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# Company Information

## Place of listing:

The Stock Exchange of Hong Kong Limited  
Stock Code : 527

## Executive Directors

Mr. Yang Senmao (*Chairman*)  
Mr. Yue Lian  
Mr. Xu Xiaoping

## Non-executive Directors

Mr. Meng Quanda  
Mr. Shiu Kit  
Mr. Dong Renhan

## Independent Non-executive Directors

Ms. Wong Wai Ling  
Mr. Ni Tongmu  
Mr. Shu Mingding

## Audit Committee

Ms. Wong Wai Ling (*Chairman*)  
Mr. Ni Tongmu  
Mr. Shu Mingding

## Remuneration Committee

Mr. Yang Senmao (*Chairman*)  
Ms. Wong Wai Ling  
Mr. Ni Tongmu  
Mr. Shu Mingding

## Qualified Accountant and Company Secretary

Mr. Cheng Koon Kau Alfred

## Authorised Representatives

Mr. Yang Senmao  
Mr. Cheng Koon Kau Alfred

## Principal Bankers

*Hong Kong:*  
Oversea-Chinese Banking Corporation Limited  
Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited  
DBS Bank (Hong Kong) Limited

*In the Peoples' Republic of China ("the PRC") :*  
Bank of China Limited  
Agricultural Bank of China  
The Credit Cooperatives Union of the Xinbei District,  
Changzhou Sanjing Credit Cooperative

## Registered Office

Clifton House  
75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

## Principal place of business in Hong Kong

Room G, 50th Floor, Office Tower 1  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

## Company website

[www.galaxycn.com](http://www.galaxycn.com)

## Legal adviser

Loong & Yeung  
Suites 2201-2203  
22nd Floor, Jardine House  
1 Connaught Place, Central  
Hong Kong

## Company Information

### Auditors

KPMG  
 Certified Public Accountants, Hong Kong  
 8th Floor, Prince's Building  
 10 Chater Road, Central  
 Hong Kong

### Principal share registrar and transfer office in the Cayman Islands

Appleby Corporate Services (Cayman) Limited  
 Clifton House  
 75 Fort Street  
 P. O. Box 1350  
 Grand Cayman KY1-1108  
 Cayman Islands

### Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited  
 26th Floor, Tesbury Centre  
 28 Queen's Road East  
 Wanchai  
 Hong Kong

### Dates of temporary suspension of registration of shareholders

The transfer books and register of members of the Company will be closed from 27 May 2008 (Tuesday) to 30 May 2008 (Friday) (both dates inclusive). During such period, no share transfers will be effected. The board of directors ("Directors") ("Board") has resolved not to recommend the payment of final dividends for the year ended 31 December 2007.

In order to be eligible to attend and vote at the Annual General Meeting to be held on 30 May 2008 (Friday), all share transfer together with the shares and transfer forms must reach the share registrar and transfer office, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 26 May 2008 (Monday) before 4 p.m..

### Annual General Meeting

The 2007 Annual General Meeting will be held on 30 May 2008. The Notice for the 2007 Annual General Meeting has been included in a circular distributed to the Shareholders together with this Report.

## Corporate Profile

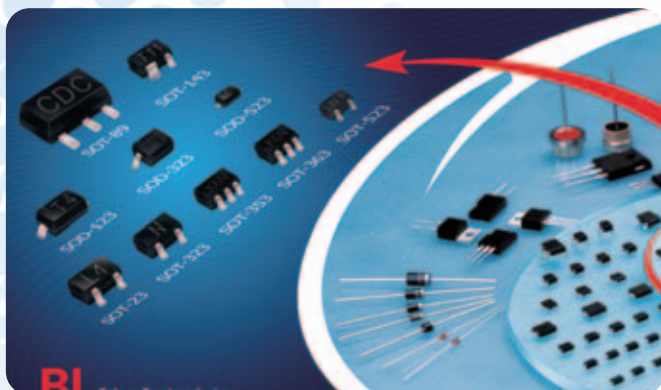
Galaxy Semi-Conductor Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is a leading diodes manufacturer and the largest rectifier manufacturer in the PRC and its operations are mainly conducted through its six PRC subsidiaries, namely Changzhou Galaxy Electrical Co., Ltd. (“Galaxy Electrical”), Changzhou Galaxy Semiconductor Co., Ltd. (“Galaxy Semiconductor”), Changzhou Galaxy Technology Developing Co., Ltd. (“Galaxy Technology”), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. (“Galaxy Hi-New”), Changzhou Galaxy Century Micro-Electronics Co., Ltd. (“Galaxy Micro-Electronics”) and Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. (“Galaxy Huanyu”).

The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu are design, development, manufacturing and sale of different types of diodes. The principal operations of Galaxy Micro-Electronics are design, development, manufacturing and sale of micro surface mount plastic-packaged components (including diodes and transistor) (“micro components”). Galaxy Semiconductor and Galaxy Technology are principally engaged in design, development, manufacturing and sale of diode wafers, which are mainly used by the Group for production of diodes.

For the year ended 31 December 2007, the Group manufactured a total of 6.5 billion pieces of different types of diodes, representing an increase of 14.04% compared to previous year. The diodes included 370 million pieces of surface mount device packaged diode, representing an increase of 51.86% compared to previous year, and 160 million pieces of micro components.

In July 2007, the Group acquired a parcel of land of 33,350 square metres and its ancillary buildings located in Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC, for production purposes. Galaxy Huanyu has launched a trial run of its first production line of plastic-packaged diodes in this new production base of the Group.

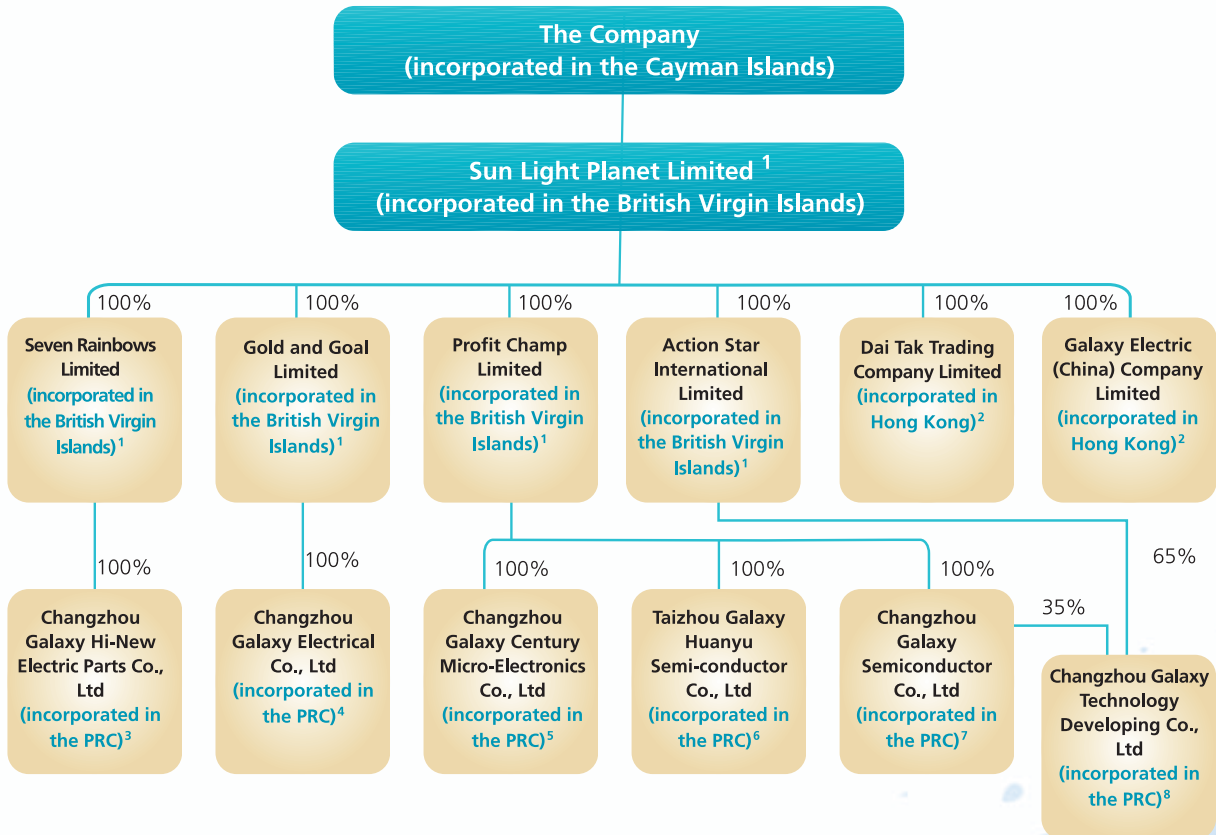
On 28 December 2007, Galaxy Semiconductor, a wholly-owned subsidiary of the Company, entered into an agreement with each of Changzhou Fulling Electronics Company Limited (“Fulling Electronics”), Changzhou Qiaohong Electronics Company Limited (“Changzhou Qiaohong”) and Shenzhen Yue Chang Industrial Company Limited (“Shenzhen Yuechang”) for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, respectively. Upon the issue of the approval certificate by the governmental bureau, all the relevant rights and obligations in Galaxy Technology should be deemed to be transferred to Galaxy Semiconductor from 30 November 2007. The transaction had been completed as at the date of this report. Pursuant to the acquisition, Galaxy Technology became a sino-foreign equity joint venture enterprise, with Action Star International Limited, a company incorporated in the British Virgin Islands, and Galaxy Semiconductor, a wholly foreign owned enterprise established in the PRC, holding 65% and 35% of its equity interest, respectively.



Through the Group’s leading position in the diode market in the PRC, its broad customer base in the PRC and the escalating demand of overseas customers, the continuous development of new products including micro components and the expansion of production capacities of different types of diodes, the Company is confident that the Group will maintain rapid growth momentum and bring better returns for shareholders.

# Corporate Structure

As at the date of this Report, the structure of the Group was depicted as follows:



## Corporate Structure

*Notes:*

1. These companies are investment holding companies.
2. These companies did not have any substantial businesses as at the date of this Report.
3. Galaxy Hi-New engages in the production and sales of plastic-packaged diode. Meanwhile, Galaxy Hi-New makes use of its available land use rights and buildings for the testing and packaging of diodes of Galaxy Electrical.
4. Galaxy Electrical is principally engaged in the design, development, production and sales of diodes.
5. Galaxy Micro-Electronics is principally engaged in the production of micro components.
6. Galaxy Huanyu was incorporated on 6 December 2007. It possesses land use rights and buildings and is principally engaged in the production of plastic-packaged diode.
7. Galaxy Semiconductor is principally engaged in the design, development, production and sales of 3 inch wafers which are mainly for use by Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu.
8. Galaxy Technology is principally engaged in the design, development, production and sales of 4 inch wafers which are mainly for use by Galaxy Electrical and Galaxy Micro-Electronics.

## Chairman's Statement

To the Shareholders:

On behalf of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I hereby present the operating results and the Annual Report of the Company for the year ended 31 December 2007.

For the year ended 31 December 2007, turnover of the Group was RMB384,278,000, representing an increase of 14.18% compared to 2006. Profit attributable to equity holders of the Company was RMB36,831,000, representing an increase of 21.95% compared to the profit attributable to equity holders for 2006 which amounted to approximately RMB30,202,000. Earnings per share for the year was RMB0.092.

During the year under review, with an aim to further expand the Group's production capacity and increase its general working capital, the Company entered into a facility agreement in March 2007 with a syndicate of banks and financial institutions to obtain facilities of HK\$120,000,000 (a term loan facility of HK\$60,000,000 and a revolving loan facility of HK\$60,000,000). Such loans have been utilized gradually in the expansion of the Group's production capacity and operations. Galaxy Micro-Electronics established by the Company in October 2006 commenced

production in July 2007 and reached a monthly production capacity of 60 million pieces of micro components at the end of the year. Furthermore, Profit Champ Limited, an indirect wholly owned subsidiary of the Company, established Galaxy Huanyu at the Taizhou City Gaogang Science & Technology Park, Jiangsu Province in 2007 and trial run of its first plastic-packaged diode production line had been launched. It is anticipated that the production line will make significant contribution to the business of the Group in 2008 and thereafter.

To ensure an integrated group structure and prepare for the future strategy of the Group, on 28 December 2007, Galaxy Semiconductor, a wholly-owned subsidiary of the Company, entered into an agreement with each of Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, respectively. Pursuant to the acquisition, Galaxy Technology became a sino-foreign equity joint venture enterprise, with Action Star International Limited, a company incorporated in the British Virgin Islands, and Galaxy Semiconductor, a wholly foreign owned enterprise established in the PRC, holding its 65% and 35% equity interest, respectively.



## Chairman's Statement



The Group anticipates that there will be an increase in the purchase of PRC components by foreign entities and the pace of upgrading electronic information products in the PRC will accelerate in 2008, which will bring more opportunities for the diode market. However, the fluctuation in the exchange rate of Renminbi, increasing costs in raw materials and labour and the stringent monetary policy adopted by the PRC will result in more intense competition in the diode market. In view of this,

the Group will further speed up its development of new products, particularly the surface mount components, continue to expand domestic and overseas markets and enhance its standard of corporate governance in 2008 so that the strengths of an integrated industry chain will be better demonstrated. We will also strive to achieve sustained and sound development of the Group and bring more impressive returns for our shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders and business partners for their confidence in and support rendered to the Group and to the management and all staff for their continuous efforts and contributions during the past year.

**Yang Senmao**

*Chairman*

Hong Kong, 23 April 2008

# Business Review and Prospects

## Business Review

In 2007, the Group's business grew steadily. For the year ended 31 December 2007, the Group's turnover amounted to approximately RMB384,280,000, representing an increase of approximately 14.18% compared with the turnover of the previous year that amounted to approximately RMB336,560,000. Gross profit was approximately RMB79,830,000, representing an increase of 8.75% over the gross profit for the previous year which amounted to approximately RMB73,410,000. Gross profit margin was 20.77%, which approximated to that of the previous year (2006: approximately 21.81%).

Profit attributable to equity holders for the year ended 31 December 2007 was approximately RMB36,830,000, representing an increase of 21.95% compared to the profit of approximately RMB30,200,000 for the previous year, which would have been approximately RMB39,890,000, if excluding the impact of the one-off listing expenses of approximately RMB9,690,000 incurred for the listing of the Company in June 2006 which had been charged to the profit and loss account for the year ended 31 December 2006.

The Group has been continuously expanding local and overseas markets. For the year ended 31 December 2007, the Group has gained a total of 114 new domestic and overseas customers that the total number of customers increased to 1,480. The Group also continued to expand its sales network in major cities of the PRC. In 2007, the Group's biggest market in terms of geographical business revenue remained to be the PRC (which accounted for 86.91% of the total turnover).

The Group made great efforts on restructuring its product mix and focused on development and manufacturing of micro surface mount components to cope with the rising demand of customers and improve the throughput efficiency. Galaxy Micro-Electronics, a wholly-owned subsidiary of the Company, incorporated in October 2006, commenced production in July 2007. During the year, 160 million pieces of micro surface mount components were manufactured with sales of approximately RMB6,950,000 and monthly production capacity of 60 million pieces were achieved. After expansion and reconstruction, the surface mount device packaged diode production line of Galaxy Electrical reached a monthly production capacity of 50 million pieces and 370 million pieces were manufactured during the year, representing an increase of 51.86% compared to the previous year.

To further increase the production scale and market share of the Group, a plastic-packaged diode production base was relocated during the year. In July 2007, the Group acquired a parcel of land of 33,350 square metres and its ancillary buildings located in Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC, for production purposes. Galaxy Huanyu has launched a trial run of its first production line of plastic-packaged diodes in this new production base of the Group. It is anticipated that the production line will contribute to the business of the Group in 2008.

To further enhance the Group's corporate governance standard, Galaxy Electrical passed the ISO/TS16949 Quality System Certification of SGS during the year ended 31 December 2007, marking a new progress from the ISO9001 and QS9000 quality control systems adopted previously. The Group also facilitated the development and application of ERP and office automation (OA) software actively which improved the efficiency of the Group's information management and office duties.

## Prospects

The Directors believe that the Group has laid a sound foundation for its business development and is of rich experience in business management after years of rapid growth. The Group is prudent and optimistic about the development of the global market for electronic information products in 2008 and believes that the PRC market maintains steady growth. However, the market is vulnerable to many factors and the Group anticipates that business development in 2008 and in the future is full of opportunities and challenges.

In order to grasp business opportunities and cope with challenges, the Group continues to strengthen its competitiveness and improve the overall operating efficiency and profitability by implementing the following measures:

- to refine the development strategies for different types of products among which micro surface mount component will be mainly developed, to fully utilize and allocate various resources and to speed up product diversification and sales of micro components, thereby enhancing the Group's product profile, restructuring its product mix and improving the throughput efficiency.
- to further increase the capital expenditure in Galaxy Micro-Electronics in order to achieve a monthly capacity of over 150 million pieces, meanwhile to perfect the planning and construction for a parcel of land with an area of 40,049 square metres and to expand the market actively, so as to speed up the production capacity expansion of the new products for micro surface mount components.
- to fully utilize the existing production capacity of the Changzhou production base, to accelerate the production capacity expansion of Taizhou production base and to reasonably adjust the production layout step by step in order to satisfy the increasing demand of different customers for our products.
- to focus on technological reforms and process advancement, to further strengthen the operating strategy of vertical integration of the Company, to fully utilize the chip development and production ability of Galaxy Semiconductor and Galaxy Technology and to implement internal cost accountability for the purpose of overall product quality improvement and control of production cost and management expenses.
- to appreciate talents by improving the Company's policy on seeking and managing human resources and establishing a sound remuneration and performance assessment system, so as to bring in high-calibre personnel and reinforce internal cohesion, thereby enhancing the Company's sustainable development momentum and its overall competitiveness.

## Management Discussion and Analysis on Financial Conditions and Operating Results

The Group's production base is mainly located at Changzhou, Jiangsu, the PRC. Its major operating subsidiaries include Galaxy Electrical, Galaxy Semiconductor, Galaxy Technology, Galaxy Micro-Electronics, Galaxy Hi-New and Galaxy Huanyu.

Operating results for the year ended 31 December 2007 were as follows:

	Year ended 31 December		Increase/ (Decrease)	% of Change
	2007	2006		
	RMB'000	RMB'000	RMB'000	%
Turnover	<b>384,278</b>	336,562	47,716	14.18
Gross profit	<b>79,828</b>	73,408	6,420	8.75
Operating profit	<b>49,751</b>	37,516	12,235	32.61
Listing expenses	–	9,690	(9,690)	(100.00)
Profit before taxation	<b>41,074</b>	34,622	6,452	18.64
Profit for the year	<b>35,630</b>	29,055	6,575	22.63
Items attributable to:				
Equity holders of the Company (Note)	<b>36,831</b>	30,202	6,629	21.95
Minority interests	<b>1,201</b>	1,147	54	4.71

Note: For illustration purposes, profit attributable to equity holders of the Company was approximately RMB39,890,000 for the year ended 31 December 2006, excluding one-off listing expenses which have been charged to the income statement.

	Note	Year ended 31 December	
		2007	2006
Net cash (RMB'000)	1	<b>(112,797)</b>	(31,955)
Net assets (RMB'000)	2	<b>247,706</b>	221,813
Liquidity ratio	3	<b>151.09%</b>	164.17%
Inventory turnover (number of days)	4	<b>152 days</b>	128 days
Accounts receivable turnover (number of days)	5	<b>130 days</b>	119 days
Accounts payable turnover (number of days)	6	<b>108 days</b>	106 days
Earning interest multiple	7	<b>5.73 times</b>	12.96 times
Net debt to capital ratio	8	<b>83.51%</b>	52.25%

Note:

- Cash at bank and cash in hand – bank loans
- Total Assets – Total Liabilities
- Current Assets/Current Liabilities x 100%
- Inventories/Cost of Sales x 365 days
- Accounts Receivable and Bills Receivable/Turnover x 365 days
- Accounts Payable and Bills Payable/Cost of Sales x 365 days
- Profit before interest and tax/net interest expense
- Net liabilities/Capital x 100%

## Turnover

Turnover for the year ended 31 December 2007 was approximately RMB384,280,000. It represented a growth of approximately 14.18% when compared with the turnover of approximately RMB336,560,000 of the previous year.

Analysis of the Group's turnover by geographical region and product type is set out below:

### Turnover by geographical region

	Year ended 31 December		2006	Increase/ (Decrease) %	Change in percentage	
	2007					
	<i>RMB'million</i>	%	<i>RMB'million</i>	%	%	
China (Note 1)	<b>333.99</b>	<b>86.91</b>	287.20	85.33	46.79	16.29
Hong Kong and Korea	<b>23.20</b>	<b>6.04</b>	27.47	8.16	(4.27)	(15.54)
Other countries and regions (Note 2)	<b>27.09</b>	<b>7.05</b>	21.89	6.51	5.20	23.76
Total	<b>384.28</b>	<b>100.00</b>	336.56	100.00	47.72	14.18

Note:

1. The PRC is the major market for the Group's products. The Group leverages on the advantages of its own brand-name and product quality. As at 31 December 2007, the Group had over 1,300 customers in the PRC.
2. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. Sales in these countries and regions continued to grow due to the Group's efforts in exploring other overseas markets through commercial advertisements and participations in exhibitions.

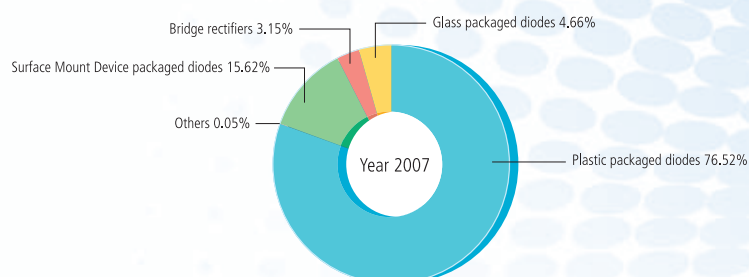
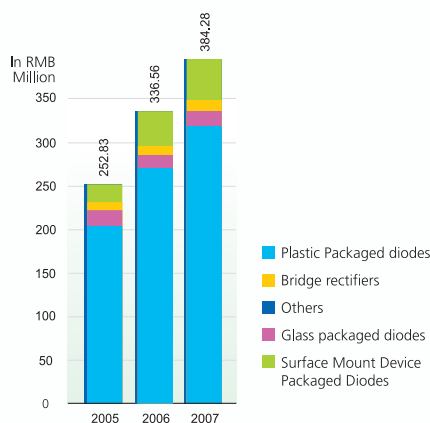
## Management Discussion and Analysis on Financial Conditions and Operating Results

### Turnover by product type

	Year ended 31 December		2006	2006	Increase/ (Decrease)	Change in percentage
	2007	2007				
	RMB'million	%	RMB'million	%	RMB'million	%
Plastic packaged diodes (Note 1)	<b>294.05</b>	<b>76.52</b>	270.95	80.51	23.10	8.53
Glass packaged diodes (Note 2)	<b>17.92</b>	<b>4.66</b>	14.97	4.45	2.95	19.71
Bridge rectifiers (Note 3)	<b>12.10</b>	<b>3.15</b>	10.45	3.10	1.65	15.79
Surface mount device packaged diodes (Note 4)	<b>60.01</b>	<b>15.62</b>	40.05	11.90	19.96	49.84
Others (Note 5)	<b>0.20</b>	<b>0.05</b>	0.14	0.04	0.06	42.86
<b>Total</b>	<b>384.28</b>	<b>100.00</b>	336.56	100.00	47.72	14.18

Note:

- Plastic packaged diodes are the Group's major products. For the year ended 31 December 2007, in order to satisfy the increasing demands of the Group's customers, the Group continued to expand its production capacity, adjust its product mix and increase its product range. As a result, sales of plastic packaged diodes grew more than 8.53% while its proportion to total sales declined.
- Both the sales of glass packaged diodes and its proportion to total sales for the year ended 31 December 2007 increased compared with that for the year ended 31 December 2006.
- With the expansion in the production of bridge rectifiers to meet the requirements of customers, both the sales and its proportion in total sales increased.
- Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the expansion of its customer base and the commencement of operation of Galaxy Micro-Electronics in 2007, the Group's sales of such products showed a rapid growth.
- This refers to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.



## Cost of sales

Cost of sales mainly includes raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2007 represented 79.23% of the turnover, which has not changed significantly when compared with approximately 78.19% for the year ended 31 December 2006.

## Gross profit

The Group's gross profit margin for the year ended 31 December 2007 was approximately 20.77%, which has not changed significantly when compared with 21.81% for the year ended 31 December 2006.

## Other operating income

Other operating income mainly comprised of income generated by the sale of scrap material and sub-products (2007: approximately RMB3,710,000; 2006: approximately RMB3,110,000), interest income from bank deposits (2007: approximately RMB530,000; 2006: approximately RMB570,000), dividend received from available-for-sale investment (2007: approximately RMB590,000; 2006: approximately RMB380,000), proceeds from government subsidy (2007: approximately RMB810,000; 2006: approximately RMB210,000) and income recognized on write back of trade and other payables (2007: approximately RMB1,130,000; 2006: approximately RMB1,990,000). The increase in other operating income is mainly attributable to the fact that the decrease in write back of trade and other payables is offset by the increase in sales of scrap material and sub-products and proceeds from government subsidy.

On the other hand, the Group's turnover increased by 14.18% as compared with the previous year and the sale of scrap material and sub-products increased accordingly as a result of the increase in production volume.

## Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities (2007: approximately RMB3,900,000; 2006: approximately RMB3,640,000), wages and salaries of sales personnel (2007: approximately RMB2,430,000; 2006: approximately RMB1,260,000) and transportation costs (2007: approximately RMB1,800,000; 2006: approximately RMB1,350,000).

Distribution costs for the year ended 31 December 2007 represented approximately 2.46% of the total turnover, showing an increase when compared with 2.25% for the year ended 31 December 2006, mainly due to expansion of the sales of new products by the Group.

## Management Discussion and Analysis on Financial Conditions and Operating Results

### Administration expenses

Administration expenses mainly included wages, salaries and welfare expenses, provisions for bad debt, depreciation expenses of office equipment and entertainment expenses.

Administration expenses for the year ended 31 December 2007 amounted to RMB27,900,000, showing a slight increase when compared with RMB27,100,000 for the year ended 31 December 2006.

The items of increase in administrative expenses are as follows: Salaries and benefits of management staff increased by approximately RMB2,730,000 (2007: approximately RMB13,540,000; 2006: approximately RMB10,810,000). The number of management staff and the amount of salaries and benefits increased as a result of our efforts to strengthen corporate governance. With the growth in turnover, the Group's entertainment expenses increased by approximately RMB380,000 (2007: approximately RMB2,460,000; 2006: approximately RMB2,080,000). Also, legal and other professional expenses increased by RMB630,000. Due to the Group's expansion, other administrative expenses increased correspondingly by RMB1,350,000. However, the increase in the above expenses are offset by the decrease in the following expenses: The exchange gain increased by RMB3,760,000 (2007: approximately RMB3,600,000; 2006: approximately RMB(160,000)). In the year, the substantial increase in the exchange gain of the Group was mainly attributable to the increase in foreign currency-denominated borrowings as a result of the appreciation of the Renminbi after currency revaluation at year end. The audit fee decreased by approximately RMB300,000 (2007: approximately RMB900,000; 2006: approximately RMB1,200,000). With the improvement of credit procedure, the provision of bad debt written off also decreased correspondingly by RMB2,540,000 (2007: approximately RMB(510,000); 2006: approximately RMB2,030,000).

### Listing expenses

Since listing expenses were one-off expenses in 2006, no such expenses were incurred in 2007.

### Finance costs

Finance costs refer to interest expenses for bank loans obtained by the Group.

Interest expenses for the year ended 31 December 2007 were approximately RMB8,680,000 while those for the year ended 31 December 2006 were approximately RMB2,890,000. The increase in finance costs was due to the increase in average bank loans for financing operations for the year ended 31 December 2007 compared with that for the year ended 31 December 2006.

### Taxation

The effective tax rate decreased from approximately 16.08% for the year ended 31 December 2006 to approximately 13.25% for the year ended 31 December 2007. The decrease in effective tax rate was mainly due to the one-off listing expenses for the year ended 31 December 2006 of approximately RMB9,690,000 which was not allowed to be set off for tax purposes.

### Net profit for the year

Net profit margin increased from 8.97% for the year ended 31 December 2006 to 9.58% for the year ended 31 December 2007.



## Net current assets

The net current assets of the Group as at 31 December 2007 amounted to approximately RMB113,300,000 which approximated to that of the previous year (31 December 2006: approximately RMB110,850,000).

## Liquidity and Financing

With the net proceeds from the Listing of approximately HK\$70,000,000 and the total syndicated loan of HK\$120,000,000 obtained in 2007, the balances of deposits at banks as at 31 December 2007 and 31 December 2006 amounted to approximately RMB45,090,000 and approximately RMB33,050,000, respectively.

As at 31 December 2007, the total amount of borrowings by the Group was approximately RMB155,370,000, representing an increase of approximately RMB90,370,000 compared with the balance outstanding as at 31 December 2006. RMB116,040,000 of the above borrowings was short term bank loan due within one year and RMB39,330,000 thereof was long term bank loan due after one year.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio increased to approximately 51.57% as at 31 December 2007 from approximately 43.81% as at 31 December 2006. That ratio was computed by dividing the Group's total liabilities by total assets.

As at 31 December 2007, all of the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 90% of the Group's income was denominated in Renminbi and the remaining approximately 10% was denominated in Hong Kong dollars and US dollars. The borrowings of the Group are fixed-rate and floating-rate loans, which amounted to RMB43,000,000 and RMB112,370,000 respectively.

On 7 March 2007, the Company has entered into an agreement (the "Facility Agreement") with a syndicate of banks and financial institution. As such, the Company has successfully taken out syndicated bank loans totaling HK\$120,000,000 (a term loan facility of up to HK\$60,000,000 and a revolving loan facility of up to HK\$60,000,000). The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. The Facility Agreement imposes obligations on the Company to ensure that (i) Mr. Yang Senmao and Mr. Xu Xiaoping jointly shall, directly or indirectly, own not less than 40% of all issued voting shares of the Company; and (ii) Mr. Yang Senmao shall remain as the Chairman and Managing Director of the Company and shall maintain management control of the Company. Due to the appreciation of Renminbi, the Board considered that the syndicated bank loans in Hong Kong currency would be favourable to the Group.

The Group had not exposed to any currency hedging facility for the year ended 31 December 2007 and up to the date of this report as the Board considered that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuation.

The Group's overall financial and funding policies were aimed to control foreign exchange fluctuations and interest rate fluctuations in individual transactions.

## Acquisition and Disposal

On 28 December 2007, the Group entered into an agreement with each of Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, respectively. Upon the issue of the approval certificate by the governmental bureau, all the relevant rights and obligations in Galaxy Technology shall be deemed to be transferred to Galaxy Semiconductor from 30 November 2007. The transaction had been completed as at the date of this Report. Pursuant to the acquisition, Galaxy Technology became a wholly-owned subsidiary of the Company.

## Management Discussion and Analysis on Financial Conditions and Operating Results

### Pledge of Assets

As at 31 December 2007, the Group had pledged assets comprising land and buildings with net book values of approximately RMB27,049,000 (31 December 2006: approximately RMB19,226,000), as security for the bank loans obtained by the Group.

### Contingent liabilities

For the years ended 31 December 2007 and 31 December 2006, the Group had no material contingent liabilities.

### Employees

As at 31 December 2007, the Group had approximately 2,500 full-time employees (31 December 2006: 2,400 employees) in Hong Kong and the PRC, including 2,100 employees (31 December 2006: 2,000 employees) provided by employment agents, responsible for management, administration and production. In 2007, the relevant employee costs (including Directors' remuneration) were approximately RMB47,940,000 (2006: approximately RMB37,460,000). The Group ensured that the remuneration of employees was attractive and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

### Application of Proceeds from the Listing

Shares of the Company were listed on the Stock Exchange on 9 June 2006. The net amount of proceeds from the issue of shares after deducting listing expenses amounted to approximately HK\$70,000,000.

As at 31 December 2007, the Group had applied all of the proceeds of the Listing in line with the proposed use as detailed in the prospectus of the Company dated 29 May 2006.

# Biographies of Directors and Senior Management

## Directors

The Board comprises of 9 Directors, among whom three are executive Directors, three are non-executive Directors and the remaining three are independent non-executive Directors.

## Executive Directors

**Mr. Yang Senmao**, aged 44, is the chairman and the executive Director of the Company. Mr. Yang is the general manager of Galaxy Semiconductor, Galaxy Technology, Galaxy Hi-New, Galaxy Micro-Electronics and Galaxy Huanyu. Mr. Yang is also a director of all of the subsidiaries of the Company. Mr. Yang has been responsible for the Group's overall daily operations, strategic planning, business development and sales and marketing activities. He graduated from 江蘇信息職業技術學院 (Jiangsu Information Vocational and Technological Institute) in July 1981, majoring in semiconductor device. After then he joined 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory), the predecessor of 常州市銀河電子實業公司 (Changzhou Galaxy Electrical Industrial Company), and was responsible for overseeing production of diodes and triodes research and development of new products. Mr. Yang joined the Group in 1994 as general manager of Galaxy Electrical and was responsible for the overall daily operations of the Group. He has over 20 years of experience in the semiconductor discrete device industry. Mr. Yang is a director of Rapid Jump Limited and Color Vision Limited and a beneficial owner of 60% and 100% of the issued shares in the above companies respectively. Color Vision Limited is a substantial shareholder of Kalo Hugh Limited holding 89.1% interest in Kalo Hugh Limited as at the date of this report. Both Rapid Jump Limited and Kalo Hugh Limited are substantial shareholders of the Company, respectively holding 38.25% and 22.9% interest in the Company as at the date of this report.

**Mr. Yue Lian**, aged 44, is an executive Director and the chief executive officer of the Company and the general manager of Galaxy Electrical. Mr. Yue is responsible for the daily operations of the Group and reports to the chairman of the Company. He obtained a bachelor degree from the 南京工學院 (Nanjing Engineering Institute) in 1985, majoring in 無線電專用機械設備 (Radio Special Mechanic Equipment). He obtained a post-graduate certificate in business administration from 清華大學研究生院·清華大學繼續教育學院 (Graduate Institute and School of Continuing Education of Tsing Hua University) in September 2001. Prior to joining the Group in October 2004, Mr. Yue was the deputy general manager and the acting general manager of a company engaged in the business of manufacturing of micro-motors and the deputy general manager of 常州機電國有資產經營有限公司 (Changzhou Electrical and Mechanical State-owned Assets Operation Co., Ltd.). Mr. Yue has 17 years of experience in corporate management for an enterprise in the electronics field. In 2001, Mr. Yue was appraised by 江蘇省常州市工程技術高級專業技術資格評審委員會 (Jiangsu Changzhou Engineering Technology Senior Professional Technical Qualification Appraisal Committee) and was accredited the qualification of senior engineer. Mr. Yue is a director of and a beneficial owner of 10.9% of the issued shares in Kalo Hugh Limited, a substantial shareholder of the Company, holding 22.9% interest in the Company as at the date of this report.

**Mr. Xu Xiaoping**, aged 41, is an executive Director of the Company and the deputy sales general manager of Galaxy Electrical. He is also a director of all of the subsidiaries of the Company except Seven Rainbows Limited. Mr. Xu is responsible for the sales and marketing activities of the Group. Prior to joining the Group in September 2000, Mr. Xu has served as the vice supervisor and department head of the operation liaison office of 中國常州市電子工業局 (the Electronic Bureau of Changzhou City, the PRC). Mr. Xu graduated from 淮陰電子工業學校 (Electronics Industrial School of Huai Yin) in July 1988, majoring in electronic component profession and subsequently joined 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory). Mr. Xu has over 16 years of experience in the electronics field. Mr. Xu is a director of and a beneficial owner of 18% of the issued shares in, Rapid Jump Limited, a substantial shareholder of the Company, holding 38.25% interest in the Company as at the date of this report.

## Biographies of Directors and Senior Management

### Non-executive Directors

**Mr. Meng Quanda**, aged 66, is a non-executive Director of the Company. Mr. Meng has been a director of Galaxy Electrical since June 1994. Mr. Meng is a director of Galaxy Electric (China) Co., Ltd. and Dai Tak Trading Company Limited. Prior to joining the Group in May 1994, Mr. Meng held a number of managerial positions in three PRC state-owned semiconductor factories, serving as the general manager, deputy factory head and factory head respectively. Mr. Meng has about 34 years of experience in corporate management. Mr. Meng is a director of and a beneficial owner of 22% of the issued shares in, Rapid Jump Limited, a substantial shareholder of the Company, holding 38.25% interest in the Company as at the date of this report.

**Mr. Shiu Kit**, aged 58, is a non-executive Director of the Company. Mr. Shiu is the founder of Galaxy Electrical and remains as its director since its establishment. He joined the Group in May 1994 when he jointly established Galaxy Electrical with 常州市銀河子實業公司 (Changzhou Galaxy Electrical Industrial Company) and had been the chairman of Galaxy Electrical from May 1994 to April 2003. Mr. Shiu has over 20 years of experience in investment and corporate management.

**Mr. Dong Renhan**, aged 67, is a non-executive Director of the Company. He is also a director of Galaxy Electrical. Prior to joining the Group in May 1994, Mr. Dong had served various posts in 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory) such as deputy division head, division head and deputy factory head. Mr. Dong is currently a general manager of an electronic company in the PRC. He has over 31 years of experience in corporate management for electronic companies.

### Independent non-executive Directors

**Ms. Wong Wai Ling**, aged 46, is an independent non-executive Director of the Company. Ms. Wong obtained a Bachelor of Arts degree from the University of Hong Kong and a diploma in Accounting and Finance from the London School of Economics and Political Science, the United Kingdom. Ms. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She has 16 years of extensive experience in accounting, taxation and auditing. She had worked for more than seven years in international accounting firms and local accounting firms before she set up her own accounting firm W.L. Wong & Co. in Hong Kong in 1994. Since then, she has been practising as a Certified Public Accountant. Ms. Wong was appointed as an independent non-executive Director on 16 May 2006. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies, Overseas Chinese Town (Asia) Holdings Limited and CATIC Shenzhen Holdings Limited.

**Mr. Ni Tongmu**, aged 41, is an independent non-executive Director. Mr. Ni is a partner of 江蘇天豪律師事務所 (Jiangsu Top Hope Law Firm) in the PRC. Mr. Ni graduated in 1990 from 蘇州大學 (Suzhou University), majoring in Education in English and obtained a second degree and master degree both majoring in Laws at 復旦大學 (Fudan University) and Suzhou University respectively in 1992 and 2004. Mr. Ni is a qualified lawyer in the PRC. He was awarded the title of “江蘇知名律師” (the famous lawyer in Jiangsu), the PRC by 江蘇省律師協會 (the Jiangsu Bar Association, China) in 2002. Mr. Ni was appointed as an independent non-executive Director on 16 May 2006.

**Mr. Shu Mingding**, aged 61, is an independent non-executive Director. Mr. Shu is the deputy general manager of 康惠 (惠州) 半導體有限公司 (Conhui (Huizhou) Semiconductor Co., Ltd.), a subsidiary of 航天科技國際集團有限公司 (China Aerospace International Holdings Limited), a company whose shares are listed on the Stock Exchange (Stock Code: 31). Mr. Shu obtained his Bachelor of Wireless Electricity and Electronics degree from 清華大學 (Tsinghua University) in 1970. Mr. Shu has in depth knowledge and experience in the semiconductor field and has served as a professional lecturer in semiconductor in Tsinghua University. Mr. Shu was appointed an independent non-executive Director on 16 May 2006.

# Biographies of Directors and Senior Management

## Senior Management

**Mr. Cheng Koon Kau Alfred**, aged 33, is the authorised representative, qualified accountant and company secretary of the Company, and has over 10 years of experience in the fields of auditing and accounting. Mr. Cheng joined the Group on 22 January 2008. He is a full time financial controller. He graduated from the Hong Kong University of Science and Technology with bachelor of Business Administration (Financial Accounting) degree in 1997. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He is responsible for the financial strategy, accounting and financial reporting of the Group. Prior to joining the Group, he had served in an international accounting firm and a number of multi-national corporations.

**Mr. Wang Yueyun**, aged 62, is the deputy general manager of Galaxy Technology. Mr. Wang is responsible for the technical and technological management, research and development of new products for Galaxy Technology. He graduated from 北京理工大學 (Beijing Institute of Technology) in 1970. Prior to joining Galaxy Technology in September 2003, Mr. Wang worked in several micro-electronic enterprises in the PRC. He has 36 years of experience in the design, development and technological management of semiconductor. In 1985, 高速、超高速雙極型數字集成電路 (the fast and ultrafast diode type digital integrated circuit) developed by Mr. Wang was awarded first prize of 科技進步一等獎 (first prize of technological improvement) in the PRC.

**Mr. Hu Qi**, aged 48, is the deputy general manager of Galaxy Semiconductor. He obtained a Bachelor degree in Semiconductor from the Physics department of 復旦大學 (Fudan University) in 1982. Mr. Hu joined the Group in October 2000, mainly responsible for the development of process technology of Galaxy Semiconductor and research and development of new products. Mr. Hu has over 24 years of experience in the semiconductor industry.

**Mr. Jin Yinlong**, aged 50, is the deputy general manager of Galaxy Micro-Electronics. He graduated from 江蘇信息職業技術學院 (Jiangsu College of Information Technology) in October 1978, majoring in semi-conductor components. He has worked as the factory head of 江蘇揚州邗江晶體管廠 (Jiangsu Yangzhou Hanjiang Transistor Factory) and the chief operation officer of 揚州晶來半導體集團 (Yangzhou Jinglai Semiconductor Group). Mr. Jin has over 28 years of experience in the semi-conductor industry. Mr. Jin joined the Group in May 2007.

**Mr. Zhang Xianli**, aged 45, is the deputy general manager of Galaxy Huanyu. He graduated from 江蘇信息職業技術學院 (Jiangsu College of Information Technology) in July 1981, majoring in semi-conductor components. Mr. Zhang had worked as an assistant technical supervisor in the workshop of 南京半導體特種器件廠 (Nanjing Semiconductor Special Parts Factory) and the general manager of 南京三株路德醫療器械有限責任公司 (Nanjing Sanzhu Lude Medical Equipment Limited Liability Company) and has over 25 years of experience in the semi-conductor industry. Mr. Zhang joined the Group in January 2007.

**Ms. Guan Xufeng**, aged 49, is the deputy finance general manager of Galaxy Electrical. Ms. Guan joined the Group in September 1995 and has over 18 years experience in accounting and financial management.

**Mr. Liu Jun**, aged 36, is the deputy production general manager of Galaxy Electrical. He obtained a Bachelor degree in 管理信息系統 (Information Management System) from Huazhong University of Science and Technology in 1993. Mr. Liu joined the Group in July 1997 and has over 14 years of experience in the diode manufacturing business.

## Biographies of Directors and Senior Management

**Mr. Li Enlin**, aged 45, is the deputy general manager of administration of Galaxy Electrical. He obtained a Bachelor degree in Engineering from 武漢工學院 (Wuhan Polytechnic University) in July 1983 and obtained a Master degree in Business Administration from Nanjing University in December 2003. Mr. Li was granted the qualification of practising as a senior economist in May 1995. He had served as a chief officer in a state wholly-owned enterprise and a deputy general manager in a state owned holding company for years and has over 23 years of experience in the management of large enterprises. Mr. Li joined the Group in July 2007.

**Ms. Zhu Weiyang**, aged 41, is the assistant to the general manager of Galaxy Electrical. Ms. Zhu obtained a Bachelor degree in Semiconductor Physics from the Physics department of 南京大學 (Nanjing University) in 1989, since then, she has been working in the semiconductor manufacturing industry. She joined the Group in March 2002 and has over 17 years of experience in the semiconductor industry.

### Company secretary and qualified accountant

**Mr. Cheng Koon Kau Alfred**, is the full-time financial controller, authorised representative, qualified accountant and company secretary of the Company. Personal details of Mr. Cheng are included in the section headed "Senior Management".

Mr. Cheung Lap Kei was the authorised representative, qualified accountant and company secretary of the Company for the year ended 31 December 2007. He has left the Group since 22 January 2008.

# Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2007 are set out in the consolidated income statement on page 40.

## PROPOSED FINAL DIVIDEND

The directors did not recommend the payment of dividends for the year ended 31 December 2007.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial period/years is set out on page 88 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

## DONATIONS

No charitable or other donations were made by the Group during the year.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 43 of the annual report.

## DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of Cayman Island, the Company's reserves available for distribution to shareholders as at 31 December, 2007 comprised the retained earnings and share premium in aggregate amounting to RMB267,346,000.

# Directors' Report

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors

Mr. Yang Senmao  
Mr. Xu Xiaoping  
Mr. Yue Lian

### Non-executive directors

Mr. Meng Quanda  
Mr. Shiu Kit  
Mr. Dong Renhan

### Independent non-executive directors

Ms. Wong Wai Ling  
Mr. Ni Tongmu  
Mr. Shu Mingding

In accordance with Article 108 of the Company's Articles of Association, Mr. Yang Senmao, Mr. Yue Lian and Mr. Xu Xiaoping shall retire by rotation at the forthcoming annual general meeting. All the retiring directors, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into service agreements with the Company for a term of three years from June 2006, subject to the termination provisions therein.

Each of the non-executive directors (including the independent non-executive directors) has entered into a service agreement with the Company for a term of two years from June 2006, and is determinable by either party by given one month's written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year.



## SHARE OPTIONS

Particulars of the Company's share option scheme ("Share Option Scheme") are set out in note 27 to the consolidated financial statements.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the share option scheme ("General Scheme Limit"), i.e. 40,000,000 shares. The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The maximum numbers of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 7 days inclusive of the day on which such offer was made. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the directors may determine which shall not exceed ten years from the date of grant subject to the provision of early termination thereof.

The subscription price of a Share under the Share Option Scheme will be a price solely determined by the Board and shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

No share option has been granted during the year.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Company's share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' Report

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered, in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions:

Ordinary shares of HK\$0.01 each

<b>Name of director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of shareholding</b>
Mr. Yang Senmao (Mr. Yang)	Interest of controlled corporations ( <i>note</i> )	244,600,000	61.15%

*Note:* Mr. Yang is the beneficial owner of 60% of the issued shares in Rapid Jump Limited and his wholly-owned company namely Color Vision Limited owns 89.1% of the issued shares in Kalo Hugh Limited, and therefore Mr. Yang is deemed, or taken to be, interested in the 244,600,000 shares which are beneficially owned by Rapid Jump Limited and Kalo Hugh Limited for the purposes of the SFO.

Other than as disclosed above, as at 31 December 2007, none of the directors nor chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO), as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# Directors' Report

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading of "CONNECTED TRANSACTIONS", no contract of significance in relation to the Group's business to which the Company, its subsidiaries or its parent companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2007, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in ordinary shares of the Company

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
<b>Substantial shareholders</b>			
Rapid Jump Limited ( <i>note 1</i> )	Beneficial owner	153,000,000	38.25%
Kalo Hugh Limited ( <i>note 2</i> )	Beneficial owner	91,600,000	22.90%
Color Vision Limited ( <i>note 2</i> )	Interest of a controlled corporation	91,600,000	22.90%
Ms. Zhang Jingru ( <i>note 3</i> )	Interest of spouse	244,600,000	61.15%
<b>Others</b>			
Good Label Trading Limited ( <i>note 4</i> )	Beneficial owner	21,000,000	5.25%
Zhong Shan Company Limited ( <i>note 4</i> )	Interest of a controlled corporation	21,000,000	5.25%

## Directors' Report

### Notes:

1. Rapid Jump Limited is beneficially owned by Mr. Yang as to 60%, and therefore Mr. Yang is deemed to be or regarded as being interested in these shares which are beneficially owned by Rapid Jump Limited for the purposes of the SFO.

Mr. Yang, Mr. Xu Xiaoping ("Mr. Xu") and Mr. Meng Quanda ("Mr. Meng") hold 60%, 18% and 22% equity interest respectively in Rapid Jump Limited. Mr. Yang, Mr. Xu and Mr. Meng are the directors of Rapid Jump Limited.

2. Color Vision Limited owns 89.1% of the issued shares in Kalo Hugh Limited. Therefore Color Vision Limited is deemed, or taken to be, interested in the shares which are beneficially owned by Kalo Hugh Limited for the purposes of the SFO. As Color Vision Limited is wholly owned by Mr. Yang, Mr. Yang is deemed, or taken to be, interested in the shares which are beneficially owned by Kalo Hugh Limited for the purposes of the SFO.

Mr. Yue Lian owns 10.9% of the issued shares in Kalo Hugh Limited. Mr. Yang and Mr. Yue Lian are the directors of Kalo Hugh Limited.

3. Ms. Zhang Jingru is the spouse of Mr. Yang. Under the SFO, Ms. Zhang Jingru is deemed to be interested in all the shares in which Mr. Yang is interested.

4. Good Label Trading Limited is wholly owned by Zhong Shan Company Limited. Therefore, Zhong Shan Company Limited is deemed to be or regarded as being interested in 21,000,000 shares which are beneficially owned by Good Label Trading Limited under the SFO. Zhong Shan Company Limited is wholly owned by 江蘇省人民政府 (Jiangsu Provincial People's Government).

Mr. Yang Dawei and Mr. Cai Feiyun hold 96% and 4% legal interest in Zhong Shan Company Limited respectively for and on behalf of 江蘇省人民政府 (Jiangsu Provincial People's Government).

Save as disclosed above, as at 31 December 2007, the Company had not been notified of any substantial shareholders, other than directors of the Company, who had interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## Directors' Report

As at 31 December 2007, so far as is known to the directors of the Company, the following persons (other than other members of the Group) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of the Group:

Name of shareholder	Name of company	Approximate shareholding percentage
常州市富林電子有限公司 (Changzhou Fulling Electronics Company Limited) (note 1)	常州銀河科技開發有限公司 (Changzhou Galaxy Technology Developing Company Limited)	15.42%
常州僑弘電子有限公司 (Changzhou Qiaohong Electronics Co., Ltd.) (note 2)	常州銀河科技開發有限公司 (Changzhou Galaxy Technology Developing Company Limited)	15%

*Notes:*

1. On 28 December 2007, Changzhou Galaxy Semiconductor Company Limited ("Galaxy Semiconductor"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Changzhou Fulling Electronics Company Limited for transfer of the 15.42% equity interest together with all rights attached thereto on or after 30 November 2007 in Changzhou Galaxy Technology Developing Company Limited ("Galaxy Technology") owned by Changzhou Fulling Electronics Company Limited to Galaxy Semiconductor. The transfer had been completed as at the date of this report.
2. On 28 December 2007, Galaxy Semiconductor entered into an agreement with Changzhou Qiaohong Electronics Co. Ltd. for transfer of the 15% equity interest together with all rights attached thereto on or after 30 November 2007 in Galaxy Technology owned by Changzhou Qiaohong Electronics Co. Ltd. to Galaxy Semiconductor. The transfer had been completed as at the date of this report.

### INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

**CONNECTED TRANSACTIONS**

During the year, the following continuing connected transactions have been entered into by the Group to which the Stock Exchange has granted waiver to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 16 May 2006, Galaxy Electrical, a wholly owned subsidiary of the Company, entered into the following agreements:

- (i) an agreement with Changzhou Lucky Star Electronic Equipment Company Limited ("Lucky Star Electronic") in relation to the purchases of copper wire ("Purchases Agreement"). Pursuant to the Purchases Agreement, Lucky Star Electronic agrees to supply to the Group copper wire with the aggregate annual amounts not exceeding RMB21,000,000, RMB26,000,000 and RMB32,000,000 for each of the three financial years ending 31 December 2008, respectively. During the year, Lucky Star Electronic sold copper wire to the Group with an aggregate amount of approximately RMB8,412,000.

Mr. Shiu Kit, a non-executive director, owns 55% equity interest in Lucky Spark Development Limited, which is the sole investor of Lucky Star Electronic. Accordingly, the arrangements under the Purchases Agreement constitute continuing connected transactions under the Listing Rules.

- (ii) an agreement with Fulling CEIEC Co., Ltd ("Fulling CEIEC") in relation to the sales of diodes ("Sales Agreement"). Pursuant to the Sales Agreement, Galaxy Electrical agrees to supply diodes to Fulling CEIEC with the aggregate annual amounts not exceeding RMB16,000,000, RMB19,000,000 and RMB23,000,000 for each of the three financial years ending 31 December 2008, respectively. During the year, the Group supplied diodes to Fulling CEIEC with an aggregate amount of approximately RMB8,241,000.

Fulling Electronics owns 55% equity interest in Fulling CEIEC. Fulling Electronics held 15.42% of the equity interest of Galaxy Technology, a subsidiary of the Company. Pursuant to the Listing Rules, the arrangement under the Sales Agreement constituted a continuing connected transaction as long as Fulling Electronics held not less than 10% of the equity interest of Galaxy Technology.

On 28 December 2007, the Group entered into an agreement with Fulling Electronics to acquire for 15.42% equity interest in Galaxy Technology. Upon completion of the acquisition on 19 March 2008, the above transaction was no longer a connected transaction of the Company under the Listing Rules.

Particulars of the transactions are disclosed in note 26 to the consolidated financial statements. In respect of the above two continuing connected transactions, the directors of the Company confirm that the Company complied with the disclosure requirements in Chapter 14A of the Listing Rules.

## Directors' Report

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transaction of the Group. The auditor have reported in writing their factual findings on these procedures to the board of directors which confirmed the above connected transactions:

- (1) have received the approval of the Board;
- (2) nothing had come to their attention which caused them to believe that:
  - (a) the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;
  - (b) the connected transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involved provision of goods by the Group; and
  - (c) the transaction amount occurred in 2007 for each of connected transactions exceed their respective cap amount as disclosed in the Company's prospectus dated 29 May 2006.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, the above transaction are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of these transactions are on normal commercial terms, as far as the Group is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be) and in accordance with the terms of the relevant agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

On 28 December 2007, Galaxy Semiconductor, a wholly-owned subsidiary of the Company, entered into an agreement with each of Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, at a consideration of US\$246,700, US\$240,000 and US\$73,300, respectively. Upon the issue of the approval certificate by the governmental bureau regarding the equity transfer, all the relevant rights and obligations in Galaxy Technology should be deemed to be transferred to Galaxy Semiconductor from 30 November 2007. The transaction was completed as at the date of this report. Details of the acquisitions were disclosed in the announcement issued by the Company on 2 January 2008 in accordance with the reporting and announcement requirements in Rule 14A of the Listing Rules.

The related party transactions are set out in note 26 to the financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Directors' Report

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's largest and five largest customers and suppliers, respectively, were as follow:

– the largest customer	14.08%
– five largest customers	25.76%
– the largest supplier	11.10%
– five largest suppliers	28.59%

To the knowledge of the directors, none of the directors, their associates or any shareholders of the Company, owning more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

### BANK LOANS

Particulars of bank loans are set out in note 19 to the consolidated financial statements.

### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme is set out in note 27 to the consolidated financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### AUDITORS

At the last annual general meeting, Deloitte Touche Tohmatsu ("Deloitte") was re-appointed the auditors of the Company. Deloitte resigned as auditors of the Group with effect from 26 November 2007 and KPMG was appointed as the new auditors of the Company with effect from 10 December 2007. Details of the change of auditors were disclosed in the announcement issued by the Company on 10 December 2007.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint KPMG as the auditor of the Company.

On behalf of the Board

**Yang Senmao**  
Chairman

The Peoples' Republic of China

23 April 2008



# Corporate Governance Report

The Group is committed to maintaining high standards of corporate governance in order to raise the quality of management and protect the interests of shareholders as a whole. To honor these commitments, the Group believes that good corporate governance reflects that a responsible enterprise must be credit worthy and transparent and abide by a high level of code of practice.

## Corporate Governance Practices

The Board is of the opinion that the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules for the financial year ended 31 December 2007.

## Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of practice for securities transactions by the Company's directors. The Company had made specific enquiries with all the directors and all the directors confirmed that they had complied with the practice as contained in the Model Code.

## The Board of Directors

The Board is responsible for the formulation of all commercial policies and strategies in relation to the business operation of the Group to ensure that there are ample resources and effective internal controls (including financial controls) are in place. The Board has the responsibility to establish the enterprise's policies and overall strategy of the Group, and provides effective supervision for the management of the Group's affairs. The Board also supervises the financial performance of the Group's business operations and internal controls. All the directors of the Company are able to obtain information on the Group's businesses on a timely basis and to make further inquiries if needed.

The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group. The Board supervises the management of the business and affairs of the Group. The management of the Group carries out the policies set by the Board and supervises the day-to-day management of the Group.

## Composition and Appointment

As at 31 December 2007, the Board comprises of nine directors, of whom three are executive directors, three are non-executive directors and three are independent non-executive directors. Details of the names and bibliographies of directors are set out on page 18 to page 21 of this report.

The executive directors of the Company are Mr. Yang Senmao, Mr. Yue Lian and Mr. Xu Xiaoping. Mr. Yang Senmao is the chairman and Mr. Yue Lian is the chief executive officer of the Company. Mr. Yue Lian is responsible for the daily operations of the Group and reports to the chairman of the Company.

The Company has complied with Rule 3.10(2) of the Listing Rules, which stipulate that one of the independent non-executive directors must possess appropriate professional qualification. The Board considers that the directors are all independent persons with appropriate qualifications and has complied with the relevant requirements of the Listing Rules.

## Corporate Governance Report

Mr. Yang holds 60% and 100% equity interest respectively in Rapid Jump Limited and Color Vision Limited, which is a substantial shareholder of Kalo Hugh Limited with 89.1% shareholding in Kalo Hugh Limited as at the date of this report, and Kalo Hugh Limited in turn is a substantial shareholder of the Company with a 22.9% shareholding in the Company as at the date of this report. Mr. Yue holds 10.9% equity interest in Kalo Hugh Limited. Mr. Xu and Mr. Meng hold 18% and 22% equity interest respectively in Rapid Jump Limited. Save as disclosed above, the Directors confirmed that there was no relationship (including financial, business, family or other material/relevant relationship) among the Board members or other major events or relevant matters that were required to be disclosed.

For the year ended 31 December 2007, the Board has compiled the following statistics

Director's Name	Attendance Rate for Board Meeting		Title
	Number	Percentage (%)	
Yang Senmao	5	100	Chairman, Executive Director
Xue Lian	5	100	Executive Director
Xu Xiaoping	5	100	Executive Director
Meng Quanda	5	100	Non-executive Director
Shiu Kit	5	100	Non-executive Director
Dong Renhan	5	100	Non-executive Director
Wong Wai Ling	5	100	Independent non-executive Director
Ni Tongmu	5	100	Independent non-executive Director
Shu Mingding	5	100	Independent non-executive Director

The Board has supervised and controlled the Company's affairs effectively, and relevant decisions were made in the Company's best interests. For the year ended 31 December 2007, the Board had held 5 Board Meetings, to consider (of which included) the Company's continuing connected transactions, financial affairs and other matters under the articles of associations to carry out its duties. The Board has adopted a tele-conference system to raise the attendance rates, the average rate of attendance was 100%.

During the relevant period, the term of appointment of the non-executive directors and the independent non-executive directors is for two years.

### The Appointment and Re-election of Directors

The Company has not established a nomination committee. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

The Board held one meeting in 2007 to review the policy for the nomination of directors.

# Corporate Governance Report

## Procedures of Board meetings

The Board has established meeting procedures and has complied with the code provisions of the Code.

The procedures of board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. Directors can express different opinions at board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of board meetings and other committee meeting will be drafted by the company secretary and will be sent to all members for their comment and record respectively. Directors are entitled to inspect the minutes at any time.

## Chairman and Chief executive officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Yang Senmao is the Chairman and the executive Director of the Company. Mr. Yue Lian is the chief executive officer of the Company. Mr. Yue Lian is responsible for the daily operations of the Group and reports to chairman of the Company.

## Auditor's Remuneration

During the year under review, the amount of fee paid or payable to the auditor of the Group was as follows:

Type of service	Auditor KPMG
Annual audit	RMB900,000

## Accountability and Audit

The Directors understand their responsibility to prepare the Group's financial statements according to relevant legal provisions and the Hong Kong GAAP to ensure that the financial reports present a true and fair view of the Group's financial conditions. In the preparation of the Group's financial reports for the year ended 31 December 2007, the Directors had adopted and implemented the appropriate accounting policies, made prudent and reasonable judgments and projections and prepared the financial statements on a going concern basis.

The Board of Directors had presented information on the Group's developments and various corporate information which aimed to be comprehensive, balanced and easily understood, including but not limited to the interim and year end financial reports as stipulated in the Listing Rules, disclosure of and public announcement of information which influence the shares and submitted reports to the regulatory authorities and made other disclosures pursuant to regulatory provisions.

The auditor's responsibilities are set out in the Auditor's Report on page 38.

Through the Audit Committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The Audit Committee considers that the Group has established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Group's operations. The Board considers that the Company has complied with the code provisions on internal control of the Code.

# Corporate Governance Report

## Audit Committee

The audit committee comprises of the three independent non-executive directors and Ms. Wong Wai Ling is the chairman of the audit committee.

In the year ended 31 December 2007, 2 meetings were held. The attendance rates of every member of the audit committee were as follows:

Name of member	Attendance Rate		Title
	Number	Percentage (%)	
Wong Wai Ling	2	100	Independent non-executive Director
Ni Tongmu	2	100	Independent non-executive Director
Shu Mingding	2	100	Independent non-executive Director

Duties of the audit committee include:

- (1) Review the Company's financial reporting procedure, internal control systems and the completeness of the financial reports;
- (2) Appoint external auditors and matters such as audit fees, the retirement or dismissal of external auditors;
- (3) Discuss with the external auditors the nature and scope of audits before commencement of audit work; and
- (4) Review interim and year end accounts.

The audit committee has reviewed the audit performance, internal controls and audited accounts for the year ended 31 December 2007. The audit committee has also reviewed this annual report and confirmed that it is complete and accurate and complies with the Listing Rules.

## Remuneration Committee

The remuneration committee shall meet at least once a year to decide on directors' emoluments. Members of the remuneration committee include:

Mr. Yang Senmao (Chairman), Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.

The remuneration committee is responsible for the following functions: to determine the remuneration policies for Directors and the senior management, to assess the performance of Directors, and to decide on the Company's remuneration policies and long term bonus scheme.

The Remuneration Committee held one meeting for the year ended 31 December 2007, at which the Remuneration Committee reviewed and discussed the remuneration policy and the remuneration of the Directors and senior management in the year. The attendances of the meeting of the remuneration committee are as follows:

Name of member	Attendance Rate		Title
	Number	Percentage (%)	
Yang Senmao	1	100	Chairman, Executive Director
Wong Wai Ling	1	100	Independent non-executive Director
Ni Tongmu	1	100	Independent non-executive Director
Shu Mingding	1	100	Independent non-executive Director

# Corporate Governance Report

## Directors' Remuneration

The Group paid total Directors' remuneration amounts of approximately RMB825,000, RMB524,000, RMB525,000, RMB48,000, RMB92,000, RMB48,000, RMB92,000, RMB48,000 and RMB48,000 to Mr. Yang Senmao, Mr. Yue Lian, Mr. Xu Xiaoping, Mr. Meng Quanda, Mr. Shiu Kit, Mr. Dong Renhan, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding respectively for the year ended 31 December 2007.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2007, there was no arrangement in which Directors waived their remuneration.

## Securities Transactions by Senior Management and Staff

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code by the Company.

## Financial Officer

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Officer will review the control of financial risks of the Group and provide advices thereon to the Board.

## Company Secretary

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information.

The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's investors relationship.

## Investors Relationship

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels such as seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments. In addition, the Group's website presents the most updated information and the status of the business development of the Group.

# Corporate Governance Report

## Communication with Shareholders

The Board and senior management recognize the responsibility of safeguarding the interest of shareholders of the Company. The Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Group's company website. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings.

# Independent Auditors' Report

## **Independent auditors' report to the shareholders of Galaxy Semi-Conductor Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as "the Group") set out on pages 40 to 87, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Company Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditors' Report

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### KPMG

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 April 2008



# Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
<b>Turnover</b>	4	<b>384,278</b>	336,562
Cost of sales		<b>(304,450)</b>	(263,154)
<b>Gross profit</b>		<b>79,828</b>	73,408
Other revenue	5	<b>7,290</b>	6,763
Distribution costs		<b>(9,471)</b>	(7,572)
Administrative expenses		<b>(27,896)</b>	(27,103)
Listing expenses		–	(9,690)
Discount on acquisition		–	1,710
<b>Profit from operations</b>		<b>49,751</b>	37,516
Interest on bank borrowings wholly repayable within five years	6(a)	<b>(8,677)</b>	(2,894)
<b>Profit before taxation</b>		<b>41,074</b>	34,622
Income tax	7(b)	<b>(5,444)</b>	(5,567)
<b>Profit for the year</b>		<b>35,630</b>	29,055
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>36,831</b>	30,202
Minority interests		<b>(1,201)</b>	(1,147)
<b>Profit for the year</b>		<b>35,630</b>	29,055
Dividends proposed after the balance sheet date	10	–	6,330
<b>Earnings per share</b>			
Basic (RMB)	11	<b>0.092</b>	0.083

The notes on pages 46 to 87 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	147,389	84,301
Prepaid lease premium for land	13	17,366	8,925
Available-for-sale investments	14	–	162
Deferred tax assets	21(b)	1,973	5,293
Deposit paid for acquisition of property, plant and equipment		9,730	4,406
Deposit paid for prepaid lease premium for land		–	7,873
		<b>176,458</b>	110,960
<b>Current assets</b>			
Inventories	15	131,497	121,489
Trade and other receivables	16	152,530	120,686
Amounts due from related companies	26(c)	5,934	8,579
Pledged bank deposits over three months	17	2,519	–
Cash and cash equivalents	17	42,569	33,045
		<b>335,049</b>	283,799
<b>Current liabilities</b>			
Trade and other payables	18	96,575	83,952
Amounts due to related companies	26(c)	7,802	5,414
Amount due to directors		–	9,900
Interest-bearing borrowings	19	116,038	65,000
Current taxation	21(a)	1,333	8,680
		<b>221,748</b>	172,946
<b>Net current assets</b>		<b>113,301</b>	110,853
<b>Total assets less current liabilities</b>		<b>289,759</b>	221,813

The notes on pages 46 to 87 form part of these financial statements.

# Consolidated Balance Sheet (continued)

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings	19	39,328	–
Deferred tax liabilities	21(b)	2,725	–
<b>NET ASSETS</b>		<b>247,706</b>	221,813
<b>EQUITY</b>			
Share capital	22(a)	4,080	4,080
Reserves	22(b)	243,626	214,734
<b>Total equity attributable to equity shareholders of the Company</b>		<b>247,706</b>	218,814
<b>Minority interests</b>		–	2,999
<b>TOTAL EQUITY</b>		<b>247,706</b>	221,813

Approved and authorised for issue by the board of directors on 23 April 2008.

**Yang Senmao**  
Director

**Xu Xiaoping**  
Director

The notes on pages 46 to 87 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital RMB'000 (note 22(a))	Share premium RMB'000	Special reserve RMB'000 (note 22(b))	Statutory reserves RMB'000 (note 22(b))	Other reserve RMB'000 (note 22(b))	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
<b>Balance at 1 January 2006</b>	-	-	32,052	5,177	33,804	-	37,188	108,221	4,146	112,367
Profit for the year	-	-	-	-	-	-	30,202	30,202	(1,147)	29,055
Effect of group reorganisation	-	114,614	(114,614)	-	-	-	-	-	-	-
Issue of shares on capitalisation of share premium account	3,060	(3,060)	-	-	-	-	-	-	-	-
Issue of shares through initial public offer	1,020	86,700	-	-	-	-	-	87,720	-	87,720
Share issue expenses	-	(6,057)	-	-	-	-	-	(6,057)	-	(6,057)
Foreign currency translation differences	-	-	-	-	-	(1,272)	-	(1,272)	-	(1,272)
<b>Balance at 31 December 2006</b>	<b>4,080</b>	<b>192,197</b>	<b>(82,562)</b>	<b>5,177</b>	<b>33,804</b>	<b>(1,272)</b>	<b>67,390</b>	<b>218,814</b>	<b>2,999</b>	<b>221,813</b>
Profit for the year	-	-	-	-	-	-	36,831	36,831	(1,201)	35,630
Acquisition of minority interest	-	-	-	-	(2,327)	-	-	(2,327)	(1,798)	(4,125)
Transfer to welfare funds	-	-	-	-	-	-	(213)	(213)	-	(213)
Transfer to reserves	-	-	-	2,519	-	-	(2,519)	-	-	-
Foreign currency translation differences	-	-	-	-	-	873	-	873	-	873
Dividends to equity holders	-	-	-	-	-	-	(6,272)	(6,272)	-	(6,272)
<b>Balance at 31 December 2007</b>	<b>4,080</b>	<b>192,197</b>	<b>(82,562)</b>	<b>7,696</b>	<b>31,477</b>	<b>(399)</b>	<b>95,217</b>	<b>247,706</b>	<b>-</b>	<b>247,706</b>

The notes on pages 46 to 87 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
<b>Operating activities</b>		
Profit before taxation	41,074	34,622
Adjustments for:		
Discount on acquisition	–	(1,710)
Depreciation	11,864	6,441
Impairment loss on inventories	–	482
Impairment loss on trade and other receivables	(513)	1,904
Amortisation of prepaid lease premium for land	343	73
Interest income	(533)	(570)
Interest expense	8,677	2,894
Dividend income from investments	(588)	(384)
<b>Operating profit before changes in working capital</b>	<b>60,324</b>	43,752
Increase in inventories	(10,008)	(57,987)
Increase in pledged bank deposits	(2,519)	–
Increase in trade and other receivables	(31,331)	(21,809)
Decrease/(increase) in amounts due from related companies	2,645	(1,411)
Increase in trade and other payables	11,733	10,657
Decrease in amounts due to related companies	(1,736)	(3,044)
<b>Cash generated from/(used in) operations</b>	<b>29,108</b>	(29,842)
PRC enterprise income tax paid	(6,470)	(4,597)
Interest paid	(8,276)	(2,894)
<b>Net cash generated from/(used in) operating activities</b>	<b>14,362</b>	(37,333)

The notes on pages 46 to 87 form part of these financial statements.

# Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2007

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
<b>Investing activities</b>		
Payment for the purchase of property, plant and equipment	<b>(75,048)</b>	(23,628)
Deposits paid for prepaid lease premium for land	<b>(911)</b>	(7,873)
Deposits paid for acquisition of property, plant and equipment	<b>(5,324)</b>	(4,406)
Acquisition of a subsidiary	–	(1,431)
Interest received	<b>533</b>	570
Proceeds from disposal of investments	<b>162</b>	–
Proceeds from sales of property, plant and equipment	<b>96</b>	2,854
Dividend income	<b>588</b>	384
Repayment from directors	–	4
	<b>(79,904)</b>	(33,526)
<b>Financing activities</b>		
Proceeds from shares issued	–	87,720
Proceeds from interest-bearing borrowings	<b>222,365</b>	127,500
Cost of issuing shares, net of interest income	–	(6,057)
Repayment of interest-bearing borrowings	<b>(132,000)</b>	(96,200)
Repayment of advance from related parties	–	(7,477)
Advance from directors	<b>(9,900)</b>	(2,938)
Dividends paid to equity shareholders of the Company	<b>(6,272)</b>	(5,151)
	<b>74,193</b>	97,397
<b>Net cash generated from financing activities</b>	<b>74,193</b>	97,397
<b>Net increase in cash and cash equivalents</b>	<b>8,651</b>	26,538
<b>Cash and cash equivalents at 1 January</b>	<b>33,045</b>	7,779
Effect of foreign exchange rate changes	<b>873</b>	(1,272)
<b>Cash and cash equivalents at 31 December</b>	<b>42,569</b>	33,045

The notes on pages 46 to 87 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 1 Group reorganisation and basis of preparation of consolidated financial statements

The Company was incorporated in the Cayman Islands on 23 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group on 9 May 2006. The Company's shares were listed on the Main Board of the Stock Exchange on 9 June 2006 (the "Listing Date").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2006 have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" as if the Group structure under the Group Reorganisation had been in existence throughout the year ended 31 December 2006 or since their respective dates of incorporation, whichever is the shorter period, except for the acquisition of Seven Rainbows Limited and Galaxy Electric (China) Company Limited being accounted for using purchase method.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 32.

The consolidated financial statements are presented in Renminbi ("RMB"). All financial information in RMB has been rounded to the nearest thousand.

## 2 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

# Notes to the financial statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

### (c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)), unless the investment is classified as held for sale.



# Notes to the Financial Statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (d) Minority interest

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Transactions with minority equity holders of the Group are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognised as a reserve movement.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(l) or (m) depending on the nature of the liability.

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(i)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## Notes to the financial statements

For the year ended 31 December 2007

### 2 Significant accounting policies (continued)

#### (f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and
- other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives and residual value as follows:

	Useful lives	Residual value
– Buildings	20 years	0%
– Plant and machinery	10 years	10%
– Equipment, furniture and fixtures	5 years	10%
– Motor vehicles	5 years	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (g) Prepaid lease premium for land

Prepaid lease premium for land represents land premium paid to the People's Republic of China (the "PRC") Land Bureau. Prepaid lease premium for land are carried at cost less amortisation and impairment losses (see note 2(i)). Amortisation is charged to profit or loss on a straight line basis over the lease periods of 50 years.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (h) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (i) Impairment of assets

#### (i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## Notes to the financial statements

For the year ended 31 December 2007

### 2 Significant accounting policies (continued)

#### (i) Impairment of assets (continued)

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- prepaid lease premium for land

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, pledged bank deposits with date of original maturity of within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

# Notes to the financial statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (o) Employee benefits

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. The contributions payable under the Group's retirement plans are charged to the income statement on an accrual basis according to the contribution determined by the plans. Further information is set out in note 20.

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (p) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## Notes to the financial statements

For the year ended 31 December 2007

### 2 Significant accounting policies (continued)

#### (r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

##### (i) Sale of goods

For domestic sales, revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

For export sales, revenue is recognised in line with international trade terms when the related risks of rewards of ownership has transferred.

Revenue excludes value added tax and is after deduction of any trade discounts.

##### (ii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

##### (iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

##### (iv) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.



# Notes to the Financial Statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (s) Foreign currency

#### (i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The consolidation financial statements is presented in RMB, the Group's functional currency.

#### (ii) Foreign currency transactions

Foreign currency transactions during the year are translated to the respective functional currency of Group entities at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates.

#### (iii) Financial statements of foreign operations

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at the average exchange rates for the financial period and their balance sheets are translated at the exchange rates ruling at the balance sheet date. Exchange differences are recognized directly in equity.

### (t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

# Notes to the financial statements

For the year ended 31 December 2007

## 2 Significant accounting policies (continued)

### (u) Related parties (continued)

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (v) Segment reporting

The Group is engaged mainly in the manufacture and sale of diodes and related products and operates in the PRC. There is no other product with segment revenue and assets equal to or greater than 10 percent of the Group's total revenue and assets respectively. All the identifiable assets and liabilities of the Group are located in the PRC. Accordingly, no business or geographical segment is presented.

## 3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 24.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 30).

## 4 Turnover

The principal activities of the Group are design, development, manufacturing and sales of diodes.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales, discounts and returns.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 5 Other revenue

	2007 RMB'000	2006 RMB'000
Interest income	533	570
Sales of scrap	3,706	3,108
Government subsidy income	805	211
Dividend income	588	384
Write back of trade and other payables	1,133	1,988
Others	525	502
	<u>7,290</u>	<u>6,763</u>

## 6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2007 RMB'000	2006 RMB'000
<b>(a) Finance costs</b>		
Interest on bank borrowings wholly repayable within five years	<u>8,677</u>	<u>2,894</u>
No borrowing costs have been capitalised in 2007 (2006: Nil).		
<b>(b) Staff costs</b>		
Directors' emolument, including retirement benefit plan contributions	3,401	2,972
Other staff's salaries, wage and other benefits, including retirement benefit scheme contributions	<u>44,539</u>	<u>34,488</u>
	<u>47,940</u>	<u>37,460</u>
<b>(c) Other items</b>		
Amortisation of prepaid lease premium for land	343	73
Depreciation of property, plant and equipment	11,864	6,441
Impairment losses of trade and other receivables	(513)	1,904
Net foreign exchange (gain)/loss	(3,597)	160
Auditors' remuneration of audit services	900	1,200
Cost of inventories	<u>304,450</u>	<u>263,154</u>

# Notes to the financial statements

For the year ended 31 December 2007

## 7 Income tax in the income statement

### (a) Taxation in the income statement represents:

	2007 RMB'000	2006 RMB'000
<b>Current tax – PRC enterprise income tax</b>		
Provision for the year	5,437	7,489
Over provision in respect of prior years	(709)	–
<b>Deferred tax</b>		
Origination and reversal of temporary differences	716	(1,922)
	<b>5,444</b>	<b>5,567</b>

No provision of Hong Kong Profits Tax had been made as the Group's profit neither arises in, nor is derived from, Hong Kong for both years.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

Changzhou Galaxy Electrical Co., Ltd. ("Galaxy Electrical") is recognised as high-technology companies and located in high-technology zone. According to the PRC tax regulations, Galaxy Electrical is entitled to a preferential tax rate of 15% in 2007.

Changzhou Galaxy Semiconductor Co., Ltd. ("Galaxy Semiconductor") is recognised as enterprise with advanced technology and is entitled to a preferential tax rate of 10% in 2007.

Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises ("FEIT"), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New"), Changzhou Galaxy Technology Developing Co., Ltd. ("Galaxy Technology"), Changzhou Galaxy Century Micro-Electronics Co., Ltd. ("Galaxy Micro-Electronics") and Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. ("Galaxy Huanyu") are entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years starting from the earlier of the year in which a taxable income is made after the offset of deductible losses incurred in prior years or 2008.

Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are located in the coastal economic open zone and are entitled to a preferential income tax rate of 24% for both years. Year 2007 is the first profit making year for Galaxy Hi-New and thus no income tax was provided for in 2007. Galaxy Technology and Galaxy Micro-Electronics sustained accumulated losses and thus no income taxes were provided for in 2007. The applicable income tax rate of Galaxy Huanyu is 30% in 2007. As it sustained an accumulated loss, no income tax was provided for in 2007.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 7 Income tax in the income statement (continued)

### (a) Taxation in the income statement represents: (continued)

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, higher income tax rate was reduced to 25% from 1 January 2008 and the preferential income tax rate will gradually increase to the standard rate of 25% over a five-year transition period after the enactment of the tax law. Except for Galaxy Huanyu, the applicable income tax rate to the Group's subsidiaries will gradually increase to 25% in the following 5 years. The applicable income tax rate for Galaxy Huanyu will be 25% from 2008 onwards. The new rate was used to measure the Group's deferred tax assets as at 31 December 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 RMB'000	2006 RMB'000
Profit before taxation	<u>41,074</u>	<u>34,622</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in PRC	6,161	5,193
Tax effect of non-deductible expenses	2,412	2,121
Tax effect of non-taxable income	(856)	(189)
Effect of tax exemptions granted to PRC subsidiaries	(2,248)	(1,534)
Others	<u>(25)</u>	<u>(24)</u>
Income tax expense	<u>5,444</u>	<u>5,567</u>

## Notes to the financial statements

For the year ended 31 December 2007

### 8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	2007 Total <i>RMB'000</i>
<b>Chairman</b>					
Yang Senmao	–	776	33	16	825
<b>Executive directors</b>					
Xu Xiaoping	–	488	21	16	525
Yue Lian	–	488	20	16	524
<b>Non-executive directors</b>					
Meng Quanda	–	48	–	–	48
Shiu Kit	–	92	–	–	92
Dong Renhan	–	48	–	–	48
<b>Independent non-executive directors</b>					
Wong Wai Ling	92	–	–	–	92
Ni Tongmu	48	–	–	–	48
Shu Mingding	48	–	–	–	48
	<b>188</b>	<b>1,940</b>	<b>74</b>	<b>48</b>	<b>2,250</b>

# Notes to the Financial Statements

For the year ended 31 December 2007

## 8 Directors' remuneration (continued)

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	2006 Total <i>RMB'000</i>
<b>Chairman</b>					
Yang Senmao	–	508	298	12	818
<b>Executive directors</b>					
Xu Xiaoping	–	340	168	12	520
Yue Lian	–	324	177	12	513
<b>Non-executive directors</b>					
Meng Quanda	–	28	–	–	28
Shiu Kit	–	54	–	–	54
Dong Renhan	–	28	–	–	28
<b>Independent non-executive directors</b>					
Wong Wai Ling	54	–	–	–	54
Ni Tongmu	28	–	–	–	28
Shu Mingding	28	–	–	–	28
	<u>110</u>	<u>1,282</u>	<u>643</u>	<u>36</u>	<u>2,071</u>

## Notes to the financial statements

For the year ended 31 December 2007

### 9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2006: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2006: two) individuals are as follows:

	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i>
Salaries and other emoluments	<b>727</b>	660
Discretionary bonuses	<b>402</b>	225
Retirement scheme contributions	<b>22</b>	16
	<b>1,151</b>	901

The emolument of each individual during the year was within the band of less than HK\$1,000,000.

During the years ended 31 December 2007 and 2006, no emolument were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.



# Notes to the Financial Statements

For the year ended 31 December 2007

## 10 Dividends

### (a) Dividends payable to equity shareholders of the Company attributable to the year

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Dividends proposed after the balance sheet date (2006: HK\$0.016 per share)	–	6,330

The dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Dividends in respect of the previous financial year, approved and paid during the year, of HK\$0.016 per share	6,272	–

## 11 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB36,831,000 (2006: RMB30,202,000) and 400,000,000 (2006: 362,740,000) shares in issue during the year.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for either year.

## Notes to the financial statements

For the year ended 31 December 2007

### 12 Property, plant and equipment

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Equipment, furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost:</b>						
At 1 January 2006	10,270	32,637	9,324	1,854	14,644	68,729
Acquisition of subsidiaries	5,100	1,087	766	–	3,488	10,441
Additions	–	11,577	5,303	1,534	5,214	23,628
Transfer	4,301	10,083	4,221	–	(18,605)	–
Disposals	–	(2,622)	(459)	–	–	(3,081)
At 31 December 2006	19,671	52,762	19,155	3,388	4,741	99,717
Reclassification	830	–	(1,014)	184	–	–
Additions	500	24,292	5,103	1,014	44,486	75,395
Transfer	429	19,953	140	267	(20,789)	–
Disposals	–	(891)	(60)	(410)	–	(1,361)
<b>At 31 December 2007</b>	<b>21,430</b>	<b>96,116</b>	<b>23,324</b>	<b>4,443</b>	<b>28,438</b>	<b>173,751</b>
<b>Accumulated amortisations and depreciation:</b>						
At 1 January 2006	(1,403)	(4,640)	(2,392)	(767)	–	(9,202)
Charge for the year	(507)	(2,767)	(2,776)	(391)	–	(6,441)
Written back on disposal	–	176	51	–	–	227
At 31 December 2006	(1,910)	(7,231)	(5,117)	(1,158)	–	(15,416)
Charge for the year	(1,035)	(6,823)	(3,323)	(683)	–	(11,864)
Written back on disposal	–	527	34	357	–	918
<b>At 31 December 2007</b>	<b>(2,945)</b>	<b>(13,527)</b>	<b>(8,406)</b>	<b>(1,484)</b>	<b>–</b>	<b>(26,362)</b>
<b>Net book value:</b>						
<b>At 31 December 2007</b>	<b>18,485</b>	<b>82,589</b>	<b>14,918</b>	<b>2,959</b>	<b>28,438</b>	<b>147,389</b>
At 31 December 2006	17,761	45,531	14,038	2,230	4,741	84,301

The Group has pledged its buildings with carrying values of approximately RMB24,758,000 (2006: RMB9,301,000) to secure its interest-bearing borrowings.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 13 Prepaid lease premium for land

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
At 1 January	<b>8,925</b>	2,398
Additions	<b>8,784</b>	6,600
Less: Amortization	<b>(343)</b>	(73)
At 31 December	<b>17,366</b>	8,925

The Group has pledged its land use rights with carrying value of approximately RMB2,291,000 (2006: RMB9,925,000) to secure its interest-bearing borrowings.

## 14 Available-for-sale investments

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Unlisted equity securities, at cost	–	162

The amount represents the Group's 8.54% equity interest in Changzhou Fuxin Electronics Co., Ltd.

The Group transferred the entire equity interest to Changzhou Fuwo Electronics Co., Ltd. at cost on 5 September 2007.

## Notes to the financial statements

For the year ended 31 December 2007

### 15 Inventories

(a) Inventories in the balance sheet comprise:

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Raw materials	<b>22,537</b>	21,611
Work in progress	<b>69,669</b>	81,886
Finished goods	<b>39,291</b>	17,992
	<b>131,497</b>	121,489

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Carrying amount of inventories sold	<b>304,932</b>	262,672
Write down of inventories	–	482
Transfer out due to sales	<b>(482)</b>	–
	<b>304,450</b>	263,154

# Notes to the Financial Statements

For the year ended 31 December 2007

## 16 Trade and other receivables

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade debtors and bills receivables	146,870	119,876
Less: allowance for doubtful debts	(6,722)	(7,423)
Other debtors	12,382	8,233
	<u>152,530</u>	<u>120,686</u>

Other debtors balances, including deposits and advances to third parties, are expected to be settled or recovered within one year.

### (a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within three months	125,050	99,722
More than three months but within one year	14,118	12,731
More than one year	980	–
At 31 December	<u>140,148</u>	<u>112,453</u>

### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills directly (see note 2(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
At 1 January	7,423	6,168
Impairment loss recognised	–	1,255
Impairment loss reversed	(701)	–
At 31 December	<u>6,722</u>	<u>7,423</u>

## Notes to the financial statements

For the year ended 31 December 2007

### 17 Cash and cash equivalents

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Cash at bank and in hand	<b>37,717</b>	19,589
Pledged bank deposits with date of original maturity of within three months	<b>4,852</b>	13,456
Total	<b>42,569</b>	33,045

Bank balances carry interest at market rate of 0.72% (2006: 0.72% to 2.63%) per annum.

Bank deposits of total RMB7,371,000 (2006: RMB13,456,000) had been pledged to banks as securities for the Group to issue bank acceptance bills and other banking facilities. The pledged bank deposits will be released upon the settlement of the relevant bills payables by the Group and the termination of relevant banking facilities.

### 18 Trade and other payables

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Trade payables	<b>66,214</b>	62,134
Other payables and accruals	<b>24,548</b>	17,173
Advances from customers	<b>5,813</b>	4,645
	<b>96,575</b>	83,952

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Within three months	<b>52,378</b>	55,277
More than three months but within one year	<b>10,910</b>	2,892
More than one year	<b>2,926</b>	3,965
	<b>66,214</b>	62,134

# Notes to the Financial Statements

For the year ended 31 December 2007

## 19 Interest-bearing borrowings

At 31 December 2007, the interest-bearing borrowings were repayable as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Within 1 year or on demand	<b>116,038</b>	65,000
After 1 year but within 2 years	<b>28,091</b>	–
After 2 years but within 5 years	<b>11,237</b>	–
	<b>155,366</b>	65,000

At 31 December 2007, the interest-bearing borrowings were secured as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Bank loans		
– Secured	<b>35,000</b>	20,450
– Unsecured	<b>120,366</b>	44,550
	<b>155,366</b>	65,000

The secured interest-bearing borrowings amounts are secured by the buildings and the prepaid lease premium for land of the Group as set out in notes 12 and 13.

The Group's interest rate risk relates primarily to floating-rate interest-bearing borrowings.

The average effective interest rate on interest-bearing borrowings approximated 6.36% (2006: 6.62%) per annum.

## Notes to the financial statements

For the year ended 31 December 2007

### 20 Employee retirement benefits

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit plan contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organized by the Changzhou Municipal Government for the staff employed by the operations in the PRC. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2007 (2006: 22%). A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above.

The total expenses recognised in the consolidated income statement for the year of RMB1,635,000 (2006: RMB1,212,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

### 21 Income tax in the balance sheet

#### (a) Current taxation in the balance sheet represents:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
At beginning of the year	8,680	4,152
Provision for income tax for the year	5,437	9,125
Write off	(6,314)	–
Income tax paid	(6,470)	(4,597)
At end of the year	<u>1,333</u>	<u>8,680</u>



# Notes to the Financial Statements

For the year ended 31 December 2007

## 21 Income tax in the balance sheet (continued)

### (b) Deferred tax assets and liabilities recognised:

	Allowance for doubtful debts <i>RMB'000</i>	Accumulated loss <i>RMB'000</i>	Unrealised profits <i>RMB'000</i>	Subsidy income <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax arising from:					
At 1 January 2006	925	–	810	–	1,735
Acquisition of subsidiaries	–	–	–	1,636	1,636
Credit/(charged) to income statement	286	–	(75)	1,711	1,922
At 31 December 2006	1,211	–	735	3,347	5,293
Credited/(charged) to income statement	150	613	(3,461)	(3,347)	(6,045)
<b>At 31 December 2007</b>	<b>1,361</b>	<b>613</b>	<b>(2,726)</b>	<b>–</b>	<b>(752)</b>

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Net deferred tax assets recognized on the balance sheet	1,973	5,293
Net deferred tax liabilities recognized on the balance sheet	(2,725)	–
	<b>(752)</b>	5,293

# Notes to the financial statements

For the year ended 31 December 2007

## 22 Capital and reserves

### (a) Share capital

	2007		2006	
	No. of shares	RMB	No. of shares	RMB
Authorised:				
Ordinary shares of HK\$0.01 each	<b>2,000,000,000</b>	<b>20,400,000</b>	2,000,000,000	20,400,000
Ordinary shares, issued and fully paid:				
At 1 January (note (i))	<b>400,000,000</b>	<b>4,080,000</b>	1	–
Issuance of ordinary shares upon the Reorganisation (note (iii))	–	–	9,999	102
Capitalisation issue (note (iii))	–	–	299,990,000	3,059,898
Issuance of ordinary shares for placing and public offering (note (iv))	–	–	100,000,000	1,020,000
At 31 December	<b>400,000,000</b>	<b>4,080,000</b>	400,000,000	4,080,000

#### Notes:

- (i) The Company was incorporated with an authorised share capital of HK\$380,000 divided into 380,000,000 shares of HK\$0.01 each. As at the date of incorporation, the Company allotted and issued one nil-paid share to the subscriber and subsequently transferred the nil-paid share to Rapid Jump Limited.
- (ii) On 9 May 2006, the Company acquired from Rapid Jump Limited the entire issued share capital of Sun Light Planet Limited, in consideration of which the Company (1) allotted and issued 9,999 shares, credited as fully paid, to Rapid Jump Limited, and (2) credited as fully paid at par one nil-paid share then held by Rapid Jump Limited.
- (iii) Pursuant to the written resolution passed by all the shareholders of the Company on 17 May 2006 to effect the Group Reorganisation of the Group, the following movements in the authorised and issue share capital of the Company took place:
- (a) The authorised share capital of the Company increased from HK\$380,000 to HK\$20,000,000 by the creation of additional 1,962,000,000 shares of a par value of HK\$0.01 each. The new shares rank pari passu in all respects with the then existing shares.
- (b) 299,990,000 ordinary shares of a par value of HK\$0.01 each in the Company were allotted and issued as fully paid to the shareholders on 17 May 2006 in proportion to their respective shareholdings, by the capitalisation of an amount of HK\$2,999,900 in the share premium account of the Company.
- (iv) On 9 June 2006, the Company issued 100,000,000 shares of HK\$0.01 each at a price of HK\$0.86 per share to the public. These new shares ranked pari passu in all respects with the then existing shares.

The share capital of the Group at 1 January 2006 represented the share capital of Sun Light Planet Limited and the Company.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 22 Capital and reserves (continued)

### (b) Nature and purpose of reserves

#### (i) Special reserve

The special reserve represented:

- (a) The differences between the aggregate nominal value of the registered capital of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology, other than those contributed by minority shareholders prior to the Group Reorganisation, and the aggregate nominal value of the shares of the three existing immediate holding companies of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology issued in 2005.
- (b) The difference between the net assets value of the acquired subsidiaries and the nominal value of the shares issued by the Company at the time of Group Reorganisation.

#### (ii) Statutory reserves

As stipulated by the relevant PRC laws and regulations, the PRC subsidiaries shall set aside 10% of their net profit after taxation for the PRC statutory reserves (except where the reserve balance has reached 50% of the paid-up capital of the respective enterprises). The reserve can only be used, upon approval by the board of directors of respective enterprises and by relevant authority, to offset accumulated losses or increase capital.

#### (iii) Other reserve

Other reserve represents the net assets contributed by the then shareholders upon the acquisition of the entire interest in two subsidiaries of the Company on 19 April 2003.

### (c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing borrowings, trade and other payables), less cash and cash equivalents. Capital comprises all components of equity.

The Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## Notes to the financial statements

For the year ended 31 December 2007

### 22 Capital and reserves (continued)

#### (c) Capital management (continued)

The net debt-to-capital ratio as at 31 December 2006 and 2007 are as follows:

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Interest-bearing borrowings	<b>155,366</b>	65,000
Trade and other payables	<b>96,575</b>	83,952
Less: cash and cash equivalents	<b>(45,088)</b>	(33,045)
Net debt	<b>206,853</b>	115,907
Capital	<b>247,706</b>	221,813
Net debt-to-capital ratio	<b>84%</b>	52%

### 23 Government grant

During the year, the Group received nil government grants (2006: RMB6,187,000).

### 24 Financial instruments

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions. In the opinion of the directors, the Group has taken appropriate quality control measures to mitigate the effect from any claims caused by products, which may affect adversely its financial results.

The Group's financial assets comprise mainly cash and cash equivalents, trade and other receivables, amounts due from related parties. The Group's financial liabilities comprise interest-bearing borrowings, trade and other payables, and amounts due to related parties.

#### (a) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The general credit terms allowed range from 60 to 120 days. As at 31 December 2007, the Group does not hold any collateral from customers.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 24 Financial instruments (continued)

### (a) Credit risk (continued)

The directors have considered the Group has no significant concentration of credit risk at 31 December 2007. The Group's policy on cash management is that cash and cash equivalents are placed with state-owned banks and other major financial institutions with high credit ratings assigned by international credit-rating agencies.

The carrying amounts of other receivables and cash and cash equivalents represented the maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2007				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables excluding advances from customers	90,762	90,762	90,762	–	–
Amounts due to related parties	7,802	7,802	7,802	–	–
Interest-bearing borrowings – secured	35,000	36,374	36,374	–	–
Interest-bearing borrowings – unsecured	120,366	126,929	85,805	29,769	11,355
	<b>253,930</b>	<b>261,867</b>	<b>220,743</b>	<b>29,769</b>	<b>11,355</b>

## Notes to the financial statements

For the year ended 31 December 2007

### 24 Financial instruments (continued)

#### (b) Liquidity risk (continued)

	2006				
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years but less than 3 years <i>RMB'000</i>
Trade and other payables excluding advances from customers	79,307	79,307	79,307	–	–
Amounts due to related parties	5,414	5,414	5,414	–	–
Amounts due to directors	9,900	9,900	9,900	–	–
Interest-bearing borrowings – secured	12,950	13,055	13,055	–	–
Interest-bearing borrowings – unsecured	52,050	52,859	52,859	–	–
	<u>159,621</u>	<u>160,535</u>	<u>160,535</u>	<u>–</u>	<u>–</u>

#### (c) Interest rate risk

The Group's exposure to interest rate risk relates to interest bearing financial assets and liabilities.

##### *Interest bearing financial assets*

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for issuance of bank acceptance bills and other banking facilities granted to the Group.

Short-term receivables are not exposed to interest rate risk.

##### *Interest bearing financial liabilities*

Interest-bearing financial liabilities include bank borrowings. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 19.

Short-term payables are not exposed to interest rate risk.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 24 Financial instruments (continued)

### (c) Interest rate risk (continued)

At the balance sheets date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2007 RMB'000	2006 RMB'000
<b>Variable rate instruments</b>		
Financial liabilities	<b>155,366</b>	65,000

#### Cash flow sensitivity analysis for variable rate instruments

An increase/(decrease) of 100 basis points in interest rates at the balance sheet date would have (decreased)/increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

31 December 2007	Profit or loss (RMB'000)		Equity (RMB'000)	
	100bp increase	100bp decrease	100bp increase	100bp decrease
<b>Variable rate instruments</b>				
Cash flow sensitivity	<b>(1,364)</b>	<b>1,364</b>	<b>(1,364)</b>	<b>1,364</b>

31 December 2006	Profit or loss (RMB'000)		Equity (RMB'000)	
	100bp increase	100bp decrease	100bp increase	100bp decrease
<b>Variable rate instruments</b>				
Cash flow sensitivity	<b>(480)</b>	<b>480</b>	<b>(480)</b>	<b>480</b>

# Notes to the financial statements

For the year ended 31 December 2007

## 24 Financial instruments (continued)

### (d) Currency risk

#### (i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US\$ and HK\$.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through PBOC or other institutions authorized to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with governmental approval.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

31 December 2007	US\$'000	HK\$'000
Trade and other receivables	1,373	55
Cash and cash equivalents	484	5,313
Trade and other payables	(1,433)	(4,017)
Interest-bearing borrowings	–	(120,000)
	424	(118,649)
	424	(118,649)
31 December 2006	US\$'000	HK\$'000
Trade and other receivables	1,024	298
Cash and cash equivalents	716	16,778
Trade and other payables	(263)	(3,944)
	1,477	13,132
	1,477	13,132



# Notes to the Financial Statements

For the year ended 31 December 2007

## 24 Financial instruments (continued)

### (d) Currency risk (continued)

#### (i) Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Balance sheet date spot rate	
	2007	2006	2007	2006
RMB				
US\$1	<b>7.5869</b>	7.9591	<b>7.3046</b>	7.8087
HK\$1	<b>0.9728</b>	1.0248	<b>0.9364</b>	1.0047

#### (ii) Sensitivity analysis

A 5% percent strengthening of RMB against the following currencies at the balance sheet date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Profit/(loss) RMB'000
<b>31 December 2007</b>	
US\$	<b>(155)</b>
HK\$	<b>5,555</b>
	Profit/(loss) RMB'000
<b>31 December 2006</b>	
US\$	(577)
HK\$	(660)

A 5% percent weakening of RMB against the above currencies at the balance sheet date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (e) Fair value

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## Notes to the financial statements

For the year ended 31 December 2007

### 25 Commitments

- (a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Contracted for	<b>4,492</b>	4,920
Authorised but not contracted for	<b>240</b>	–
	<b>4,732</b>	4,920

- (b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Within 1 year	<b>1,067</b>	849
After 1 year but within 5 years	<b>1,085</b>	365
	<b>2,152</b>	1,214

### 26 Material related party transactions

Particulars of significant transactions between the Group and certain related parties in which a director or shareholder of the Company is in a position to exercise significant influence are as follows:

#### (a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid to employees as disclosed in note 9, is as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Salaries and other emoluments	<b>3,401</b>	2,972

# Notes to the Financial Statements

For the year ended 31 December 2007

## 26 Material related party transactions (continued)

### (b) Transactions with related parties

During the year ended 31 December 2007, transactions with the following parties are considered as related party transactions:

Name of party	Note	Relationship
Changzhou Fulling CEIEC Co., Ltd. 常州富林中電工貿有限公司 ("Fulling CEIEC")		Subsidiary of a minority shareholder of a subsidiary
Changzhou Fulling Electronic Co., Ltd. 常州富林中電子有限公司 ("Fulling Electronics")	(i)	Minority shareholder of a subsidiary
Changzhou Qiaohong Electronic Co., Ltd. 常州僑弘電子有限公司 ("Changzhou Qiaohong")	(i)	Minority shareholder of a subsidiary
Shenzhen Yuechang Industrial Co., Ltd. 深圳市粵常實業有限公司 ("Shenzhen Yuechang")	(i)	Minority shareholder of a subsidiary
Changzhou Lucky Star Electronic Equipment Co., Ltd. 常州吉星電子器材有限公司 ("Lucky Star")		Controlled by Mr Shiu Kit, a non-executive director

- (i) On 28 December 2007, the Group acquired all remaining equity interests of Galaxy Technology from these minority shareholders. Thereafter these companies are no longer related parties of the Group.

		2007 RMB'000	2006 RMB'000
Fulling CEIEC	Sales of goods	8,241	15,693
Lucky Star	Purchase of goods	8,412	17,472
Shenzhen Yuechang	Sales of goods	11,020	9,009
	Consulting fee paid	1,559	2,349
	Transfer of equity interests	540	–
Fulling Electronics	Transfer of equity interests	1,817	–
Changzhou Qiaohong	Transfer of equity interests	1,767	–

## Notes to the financial statements

For the year ended 31 December 2007

### 26 Material related party transactions (continued)

#### (c) Balance with related parties

As at 31 December 2007, the Group had the following balances with related parties:

Name of party	2007 RMB'000	2006 RMB'000
Amounts due from related parties:		
– Fulling CEIEC	2,068	5,188
– Shenzhen Yuechang	3,866	3,391
	5,934	8,579
Amounts due to related parties:		
– Lucky Star	3,678	5,217
– Shenzhen Yuechang	540	197
– Fulling Electronics	1,817	–
– Changzhou Qiaohong	1,767	–
	7,802	5,414

Amounts due from/to related parties are unsecured, interest-free and repayable on demand.

### 27 Share option scheme

A share option scheme (the “Share Option Scheme”) was adopted pursuant to a written resolution of all the shareholders of the Company passed on 17 May 2006.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participant as incentives or rewards for their contributions to the Group. All full time or part time employees, directors, consultants, advisers, substantial shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of any member of the Group, to be determined absolutely by the Board are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years after the date on which Share Option Scheme is adopted.

No option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2007.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 28 Comparative figures

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

## 29 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

### Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. These could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management reassesses the estimations at each balance sheet date.

# Notes to the financial statements

For the year ended 31 December 2007

## 30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

## 31 Balance sheet of the Company

The balance sheet of the Company as at 31 December 2007 is as follows:

Note	2007 RMB'000	2006 RMB'000
<b>Non-current asset</b>		
Investment in a subsidiary	221,813	112,367
<b>Current assets</b>		
Other receivables	394	145
Amounts due from subsidiaries	167,874	66,480
Cash and cash equivalents	151	5,375
	168,419	72,000
<b>Current liabilities</b>		
Other payables	601	200
Interest-bearing borrowings	73,038	–
Amounts due to subsidiaries	5,839	2,159
	79,478	2,359
<b>Net current assets</b>	88,941	69,641
<b>Non-current liabilities</b>		
Interest-bearing borrowings	39,328	–
Total assets less total liabilities	271,426	182,008
<b>Equity</b>		
Share capital	4,080	4,080
Reserves	267,346	177,928
	271,426	182,008

(a)

# Notes to the Financial Statements

For the year ended 31 December 2007

## 31 Balance sheet of the Company (continued)

### (a) Reserves of the Company

	Share premium <i>RMB'000</i>	Retained profits/ (Accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2005	–	(21)	(21)
Issue of shares	83,640	–	83,640
Shares issue expenses	(6,057)	–	(6,057)
Effect of Group Reorganisation	114,614	–	114,614
Loss for the year	–	(14,248)	(14,248)
At 31 December 2006	192,197	(14,269)	177,928
Profit for the year	–	89,418	89,418
<b>At 31 December 2007</b>	<b>192,197</b>	<b>75,149</b>	<b>267,346</b>

The effect of Group Reorganisation represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's share issued in exchange thereof pursuant to the Group Reorganisation.

## Notes to the financial statements

For the year ended 31 December 2007

### 32 Particulars of principal subsidiaries

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
Sun Light Planet Limited	British Virgin Island ("BVI") September 3, 2004	Hong Kong	Ordinary shares US\$1	100%	–	Investment holding
Galaxing Electric (China) Company Limited 銀河電子(中國)有限公司	Hong Kong December 17, 2003	Hong Kong	Ordinary shares HK\$1	–	100%	Inactive
Dai Tak Trading Company 大得貿易有限公司	Hong Kong April 7, 2005	Hong Kong	Ordinary shares HK\$10,000	–	100%	Investment holding
Galaxy Electrical 常州銀河電器有限公司	The PRC June 29, 1994	The PRC	Registered capital US\$11,263,000	–	100%	Manufacturing and trading of electrical products
Galaxy Semiconductor 常州銀河半導體有限公司	The PRC November 16, 2001	The PRC	Registered capital US\$1,500,000	–	100%	Manufacturing and trading of electrical products
Galaxy Technology 常州銀河科技開發有限公司	The RPC September 29, 2003	The PRC	Registered capital US\$1,600,000	–	100%	Research, development manufacturing and trading of electrical parts and spares
Galaxy Micro-Electronics 常州銀河世紀微電子有限公司	The PRC October 8, 2006	The PRC	Registered capital HK\$80,000,000	–	100%	Manufacturing and trading of diodes and semi-conductor products
Galaxy Hi-New 常州銀河高新電裝有限公司	The PRC March 18, 2004	The PRC	Registered capital US\$1,204,819	–	100%	Manufacturing and trading of electric components and specific equipment
Galaxy Huanyu 泰州銀行寰宇半導體有限公司	The PRC December 6, 2007	The PRC	Registered capital US\$5,000,000	–	100%	Manufacturing and trading of semi-conductor products

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.



# Five Years' Financial Summary

(Expressed in Renminbi Yuan)

	Year ended 31 December				19.4.2003 to
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	31.12.2003 RMB'000
<b>Results</b>					
Turnover	<b>384,278</b>	336,562	252,826	182,761	95,880
Profit from operations	<b>49,751</b>	37,516	44,850	37,211	19,923
Profit before taxation	<b>41,074</b>	34,622	43,025	36,323	19,684
Profit for the year	<b>35,630</b>	29,055	39,063	32,274	17,603
Attributable to:					
Equity holders of the Company	<b>36,831</b>	30,202	39,414	32,394	17,627
Minority shareholders	<b>(1,201)</b>	(1,147)	(351)	(120)	(24)
	<b>35,630</b>	29,055	39,063	32,274	17,603
<b>Assets and liabilities</b>					
Total assets	<b>511,507</b>	394,759	243,504	165,512	113,576
Total liabilities	<b>(263,801)</b>	(172,946)	(131,137)	(92,136)	(64,999)
<b>Net assets</b>	<b>247,706</b>	221,813	112,367	73,376	48,577
<b>Equity</b>					
Share capital	<b>4,080</b>	4,080	–	17,397	4,905
Reserves	<b>243,626</b>	214,734	108,221	51,482	41,946
Total equity attributable to equity Shareholders of the company	<b>247,706</b>	218,814	108,221	68,879	46,851
Minority interests	–	2,999	4,146	4,497	1,726
<b>Total equity</b>	<b>247,706</b>	221,813	112,367	73,376	48,577

Notes:

- 1 The financial information for each of the period/years ended 31 December 2003, 2004 and 2005 has been prepared using the principles of merger accounting to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the period/years concerned. The results for the period/years ended 31 December 2003, 2004 and 2005, and the assets and liabilities as at 31 December 2003, 2004 and 2005 have been extracted from the Company's prospectus dated 29 May 2006.
- 2 The results for the year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the consolidated income statement and consolidated balance sheet as set out on pages 40, 41 and 42 respectively, of the consolidated financial statements.