

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)

2007 Interim Report





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I. Company information

Company Name: Galaxy Semi-Conductor Holdings Limited
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



Principal Banks

In 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

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
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



I. Company information

Legal advisers

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

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

Below is a summary of the unaudited condensed results for the six months ended 30 June 2007 and the relevant audited/unaudited comparative figures in prior corresponding period:

| | For the six months ended 30 June | | Increase/ (decrease) RMB'000 | Change in percentage % |
|-------------------------------|--|--|------------------------------------|------------------------------|
| | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) | | |
| Turnover | 177,364 | 157,275 | 20,089 | 12.77 |
| Gross profit | 37,176 | 40,095 | (2,919) | (7.28) |
| Operating profits | 19,990 | 27,220 | (7,230) | (26.56) |
| Listing expenses | — | 9,883 | — | — |
| Profit before income tax | 16,276 | 16,268 | 8 | 0.05 |
| Profit for the period | 13,793 | 12,924 | 869 | 6.72 |
| Attributable to: | | | | |
| Equity holders of the company | 14,224 | 13,229 | 995 | 7.52 |
| Minority interests | (431) | (305) | (126) | 41.31 |
| | As at 30 June 2007 RMB'000 (unaudited) | As at 31 December 2006 RMB'000 (audited) | Increase/ (decrease) RMB'000 | Change in percentage % |
| Net cash (note) | (86,787) | (31,955) | (54,832) | 171.59 |
| Net assets | 230,746 | 221,813 | 8,933 | 4.03 |
| Gearing ratio | 49.71% | 43.81% | 5.90% | 13.47 |

Note:

Net cash: Bank deposits and cash less bank borrowings



III. Chairman's statements

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 Interim Report of the Company for the period ended 30 June 2007.

In the first half of the financial year 2007, unaudited turnover of the Group was RMB177,364,000, representing an increase of 12.77% over the corresponding period of 2006. Profit attributable to equity holders of the Company amounted to RMB14,224,000, representing an increase of 7.52% over the same period of 2006. Basic earnings per share decreased by RMB0.006 when compared to the same period of 2006. As the Company has just distributed the year-end dividend of the year 2006 in June 2007, the Directors do not recommend the distribution of an interim dividend.

During the period under review, with an aim to further expand the Group's production capacity and the application of general working capital, the Company has entered into a facility agreement in March 2007 with a syndicate of banks and financial institutions, and has successfully raised syndicated bank loans totaling 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 successively in the expansion of the Group's production capacity and operations. Changzhou Galaxy Century Micro-Electronics Company Limited, a wholly foreign owned enterprise indirectly wholly owned by the Company was officially launched and commenced production in July 2007 after construction for almost 8 months. It is anticipated to achieve a monthly production capacity of 30,000,000 pieces of micro surface mount components in the second half year of 2007. To accelerate the realization of the Company's strategic objective of becoming a global leading diode manufacturer, Profit Champ Limited, an indirect wholly owned subsidiary of the Company, has also entered into an agreement with Taizhou City Gaogang Science & Technology Park Development and Investment Company Limited (泰州市高港科技創業園開發投資有限責任公司). Through the acquisition of a parcel of 50-acre land and its ancillary buildings located in the Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC, the Company will set up a semiconductor device production line dedicated to the production of plastic-packaged diodes thereon.



The Group expects that orders from domestic and overseas customers will further increase in the second half year of 2007. Furthermore, the expanding production capacities in recent years, and new products such as micro surface mount components developed in the first half year of 2007 will play important roles in the second half year of 2007 as well as in future operations. The Group is confident that business growth in the second half year of 2007 will be enhanced, and will bring more returns to the Group and the shareholders of the Company (the "Shareholders"). Through the continued development of new products and the further expansion of production capacities, we will focus on the planning and construction of new projects, strengthen sales and market development activities and enhance corporate governance to meet the increasing demand from domestic and overseas customers. All these aim at maintaining the strong business development of the Group.

Lastly, on behalf of the board ("the Board") of directors (the "Directors"), I would like to take this opportunity to express our gratitude to our Shareholders, investors 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.

Yang Senmao
Chairman

Hong Kong, 5 September 2007

IV. Management discussion and analysis

(1) Financial review

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. The Group's production base is located in Changzhou, Jiangsu Province, the PRC, and its operations are mainly conducted through its five PRC subsidiaries, namely Changzhou Galaxy Electrical Company Limited ("Galaxy Electrical"), Changzhou Galaxy Semiconductor Company Limited ("Galaxy Semiconductor"), Changzhou Galaxy Technology Developing Company Limited ("Galaxy Technology"), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New") and Changzhou Galaxy Century Micro-Electronics Company Limited ("Galaxy Micro-Electronics"). The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Micro-Electronics are 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, Galaxy Hi-New and Galaxy Micro-Electronics in the packaging of various diodes.

Turnover

Turnover for the period ended 30 June 2007 was approximately RMB177,364,000. It represented a growth of approximately 12.77% when compared with the turnover of approximately RMB157,275,000 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 2007 are set out below:

By geographical region

| | 2007 | | 2006 | | Increase/ (decrease) RMB million | Change in percentage % |
|---|-------------------------------|---------------|-------------------------------|---------------|---|------------------------------|
| | RMB million (unaudited) | % | RMB million (unaudited) | % | | |
| The PRC (note 1) | 157.18 | 88.62 | 131.01 | 83.30 | 26.17 | 19.98 |
| Korea (note 2) | 5.03 | 2.84 | 6.57 | 4.17 | (1.54) | (23.44) |
| Hong Kong (note 2) | 3.05 | 1.72 | 8.58 | 5.46 | (5.53) | (64.45) |
| Other countries and regions (note 3) | 12.10 | 6.82 | 11.12 | 7.07 | 0.98 | 8.81 |
| Total | 177.36 | 100.00 | 157.28 | 100.00 | 20.08 | 12.77 |



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 2007, 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. The Group will strive to explore commercial opportunities through continual participation in exhibitions in overseas regions such as Korea and Hong Kong.
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

| | 2007 | | 2006 | | Increase/ (decrease) RMB million | Change in percentage |
|-------------------------------------|-------------------------------|---------------|-------------------------------|---------------|---|-------------------------|
| | RMB million (unaudited) | % | RMB million (unaudited) | % | | |
| Plastic packaged diodes (note 1) | 141.67 | 79.88 | 127.27 | 80.92 | 14.40 | 11.31 |
| Glass packaged diodes (note 2) | 8.46 | 4.77 | 6.57 | 4.18 | 1.89 | 28.77 |
| Bridge rectifiers (note 3) | 5.72 | 3.23 | 5.00 | 3.18 | 0.72 | 14.40 |
| SMD packaged diodes (note 4) | 21.45 | 12.09 | 18.40 | 11.70 | 3.05 | 16.58 |
| Others (note 5) | 0.06 | 0.03 | 0.04 | 0.02 | 0.02 | 50.00 |
| Total | 177.36 | 100.00 | 157.28 | 100.00 | 20.08 | 12.77 |

IV. Management discussion and analysis

Notes:

1. Plastic packaged diodes are the Group's major products. For the period ended 30 June 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 product range, thereby enabling the Group to achieve a steady sales growth.
2. During the period, the Group continued in the development and production of glass packaged diodes in order to meet the requirements of customers. As a result, both its sales and the ratio over the total sales went up.
3. Following the expansions in the production of bridge rectifiers 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 2007, through the expansions of the customer base, the Group's sales of the products had 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 2007 represented approximately 79.04% of the turnover, an increase of approximately 4.53% compared with approximately 74.51% for the period ended 30 June 2006, which was mainly due to the increase in the cost of the Group's major raw materials (being copper and silicon chips).

Copper and silicon chips accounted for over 50% of the cost of sales for the period ended 30 June 2007. During the period ended 30 June 2007, average purchase prices of copper and silicon chips increased by approximately 11.43% and 12.51% respectively as compared with the period ended 30 June 2006.

The turnover of the Group increased by 12.77% while the cost of sales increased by 19.63% for the period ended 30 June 2007 as a result of the increase in the cost of raw material as discussed above.

Gross profit

The Group's gross profit margin for the period ended 30 June 2007 was approximately 20.96%. There was a slight reduction compared with approximately 25.49% for the period ended 30 June 2006 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 (being copper and silicon chips).



Other operating income

Other operating income mainly comprised income arising from the sale of waste and sub-products (30 June 2007: approximately RMB1,327,000; 30 June 2006: approximately RMB1,213,000), interest income (30 June 2007: approximately RMB188,000; 30 June 2006: approximately RMB16,000) and dividend received from available-for-sale investment (30 June 2007: nil; 30 June 2006: approximately RMB384,000).

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 2007 represented approximately 2.66% of the total turnover, which remained broadly flat compared with approximately 2.65% for the period ended 30 June 2006.

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 2007 amounted to approximately RMB13,929,000, representing an increase compared with approximately RMB10,229,000 over the period ended 30 June 2006. This was mainly due to the increases in the wages and welfare of the management personnel, bad debt provisions and other general administration expenses.

During the period ended 30 June 2007, in order to enhance the Group's governance, the number of the Group's management members, wages and welfare expenses have increased by approximately RMB1,781,000. After the Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"), relevant listing expenses (including legal and other professional fees) increased by approximately RMB1,185,000. Due to the expansions in the Group's business, other administration expenses also increased correspondingly by approximately RMB734,000.

IV. Management discussion and analysis

Listing expenses

During the period ended 30 June 2006, 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 bank loans obtained.

Interest expenses for the period ended 30 June 2007 was approximately RMB3,714,000, while those for the period ended 30 June 2006 was approximately RMB1,069,000. The increase in costs was due to an increase in the average bank loans for financing operation activities for the period ended 30 June 2007 compared with the period ended 30 June 2006.

Taxation

The effective tax rate as at 30 June 2007 was 15.26%, showing a decrease compared with approximately 20.56% as at 30 June 2006. The decrease in effective tax rate was mainly due to the one-off listing expenses of approximately 9,690,000 for the period ended 30 June 2006 which was not allowed to be set off for tax purposes.

Net profit for the period

Due to the above reasons, net profit ratio dropped from 8.22% for the period ended 30 June 2006 to 7.78% for the period ended 30 June 2007.

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 2007 amounted to approximately RMB143,514,000 (31 December 2006: approximately RMB110,986,000).



Liquidity and financing

With the net proceeds from the Listing of approximately HK\$70,000,000, in addition to the syndicated bank loans totaling HK\$120,000,000 obtained in 2007, balances of bank deposits as at 30 June 2007 and 30 December 2006 were approximately RMB55,613,000 and approximately RMB33,045,000 respectively.

The Group's total borrowings as at 30 June 2007 were approximately RMB142,400,000, representing an increase of approximately RMB77,400,000 compared with 31 December 2006. Of which, an amount of RMB90,020,000 was short-term bank loans maturing within one year, while RMB52,380,000 was long-term bank loans maturing after one year.

The Group repaid its debts mainly through the steady recurrent cash-flow derived from its business. The Group's gearing ratio as at 30 June 2007 increased to approximately 49.71%, while the gearing ratio as at 31 December 2006 was approximately 43.81%, which was calculated by dividing the Group's total liabilities by the total assets.

As at 30 June 2007, the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 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. As at 30 June 2007, the Group's borrowings were bearing fixed interest rate and floating interest rate amounted to RMB26,000,000 and RMB116,400,000 respectively.

In 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 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. The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. Since Renminbi had experienced an appreciation in 2006, the Board considered that the syndicated bank loans in Hong Kong currency would be favourable to the Group in 2007.

IV. Management discussion and analysis

The Group had not exposed to any currency hedging facility for the period ended 30 June 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.

Pledge of assets

As at 30 June 2007, the Group had pledged assets comprising land and buildings with net book values of approximately RMB11,385,000 (31 December 2006: approximately RMB18,225,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the period ended 30 June 2007 and 30 June 2006, the Group had no material contingent liabilities.

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Employees

As at 30 June 2007, the Group had approximately 2,400 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 RMB17,411,000 (30 June 2006: 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.

For the period ended 30 June 2007, the amount spent on the purchase of diode production equipment was approximately RMB46,300,000, the amount spent on the construction of factory buildings was approximately RMB1,800,000, while payments on land use rights was approximately RMB8,700,000. The amount paid for the acquisition of Seven Rainbows Limited and its shareholder's loan was approximately RMB13,200,000.



(2) Business review

In the first half of the financial year 2007, the Group experienced steady growth in its business. For the period ended 30 June 2007, the Group's turnover amounted to approximately RMB177,364,000, representing a growth of approximately 12.77% over the corresponding period of last year; the gross profit ratio was approximately 20.96%, representing a decrease of 4.53% over the same period last year; profit attributable to equity holders was approximately RMB14,224,000, representing an increase of 7.52% over the same period last year. In March this year, the Group has successfully raised syndicated bank loans totaling HK\$120,000,000 which further strengthened the financial position of the Group and provided more resources to consolidate the Group's leading position in the diode market in the PRC.

During the period, sales of plastic-packaged diodes in the PRC market remained to be the Group's major sources of income. For the period ended 30 June 2007, sales of various diodes and plastic-packaged diodes in the PRC market reached approximately RMB157,190,000 and RMB141,668,000 respectively, accounting for approximately 88.63% and 79.87% of the total turnover.

In order to enhance production capacities and efficiency, the Group's production and equipment improvement projects were carried out on schedule during the period with capacity expanded as planned. In 2006, Changzhou Galaxy Hi-New Electric Parts Co., Ltd., which was acquired by our indirect wholly-owned subsidiary, Sun Light Planet Limited, had commenced production. Its production line is mainly devoted to the production of plastic-packaged diodes and has generated both sales and profit. Changzhou Galaxy Century Micro-Electronics Company Limited, invested by our indirect wholly-owned subsidiary, Profit Champ Limited, was incorporated in October 2006. Its micro surface mount components developed during the period performed a successful trial run in June and the monthly production capacity was expected to reach 30,000,000 pieces in the second half year. This will further improve capacity, raise technological standard and enhance profitability.

In July 2007, Profit Champ Limited has entered into an agreement with Taizhou City Gaogang Science & Technology Park Development and Investment Company Limited (泰州市高港科技創業園開發投資有限責任公司). Through the acquisition of a parcel of 50-acre land and its ancillary buildings located in Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC, the Company will set up a semiconductor device production line dedicated to the production of plastic-packaged diodes. This will expand the production scale of the Group's diodes and increase market coverage.



IV. Management discussion and analysis

(3) Outlook

The Directors believe that the world economy will prolong its growth in the second half year of 2007, and the PRC economy will continue to proceed rapidly. The demand for semiconductors and diodes will be driven by the continual development of the manufacturing industries of home appliances, electrical lighting, computer and external device. The Group's products are expected to see steady growth in sales in the second half year of 2007. It will focus on promoting the rapid development of the Group in the following aspects, and strive to obtain satisfactory returns for the Shareholders:

- To fully utilize the capacities to satisfy the increasing demand of customers for products.
- To observe closely the market changes and to continuously develop products with higher margins, so as to enhance market coverage on high-margin products.
- To focus on technological reforms and process advancement for product quality improvement and cost reduction.
- To perfect the planning and construction for a parcel of land with an area of 40,049 m², belonged to Changzhou Galaxy Century Micro-Electronics Company Limited, so as to speed up the capacity expansion of the new products for micro surface mount components.
- To facilitate the Taizhou diode production project and to speed up its infrastructure construction as well as the installation, trial run and production of the plastic-packaged diode production line.

V. DISCLOSURE OF INTEREST

DIRECTORS

As at 30 June 2007, 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 the 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 2007

| Name of Director | Capacity/ Nature | No. of Shares held | 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 2007, 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.

V. DISCLOSURE OF INTEREST

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the interests and short positions of the substantial shareholders and other 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 |
|--|--------------------------------------|--------------------------------|--|
| Substantial shareholders | | | |
| 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% |
| Others | | | |
| 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:

- 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 2007, 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 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

For the six months ended 30 June 2007, the Company has complied with the code provisions set out in 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 (倪同木先生) 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 2007 and this interim report 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 2007.

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 Shares during the period.

Share Option Scheme

For the period ended 30 June 2007, no options had 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 2007, together with the comparative figures for the corresponding period in 2006 as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

| | Note | For the six months ended 30 June | |
|--|------|-------------------------------------|--------------------------------|
| | | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) |
| Turnover | 3 | 177,364 | 157,275 |
| Cost of sales | | (140,188) | (117,180) |
| Gross profit | | 37,176 | 40,095 |
| Other operating income | | 1,831 | 1,625 |
| Distribution costs | | (4,720) | (4,165) |
| Administrative expenses | | (13,929) | (10,229) |
| Other operating costs | | (368) | (106) |
| Operating profit | | 19,990 | 27,220 |
| Listing expenses | | — | (9,883) |
| Interest on bank borrowings repayable in full within five years | | (3,714) | (1,069) |
| Profit before taxation | 4 | 16,276 | 16,268 |
| Taxation | 5 | (2,484) | (3,344) |
| Profit for the period | | 13,792 | 12,924 |
| Items attributable to: | | | |
| Equity holders of the Company | | 14,224 | 13,229 |
| Minority Interests | | (432) | (305) |
| Net profit for the period | | 13,792 | 12,924 |
| Earnings per share | | | |
| —basic (RMB) | 7 | 0.036 | 0.042 |



Condensed Consolidated Balance Sheet

As at 30 June 2007

| | | As at 30 June 2007 RMB'000 (unaudited) | As at 31 December 2006 RMB'000 (audited) |
|---|-------------|--|--|
| | <i>Note</i> | | |
| Non-current Assets | | | |
| Property, plant and equipment | 8 | 115,088 | 84,301 |
| Prepaid lease premium for land–non-current portion | | 17,160 | 8,792 |
| Available-for-sale investments | | 162 | 162 |
| Deferred tax assets | | 6,253 | 5,293 |
| Deposits paid for acquisition of property, plant and equipment | | 949 | 4,406 |
| Deposits paid for prepaid lease premium for land | | — | 7,873 |
| | | <hr/> 139,612 | <hr/> 110,827 |
| Current Assets | | | |
| Inventories | | 122,448 | 121,489 |
| Prepaid lease premium for land–current portion | | 407 | 133 |
| Trade and other receivables | 9 | 134,594 | 120,686 |
| Amounts due from related companies | | 6,195 | 8,579 |
| Bank balances and cash | | 55,613 | 33,045 |
| | | <hr/> 319,257 | <hr/> 283,932 |

VIII. Condensed Consolidated Financial Statements

| | | As at 30 June 2007 RMB'000 (unaudited) | As at 31 December 2006 RMB'000 (audited) |
|---|-------------|--|--|
| | <i>Note</i> | | |
| Current Liabilities | | | |
| Trade and other payables | 10 | 75,199 | 83,952 |
| Amount due to related companies | | 2,524 | 5,414 |
| Amount due to directors | | — | 9,900 |
| Tax payable | | 8,000 | 8,680 |
| Bank borrowings | 12 | 90,020 | 65,000 |
| | | <hr/> | <hr/> |
| | | 175,743 | 172,946 |
| | | <hr/> | <hr/> |
| Net Current Assets | | 143,514 | 110,986 |
| Total assets less current liabilities | | 283,126 | 221,813 |
| Non-current liabilities | | | |
| Bank borrowings | | 52,380 | — |
| | | <hr/> | <hr/> |
| Net assets | | 230,746 | 221,813 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Capital and Reserves | | | |
| Paid-in Capital | 13 | 4,080 | 4,080 |
| Reserves | | 224,099 | 214,734 |
| | | <hr/> | <hr/> |
| Equity attributable to the equity holders of the Company | | 228,179 | 218,814 |
| Minority interests | | 2,567 | 2,999 |
| | | <hr/> | <hr/> |
| | | 230,746 | 221,813 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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 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 |
| Effects of Group Reorganisation | — | (114,614) | — | — | — | 114,614 | — | — | — | — |
| Issue of shares on capitalisation of share premium account | 3,060 | — | — | — | — | (3,060) | — | 87,720 | — | — |
| Issue of shares through initial public offer | 1,020 | — | — | — | — | 86,700 | — | — | — | 87,720 |
| Share issue expenses | — | — | — | — | — | (6,057) | — | (6,057) | — | (6,057) |
| Foreign exchange difference | — | — | — | — | 5 | — | — | 5 | — | 5 |
| As at 30 June 2006 (unaudited) | 4,080 | (82,562) | 5,177 | 33,804 | 5 | 192,197 | 50,417 | 203,118 | 3,841 | 206,959 |
| Profit for the year | — | — | — | — | — | — | 16,973 | 16,973 | (842) | 16,131 |
| Exchange differences arising on translation of foreign operations recognized directly in equity | — | — | — | — | (1,277) | — | — | (1,277) | — | (1,277) |
| As at 31 December 2006 (audited) | 4,080 | (82,562) | 5,177 | 33,804 | (1,272) | 192,197 | 67,390 | 218,814 | 2,999 | 221,813 |
| Profit for the period | — | — | — | — | — | — | 14,224 | 14,224 | (432) | 13,792 |
| Exchange differences arising on translation of foreign operations recognized directly in equity | — | — | — | — | 1,444 | — | — | 1,444 | — | 1,444 |
| Dividends for the year 2006 paid in June 2007 | — | — | — | — | — | — | (6,303) | (6,303) | — | (6,303) |
| As at 30 June 2007 (unaudited) | 4,080 | (82,562) | 5,177 | 33,804 | 172 | 192,197 | 75,311 | 228,179 | 2,567 | 230,746 |

VIII. Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) |
| Net cash from operating activities | (6,956) | 2,160 |
| Net cash used in investing activities | (33,117) | (11,503) |
| Net cash from financing activities | 61,197 | 76,763 |
| Effect of exchange rate changes on cash and cash equivalents | 1,444 | 6 |
| Net increase in cash and cash equivalents | 22,568 | 67,426 |
| Cash and cash equivalents at beginning of period | 33,045 | 7,779 |
| Cash and cash equivalents at end of period, represented by bank balances and cash | 55,613 | 75,205 |



Notes to the Condensed Financial Statements

1. Basis of preparation

These unaudited consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". These unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. Accounting Policies

The accounting policies and basis of presentation adopted are consistent with those of the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

| | |
|--------------------|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standard and interpretation, which are relevant to the Group, have been issued but are not effective for 2007 and have not been early adopted by the Group:

| | |
|------------------|---|
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 11 | HKFRS 2-Group and Treasury Share Transactions |

The adoption of these new standard or interpretation will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

VIII. Condensed Consolidated Financial Statements

3. 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.

4. Profit before taxation

| | For the six months ended 30 June | |
|---|-------------------------------------|--------------------------------|
| | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) |
| Profit before taxation are stated net of: | | |
| Director's emoluments (including retirement benefit plan contributions) | 1,134 | 305 |
| Other staff costs | 15,612 | 13,675 |
| Retirement benefit scheme contributions, (excluding directors) | 665 | 539 |
| Total staff costs | 17,411 | 14,519 |
| Impairment loss on trade receivables | 1,010 | 1,314 |
| Amortisation of prepaid lease premium for land | 214 | 27 |
| Cost of inventories recognised as an expense | 111,045 | 89,579 |
| Depreciation of property, plant and equipment | 4,912 | 2,774 |
| Listing expenses charged to the Income Statement | — | 9,883 |
| Loss on disposal of property, plant and equipment | 20 | — |
| and after crediting: | | |
| Interest income | 188 | 16 |



5. Taxation

| | For the six months ended 30 June | |
|----------------------------|-------------------------------------|--------------------------------|
| | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) |
| Taxation expenses include: | | |
| PRC enterprise income tax | 3,444 | 3,562 |
| Deferred tax | (960) | (218) |
| | <hr/> | <hr/> |
| Total | <u>2,484</u> | <u>3,344</u> |

No provision for Hong Kong profits tax had been made for the period ended 30 June 2007 (for the period ended 30 June 2006: Nil) 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 PRC tax regulations and are entitled to a preferential tax rate of 15%. Galaxy Technology has not been approved by local tax bureau as high-technology company for the period ended 30 June 2007 since this company has not yet started its first profit-making year. Galaxy Technology is subject to an income tax rate of 24% for the period ended 30 June 2007.

Pursuant to the relevant laws and regulations in the PRC, Galaxy Electrical and Galaxy Semiconductor are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operation, after offsetting all unexpired tax losses carried forward, and thereafter will be entitled to a 50% relief from the PRC enterprise income tax for the following three years. The tax preferential treatment for Galaxy Electrical and Galaxy Semiconductor has been expired and Galaxy Electrical is subject to income tax at 15% for 2006 and 2007. Galaxy Semiconductor is subject to income tax at 15% for 2007 (2006: 7.5%)

VIII. Condensed Consolidated Financial Statements

6. Interim Dividend

The Directors do not recommend the distribution of an interim dividend for the period ended 30 June 2007 (30 June 2006: Nil).

7. Earnings per share

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------|
| | 2007 (unaudited) | 2006 (unaudited) |
| Profit attributable to equity holders of the Company (RMB'000) | 14,224 | 13,229 |
| Number of issued ordinary shares (in '000 shares) | 400,000 | 312,707 |
| Earnings per share (RMB per share) | 0.036 | 0.042 |

The calculation of the basic earnings per share for the period ended 30 June 2007 is based on the profit attributable to equity holders of the Company of approximately RMB14,224,000 (for the period ended 30 June 2006: approximately RMB13,229,000) and the weighted average number of 400,000,000 (for the period ended 30 June 2006: 312,707,182) issued shares during the period. The weighted average number of shares for the period ended 30 June 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.



8. *Property, plant and equipment*

For the period ended 30 June 2007, the Group acquired property, plant and equipment amounting to approximately RMB35,723,000 (for the period ended 30 June 2006: approximately RMB11,556,000).

9. *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 2007 RMB'000 (unaudited) | As at 31 December 2006 RMB'000 (audited) |
|-------------------|--|--|
| 0 - 30 days | 59,711 | 55,694 |
| 31 - 60 days | 31,365 | 29,365 |
| 61 - 90 days | 16,656 | 14,663 |
| 91 - 120 days | 3,912 | 6,136 |
| 121 - 180 days | 3,435 | 5,108 |
| Over 180 days | 6,575 | 838 |
| | <hr/> | <hr/> |
| Other receivables | 121,654 | 111,804 |
| | <hr/> | <hr/> |
| | 12,940 | 8,882 |
| | <hr/> | <hr/> |
| | <u>134,594</u> | <u>120,686</u> |

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

VIII. Condensed Consolidated Financial Statements

10. Trade and other payables

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

| | As at 30 June 2007 <i>RMB'000</i> <i>(unaudited)</i> | As at 31 December 2006 <i>RMB'000</i> <i>(audited)</i> |
|----------------|--|--|
| 0 - 30 days | 25,673 | 20,602 |
| 31 - 60 days | 10,699 | 14,152 |
| 61 - 180 days | 13,157 | 22,436 |
| Over 180 days | 9,103 | 4,944 |
| | <hr/> | <hr/> |
| Other payables | 58,632 | 62,134 |
| | <hr/> | <hr/> |
| | <u>75,199</u> | <u>83,952</u> |

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.

11. Operating lease commitments

As at 30 June 2007, 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 RMB104,000 (30 June 2006: approximately RMB1,272,000).



12. Bank borrowings

For the period ended 30 June 2007, the amount of the Group's bank borrowings increased to approximately RMB77,400,000 (for the period ended 30 June 2006: approximately RMB45,000,000), and the secured bank borrowings secured by the buildings and the prepaid lease premium for land amounted to RMB14,000,000 (30 June 2006: RMB45,000,000).

In 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 raised 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 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. The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. The syndicated bank loan will be used for general working capital and expansion of Group's production.

13. 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 31 December 2006 and 30 June 2007 | 2,000,000,000 | 20,000,000 | 20,400,000 |
| Issued and fully paid: | | | |
| As at 31 December 2006 and 30 June 2007 | 400,000,000 | 4,000,000 | 4,080,000 |

VIII. Condensed Consolidated Financial Statements

14. Capital commitments

As at 30 June 2007, 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 RMB2,791,000 (31 December 2006: approximately RMB8,864,000).

15. Pledge of assets

As at 30 June 2007, the land and buildings pledged to banks to secure general banking facilities granted to the Group amounted to approximately RMB11,385,000 (31 December 2006: approximately RMB18,225,000).

16. 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 | |
|---|------------------------|----------------------------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 |
| Fulling & CEIEC Co., Ltd. | Sales of goods | 4,359 | 7,966 |
| Changzhou Lucky Star Electronic Equipment Co., Ltd. | Purchase of goods | 3,690 | 11,498 |
| Shenzhen Yuechang Industrial Co., Ltd. | Sales of goods | 3,985 | 3,410 |
| Zhong Shan Company Ltd. | Consultation fee | 984 | 1,225 |
| Changzhou Galaxy Hi-New Electrical Parts Co., Ltd. | Operating lease | 59 | 7 |
| Changzhou Galaxy Hi-New Electrical Parts Co., Ltd. (Note) | Operating lease | — | 278 |
| | | | |

Note:

On 30 September 2006, the Group acquired 100% equity interests of Seven Rainbows Limited, and Seven Rainbows Limited held 100% equity interest in Changzhou Galaxy Hi-New Electrical Parts Co., Ltd. Accordingly, Changzhou Galaxy Hi-New Electrical Parts Co., Ltd was a wholly-owned subsidiary of the Group for the period ended 30 June 2007.

17. 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.