voting Shares of Onex Corporation at a market-related price and without payment of brokerage commissions. To participate, registered shareholders should contact Onex' share registrar, CIBC Mellon Trust Company. Non-registered shareholders who wish to participate should contact their investment dealer or broker.

## Corporate governance policies

A presentation of Onex' corporate governance policies is included in the Management Information Circular that is mailed to all shareholders and is available on Onex' website.

## Registrar and Transfer Agent

CIBC Mellon Trust Company  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario M5C 2W9  
(416) 643-5500  
or call toll-free throughout  
Canada and the United States  
1-800-387-0825  
www.cibcmellon.ca  
or inquiries@cibcmellon.ca (e-mail)

All questions about accounts, stock certificates or dividend cheques should be directed to the Registrar and Transfer Agent.

## Investor information

Requests for copies of this report, quarterly reports and other corporate communications should be directed to:  
Investor Relations  
Onex Corporation  
161 Bay Street  
P.O. Box 700  
Toronto, Ontario M5J 2S1

**E-mail:**  
info@onex.com

**Website:**  
www.onex.com

## Auditors

PricewaterhouseCoopers LLP,  
Toronto, Canada  
Chartered Accountants

## Duplicate communication

Registered holders of Onex Corporation shares may receive more than one copy of shareholder mailings. Every effort is made to avoid duplication, but when shares are registered under different names and/or addresses, multiple mailings result. Shareholders who receive but do not require more than one mailing for the same ownership are requested to write to the Registrar and Transfer Agent and arrangements will be made to combine the accounts for mailing purposes.

## Shares held in nominee name

To ensure that shareholders whose shares are not held in their name receive all Company reports and releases on a timely basis, a direct mailing list is maintained by the Company. If you would like your name added to this list, please forward your request to Investor Relations at Onex.

## Annual meeting of shareholders

Onex Corporation's Annual Meeting of Shareholders will be held on Thursday, May 12, 2005 at 10:00 a.m. (Eastern Daylight Time) at Cineplex Odeon Queensway Cinemas, 1025 The Queensway, Etobicoke, Ontario.

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