

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of Fulbond Holdings Limited and its subsidiaries (the "Group") for the year ended 31 December 2004.

## **Financial Results**

During the year, the Group recorded a turnover of US\$24,532,000, as compared with US\$28,114,000 in 2003. Gross profit dropped to US\$1,040,000, as compared with last year's US\$2,836,000. The decrease in gross profit is mainly due to increase in production cost. Net loss was narrowed down mainly because of the decrease in loss on disposal of property, plant and equipment. The Group still reported a net loss of US\$2,995,000, compared to US\$4,653,000 in 2003. Basic loss per share was US0.03 cent.

## **Dividend**

The Board does not recommend the payment of final dividends in respect of the year ended 31 December 2004. (2003: Nil)

## **Business Review**

### **The Timber Business**

The effective implementation of cost control measures and disposal of certain loss making timber subsidiaries enabled the Group to improve its timber business in 2004. Although competition within the industry remained keen, the Group was able to distinguish itself from other market players riding on its quality products. During the year, the operating results of most of the Group's timber related products, including blockboard and particle board and door skin, were improved.

The Group's 67%-owned subsidiary, Jilin Fudun Timber Company Limited ("Fudun"), is a specialist in the production of molded door skin in the PRC. During the year, the Group's quality molded door skin enjoyed healthy gross profit margin and stable market demand. To further strengthen this revenue stream, the Group's sales and marketing team has evaluated various potential overseas markets for the product, and successfully introduced the line of products to the Middle-East market.

To trim production costs, the Group relocated its 51%-owned subsidiary, Shenyang Fusheng Wood Clipboard Co., Ltd. ("Fusheng") (瀋陽福昇中密度板有限公司) to the rural area in Shenyang. Fusheng is engaged in the manufacturing and sale of medium density fibre board. The relocated factory commenced operations in early April 2005 and reported an at least 10% drop in production cost.

### **High Technology Related Business**

An upgrade of traditional IC, System on Chip ("SoC") is a highly sophisticated integrated circuit ("IC") with complicated systems and devices embedded in one chip, which allows manufacturers to produce more compact appliances and reduce production costs. SoC is becoming the essential component for the information and electronics industries, including wireless, broadband communications and digital consumer electronics. Riding on the management's strong technological background and expertise, the Group has established a comprehensive infrastructure for its high technology related business.

The Group's technology arm – Fulhua Microelectronics Corporation ("FameG") is a fabless SoC Original Design Manufacturer ("ODM") that provides SoC and SoC-based solutions to semiconductor markets in the Greater China region. In addition to IC design and platform-based SoC services, FameG also provides re-targeting

# CHAIRMAN'S STATEMENT

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. This allows customers to reduce cost and enhance product features, while minimizing geographical risks and the need to ramp up production.

As more and more semiconductor manufacturers relocate their factories to Asia, in particular the PRC, the country will soon become the world's largest semiconductor market. To grasp the arising business opportunities in the market, the Group has actively strengthened its market recognition in the region. At the Semicon China 2005, an international semiconductor expo held in Shanghai, the PRC in mid March 2005, FameG introduced its Application Specific Integrated Circuits ("ASIC") services to potential customers. ASIC is a one-stop service that enables customers to save resources on SoC design and manufacturing and shorten products' time to market. Market response has been positive so far.

FameG's unique business model and its team of IC industry veterans from Silicon Valley and Taiwan have attracted capital investments allowing it to expand its operations. With offices in Taiwan, the PRC, the US and Japan, FameG is able to strengthen its design capabilities and gain recognition among potential customers.

## ***Future Plans and Prospects***

Looking ahead, Fulbond will continue to improve its overall efficiencies, allocate more resources to profitable operations of its timber business. It will continue to develop different overseas markets, broaden its sales channels and strengthen its brand image.

As for the high technology related business, the Group sees rapid growth for the SoC market in the coming years, especially when a growing number of semiconductor factories are being relocated to Asia. With these manufacturers seeking to outsource SoC production, FameG stands to benefit. Fulbond will leverage the management's connections and expertise in the technological arena as well as the unique business model of FameG to capture the growth of the SoC market. This business is expected to become the major contributor to the Group's future results.

Applying its advanced SoC technology, the Group will launch new ODM products, including Boom Box with build-in MP3 in the second half of 2005. At competitive prices and of outstanding quality and functionality, the Group has confidence in these new products securing sizeable orders.

## ***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 unflinching support to the Group.

By order of the Board

**Yang Ding-Yuan**

*Chairman*

Hong Kong 22 April 2005