

BILIN

Galaxy Semi-Conductor
Holdings Limited

銀河半導體控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 527)

2006 Interim Report



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I. 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. Cheung Lap Kei

Authorised representatives

Mr. Yang Senmao
Mr. Cheung Lap Kei

Registered office

P.O. Box 1350 GT
Clifton House
75 Fort Street
George Town
Grand Cayman
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

Compliance adviser

South China Capital Limited
28th Floor, Bank of China Tower
No.1 Garden Road
Central
Hong Kong

Legal advisers

Loong & Yeung
in association with Rodyk & Davidson
Suites 2911-12, 29th Floor
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

I. Company information

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Principal share registrar and transfer office in Cayman Islands

Appleby Corporate Services (Cayman) Limited
P.O. Box 1350 GT
Clifton House
75 Fort Street
George Town
Grand Cayman
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

Investor and media relations

Strategic Financial Relations (China) Limited
Room A, 29th Floor
Admiralty Centre Office Tower 1
18 Harcourt Road
Admiralty
Hong Kong

II. Summary of financial results

Unaudited results for the six months ended 30 June 2006:

	For the six months ended 30 June		Increase/ (decrease) RMB'000	Change in percentage %
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)		
Turnover	157,275	106,828	50,447	47.22
Gross profit	40,095	29,385	10,710	36.45
Operating profits	27,220	21,723	5,497	25.30
Listing expenses	9,883	—	9,883	100.00
Profit before income tax	16,268	20,910	(4,642)	(22.20)
Profit for the period	12,924	18,233	(5,309)	(29.12)
Attributable to:				
Equity holders of the company (note 1)	13,229	18,328	(5,099)	(27.82)
Minority interests	(305)	(95)	(210)	221.05
	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)	Increase/ (decrease) RMB'000	Change in percentage %
Net cash (note 2)	30,205	(25,921)	56,126	216.53
Net assets	206,959	112,367	94,592	84.18
Gearing ratio	40.18%	53.85%	(13.67%)	25.39

Notes:

- For illustration purpose, excluding the impact of one-off expenses related to the listing which was charged to the income statement, profit attributable to equity holders of the Company would have increased by approximately 26.10% to approximately RMB23,112,000 (30 June 2005: approximately RMB18,328,000).
- Bank deposits and cash less bank borrowings

III. Chairman's statements

To the Shareholders:

The board (the "Board") of directors (the "Directors") of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") is hereby pleased to announce the first interim results of the Group since its listing (the "Listing") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 June 2006.

The Listing symbolizes that the Group has entered into a new era of development, and lays a more steady foundation for the realization of our strategic objectives of becoming a global leading diode manufacturer. As set out in the Company's prospectus dated 29 May 2006, the Group's expansion of diode production capacity will be funded from the net proceeds of the Listing, which will enable us to capture the opportunities for the sustainable development of the diode market, and to foster the Group's future developments. Part of the net proceeds will be applied for the construction of a new plant in Changzhou. The Directors are making efforts in identifying land to construct new plants and expand new production facilities. The Company will keep shareholders informed of relevant progress.

In the recent years, the Group has been dedicated to (i) expediting the research and development of diode wafers; (ii) enhancing its internal supply capabilities; (iii) adjusting its additional capacities to diode products with higher gross profits; and (iv) overall enhancing the production and supply capabilities of various diodes. In the first half of the financial year 2006, the Group's principal operations, production and sales of the diodes, recorded significant growth, while profit attributable to the Company's equity holders was reduced by approximately 27.82% to approximately RMB13,229,000 compared with the corresponding period of last year. Earnings per share attributable to the equity holders for the period was RMB0.042. The reduction in attributable profit can be explained by charging one-off expenses for the Listing of approximately RMB9,883,000 to the income statement. Excluding the impact of these one-off expenses, profit attributable to equity holders would be approximately RMB23,112,000, an increase of approximately 26.10% over the same period of last year. As the Company has only been listed since June 2006, the proceeds will be applied for the expansion of production capacities. Therefore, the Directors do not recommend the distribution of an interim dividend.

The Group expects that in the second half year, orders from domestic and overseas customers will further increase, and new products developed in the first half year and the expanded capacities will play its important roles in the second half year and in future business. The Group is confident that business growth in the second half year will continue, and will bring satisfactory returns to the Group and the shareholders. We will further expand our capacities, so as to meet with the increasing demands of domestic and overseas customers and to strengthen our edges for future developments.

I would like to take this opportunity to express our gratitude for the confidence and supports rendered to the Group by the shareholders, investors and customers, and for the incessant efforts and contributions offered by the management and all the staff.

Yang Senmao
Chairman

Hong Kong, 15 September 2006

IV. Management discussion and analysis

(1) Financial review

The Group's production base is located at Changzhou, Jiangsu, the PRC. Its major operating subsidiaries include Changzhou Galaxy Electrical Company Limited ("Galaxy Electrical"), Changzhou Galaxy Semiconductor Company Limited ("Galaxy Semiconductor") and Changzhou Galaxy Technology Developing Company Limited ("Galaxy Technology"). The principal operations of Galaxy Electrical are the manufacture and sale of diodes, while the principal operations of Galaxy Semiconductor and Galaxy Technology are manufacture and sale of wafers, which are mainly used by Galaxy Electrical in the packaging of various diodes.

Turnover

Turnover for the period ended 30 June 2006 was approximately RMB157,275,000. It represented a growth of approximately 47.22% when compared with the turnover of approximately RMB106,828,000 in the corresponding period of last year.

Analysis of the Group's turnover by geographical region and by product type for the period ended 30 June 2006 are set out below:

By geographical region

	For the six months ended 30 June					
	2006		2005		Increase/ (decrease)	Change in percentage
	RMB million (unaudited)	%	RMB million (unaudited)	%	RMB million	%
The PRC (note 1)	131.01	83.30	93.22	87.26	37.79	40.54
Korea (note 2)	6.57	4.17	6.47	6.05	0.10	1.55
Hong Kong (note 2)	8.58	5.46	4.30	4.03	4.28	99.53
Other countries and regions (note 3)	11.12	7.07	2.84	2.66	8.28	291.55
Total	157.28	100.00	106.83	100.00	50.45	47.22

Notes:

1. The PRC is the major market of the Group's products. The Group leverages on the advantages of its own brand-name and product quality, and as at 30 June 2006, the Group had over 1,200 customers in the PRC.
2. Korea and Hong Kong are the major overseas markets of the Group's products. Sales in the Korean and Hong Kong markets continued to grow due to the Group's participation in exhibitions in overseas regions such as Korea and Hong Kong and the efforts in the exploration for commercial opportunities. During the period, the Group has been successful in penetrating international brand customers in Korea.
3. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. Sales in such countries and regions continued to grow due to the Group's efforts in exploring other overseas markets through commercial advertisements and participations in exhibitions.

Turnover by product type

For the six months
ended 30 June

	2006		2005		Increase/ Change in (decrease) percentage	
	<i>RMB</i> <i>million</i> <i>(unaudited)</i>	%	<i>RMB</i> <i>million</i> <i>(unaudited)</i>	%	<i>RMB</i> <i>million</i>	%
Plastic packaged diodes <i>(note 1)</i>	127.27	80.92	84.33	78.94	42.94	50.92
Glass packaged diodes <i>(note 2)</i>	6.57	4.18	9.45	8.84	(2.88)	(30.48)
Bridge rectifiers <i>(note 3)</i>	5.00	3.18	4.54	4.25	0.46	10.13
SMD packaged diodes <i>(note 4)</i>	18.40	11.70	8.03	7.52	10.37	129.14
Others <i>(note 5)</i>	0.04	0.02	0.48	0.45	(0.44)	(91.67)
Total	<u>157.28</u>	<u>100.00</u>	<u>106.83</u>	<u>100.00</u>	<u>50.45</u>	<u>47.22</u>

IV. Management discussion and analysis

Notes:

1. Plastic packaged diodes are the Group's major products. For the period ended 30 June 2006, 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 product range, thereby enabling it to achieve a sales growth of over 50%, as well as an increase in its ratio over the total sales.
2. Glass packaged diodes are products with lower gross profit margins. As the Group is mainly focused in the production and sale of higher gross profit products, its sales and the ratio over the total sales for the period ended 30 June 2006 dropped as compared with the period ended 30 June 2005.
3. Following the expansions in the production of bridge rectifiers and its production which met the requirements of customers, there was slight growth in its sales.
4. SMD plastic packaged diodes are miniaturized diodes under key development by the Group. For the period ended 30 June 2006, through the expansions of the customer base, the Group's sales of the products have recorded rapid growth.
5. Others refer to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.

Cost of sales

Cost of sales for the period ended 30 June 2006 represented approximately 74.51% of the turnover, an increase of approximately 2% compared with approximately 72.49% for the period ended 30 June 2005, which was mainly due to the increase in the cost of the Group's major raw materials (being copper wires and silicon chips).

Gross profit

The Group's gross profit margin for the period ended 30 June 2006 was approximately 25.49%. There was a slight reduction compared with approximately 27.51% for the period ended 30 June 2005 as a result of the increase in cost of sales. Hence, the Group adjusted the product mix by producing and selling higher margin products so as to reduce the impact from the increased cost of major raw materials (copper wires and silicon chips).

Other operating income

Other operating income mainly comprised income arising from the sale of sub-products (30 June 2006: approximately RMB1,213,000; 30 June 2005: approximately RMB1,537,000) and dividend received from available-for-sale investment (30 June 2006: approximately RMB384,000; 30 June 2005: approximately RMB382,000). The decrease in other operating income was mainly due to the decrease in income arising from the sale of sub-products amounting to approximately RMB324,000 as a result of the improvement in production inspection and less by-products available for sale.

Distribution costs

Distribution costs mainly included commission expenses in respect of the sales and distribution activities, wages and salaries of the sales personnel and transportation costs.

Distribution costs for the period ended 30 June 2006 represented approximately 2.65% of the total turnover, showing a decrease compared with approximately 3.26% for the period ended 30 June 2005. This was mainly due to the Group's enhancement in cost control, and reduction in the corresponding proportion in fixed costs following the sales expansions.

Administration expenses

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

Administration expenses for the period ended 30 June 2006 amounted to approximately RMB10,229,000, representing an increase compared with approximately RMB6,557,000 over the period ended 30 June 2005. This was mainly due to the increases in the wages and welfare of the management personnel, bad debt provisions and other general administration expenses.

Wages and welfare of management personnel increased by approximately RMB1,168,000 (30 June 2006: approximately RMB3,842,000; 30 June 2005: approximately RMB2,674,000). In order to enhance the Group's governance, the number of the Group's management members, wages and welfare expenses have all been increased. In line with the growth in turnover, bad debt provisions increased by approximately RMB1,004,000 (30 June 2006: approximately RMB1,314,000; 30 June 2005: approximately RMB310,000). Due to the expansions in the Group's business, other administration expenses also increased correspondingly by approximately RMB1,500,000 (30 June 2006: approximately RMB5,073,000; 30 June 2005: approximately RMB3,573,000).

IV. Management discussion and analysis

Listing expenses

Listing expenses refer to one-off expenses for the Listing of approximately RMB9,883,000 which were charged to the income statement.

Finance costs

Finance costs refer to interest expenses in respect of short-term bank loans obtained.

Interest expenses for the period ended 30 June 2006 was approximately RMB1,069,000, while those for the period ended 30 June 2005 was approximately RMB813,000. The increase in costs was due to an increase in the average bank loans for financing operation activities for the period ended 30 June 2006 compared with the period ended 30 June 2005.

Net current assets

With the increase in the Group's capital structure and increase in operation cash-flow, the Group's net current assets as at 30 June 2006 amounted to approximately RMB134,653,000 (31 December 2005: approximately RMB48,598,000).

Liquidity and financing

Adequate financial resources, in addition to the net proceeds of approximately HK\$70,000,000 from the Listing, balances of bank deposits as at 30 June 2006 and 30 June 2005 were approximately RMB75,205,000 and approximately RMB7,779,000 respectively.

The Group's total borrowings as at 30 June 2006 were approximately RMB45,000,000, an increase of approximately RMB11,300,000 compared with last financial year end date. The borrowings were short-term bank loans maturing within one year.

The Group repaid its debts mainly through the steady recurrent cash-flow derived from its business. With the total proceeds from the Listing, the Group's gearing ratio as at 30 June 2006 was reduced to approximately 40.18%, while the gearing ratio as at 31 December 2005 was approximately 53.85%, which was calculated by dividing the Group's total liabilities by the total assets.

As at 30 June 2006, all the Group's borrowings were settled in Renminbi. Approximately over 90% of the Group's incomes were denominated in Renminbi, and the remaining of approximately 10% were denominated in Hong Kong dollars and US dollars. The Group's borrowings were mainly bearing fixed interests.

The Group's overall inventory and financing policies were aimed to control foreign exchange fluctuations and interest rate fluctuations in individual transactions, and to hedge any significant risks with appropriate financial tools.

Pledge of assets

As at 30 June 2006, the Group has pledged assets comprising land and buildings with net book values of approximately RMB16,484,000 (31 December 2005: approximately RMB16,828,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the period ended 30 June 2006 and 30 June 2005, the Group had no material contingent liabilities.

Employees

As at 30 June 2006, the Group had approximately 2,300 full-time employees in Hong Kong and the PRC, including 2,000 workers provided by employment agents, responsible for management, administration and production. During the period, the relevant employee costs (including directors' remuneration) were approximately RMB14,519,000. The Group ensured the remuneration of employees to be attractive, and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

Use of the proceeds from the Listing

The Company's shares were listed on the Stock Exchange on 9 June 2006. The net proceeds from the offer of shares, after deducting the relevant costs of the Listing, were approximately HK\$70,000,000, out of which approximately RMB6,450,000 were applied for purchase of diode production machines for the period ended 30 June 2006. The balance of the net proceeds has been temporarily deposited in banks.

IV. Management discussion and analysis

(2) Business review

In the first half of the financial year 2006, the Group achieved satisfactory operation results, through continuous expansion of the production capacity of diodes, dedication to the development, production and sale of products with high gross margins, as well as active exploration of domestic and overseas markets. For the period ended 30 June 2006, the Group's turnover and gross profit were approximately RMB157,275,000 and approximately RMB40,095,000 respectively, representing a growth of approximately 47.22% and approximately 36.45% over the corresponding period of last year respectively. Profit attributable to equity holders was approximately RMB13,229,000, while one-off expenses involved in the Listing amounting to approximately RMB9,883,000 were charged to income statement. For illustration purpose only, if excluding the impact of these one-off expenses, profit attributable to equity holders would be approximately RMB23,112,000, an increase of approximately 26.10% over the same period of last year.

The Group has further expanded the diode production facilities. To date, the Group has successfully invested and operated 12 production lines, of which 10 are diode production lines, and the other 2 are diode wafer production lines. Upon completion of the expansion plans of the new investment projects, it will further stabilize the Group's leading position in the diode market in the PRC and enhance the Group's competitiveness.

The Group has been dedicated to the development of new products. In the first half year, the Group developed plastic packaged diodes and new product species such as SMD plastic packaged diodes which have cost advantages. The Group will continue to switch its capacities to products which are more competitive and have higher margin, so that the Group's turnover and profits may continue to grow.

The Group has continued to explore domestic and overseas markets. For the period ended 30 June 2006, there were over 20 new overseas customers while the Group's products were successfully purchased by a number of international reputable companies, thereby enhancing the brand awareness of the Group's products in the domestic as well as global diode markets.

In addition to the satisfactory results, the Group has another encouraging news in the first half of 2006. The Company has been successfully listed on the Main Board of the Stock Exchange on 9 June 2006. The public offer has received an enthusiastic response, which marks a new milestone in the development of the Group's business.

(3) Outlook

The Directors consider that on the basis of the rapid operations in the development of the economy and electronic information industry in the PRC in the first half year, it will continue to grow in the second half year, which will create a favorable environment for the further development of the semiconductor and diode markets. Meanwhile, in order to avoid impact to the Group's gross profit margins caused by the price fluctuations of the major raw material of diodes, the Group will dedicate to promoting continuous and rapid development of the Company in the second half year in accordance with the future plans, and to secure satisfactory returns for shareholders through its efforts in the following respects.

- To speed up development and production of high-end diodes and new diode products of cost advantage through technical innovations, so as to maintain the Company's profitability and strengthen the Company's competitiveness.
- To enable the two newly constructed diode production lines to achieve their capacities as soon as possible through effective investments. At the same time, the Group will expand the production capacity of surface mount device packaged diodes which have a higher profit margin by setting up a new company. To cope with market demands, the Group will further expand and construct new production lines to enhance the outputs of all other diodes, so as to improve the situation of demands out-pacing supplies of the Group's products in the market.
- To strengthen marketing, proactively conducting marketing of the Company's new products and adjustments to product prices, and to further exploit overseas markets, cultivate and develop customer base of excellent quality, so as to enhance market coverage.
- To be dedicated in seeking ideal land locations for the further expansion of diode production facilities, so as to help for the continuously strong development of the Group in the future.

V. DISCLOSURE OF INTEREST

DIRECTORS

As at 30 June 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying share and debentures of the Company and its associated companies (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under 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") contained in the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules"), were as follows:

Ordinary shares of a par value of HK\$0.01 each in the Company as at 30 June 2006

Name of Director	Capacity/ Nature	No. of Shares of interest	Approximate Percentage of Shareholding
Mr. Yang Senmao (楊森茂) ("Mr. Yang")	Interest of controlled corporations (<i>note 1</i>)	279,000,000 (long position)	69.75%

Note:

1. Mr. Yang is the beneficial owner of 60% of each of the issued shares in Rapid Jump Limited and Kalo Hugh Limited and therefore Mr. Yang is deemed, or taken to be, interested in the 279,000,000 Shares which are beneficially owned by Rapid Jump Limited and Kalo Hugh Limited for the purposes of the SFO.

Save as disclosed above, as at 30 June 2006, none of the Directors or 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 corporation (within the meaning of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2006, the interests and short positions of the substantial shareholders, other than Directors or chief executives of the Company, 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 were set out below:

Name	Nature of Interest	Number of shares held	Percentage to total issued share capital
Rapid Jump Limited (note 1)	Beneficial owner	153,000,000 (long position)	38.25%
Kalo Hugh Limited (note 1)	Beneficial owner	126,000,000 (long position)	31.50%
Ms. Zhang Jingru (note 2)	Interest of spouse	279,000,000 (long position)	69.75%
Good Label Trading Limited (note 3)	Beneficial owner	21,000,000 (long position)	5.25%
Zhong Shan Company Limited (note 3)	Interest of a controlled corporation	21,000,000 (long position)	5.25%

Notes:

1. Rapid Jump Limited and Kalo Hugh Limited are 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 and Kalo Hugh 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 and Kalo Hugh Limited. Mr. Yang, Mr. Xu and Mr. Meng are the directors of Rapid Jump Limited and Mr. Yang and Mr. Xu are the directors of Kalo Hugh Limited.

V. DISCLOSURE OF INTEREST

2. Ms. Zhang Jingru is the spouse of Mr. Yang. Under SFO, Ms. Zhang Jingru is deemed to be interested in all the shares in which Mr. Yang is interested.
3. 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 for the purposes of the SFO. Zhong Shan Company Limited is wholly beneficially owned by 江蘇省人民政府 (Jiangsu Provincial People's Government).

Mr. Yang Dawei (楊大偉) and Mr. Cai Feiyun (蔡飛雲) 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 30 June 2006, the Company had not been notified by any substantial shareholders, other than Directors or chief executives of the Company, who had interests or short positions 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.

VI. Corporate Governance

The Company has been committed to establishing and maintaining high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasizes effective internal control, high transparency and accountability to all shareholders promoted by the Board. The Board comprises nine members including three executive Directors, three non-executive Directors and three independent non-executive Directors. The Board will continue to review its practices from time to time in order to improve the Group's corporate governance practices to meet international recognised best practices.

Director's Compliance with the 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. Specific enquiries have been made to all Directors, who have confirmed that they have complied with the required standard set out in the Model Code.

Compliance with the Code on Corporate Governance Practices

Since the Listing, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

VII. Other Information

Audit Committee

The Company has established an audit committee. The audit committee comprises Ms Wong Wai Ling (黃慧玲女士), Mr. Ni Tongmu (倪同本先生) and Mr. Shu Mingding (束明定先生). The audit committee has discussed and reviewed with the Group the unaudited interim results for the six months ended 30 June 2006 and discussed matters such as internal control, financial reporting matters, etc.

Remuneration Committee

The Company has set up a remuneration committee in accordance with Appendix 14 to the Listing Rules. Its members are Mr. Yang Senmao, Ms Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

Purchase, Sale or Redemption of Shares

The Company did not redeem any of its shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's share during the period.

Share Option Scheme

For the period ended 30 June 2006, no options have been granted under the option scheme operated by the Company and no options were outstanding during the period.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the interim period, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

VIII. Condensed Consolidated Financial Statements

Unaudited Interim Results

The Directors are pleased to announce the unaudited condensed consolidated results for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

		For the six months ended 30 June	
	Note	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Turnover	2	157,275	106,828
Cost of sales		(117,180)	(77,443)
Gross profit		40,095	29,385
Other operating income		1,625	2,417
Distribution costs		(4,165)	(3,482)
Administrative expenses		(10,229)	(6,557)
Other operating costs		(106)	(40)
Operating profit		27,220	21,723
Listing expenses		(9,883)	—
Interest on bank borrowings repayable in full within five years		(1,069)	(813)
Profit before taxation	3	16,268	20,910
Taxation	4	(3,344)	(2,677)
Profit for the period		12,924	18,233
Items attributable to:			
Equity holders of the Company		13,229	18,328
Minority Interests		(305)	(95)
Net profit for the period		12,924	18,233
Earnings per share			
—basic (RMB)	6	0.042	0.061

VIII. Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

As at 30 June 2006

		As at 30 June 2006 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2005 <i>RMB'000</i> <i>(audited)</i>
Non-current Assets			
Property, plant and equipment	7	68,309	59,527
Prepaid lease premium for land		2,318	2,345
Available-for-sale investments		162	162
Deferred tax assets		1,517	1,735
		<hr/>	<hr/>
		72,306	63,769
		<hr/>	<hr/>
Current Assets			
Inventories		84,983	63,984
Prepaid lease premium for land		53	53
Trade and other receivables	8	106,525	100,747
Amounts due from a related company		6,923	7,168
Amounts due from directors		—	4
Bank balances and cash		75,205	7,779
		<hr/>	<hr/>
		273,689	179,735
		<hr/>	<hr/>

		As at 30 June 2006 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2005 <i>RMB'000</i> <i>(audited)</i>
	<i>Note</i>		
Current Liabilities			
Trade and other payables	9	81,939	71,030
Amount due to a related company		8,443	15,935
Amount due to directors		—	1,169
Dividend payable to the then shareholder		—	5,151
Tax payable		3,654	4,152
Secured bank borrowings	11	45,000	33,700
		<u>139,036</u>	<u>131,137</u>
Net Current Assets		<u>134,653</u>	<u>48,598</u>
		<u>206,959</u>	<u>112,367</u>
Capital and Reserves			
Paid-in Capital	12	4,080	—
Reserves		199,038	108,221
Equity attributable to the equity holders of the Company		203,118	108,221
Minority interests		3,841	4,146
		<u>206,959</u>	<u>112,367</u>

VIII. Condensed Consolidated Financial Statements

Combined Statement of Changes in Equity

	Paid-in Capital RMB'000	Special Reserves RMB'000	Statutory Reserves RMB'000	Other Reserves RMB'000	Currency Exchange Difference Reserves RMB'000	Share Premium RMB'000	Accumulated profits RMB'000	Equity attributable to the equity holders of the Company RMB'000	Minority Interests RMB'000	Total RMB'000
As at 31 December 2004 (audited)	17,397	—	2,849	33,804	—	—	14,829	68,879	4,497	73,376
Capital Injection	14,655	—	—	—	—	—	—	14,655	—	14,655
Net profit for the period	—	—	—	—	—	—	18,328	18,328	(95)	18,233
Dividend distributed to the then shareholders before reorganisation	—	—	—	—	—	—	(14,727)	(14,727)	—	(14,727)
Appropriation	—	—	823	—	—	—	(823)	—	—	—
As at 30 June 2005 (unaudited)	32,052	—	3,672	33,804	—	—	17,607	87,135	4,402	91,537
Net profit for the year	—	—	—	—	—	—	21,086	21,086	(256)	20,830
Appropriation	—	—	1,505	—	—	—	(1,505)	—	—	—
Effective upon group reorganization	(32,052)	32,052	—	—	—	—	—	—	—	—
As at 31 December 2005 (audited)	—	32,052	5,177	33,804	—	—	37,188	108,221	4,146	112,367
Profit for the period	—	—	—	—	—	—	13,229	13,229	(305)	12,924
Issue of new shares (note 12)	4,080	—	—	—	—	83,640	—	87,720	—	87,720
Share issue costs	—	—	—	—	—	(6,058)	—	(6,058)	—	(6,058)
Foreign Exchange Difference	—	—	—	—	6	—	—	6	—	6
As at 30 June 2006 (unaudited)	4,080	32,052	5,177	33,804	6	77,582	50,417	203,118	3,841	206,959

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Net cash from operating activities	2,160	7,586
Net cash used in investing activities	(11,503)	(19,624)
Net cash from financing activities	76,763	13,220
Effect of exchange rate changes on cash and cash equivalents	6	—
Net increase in cash and cash equivalents	<u>67,426</u>	<u>1,182</u>
Cash and cash equivalents at beginning of period	<u>7,779</u>	<u>6,597</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u><u>75,205</u></u>	<u><u>7,779</u></u>

VIII. Condensed Consolidated Financial Statements

Notes to the Condensed Financial Statements

1. *Group reorganisation, preparation basis and accounting policies*

The Company was incorporated and registered as an exempted company with limited liability in Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 23 June 2005. Pursuant to a group reorganisation, as more fully explained in the paragraph headed “Corporate Reorganisation” in Appendix V to the prospectus dated 29 May 2006 (the “Reorganisation”), the Company became the holding company of the Group since 9 May 2006. The Company’s shares were listed on the main board of the Stock Exchange on 9 June 2006.

In preparation for the Listing, the Company underwent a corporate reorganization. The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the condensed consolidated financial information have been prepared as if the Company had been the holding company of other companies comprising the Group throughout the period ended 30 June 2006, rather than from the date on which the Reorganisation was completed. The comparative figures for period ended 30 June 2005 and as at 31 December 2005 have been presented on the same basis.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with Hong Kong Accounting standard No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and methods adopted in the preparation of these unaudited interim results are consistent with those used in the prospectus dated 29 May 2006 (the “Prospectus”). Therefore, these condensed financial information and the Prospectus should be read together.

2. Turnover and segment information

The Group is engaged solely in the manufacture and sale of electrical products and operates in the PRC. All the identifiable assets and liabilities of the Group are located in the PRC. Accordingly, no business or geographical segment is presented.

3. Profit before taxation

	For the six months ended 30 June	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Profit before taxation are stated net of:		
Director's emoluments (including retirement benefit plan contributions)	305	170
Other staff costs	13,675	11,545
Retirement benefit scheme contributions, (excluding directors)	539	421
Total staff costs	14,519	12,136
Provisions for bad and doubtful debts	1,314	310
Amortisation of lease premium for land	27	27
Depreciation and amortisation of property, plant and equipment	2,774	2,220
Listing expenses charged to the Income Statement	9,883	—
Disposal of property, plant and equipment and after crediting:	—	246
Interest income	16	15

VIII. Condensed Consolidated Financial Statements

4. Taxation

	For the six months ended 30 June	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Taxation expenses include:		
PRC enterprise income tax	3,562	2,723
Deferred tax	(218)	(46)
Total	<u>3,344</u>	<u>2,677</u>

No provision for Hong Kong profits tax had been made for the period ended 30 June 2006 as the income neither arises in, nor is derived from, Hong Kong.

Galaxy Electrical and Galaxy Semiconductor are regarded as high-technology companies according to the related PRC law and regulations and are entitled to a preferential tax rate of 15%. As the profit-making year of Galaxy Technology has not commenced, as at each balance sheet date, the company was not approved by the local tax bureau as a high-technology company. Galaxy Technology is subject to an income tax rate of 24% as at each balance sheet date.

Pursuant to the relevant laws and regulations in the PRC, Galaxy Electrical and Galaxy Semiconductor are entitled to exemption from the PRC profits tax for the first two years commencing from their first profit-making year of operation, after offsetting all unexpired tax losses brought forward from previous years, and will be entitled to a 50% relief from the PRC enterprise profits tax for the following three years. The tax preferential treatment for Galaxy Electrical has been expired and Galaxy Electrical is subject to profits tax at a rate of 15% for the entire relevant period. Galaxy Semiconductor commenced its first profit-making year in 2002 and was eligible for the exemption of half of the income tax from 2004 to 2006 (subject to a profits tax rate of 7.5%).

5. Interim Dividend

The Directors do not recommend the distribution of an interim dividend for the period ended 30 June 2006.

No dividend has been paid or declared by the Company since its incorporation. For the period ended 30 June 2005, Galaxy Electrical and Galaxy Semiconductor declared a dividend of approximately RMB14,727,000 to the then shareholders before reorganization. The rate of dividend and the number of shares ranking for dividends declared by Galaxy Electrical and Galaxy Semiconductor are not presented as such information is not meaningful for the purpose of this report.

6. Earnings per share

	For the six months ended 30 June	
	2006 (unaudited)	2005 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	13,229	18,328
Number of issued ordinary shares (in '000 shares)	312,707	300,000
Earnings per share (RMB'000 per shares)	0.042	0.061

The calculation of the basic earnings per share for the period ended 30 June 2006 is based on the profit attributable to equity holders of the Company of approximately RMB13,229,000 (for the period ended 30 June 2005: approximately RMB18,328,000) and the weighted average number of 312,707,182 (for the period ended 30 June 2005: 300,000,000) issued shares during the period. The weighted average number of shares for the period ended 30 June 2005 and 2006 have been retrospectively adjusted for the effect of the capitalisation of share premium and the effect of the Reorganisation of the Group as detailed in the Prospectus.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period.

VIII. Condensed Consolidated Financial Statements

7. *Property, plant and equipment*

For the period ended 30 June 2006, the Group acquired property, plant and equipment amounting to approximately RMB11,556,000 (for the period ended 30 June 2005: approximately RMB10,521,000).

8. *Trade and other receivables*

The Group generally allows an average credit period of 90 days to 120 days to their trade customers.

The following is an aged analysis of trade receivables as at each balance sheet date:

	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
0 - 30 days	33,495	51,244
31 - 60 days	24,374	16,526
61 - 90 days	18,153	8,584
91 - 120 days	13,418	8,642
121 - 180 days	3,374	2,599
Over 180 days	11,203	9,076
	<hr/>	<hr/>
	104,017	96,671
Less : Provisions for bad and doubtful debts	(7,482)	(6,168)
	<hr/>	<hr/>
	96,535	90,503
Other receivables	9,990	10,244
	<hr/>	<hr/>
	106,525	100,747
	<hr/> <hr/>	<hr/> <hr/>

The Directors consider that the carrying amount of trade and other receivables approximates its fair value.

9. Trade and other payables

The following is an aged analysis of trade payables as at each balance sheet date:

	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
0 - 30 days	16,529	24,782
31 - 60 days	16,666	9,386
61 - 180 days	19,793	12,418
Over 180 days	11,482	4,222
	<hr/>	<hr/>
	64,470	50,808
	<hr/>	<hr/>
Other payables	17,469	20,222
	<hr/>	<hr/>
	81,939	71,030
	<hr/> <hr/>	<hr/> <hr/>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximates its fair value.

10. Operating lease commitments

As at 30 June 2006, the Group had commitments for future minimum lease payments under irrevocable operating leases in respect of rented equipment and property which fall due amounting to approximately RMB1,272,000 (30 June 2005: approximately RMB95,000).

11. Bank borrowings

For the period ended 30 June 2006, the amount of the Group's bank borrowings increased to approximately RMB45,000,000 (for the period ended 30 June 2005: approximately RMB33,700,000).

VIII. Condensed Consolidated Financial Statements

12. Share capital

Ordinary shares of a par value of HK\$0.01 each	Number of share	Amount HK\$ (<i>unaudited</i>)	Amount RMB (<i>unaudited</i>)
Authorised:			
As at the date of incorporation (Note a)	38,000,000	380,000	387,600
Increased on 17 May 2006 (Note b(i))	1,962,000,000	19,620,000	20,012,400
	<u>2,000,000,000</u>	<u>20,000,000</u>	<u>20,400,000</u>
As at 30 June 2006	<u>2,000,000,000</u>	<u>20,000,000</u>	<u>20,400,000</u>
Issued and fully paid:			
Nil-paid shares allotted and issued as at the date of incorporation (Note a)	1	—	—
Shares issued upon group reorganization (Note b(ii))	9,999	100	102
Issue of shares on capitalisation of share premium account (Note b(iii))	299,990,000	2,999,900	3,059,898
Issue of shares for offering (Note c)	100,000,000	1,000,000	1,020,000
	<u>400,000,000</u>	<u>4,000,000</u>	<u>4,080,000</u>
As at 30 June 2006	<u>400,000,000</u>	<u>4,000,000</u>	<u>4,080,000</u>

During the period from 23 June 2005 (the date of incorporation) to 30 June 2006, changes in the share capital of the Company are stated as follows:

- a. The Company was incorporated on 23 June 2005. Its authorized share capital was HK\$380,000, divided into 38,000,000 Shares of a par value of HK\$0.01 each. As at the date of incorporation, the Company allotted and issued one nil-paid share.
- b. Pursuant to the written resolution passed by all the shareholders of the Company on 17 May 2006 to effect the Reorganisation of the Group, the following movements in the authorized and issued share capital of the Company took place:
 - (i) The authorized 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.

- (ii) On 9 May 2006, the Company acquired from Rapid Jump Limited the entire issued share capital of Sun Light Planet, in consideration of which the Company (1) allotted and issued 9,999 shares, credited as fully paid, to Rapid Jump Limited; and (2) one nil-paid share of Rapid Jump Limited was credited as fully paid at par.
 - (iii) 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 capitalization of an amount of HK\$2,999,900 in the share premium account of the Company.
- c. On 9 June 2006, the Company issued an aggregate of 100,000,000 ordinary shares of a par value of HK\$0.01 each at a price of HK\$0.86 per share by offering.
- During the period, all issued shares ranked pari passu with the then existing shares in all respects.

13. Capital commitments

As at 30 June 2006, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB3,454,000 (31 December 2005: approximately RMB8,864,000).

14. Pledge of assets

As at 30 June 2006, the land and buildings pledged to banks to secure general banking facilities granted to the Group amounted to approximately RMB16,484,000 (31 December 2005: approximately RMB16,828,000).

VIII. Condensed Consolidated Financial Statements

15. Related party transactions

During the period, the Group entered into the following transactions with related parties

Names of related parties	Nature of transactions	For the six months ended 30 June	
		2006 RMB'000	2005 RMB'000
Fulling & CEIEC Co., Ltd.	Sales of goods	7,966	6,662
Changzhou Lucky Star Electronic Equipment Co., Ltd.	Purchase of goods	11,498	8,112
Shenzhen Yuechang Industrial Co., Ltd.	Sales of goods	3,410	1,955
Industrial Co., Ltd.	Consultation fee	1,225	1,713
Changzhou Galaxy Hi-New Electrical Parts Co., Ltd.	Operating lease	278	—

16. Events after the balance sheet date

Up to the approval date of these financial statements, there was no material post balance sheet event required to be disclosed by the Group.