

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual result of Fulbond Holdings Limited and its subsidiaries (the "Group") for the year ended 31 December 2003.

FINANCIAL RESULTS

Keen competition within the timber industry has affected the Group's performance in 2003. At the same time, the high technology related business was under investment, and contributions have yet to be reflected in subsequent reports.

During the year, the Group recorded a turnover of US\$28,114,000, as compared to US\$31,505,000 in the previous year. Gross profit increased by 150% to reach US\$2,836,000. Net loss was sharply narrowed down by 65.7% from US\$13,584,000 to US\$4,653,000. Basic loss per share was US0.05 cents.

The drop in turnover was due primarily to the disposal of two timber subsidiaries and the change in the shareholding structures of Fulhua Microelectronics Corporation ("FameG"), which was originally the Company's subsidiary and has become its associate. Turnover from these companies was thus no longer registered in the Group's consolidated statement. Moreover, affected by the highly competitive market environment, the sales from the Group's timber business have recorded a slight drop.

The narrowing down of net loss, however, resulted from the exclusion of the impairment loss recognized in respect of property, plant and equipment and deemed loss on partial disposal of FameG resulting from issuance of preference shares to minority shareholders by FameG, together with the dilution of equity interest in a subsidiary upon the merger of business with another subsidiary in 2002.

DIVIDEND

The Board does not recommend the payment of final dividends in respect of the year ended 31 December 2003.

BUSINESS REVIEW

The Timber Business

Keen competition within the timber industry continued led to low profit margin and an impairment of the Group's timber business. However, quality products are still able to distinguish themselves in the market.

Jilin Fudun Timber Company Limited ("Fudun"), the Group's 67% – owned subsidiary, is the leading supplier of molded door skin in the PRC. With the construction business in the PRC growing rapidly, its supporting industries will experience stable growth in the long run. Riding on the well-established manufacturing capabilities and the distribution network stretching across Guangzhou, Shanghai and Beijing, Fudun is well poised to grasp the business opportunities arising in the region.

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BUSINESS REVIEW (continued)

High Technology Related Business

To seize the business opportunities in the worldwide high technology market, the Group has spent the last few years to establish its high technology related business, in particular, the System on Chip ("SoC") solutions and services. SoC is a highly integrated circuits ("IC") with complicated systems and devices embedded in one chip. As an upgrade on traditional IC, SoC can help minimize the product size and reduce production costs, which will have outstanding growth potential in today's high technology driven and fast moving era.

The Group's technology arm, FameG, is a Fabless SoC Original Design Manufacturer ("ODM") with a mission to provide SoC and SoC-based solutions to semiconductor markets in the Greater China region. Engaged simply in the design of SoC, FameG's manufacturing operations were out-sourced to contract manufacturing service providers in the Greater China region.

To extend the market reach, FameG has set up offices in California in January 2003 and Shanghai in September 2003 paving the way for Fulbond to become a strong company as the market continues to grow.

To strengthen the design capabilities further, in July 2003, FameG formed an alliance with Mitsubishi Corporation ("Mitsubishi") and Mitsubishi Corporation (Taiwan) Limited ("Mitsubishi Taiwan") through share allotments. With this alliance, FameG is able to access the Intellectual Property of the Japanese companies and further enhance its Large Scale IC development capabilities, and to gain increasing recognition among potential PRC customers and propel it forward to become one of the leading IC design companies in the Greater China region.

FUTURE PLANS AND PROSPECTS

Looking ahead, Fulbond will continue to improve its overall efficiencies, allocate more resources to concentrate on profitable operations for its timber business. It will assist subsidiaries and associate companies to develop overseas markets, broaden sales channels and strengthen brand image.

As compared with the timber business, the high technology related business, with three years of operational history, is relatively new to the Group. Nevertheless, the SoC market will grow in the coming years, and this business is expected to become the major contributor to the Group's results, with faster progress expected in the years to come.

To date, the increasing outsourcing activities by Integrated Device Manufacturer, fabless companies and electronic manufacturers have provided tremendous opportunities for FameG. Being a fabless SoC ODM, FameG focuses on its core competencies in complex IC design and complements such ICs with software and board-level engineering support. Its core capabilities are at the heart of the information and electronics industries, including wireless, broadband communications and digital consumer electronics.

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FUTURE PLANS AND PROSPECTS (continued)

To cater to the market demand, quality new ODM products such as Universe Serial Bus ("USB") 2.0 – flash memory controller and USB 2.0 multi-memory card reader will be launched in the second quarter of 2004. With their competitive prices, qualities and functionalities, the Group has confidence in securing a good number of new orders.

Apart from the SoC design services, FameG has in-house research and development to define, to develop and to promote "Platform-based SoC" products. This platform-based SoC contains generic architecture design which is more or less dedicated to certain application domains, which can help system engineers to customize the design for different product features without changing the basic architecture design. The end result is to shorten the delivery time to market.

In addition to offering IC design and platform-based SoC services to customers, FameG also provides re-targeting services. It works with major brand name chip companies, helping them to re-design their old products to incorporate new wafer processing technologies and new foundries in order to achieve cost reduction, feature enhancement, minimization of geographical risks and production ramp up requirements. The operation is experience-intensive and knowledge-intensive.

The management's connections and expertise in the technology arena is an absolute advantage for Fulbond. Many of the Group's senior management have solid experience, specifically in the IC designs and services area. Together with the comprehensive SoC designs and services, Fulbond is uniquely positioned to achieve its full potential in the fast growing high technology market. We are confident that our shareholders will benefit as a result.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, fellow directors, staff, customers, suppliers and business associates for their continued and unflinching support to the Group. We look forward to better results in the year ahead.

By order of the Board

Yang Ding-Yuan
Chairman

Hong Kong, 23 April 2004
