

## Chairman's Statement

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 2005.

### FINANCIAL RESULTS

During the year, the Group recorded a turnover of US\$22,485,000 (2004: US\$24,532,000). Gross profit increased to US\$1,605,000, as compared with last year's US\$1,040,000. The decrease in turnover was due to relocation of a subsidiary and the marked increase in gross profit was mainly attributable to increased export sales to Europe and the Middle East. The Group reported a net loss of US\$5,068,000 (2004: US\$2,995,000), which was incurred as a result of the decrease in share of results of associates and the increase of deferred tax charge. Basic loss per share was US0.06 cent (2004: US 0.03 cent).

### DIVIDEND

The Board does not recommend the payment of final dividends for the year ended 31 December 2005 (2004: Nil).

### BUSINESS REVIEW

#### The Timber Business

2005 was a testing year for the Group's timber business with raw materials prices such as that of log and chemicals standing consistently high. Besides, market competition remained keen which bred pricing pressure. Although the Group enjoyed cost advantage from its proximity to raw material sources and adjusted its product mix, the business environment remained difficult. As a result, the operating results of the Group's major timber related products, including blockboard, particle board and door skin, were affected.

Jilin Fudun Timber Company Limited ("Fudun"), the Group's 67%-owned subsidiary, specializes in the production of molded door skin in the PRC and exports its products mainly to overseas markets such as Turkey, the Middle East and Pakistan. During the year, the sales of the Group's quality molded door skin increased by over four times and enjoyed higher gross profit margin.

During the year under review, the Group completed the relocation of its 51%-owned subsidiary, Shenyang Fusheng Wood Clipboard Co., Ltd. ("Fusheng"), to the rural area in Shenyang. Fusheng is engaged in the manufacturing and sale of medium density fibre boards.

### High Technology Related Business

Having an established comprehensive infrastructure for its high technology related business, the Group is well-positioned to capitalize on opportunities in the global market, in particular for System on Chip ("SoC") solutions and services. SoC, which is a highly sophisticated integrated circuit ("IC") with complicated systems and devices embedded in one chip, allows manufacturers to produce more compact appliances at reduced production costs. It is fast becoming the essential component for the information and electronics industries, including wireless, broadband communications and digital consumer electronics.

Fulhua Microelectronics Corporation ("FameG"), the Group's technology arm, is a fabless SoC Original Design Manufacturer ("ODM") that provides SoC and SoC-based solutions to semiconductor markets in the Greater China region. FameG offers IC design, platform-based SoC services as well as re-targeting services. It helps major brand name chip companies to enhance their product features, allowing these customers to reduce cost, minimize geographical risks and ramp up production.

In 2005, FameG launched the EZL-8051 SoC design platform - a SoC service solution that mainly caters to schools and design houses. Using this design platform internally, FameG developed a few "Kernel SoC" and "Application Platform" to enable customers to develop their own SoC chips and Solutions.

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 arising business opportunities in the market, the Group established a new office in Shanghai during the year. It also plans to set up another new office in Shenzhen.

FameG also has offices in Taiwan, the PRC, the US and Japan, which enables it to gain recognition among potential customers. Riding on its unique business model and its team of IC industry veterans from Silicon Valley and Taiwan, FameG stands to further strengthen its design capabilities for business expansion.

### FUTURE PLANS AND PROSPECTS

Going forward, Fulbond will continue to improve its overall efficiency and allocate more resources to profitable operations. As for its timber business, the Group will continue to explore and develop new and existing overseas markets, broaden its sales channels and expand its clientele.

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## Chairman's Statement (cont'd)

Considering that semiconductor consumption in the PRC and Taiwan is growing at a rapid pace, the Group foresees sustainable growth in the SoC market in the coming years, especially when more semiconductor factories are expected to be relocated to Asia. The Group will benefit from increased market demand with these manufacturers seeking to outsource their SoC production. Fulbond will draw on the management's technological expertise as well as step up research and development efforts to capture the growth of the SoC market. The high technology related business is expected to contribute increasingly to the Group's future results.

In 2006, the Group, in addition to promote EZL-8051 platform, plans to launch new ODM SoC and Solution products for the growing MP3 and security (software protection) market. The Group has confidence in its new products, which will be competitive in pricing, quality and functionality.

### 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 support to the Group.

By order of the Board

**Yang Ding-Yuan**

*Chairman*

Hong Kong, 21 April 2006