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)

Annual Report 2008

CONTENTS

COMPANY INFORMATION

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00527

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

COMPANY SECRETARY

Mr. Cheng Koon Kau Alfred

AUTHORISED REPRESENTATIVES

Mr. Yang Senmao
Mr. Cheng Koon Kau Alfred

PRINCIPAL BANKERS

Hong Kong:

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

In the Peoples' Republic of China ("the PRC"):

Bank of China Limited
Agricultural Bank of China
The Credit Cooperatives Union of the Xinbei District,
Changzhou Sanjing Credit Cooperative

REGISTERED OFFICE

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

COMPANY INFORMATION

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

LEGAL ADVISERS

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

AUDITORS

CCIF CPA Limited
20 Floor, Sunning Plaza,
10 Hysan Avenue,
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

DATES OF TEMPORARY SUSPENSION OF REGISTRATION OF SHAREHOLDERS

The transfer books and register of members of the Company will be closed from 25 May 2009 (Monday) to 1 June 2009 (Monday) (both dates inclusive). During such period, no share transfers will be effected. The board ("Board") of directors of the Company ("Directors") has resolved not to recommend the payment of final dividends for the year ended 31 December 2008.

In order to be eligible to attend and vote at the Annual General Meeting to be held on 1 June 2009 (Monday), all share transfer together with the shares and transfer forms must reach the share registrar and transfer office, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 22 May 2009 (Friday) before 4:30 p.m..

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting will be held on 1 June 2009. The Notice for the 2008 Annual General Meeting has been included in a circular distributed to the Shareholders together with this Report.

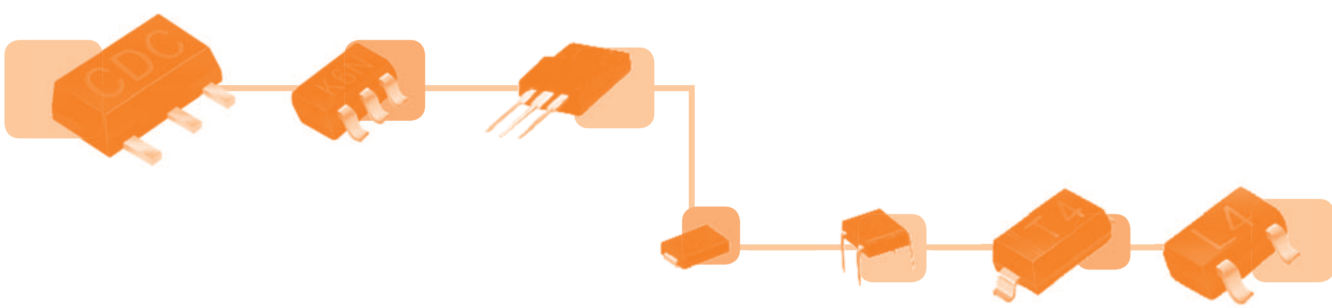
CORPORATE PROFILE

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

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

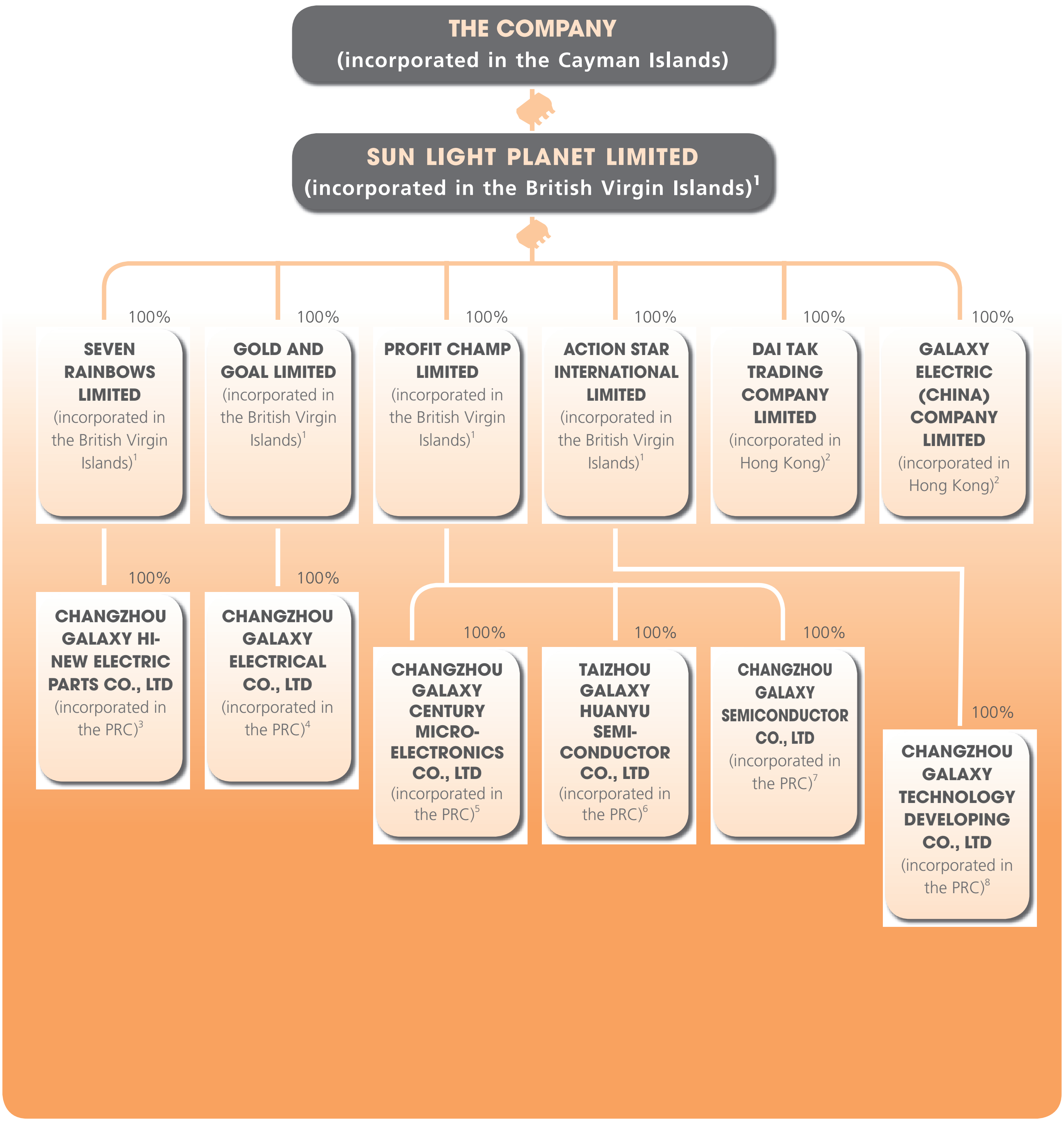
For the year ended 31 December 2008, the Group manufactured a total of 6.1 billion pieces of different types of diodes due to the slowdown of global and PRC economy, representing a decrease compared to previous year. There were still a substantial growth in the production and sales volume of micro components and surface mount device plastic packaged diodes, with a sales representing approximately 22% of the Group's total sales.

Leveraging on the Group's leading position in the diode market in the PRC, its broad customer base in the PRC and the escalating demand from overseas customers, the newly developed products including micro components, and the expanded production capacities of different types of diodes, the Company is confident that it will overcome the impact resulted from the global financial crisis and will maintain a stable growth.



CORPORATE STRUCTURE

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



Notes:

1. These companies are investment holding companies.

2. These companies did not have any substantial businesses as at the date of this Report.

3. Galaxy Hi-New engages in the production and sales of plastic-packaged diode. Meanwhile, Galaxy Hi-New makes use of its available land use rights and buildings for the testing and packaging of diodes of Galaxy Electrical.

4. Galaxy Electrical is principally engaged in the design, development, production and sales of diodes.

5. Galaxy Micro-Electronics is principally engaged in the production of micro components.

6. Galaxy Huanyu possesses land use rights and buildings and is principally engaged in the production of plastic-packaged diode.

7. Galaxy Semiconductor is principally engaged in the design, development, production and sales of 3 inch wafers which are mainly for use by Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu.

8. Galaxy Technology is principally engaged in the design, development, production and sales of 4 inch wafers which are mainly for use by Galaxy Electrical.

CHAIRMAN'S STATEMENT

To the Shareholders:

On behalf of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I hereby present the operating results and the Annual Report of the Company for the year ended 31 December 2008.

For the year ended 31 December 2008, turnover of the Group was approximately RMB387,541,000, representing an increase of 0.85% compared to 2007. Profit attributable to equity holders of the Company was RMB18,713,000, representing a decrease of 49.19% compared to the profit attributable to equity holders for 2007 which amounted to approximately RMB36,831,000. Earnings per share for the year was RMB0.047.

Looking back at 2008, the operation of the Group during the first half of 2008 was basically stable with an obvious slide in the second half of the year under the impact of the global financial crisis, fluctuations in the price of domestic raw materials and other factors. Under the leadership of the Board, the senior management united all staff to overcome the difficulties in a prudent manner, in order to reduce the loss on the production operation of the Company brought by the recession in both overseas and domestic markets. As a result, the principal operational target and major works of the Company managed to achieve relatively good results during the year.

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

The Group anticipates that the global financial crisis and its effects will further sprawl in the near future, with the global electronic information industry entering a stage of profound adjustment. Fortunately, the fundamental momentum of the PRC economy and its long term positive development trend remain unchanged. The Directors believe that the demand for semi-conductor diodes as a basic product will remain strong. Leveraging on our competitive edge and comprehensive strength, and coupled with the operational strategies and measures currently adopted, the Company will soon be able to reverse the downward trend of its business operation, and to achieve a stable growth in its annual operational target, bringing substantial return to the Shareholders.

Yang Senmao
Chairman

Hong Kong, 22 April 2009

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The Group's business maintained steady growth during the first half of 2008, but was slowed down since the second half of the year as a result of the global and domestic macro economic environment. For the year ended 31 December 2008, the Group's turnover amounted to approximately RMB387,540,000, representing an increase of approximately 0.85% over the turnover of the previous year that amounted to approximately RMB384,280,000. Gross profit was approximately RMB63,600,000, representing a decrease of approximately 20.33% as compared to the gross profit for the previous year which amounted to approximately RMB79,830,000. Gross profit margin dropped to 16.41% (2007: approximately 20.77%), which was mainly attributable to a drop in the selling prices of its products.

Profit attributable to equity holders for the year ended 31 December 2008 was approximately RMB18,710,000, representing a decrease of 49.19% (2007: approximately RMB36,830,000) as compared to the previous year.

The Group continued to explore new clients in response to changes in the PRC and overseas markets, focusing on clients of surface mount components. For the year ended 31 December 2008, the Group recorded the total number of customers of 1,400. The Group also continued to expand its sales network in the major cities in the PRC. In 2008, the PRC remained as the Group's biggest market in terms of geographical turnover, with its turnover accounting for 83.26% of the total turnover.

The Group reinforced its efforts in the implementation of key projects, resulting in further enhancement in the development, production and sales of surface mount components. Galaxy Micro-Electronics commenced the commercial production of micro surface mount components in July 2007. During the year, over 600 million pieces of micro surface mount components were manufactured. Through strengthening its internal operation management, Galaxy Micro-Electronics has formed a preliminary development platform for the continuous expansion of product type and realized a relatively strong profitability. The surface mount device packaged diode production line of Galaxy Electrical reached an annual production capacity of 445 million pieces in 2008, representing an increase of 19.7% over the previous year. The sales of the above surface mount components accounted for 22% of the Group's total sales in 2008, representing a rise of 6% over the previous year.

The Group is proactively implementing the transition project of the axial plastic-packaged diodes production base. After the trial production of the first middle and back-end production line at the end of 2007, Galaxy Huanyu further streamlined the production-operation interface. During the year, a total of 470 million pieces of plastic-packaged diodes were manufactured, forming a solid foundation for effective adjustment of the Group's production system in the future.

During the year ended 31 December 2008, Galaxy Electrical and Galaxy Semiconductor were accredited as high-technology enterprises by the relevant authority of Jiangsu Provincial Government and were therefore entitled to a preferential rate for enterprise income tax at 15%.

PROSPECTS

The Directors expect that the effect of global and domestic economic recession will persist in 2009, which will affect the Group's orders from its domestic and overseas customers to a certain extent. The Directors are of the view that the market demand for semi-conductor diodes as a fundamental product will remain strong, and it is optimistic that by leveraging on its strength and advantages in the diode industry in the PRC and coupled with efforts in expanding its market share, cutting its costs and improving its management, the Group's business will soon enter a stage of growth and achieve further and faster development.

In face of new business opportunities and challenges, the Group aims to further consolidate its existing competitive edges, create new advantages and facilitate the stable growth of the Company by implementing various measures, including:

- Actively adjust its products and market structure in a market and customer-oriented approach, reorganize the Group's sales management, order delivery and quality control processes to mitigate its operation risk and maintain a fundamentally stable turnover.

- Implement the strategy of segmented operation: Galaxy Electrical will adjust its production structure and set up a Surface Mount Device business department to accelerate the development of surface mount components; Galaxy Micro-Electronic will speed up the development of new micro surface mount component products and market expansion, with the aim to fully utilise its existing production capacity while paving the way for further investment; Galaxy Huanyu will complete the self-supportive measures for product electroplating and straightening processes with the aim to reinforce cost control while facilitating mass production.

- Promote the implementation of the Group's vertical integration strategy through stepping up its chip development, manufacturing technology and management standards, identifying new business model and creating new complementary advantages.

- Adopt a people-oriented principle to nurture the creation and management of human resources within the Group, paralleled by the integration of people recruitment, people deployment and staff cost control, in order to continually strengthen the Group's vitality for sustainable development and its comprehensive competitive advantages.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATING RESULTS

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

Operating results for the year ended 31 December 2008 were as follows:

	Year ended 31 December		**Increase/**	**% of**
	2008	2007	**(Decrease)**	**Change**
	RMB'000	*RMB'000*	*RMB'000*	%
Turnover	**387,541**	384,278	3,263	0.85
Gross profit	**63,598**	79,828	(16,230)	(20.33)
Operating profit	**30,573**	49,751	(19,178)	(38.55)
Profit before taxation	**21,083**	41,074	(19,991)	(48.67)
Profit for the year	**18,713**	35,630	(16,917)	(47.48)
Items attributable to:				
Equity holders of the Company	**18,713**	36,831	(18,118)	(49.19)
Minority interests	—	1,201	(1,201)	(100.00)

		Year ended 31 December	
	Note	**2008**	2007
Net cash *(RMB'000)*	*1*	**(83,327)**	(110,278)
Net assets *(RMB'000)*	*2*	**268,345**	247,706
Liquidity ratio	*3*	**148.19%**	151.25%
Inventory turnover (number of days)	*4*	**134 days**	152 days
Trade receivable turnover (number of days)	*5*	**117 days**	114 days
Trade payable turnover (number of days)	*6*	**62 days**	66 days
Earning interest multiple	*7*	**3.25 times**	5.73 times
Net debt to capital ratio	*8*	**31%**	45%

Note:

1. Cash at bank and cash in hand – bank loans
2. Total Assets – Total Liabilities
3. Current Assets/Current Liabilities x 100%
4. Inventories/Cost of Sales x 365 days
5. Trade Receivable/Turnover x 365 days
6. Trade Payable/Cost of Sales x 365 days
7. Profit before interest and tax/net interest expense
8. Net debt/Capital x 100%

TURNOVER

Turnover for the year ended 31 December 2008 was approximately RMB387,540,000. It represented a growth of approximately 0.85% when compared with the turnover of approximately RMB384,280,000 of the previous year.

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

Turnover by geographical region

	Year ended 31 December				Increase/	Change in
	2008		2007		(Decrease)	percentage
	RMB'million	**%**	*RMB'million*	%	*RMB'million*	%
China *(Note 1)*	**322.68**	**83.26**	333.99	86.91	(11.31)	(3.39)
Hong Kong and Korea	**23.98**	**6.19**	23.20	6.04	0.78	3.36
Other countries and regions *(Note 2)*	**40.88**	**10.55**	27.09	7.05	13.79	50.90
Total	**387.54**	**100.00**	384.28	100.00	3.26	0.85

Note:

1. The PRC is the major market for the Group's products. The Group leverages on the advantages of its own brand-name and product quality. As at 31 December 2008, the Group had over 1,200 customers in the PRC.

2. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. Sales in these countries and regions continued to grow due to the Group's efforts in developing new products and exploring other overseas markets through commercial advertisements and participations in exhibitions.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATING RESULTS

Turnover by product type

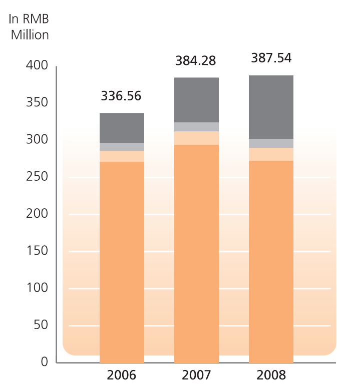
	Year ended 31 December				Increase/	Change in
	2008		2007		(Decrease)	percentage
	RMB'million	**%**	*RMB'million*	%	*RMB'million*	%
Plastic packaged diodes *(Note 1)*	**272.61**	**70.34**	294.05	76.52	(21.44)	(7.29)
Glass packaged diodes	**17.47**	**4.51**	17.92	4.66	(0.45)	(2.51)
Bridge rectifiers	**11.61**	**3.00**	12.10	3.15	(0.49)	(4.05)
Surface mount device packaged diodes *(Note 2)*	**85.49**	**22.06**	60.01	15.62	25.48	42.46
Others *(Note 3)*	**0.36**	**0.09**	0.20	0.05	0.16	80
Total	**387.54**	**100.00**	384.28	100.00	3.26	0.85

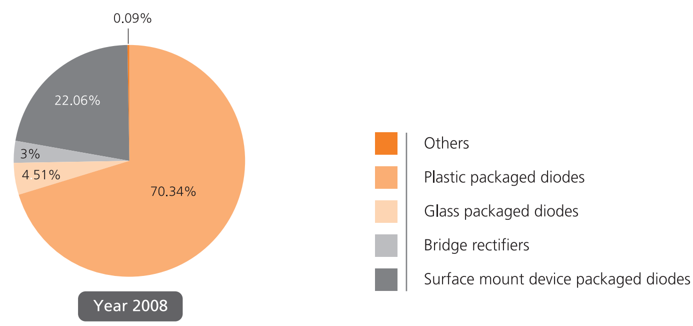
Note:

1. Plastic packaged diodes are the Group's major products. For the year ended 31 December 2008, the sales amount dropped mainly because the poor market condition dropped down the selling price of the product in the second half of 2008.

2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the expansion of its customer base and the commencement of operation of Galaxy Micro-Electronics in 2007, the Group kept its momentum on selling such products in 2008.

3. This refers to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.





COST OF SALES

Cost of sales mainly includes raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2008 represented 83.59% of the turnover, with an increase by approximately 4.36% when compared with approximately 79.23% for the year ended 31 December 2007. Though the economic downturn allowed lower operating costs especially on raw materials like copper, the benefit of cost saving was outweighed by the drop in selling price of the Group's products during the year. As a result, the percentage of cost of sales to sales for 2008 increased compared to that of 2007.

GROSS PROFIT

The Group's gross profit margin for the year ended 31 December 2008 dropped to approximately 16.41% from approximately 20.77% for the year ended 31 December 2007. The drop in the gross profit margin was mainly because the drop in selling price of the Group's products outweighed the drop in the cost of sales as discussed above.

OTHER REVENUE

Other revenue mainly comprised income generated by the sale of scrap material and sub-products (2008: approximately RMB2,000,000; 2007: approximately RMB3,710,000), interest income from bank deposits (2008: approximately RMB500,000; 2007: approximately RMB530,000), dividend income from other investment (2008: RMB nil; 2007: approximately RMB590,000), subsidy income from government (2008: approximately RMB4,690,000; 2007: approximately RMB810,000) and income recognized on write-back of trade and other payables (2008: approximately RMB440,000; 2007: approximately RMB1,130,000). The increase in other revenue is mainly attributable to the fact that the drop in the sale of scrap materials and sub-products was offset by the increase in the subsidy income from government.

DISTRIBUTION COSTS

Distribution costs mainly included commission expenses for sales and distribution activities (2008: approximately RMB3,830,000; 2007: approximately RMB3,900,000), wages and salaries of sales personnel (2008: approximately RMB2,620,000; 2007: approximately RMB2,430,000) and transportation costs (2008: approximately RMB1,900,000; 2007: approximately RMB1,800,000).

Distribution costs for the year ended 31 December 2008 represented approximately 2.68% of the total turnover, showing an increase when compared with 2.46% for the year ended 31 December 2007, mainly due to the intense market competition that more resources were allocated to selling activities.

ADMINISTRATION EXPENSES

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

Administration expenses for the year ended 31 December 2008 amounted to approximately RMB31,220,000, showing an increase when compared with approximately RMB27,900,000 for the year ended 31 December 2007.

Items contributing to the increase in administrative expenses are as follows: The exchange gain dropped by RMB1,120,000 (2008: approximately RMB2,480,000; 2007: approximately RMB3,600,000). The salaries and benefits of management staff increased by approximately RMB2,000,000 (2008: approximately RMB15,540,000; 2007: approximately RMB13,540,000). The provision of bad debt written off also increased by RMB1,600,000 (2008: approximately RMB1,090,000; 2007: approximately (RMB510,000)).

However, the increase in the above expenses was offset by the decrease in the following expenses: legal and other professional expenses dropped by RMB590,000 as a result of the drop in consulting services. Audit fee also dropped by RMB300,000 (2008: approximately RMB600,000; 2007: approximately RMB900,000). In view of tightened control of operating expenses, other administrative expenses decreased correspondingly by RMB670,000.

FINANCE COSTS

Finance costs refer to interest expenses and bank charges for bank loans obtained by the Group. Finance costs for the year ended 31 December 2008 were approximately RMB9,490,000 while those for the year ended 31 December 2007 were approximately RMB8,680,000. The increase in finance costs was due to the increase in average bank loans for financing operations for the year ended 31 December 2008 compared with that for the year ended 2007.

TAXATION

The effective tax rate decreased from approximately 13.25% for the year ended 31 December 2007 to approximately 11.24% for the year ended 31 December 2008. The decrease in effective tax rate was mainly because more profit was generated from the Group companies which are entitled to tax-free period of PRC enterprise income tax compared with that for the year ended 31 December 2007.

NET PROFIT FOR THE YEAR

The net profit margin dropped from 9.58% for the year ended 31 December 2007 to 4.83% for the year ended 31 December 2008.

NET CURRENT ASSETS

The net current assets of the Group as at 31 December 2008 amounted to approximately RMB99,460,000 which approximated to that of the previous year (31 December 2007: approximately RMB113,640,000).

LIQUIDITY AND FINANCING

The cash and bank balances as at 31 December 2008 and 31 December 2007 amounted to approximately RMB53,130,000 which comprised RMB48,100,000, USD250,000 and HK$3,750,000 and approximately RMB45,090,000, respectively.

As at 31 December 2008, the total amount of borrowings by the Group was approximately RMB136,450,000 representing a decrease of approximately RMB18,910,000 compared with the balance outstanding as at 31 December 2007. RMB125,870,000 of the above borrowings was short term bank loan due within one year and RMB10,580,000 thereof was long term bank loan due after one year.

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

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio dropped to approximately 45% as at 31 December 2008 from approximately 51.57% as at 31 December 2007. That ratio was computed by dividing the Group's total liabilities by total assets. During 2008, all of the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 80% of the Group's income was denominated in Renminbi and the remaining approximately 20% was denominated in Hong Kong dollars and US dollars. The borrowings of the Group were floating-rate loans, which amounted to RMB136,450,000. The Group had not engaged in any currency hedging facility for the year ended 31 December 2008 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 at controlling foreign exchange fluctuations and interest rate fluctuations in individual transactions.

ACQUISITION AND DISPOSAL

On 28 December 2007, the Group entered into an agreement with each of Changzhou Fulling Electronics Company Limited ("Fulling Electronics"), Changzhou Qiaohong Electronics Company Limited ("Changzhou Qiaohong") and Shenzhen Yuechang Industrial Company Limited ("Shenzhen Yuechang") for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, respectively. Upon the issue of the approval certificate by the governmental bureau, all the relevant rights and obligations in Galaxy Technology shall be deemed to be transferred to Galaxy Semiconductor from 30 November 2007. The transaction had been completed as at 19 March 2008.

On 20 June 2008 and 18 August 2008, the Group entered into a share transfer agreement and a supplemental agreement, respectively, with independent third parties to indirectly acquire 90% equity interest in a PRC company principally engaged in real estate development in the PRC at a consideration of HK$120,000,000 (the "Acquisition"). Details of the Acquisition are set out in the circular of the Company dated 27 August 2008. The Group entered into a termination deed with the relevant parties to terminate the Acquisition with immediate effect on 22 September 2008, details of which are set out in the announcement of the Company dated 22 September 2008.

PLEDGE OF ASSETS

As at 31 December 2008, the Group had pledged assets comprising land and buildings with net book values of approximately RMB25,800,000 (31 December 2007: approximately RMB27,050,000), as security for the bank loans obtained by the Group.

CONTINGENT LIABILITIES

For the years ended 31 December 2008 and 31 December 2007, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2008, the Group had approximately 1,800 full-time employees (31 December 2007: 2,500 full-time employees) in Hong Kong and the PRC, including 1,200 employees (31 December 2007: 2,100 employees) provided by employment agents, responsible for management, administration and production. For the year ended 31 December 2008, the relevant employee costs (including the directors' remuneration) were approximately RMB52,300,000 (2007: approximately RMB47,940,000). The Group ensured that the remuneration of employees was attractive and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Yang Senmao, aged 45, is the chairman and an executive director of the Company. He is also an authorized representative of the Company, Mr. Yang is the general manager of Galaxy Semiconductor, Galaxy Technology, Galaxy Hi-New, Galaxy Micro-Electronics and Galaxy Huanyu. Mr. Yang is also a director of all of the subsidiaries of the Company. Mr. Yang has been responsible for the Group's overall daily operations, strategic planning, business development and sales and marketing activities. He graduated from 江蘇信息職業技術學院 (Jiangsu Information Vocational and Technological Institute) in July 1981, majoring in semiconductor device. After then he joined 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory), the predecessor of 常州市銀河電子實業公司 (Changzhou Galaxy Electrical Industrial Company), and was responsible for overseeing production of diodes and triodes research and development of new products. Mr. Yang joined the Group in 1994 as general manager of Galaxy Electrical and was responsible for the overall daily operations of the Group. He has over 21 years of experience in the semiconductor discrete device industry. Mr. Yang is a director of Rapid Jump Limited and Color Vision Limited and a beneficial owner of 60% and 100% of the issued shares in the above companies respectively. Color Vision Limited is a substantial shareholder of Kalo Hugh Limited holding 89.1% interest in Kalo Hugh Limited as at the date of this report. Both Rapid Jump Limited and Kalo Hugh Limited are substantial shareholders of the Company, respectively holding 38.25% and 22.9% interest in the Company as at the date of this report.

Mr. Yue Lian, aged 45, is an executive director and the chief executive officer of the Company and the general manager of Galaxy Electrical. Mr. Yue is responsible for the daily operations of the Group and reports to the chairman of the Company. He obtained a bachelor degree from 南京工學院 (the Nanjing Engineering Institute) in 1985, majoring in 無線電專用機械設備 (Radio Special Mechanic Equipment). He obtained a post-graduate certificate in business administration from 清華大學研究生院，清華大學繼續教育學院 (Graduate Institute and School of Continuing Education of Tsing Hua University) in September 2001. Prior to joining the Group in October 2004, Mr. Yue was the deputy general manager and the acting general manager of a company engaged in the business of manufacturing micro-motors and the deputy general manager of 常州機電國有資產經營有限公司 (Changzhou Electrical and Mechanical State-own Assets Operation Co., Ltd.). Mr. Yue has 18 years of experience in corporate management for an enterprise in the electronics field. In 2001, Mr. Yue was appraised by 江蘇省常州市工程技術高級專業技術資格評審委員會 (Jiangsu Changzhou Engineering Technology Senior Professional Technical Qualification Appraisal Committee) and was accredited the qualification of senior engineer. Mr. Yue is a director of, and a beneficial owner of 10.9% of the issued shares in, Kalo Hugh Limited, a substantial shareholder of the Company, holding 22.9% interest in the Company as at the date of this report.

Mr. Xu Xiaoping, aged 42, is an executive director of the Company and the deputy sales general manager of Galaxy Electrical. He is also a director of all of the subsidiaries of the Company except Seven Rainbows Limited. Mr. Xu is responsible for the sales and marketing activities of the Group. Prior to joining the Group in September 2000, Mr. Xu has served as the vice supervisor and department head of the operation liaison office of 中國常州市電子工業局 (the Electronic Bureau of Changzhou City, the PRC). Mr. Xu graduated from 淮陰電子工業學校 (Electronics Industrial School of Huai Yin) in July 1988, majoring in electronic component profession and subsequently joined 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory). Mr. Xu has over 17 years of experience in the electronics field. Mr. Xu is a director of, and a beneficial owner of 18% of the issued shares in, Rapid Jump Limited, a substantial shareholder of the Company, holding 38.25% interest in the Company as at the date of this report.

NON-EXECUTIVE DIRECTORS

Mr. Meng Quanda, aged 67, is a non-executive director of the Company. Mr. Meng had been a director of Galaxy Electrical. Mr. Meng is a director of Galaxy Electric (China) Co., Ltd. and Dai Tak Trading Company Limited. Prior to joining the Group in May 1994, Mr. Meng held a number of managerial positions in three PRC state-owned semiconductor factories, serving as the general manager, deputy factory head and factory head respectively. Mr. Meng has about 35 years of experience in corporate management. Mr. Meng is a director of, and a beneficial owner of 22% of the issued shares in, Rapid Jump Limited, a substantial shareholder of the Company, holding 38.25% interest in the Company as at the date of this report.

Mr. Shiu Kit, aged 59, is a non-executive director of the Company. Mr. Shiu is the founder of Galaxy Electrical and remains as its director since its establishment. He joined the Group in May 1994 when he jointly established Galaxy Electrical with 常州市銀河電子實業公司 (Changzhou Galaxy Electrical Industrial Company) and had been the chairman of Galaxy Electrical from May 1994 to April 2003. Mr. Shiu has over 21 years of experience in investment and corporate management.

Mr. Dong Renhan, aged 68, is a non-executive director of the Company. He had also been a director of Galaxy Electrical. Prior to joining the Group in May 1994, Mr. Dong had served various posts in 常州市無線電元件七廠 (Changzhou Radio Components 7th Factory) such as deputy division head, division head and deputy factory head. Mr. Dong is currently a general manager of an electronic company in the PRC. He has over 32 years of experience in corporate management for electronic companies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling, aged 47, is an independent non-executive director of the Company. Ms. Wong obtained a Bachelor of Arts degree from the University of Hong Kong and a diploma in Accounting and Finance from the London School of Economics and Political Science, the United Kingdom. Ms. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She has 17 years of extensive experience in accounting, taxation and auditing. She had worked for more than seven years in international accounting firms and local accounting firms before she set up her own accounting firm W.L. Wong & Co. in Hong Kong in 1994. Since then, she has been practising as a Certified Public Accountant. Ms. Wong was appointed as an independent non-executive Director on 16 May 2006. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies, Overseas Chinese Town (Asia) Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Ni Tongmu, aged 42, is an independent non-executive director of the Company. Mr. Ni is a partner of 江蘇天豪律師事務所 (Jiangsu Top Hope Law Firm) in the PRC. Mr. Ni graduated in 1990 from 蘇州大學 (Suzhou University), majoring in Education in English and obtained a second degree and master degree both majoring in Laws at 復旦大學 (Fudan University) and Suzhou University respectively in 1992 and 2004. Mr. Ni is a qualified lawyer in the PRC. He was awarded the title of "江蘇知名律師" (the famous lawyer in Jiangsu), the PRC by 江蘇省律師協會 (the Jiangsu Bar Association, China) in 2002. Mr. Ni was appointed as an independent non-executive Director on 16 May 2006.

Mr. Shu Mingding, aged 62, is an independent non-executive director of the Company. Mr. Shu obtained his Bachelor of Wireless Electricity and Electronics degree from 清華大學 (Tsinghua University) in 1970. Mr. Shu has in depth knowledge and experience in the semiconductor field and has served as a professional lecturer in semiconductor in Tsinghua University. Mr. Shu was appointed an independent non-executive Director on 16 May 2006.

SENIOR MANAGEMENT

Mr. Cheng Koon Kau Alfred, aged 34, is the authorised representative and company secretary of the Company, and has over 11 years of experience in the fields of auditing and accounting. Mr. Cheng joined the Group on 22 January 2008. He is a full time financial controller of the Company. He graduated from the Hong Kong University of Science and Technology with bachelor of Business Administration (Financial Accounting) degree in 1997. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He is responsible for the financial strategy, accounting and financial reporting of the Group. Prior to joining the Group, he had served in an international accounting firm and a number of multi-national corporations.

Mr. Wang Yueyun, aged 63, is the deputy general manager of Galaxy Technology. Mr. Wang is responsible for the technical and technological management, research and development of new products for Galaxy Technology. He graduated from 北京理工大學 (Beijing Institute of Technology) in 1970. Prior to joining Galaxy Technology in September 2003, Mr. Wang worked in several micro-electronic enterprises in the PRC. He has 37 years of experience in the design, development and technological management of semiconductor. In 1985, 高速、超高速雙極型數字集成電路 (the fast and ultrafast diode type digital integrated circuit) developed by Mr. Wang was awarded first prize of 科技進步一等獎 (first prize of technological improvement) in the PRC.

Mr. Hu Qi, aged 49, is the deputy general manager of Galaxy Semiconductor. He obtained a Bachelor degree in Semiconductor from the Physics department of 復旦大學 (Fudan University) in 1982. Mr. Hu joined the Group in October 2000, mainly responsible for the development of process technology of Galaxy Semiconductor and research and development of new products. Mr. Hu has over 25 years of experience in the semiconductor industry.

Mr. Jin Yinlong, aged 51, is the deputy general manager of Galaxy Micro-Electronics. He graduated from 江蘇信息職業技術學院 (Jiangsu College of Information Technology) in October 1978, majoring in semi-conductor components. He has worked as the factory head of 江蘇揚州邗江晶體管廠 (Jiangsu Yangzhou Hanjiang Transistor Factory) and the chief operation officer of 揚州晶來半導體集團 (Yangzhou Jinglai Semiconductor Group). Mr. Jin has over 29 years of experience in the semi-conductor industry. Mr. Jin joined the Group in May 2007.

Mr. Zhang Xianli, aged 46, is the deputy general manager of Galaxy Huanyu. He graduated from 江蘇信息職業技術學院 (Jiangsu College of Information Technology) in July 1981, majoring in semi-conductor components. Mr. Zhang had worked as an assistant technical supervisor in the workshop of 南京半導體特種器件廠 (Nanjing Semiconductor Special Parts Factory) and the general manager of 南京三株路德醫療器械有限責任公司 (Nanjing Sanzhu Lude Medical Equipment Limited Liability Company) and has over 26 years of experience in the semi-conductor industry. Mr. Zhang joined the Group in January 2007.

Ms. Guan Xufeng, aged 50, is the deputy finance general manager of Galaxy Electrical. Ms. Guan joined the Group in September 1995 and has over 19 years experience in accounting and financial management.

Mr. Liu Jun, aged 37, is the deputy production general manager of Galaxy Electrical. He obtained a Bachelor degree in 管理信息系統 (Information Management System) from Huazhong University of Science and Technology in 1993. Mr. Liu joined the Group in July 1997 and has over 15 years of experience in the diode manufacturing business.

Mr. Li Enlin, aged 46, is the deputy general manager of administration of Galaxy Electrical. He obtained a Bachelor degree in Engineering from 武漢工學院 (Wuhan Polytechnic University) in July 1983 and obtained a Master degree in Business Administration from Nanjing University in December 2003. Mr. Li was granted the qualification of practising as a senior economist in May 1995. He had served as a chief officer in a state wholly-owned enterprise and a deputy general manager in a state-owned holding company for years and has over 24 years of experience in the management of large enterprises. Mr. Li joined the Group in July 2007.

Mr. Wang Xinglong, aged 45, is the deduty general manager of technology of Galaxy Electrical. He obtained a Bachelor degree in Engineering from 西北電訊工程學院 in July 1984. Mr. Wang joined the Group in August 2008. Mr. Wang was granted the qualification of practicising as a senior engineer in September 1997. He had served as the chief engineer and the deputy general manager in several semiconductor enterprises in the PRC. Mr. Wang has over 24 years of experience in the semiconductor industry. Mr Wang was awarded several prizes in research of semiconductor.

Ms. Zhu Weiying, aged 42, is the assistant to the general manager of Galaxy Electrical. Ms. Zhu obtained a Bachelor degree in Semiconductor Physics from the Physics department of 南京大學 (Nanjing University) in 1989, since then, she has been working in the semiconductor manufacturing industry. She joined the Group in March 2002 and has over 18 years of experience in the semiconductor industry.

COMPANY SECRETARY

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

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 15 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 41.

PROPOSED FINAL DIVIDEND

The directors did not recommend the payment of dividends for the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 102 of the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 and note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

DONATIONS

Donations of RMB238,000 were made by the Group during the year.

DIRECTORS' REPORT

RESERVES

Movements in the reserves of the Company during the year are set out on note 26 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of Cayman Island, the Company's reserves available for distribution to shareholders as at 31 December 2008 amounted to RMB151,053,000.

DIRECTORS

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

Executive directors

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

Non-executive directors

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

Independent non-executive directors

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

In accordance with Article 108 of the Company's Articles of Association, Mr. Meng Quanda, Mr. Shiu Kit and Mr. Dong Renhan shall retire by rotation at the forthcoming annual general meeting. All the retiring directors, being eligible, offer themselves for re-election at the said annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

Each of the non-executive Directors (including the independent non-executive Directors) has entered into a service agreement with the Company for a term of two years from June 2008, and is determinable by either party by given one month's written notice.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and as at the date of this report still considers all the independent non-executive Directors to be independent parties.

SHARE OPTIONS

Particulars of the Company's share option scheme ("Share Option Scheme") are set out in note 25 to the consolidated financial statements.

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

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

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

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

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

No share option has been granted during the year ended 31 December 2008.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

MATERIAL CONTRACTS

Save as disclosed in this report, no contract of significance has been entered into during the reporting period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered, in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions:

Ordinary shares of HK$0.01 each

Name of director	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
Mr. Yang Senmao (Mr. Yang)	Interest of controlled corporations *(note)*	244,600,000	61.15%

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

Other than as disclosed above, as at 31 December 2008, none of the directors nor chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO), as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, as far as is known to the Directors, the following persons (not being a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in ordinary shares of the Company

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

Notes:

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

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

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

   Mr. Yue Lian owns 10.9% of the issued shares in Kalo Hugh Limited. Mr. Yang and Mr. Yue Lian are the directors of Kalo Hugh Limited. Mr. Yang is the sole director of Color Vision Limited.

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

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

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

Save as disclosed above, as at 31 December 2008, the Company had not been notified by any other person, other than directors or chief executives of the Company, who had interests or short positions in the Shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

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

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

(i) an agreement with Changzhou Lucky Star Electronic Equipment Company Limited ("Lucky Star Electronic") in relation to the purchases of copper wire ("Purchases Agreement"). Pursuant to the Purchases Agreement, Lucky Star Electronic agrees to supply to the Group copper wire with the aggregate annual amounts not exceeding RMB21,000,000, RMB26,000,000 and RMB32,000,000 for each of the three financial years ended 31 December 2008, respectively. During the year, Lucky Star Electronic sold copper wire to the Group with an aggregate amount of approximately RMB2,957,000.

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

   On 30 December 2008, Galaxy Electrical renewed the agreement with Lucky Star Electronic and Lucky Star Electronic agrees to supply to the Group copper wire with the aggregate annual amount not exceeding HKD9,500,000 for each of the three financial years ending 31 December 2011 respectively. Details are set out in the announcement of the Company dated 30 December 2008.

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

Changzhou Fulling Electronics Company Limited 常州市富林電子有限公司 ("Fulling Electronics") had owned 55% equity interest in Fulling CEIEC. Fulling Electronics held 15.42% of the equity interest of Galaxy Technology, a subsidiary of the Company. Pursuant to the Listing Rules, the arrangement under the Sales Agreement constituted a continuing connected transaction as long as Fulling Electronics held not less than 10% of the equity interest of Galaxy Technology.

On 28 December 2007, the Group entered into an agreement with Fulling Electronics to acquire the 15.42% equity interest in Galaxy Technology. Upon completion of the acquisition on 19 March 2008, the above transaction was no longer a continuing connected transaction of the Company under the Listing Rules. For the period ended 19 March 2008, the Group supplied diodes to Fulling CEIEC with an aggregate amount of approximately RMB1,234,000.

In respect of the continuing connected transaction, the directors of the Company confirm that the Company compiled with the disclosure requirements in Chapter 14A of the Listing Rules.

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

(1) have received the approval of the Board;

(2) nothing had come to their attention which caused them to believe that:

  (a) the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;

  (b) the connected transactions had not been entered into in accordance with the pricing polices of the Group if the transactions involved provision of goods by the Group; and

  (c) the transaction amount occurred in 2008 for each of connected transactions exceed their respective cap amount as disclosed in the Company's prospectus dated 29 May 2006.

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

The related party transactions are set out in note 28 to the financial statements. Apart from the continuing connected transaction disclosed above, all the other related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

— the largest customer	8.54%
— five largest customers	18.70%
— the largest supplier	14.45%
— five largest suppliers	36.66%

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

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings are set out in note 21 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme is set out in note 25 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

ACQUISITIONS

Apart from the Acquisition as set out in the paragraph headed "Acquisition and disposal" in the section headed "Management Discussion and Analysis on Financial Conditions and Operating Results" and which was terminated by a termination deed dated 22 September 2008, during 2008, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group.

MANAGEMENT CONTRACTS

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

AUDITORS

At the 2006 annual general meeting, Deloitte Touche Tohmatsu ("Deloitte") was re-appointed the auditors of the Company. Deloitte resigned as auditors of the Group with effect from 26 November 2007 and KPMG was appointed as the auditors of the Company with effect from 10 December 2007. Details of the change of auditors were disclosed in the announcement issued by the Company on 10 December 2007.

At the last annual general meeting, KPMG was re-appointed the auditors of the Company. KPMG resigned as auditors of the Group with effect from 10 November 2008 and CCIF CPA Limited ("CCIF") was appointed as the new auditors of the Company with effect from 10 November 2008. Details of the change of auditors were disclosed in the announcement issued by the Company on 10 November 2008.

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

On behalf of the Board

Yang Senmao
Chairman

The PRC

22 April 2009

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules for the financial year ended 31 December 2008.

MODEL CODE

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

THE BOARD OF DIRECTORS

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

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

COMPOSITION AND APPOINTMENT

As at 31 December 2008, the Board comprises nine directors, of whom three are executive directors, three are non-executive directors and three are independent non-executive directors. Details of the names and biographies of directors are set out on page 17 to page 19 of this report.

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

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

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

For the year ended 31 December 2008, the Board has compiled the following statistics

	Attendance Rate for Board Meeting		
Director's Name	**Number**	**Percentage *(%)***	**Title**
Yang Senmao	8	100	Chairman, Executive Director
Yue Lian	8	100	Executive Director
Xu Xiaoping	8	100	Executive Director
Meng Quanda	8	100	Non-executive Director
Shiu Kit	7	88	Non-executive Director
Dong Renhan	7	88	Non-executive Director
Wong Wai Ling	8	100	Independent non-executive Director
Ni Tongmu	8	100	Independent non-executive Director
Shu Mingding	8	100	Independent non-executive Director

The Board has supervised and controlled the Company's affairs effectively, and relevant decisions were made in the Company's best interests. For the year ended 31 December 2008, the Board had held 8 Board Meetings, to consider (of which included) the Company's continuing connected transactions, financial affairs and other matters under the articles of associations to carry out its duties. The Board has adopted a tele-conference system to raise the attendance rates, the average rate of attendance was between 88% and 100%.

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

THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

The Board held one meeting in 2008 to review the policy for the nomination of directors.

PROCEDURES OF BOARD MEETINGS

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

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

AUDITOR'S REMUNERATION

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

Type of service	**Auditor** **CCIF CPA Limited**
Annual audit	HK$660,000

ACCOUNTABILITY AND AUDIT

The Directors understand their responsibility to prepare the Group's financial statements according to relevant legal provisions and the Hong Kong GAAP to ensure that the financial reports present a true and fair view of the Group's financial conditions. In the preparation of the Group's financial reports for the year ended 31 December 2008, the Directors had adopted and implemented the appropriate accounting policies, made prudent and reasonable judgments and projections and prepared the financial statements on a going concern basis.

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

The auditor's responsibilities are set out in the Auditor's Report on page 39 to page 40.

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

AUDIT COMMITTEE

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

In the year ended 31 December 2008, 3 meetings were held. The attendance rates of every member of the audit committee were as follows:

	Attendance Rate		
Name of member	**Number**	**Percentage *(%)***	**Title**
Wong Wai Ling	3	100	Independent non-executive Director
Ni Tongmu	3	100	Independent non-executive Director
Shu Mingding	3	100	Independent non-executive Director

Duties of the audit committee include:

(1) Review the Company's financial reporting procedure, internal control systems and the completeness of the financial reports;

(2) Appoint external auditors and matters such as audit fees, the retirement or dismissal of external auditors;

(3) Discuss with the external auditors the nature and scope of audits before commencement of audit work; and

(4) Review interim and year end accounts.

The audit committee has reviewed the audit performance, internal controls and audited accounts for the year ended 31 December 2008. The audit committee has also reviewed this annual report and confirmed that it is complete and accurate and complies with the Listing Rules.

REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee held one meeting for the year ended 31 December 2008, at which the Remuneration Committee reviewed and discussed the remuneration policy and the remuneration of the Directors and the senior management in the year. The attendances of the meeting of the remuneration committee are as follows:

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

DIRECTORS' REMUNERATION

The Group paid total Directors' remuneration amounts of approximately RMB826,000, RMB526,000, RMB526,000, RMB48,000, RMB89,000, RMB48,000, RMB89,000, RMB48,000 and RMB48,000 to Mr. Yang Senmao, Mr. Yue Lian, Mr. Xu Xiaoping, Mr. Meng Quanda, Mr. Shiu Kit, Mr. Dong Renhan, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding respectively for the year ended 31 December 2008.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. As at 31 December 2008, there was no arrangement in which the Directors waived their remuneration.

SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

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

FINANCIAL OFFICER

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

COMPANY SECRETARY

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

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

INVESTORS RELATIONSHIP

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

COMMUNICATION WITH SHAREHOLDERS

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Galaxy Semi-Conductor Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as "the Group") set out on pages 41 to 101, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 22 April 2009

Sze Chor Chun, Yvonne
Practicing Certificate Number P05049

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	4	**387,541**	384,278
Cost of sales		**(323,943)**	(304,450)
Gross profit		**63,598**	79,828
Other revenue	5	**8,569**	7,290
Distribution costs		**(10,375)**	(9,471)
Administrative expenses		**(31,219)**	(27,896)
Profit from operations		**30,573**	49,751
Finance costs	6(a)	**(9,490)**	(8,677)
Profit before taxation	6	**21,083**	41,074
Income tax	7	**(2,370)**	(5,444)
Profit for the year		**18,713**	35,630
Attributable to:			
Equity shareholders of the Company	10	**18,713**	36,831
Minority interests		**—**	(1,201)
Profit for the year		**18,713**	35,630
Dividends payable to equity shareholders of the Company attributable to the year	11(a)	**—**	—
Earnings per share			
Basic and diluted (RMB)	12	**0.047**	0.092

The notes on pages 48 to 101 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	13	**155,978**	147,389
Prepaid lease payments	14	**24,477**	17,023
Deferred tax assets	24(b)	**1,633**	1,973
Deposit paid for acquisition of property, plant and equipment		**—**	9,730
		182,088	176,115
Current assets			
Inventories	16	**106,167**	131,497
Trade and other receivables	17	**146,014**	158,464
Prepaid lease payments	14	**524**	343
Pledged bank deposits	19	**3,780**	7,371
Deposits with bank (maturity over 3 months)		**5,600**	—
Cash and cash equivalents	20	**43,746**	37,717
		305,831	335,392
Current liabilities			
Interest-bearing borrowings	21	**125,870**	116,038
Trade and other payables	22	**79,538**	104,377
Current taxation	24(a)	**968**	1,333
		206,376	221,748
Net current assets		**99,455**	113,644
Total assets less current liabilities		**281,543**	289,759

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Interest-bearing borrowings	21	**10,583**	39,328
Deferred tax liabilities	24(b)	**2,615**	2,725
		13,198	42,053
NET ASSETS		**268,345**	247,706
CAPITAL AND RESERVES	26(a)		
Share capital		**4,080**	4,080
Reserves		**264,265**	243,626
TOTAL EQUITY		**268,345**	247,706

Approved and authorized for issue by the board of directors on 22 April 2009.

Yang Senmao
Director

Xu Xiaoping
Director

The notes on pages 48 to 101 form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000 (Restated)
Non-current assets			
Investment in subsidiaries	15	**114,614**	114,614
Current assets			
Other receivables	17	**371**	394
Amounts due from subsidiaries	15	**160,045**	167,874
Cash and cash equivalents	20	**190**	151
		160,606	168,419
Current liabilities			
Interest-bearing borrowings	21	**79,370**	73,038
Other payables	22	**30,134**	6,440
		109,504	79,478
Net current assets		**51,102**	88,941
Total assets less current liabilities		**165,716**	203,555
Non-current liabilities			
Interest-bearing borrowings	21	**10,583**	39,328
NET ASSETS		**155,133**	164,227
CAPITAL AND RESERVES	26(b)		
Share capital		**4,080**	4,080
Reserves		**151,053**	160,147
TOTAL EQUITY		**155,133**	164,227

Approved and authorised for issue by the board of directors on 22 April 2009.

Yang Senmao
Director

Xu Xiaoping
Director

The notes on pages 48 to 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Special reserve	Statutory reserves	Other reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	4,080	192,197	(82,562)	5,177	33,804	(1,272)	67,390	218,814	2,999	221,813
Profit for the year	—	—	—	—	—	—	36,831	36,831	(1,201)	35,630
Acquisition of minority interests	—	—	—	—	(2,327)	—	—	(2,327)	(1,798)	(4,125)
Transfer to welfare funds	—	—	—	—	—	—	(213)	(213)	—	(213)
Transfer to statutory reserves	—	—	—	2,519	—	—	(2,519)	—	—	—
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	873	—	873	—	873
Dividends approved in respect of the previous year *(note 11(b))*	—	—	—	—	—	—	(6,272)	(6,272)	—	(6,272)
At 31 December 2007 and 1 January 2008	**4,080**	**192,197**	**(82,562)**	**7,696**	**31,477**	**(399)**	**95,217**	**247,706**	**—**	**247,706**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**18,713**	**18,713**	**—**	**18,713**
Transfer to statutory reserves	**—**	**—**	**—**	**1,838**	**—**	**—**	**(1,838)**	**—**	**—**	**—**
Exchange differences on translation of financial statements of subsidiaries	**—**	**—**	**—**	**—**	**—**	**1,926**	**—**	**1,926**	**—**	**1,926**
At 31 December 2008	**4,080**	**192,197**	**(82,562)**	**9,534**	**31,477**	**1,527**	**112,092**	**268,345**	**—**	**268,345**

The notes on pages 48 to 101 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**21,083**	41,074
Adjustments for:			
Depreciation		**16,816**	11,864
Loss on disposal of property, plant and equipment		**196**	347
Impairment loss on trade and other receivables		**1,086**	(513)
Amortization of prepaid lease payments		**364**	343
Interest income		**(501)**	(533)
Interest expenses		**9,352**	8,677
Dividend income from other investment		**—**	(588)
Operating profit before changes in working capital		**48,396**	60,671
Decrease/(Increase) in inventories		**25,330**	(10,008)
Increase in amount due from a director		**(503)**	—
Decrease/(Increase) in trade and other receivables		**5,933**	(31,331)
Decrease in amounts due from related companies		**5,934**	2,645
(Decrease)/Increase in trade and other payables		**(18,004)**	11,733
Decrease in amounts due to related companies		**(7,513)**	(1,736)
Cash generated from operations		**59,573**	31,974
PRC enterprise income tax paid		**(2,505)**	(6,470)
Interest paid		**(9,174)**	(8,276)
Net cash generated from operating activities		**47,894**	17,228

The notes on pages 48 to 101 form part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 *RMB'000*	2007 *RMB'000*
Investing activities			
Payment for the purchase of property, plant and equipment		**(23,676)**	(75,395)
Deposits paid for prepaid lease payments		**—**	(911)
Deposits paid for acquisition of property, plant and equipment		**—**	(5,324)
Interest received		**501**	533
Proceeds from disposal of investments		**—**	162
Proceeds from sales of property, plant and equipment		**306**	96
Dividend income		**—**	588
Increase in fixed deposits		**(5,600)**	—
Net cash used in investing activities		**(28,469)**	(80,251)
Financing activities			
Proceeds from interest-bearing borrowings		**72,442**	222,365
Repayment of interest-bearing borrowings		**(91,355)**	(132,000)
Advance to directors		**—**	(9,900)
Dividends paid to equity shareholders of the Company		**—**	(6,272)
Decrease/(Increase) in pledged bank deposit		**3,591**	(7,371)
Net cash (used in)/generated from financing activities		**(15,322)**	66,822
Net increase in cash and cash equivalents		**4,103**	3,799
Cash and cash equivalents at 1 January		**37,717**	33,045
Effect of foreign exchange rate changes		**1,926**	873
Cash and cash equivalents at 31 December	*20*	**43,746**	37,717

The notes on pages 48 to 101 form part of these financial statements.

1 GENERAL INFORMATION

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

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 15.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of its major subsidiaries are Renminbi ("RMB"). The consolidated financial statements are presented in Renminbi ("RMB"). All financial information in RMB has been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries. The measurement basis used in the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests *(continued)*

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

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

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

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses (see note 2(g)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

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

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

	Useful lives	Residual value
— Buildings	20 years	10%
— Plant and machinery	10 years	10%
— Equipment, furniture and fixtures	3-5 years	10%
— Motor vehicles	5 years	10%

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Prepaid lease premium for land

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

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

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

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

— property, plant and equipment; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(g)(i) and (ii)).

(h) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Trade and other receivables

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

(j) Interest-bearing borrowings

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

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(o)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits *(continued)*

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

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

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

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

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

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

(iii) Interest income

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

(iv) Government grants

Subsidies from the relevant People's Republic of China (the "PRC") government authorities, in the form of return of income tax, value added tax not associating with the purchase of property, plant and equipment and various taxes, as an incentive for the investments in various cities in the PRC are recognised in the consolidated income statement when relevant approval has been obtained.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Translation of foreign currencies *(continued)*

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

(r) Borrowing costs

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

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

(s) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting

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

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES

(a) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment is required.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES *(continued)*

(a) Application of new and revised Hong Kong Financial Reporting Standards *(continued)*

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for annual periods beginning on or after 1 July 2008

6 Effective for annual periods beginning on or after 1 October 2008

7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES *(continued)*

(a) Application of new and revised Hong Kong Financial Reporting Standards *(continued)*

HKAS 27 (Revised) will affect the accounting treatment for changes in Group's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

(b) Restatement of prior periods and opening balances

As at 31 December 2007, the investment in subsidiaries was accounted for in the balance sheet of the Company under the equity method and was initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the subsidiaries' net assets.

This is not in accordance with HKAS 27 "Consolidated and Separate Financial Statements". Under HKAS 27, in the balance sheet of the Company, an investment in a subsidiary is stated at cost less any impairment losses, unless the investment is classified as held for sale. Accordingly, comparative amounts in the balance sheet of the Company have been restated.

The financial effects of the restatements on the balance sheet of the Company as at 31 December 2007:

	As at 31 December 2007 (as previously reported)	Restatement	As at 31 December 2007 (as restated)
	RMB'000	*RMB'000*	*RMB'000*
Effect on assets:			
Investment in subsidiaries	221,813	(107,199)	114,614
Effect on equity:			
Translation reserve	—	(5,510)	(5,510)
Accumulated losses	75,149	(101,689)	(26,540)

The restatement had no impact on the financial position and basic and diluted earnings per share of the Group for the year ended 31 December 2007 and 2008.

4 TURNOVER

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

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

5 OTHER REVENUE

	2008	2007
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**501**	533
Government subsidy income	**73**	805
Sales of scrap	**2,001**	3,706
Dividend income from other investment	**—**	588
Incentive subsidies *(note a)*	**4,616**	—
Write off of trade and other payables	**438**	1,133
Others	**940**	525
	8,569	7,290

Notes:

(a) The amount represents incentives received from the relevant PRC government authorities in the form of return of income tax for the reinvestment on the PRC enterprises.

6 PROFIT BEFORE TAXATION

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

		2008	2007
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest on bank borrowings wholly repayable within five years	**9,352**	8,677
	Interest expense on financial liabilities not at fair value through profit or loss	**9,352**	8,677
	Other	**138**	—
		9,490	8,677
(b)	**Staff costs (including directors' remuneration):**		
	Contributions to defined contribution retirement plans	**2,576**	1,635
	Salaries, wages and other benefits	**49,719**	46,305
		52,295	47,940
(c)	**Other items:**		
	Amortisation		
	— prepaid lease payments	**364**	343
	Impairment loss on trade receivables and other receivables	**1,086**	(513)
	Depreciation for property, plant and equipment	**16,816**	11,864
	Net foreign exchange gain	**(2,482)**	(3,597)
	Auditors' remuneration — audit services	**600**	900
	Operating lease charges — minimum lease payments	**268**	143
	Cost of inventories *(Note 16)*	**323,943**	304,450
	Loss on disposal of property, plant and equipment	**196**	347

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2008	2007
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**2,140**	5,437
Over provision in respect of prior years		
PRC Enterprise Income Tax	**—**	(709)
Deferred tax		
Current year	**230**	716
	2,370	5,444

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

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

Changzhou Galaxy Electrical Co., Ltd. ("Galaxy Electrical") and Changzhou Galaxy Semiconductor Co., Ltd ("Galaxy Semiconductor") are recognised as high-technology enterprises. According to the PRC tax regulations, Galaxy Electrical and Galaxy Semiconductor have been entitled to a preferential tax rate of 15% in 2008. Galaxy Semiconductor was previously recognised as advance technology enterprises and entitled to a preferential tax rate of 10% in 2007.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Income tax in the consolidated income statement represents: *(continued)*

Changzhou Galaxy Hi-New Electric Parts Co., Ltd ("Galaxy Hi-New"), Changzhou Galaxy Technology Developing Co., Ltd ("Galaxy Technology") and Changzhou Galaxy Century Micro-Electronics Co., Ltd ("Galaxy Micro-Electronics") are located in the coastal economic open zone and are recognised as Production Foreign invested enterprises. According to the PRC tax regulations, Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are entitled to the tax incentives 2 years exemption and 3 years half rate. Year 2008 is the second profit making year for Galaxy Hi-New and the first profit making year for Galaxy Micro-Electronics, thus no income tax was provided for in 2008. Galaxy Technology sustained accumulated losses and thus no income taxes were provided for in 2008.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Except for Galaxy Electrical, Galaxy Semi-Conductor and Taizhou Galaxy Huanyu Semi-Conductor Co., Ltd. ("Galaxy Huanyu"), the applicable income tax rate to the Group's subsidiaries will gradually be adjusted to 25% in the following five years. The applicable income tax rate of Galaxy Huanyu is 25% in 2008. As it sustained an accumulated loss, no income tax was provided for in 2008. In 2007, the deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

	2008 **RMB'000**	2007 RMB'000
Profit before taxation	**21,083**	41,074
Notional tax on profit before taxation, calculated at the rates applicable to profits in PRC	**5,271**	6,161
Tax effect of non-deductible expenses	**3,685**	2,412
Tax effect of non-taxable income	**(3,470)**	(856)
Tax loss not recognized	**2,050**	—
Tax effect of profits entitled to tax exemptions in the PRC	**(5,397)**	(2,248)
Others	**231**	(25)
Actual tax expenses	**2,370**	5,444

8 DIRECTORS' REMUNERATION

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

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2008 Total *RMB'000*
Chairman					
Yang Senmao	—	727	82	17	826
Executive directors					
Xu Xiaoping	—	455	54	17	526
Yue Lian	—	455	54	17	526
Non-executive directors					
Meng Quanda	—	48	—	—	48
Shiu Kit	—	89	—	—	89
Dong Renhan	—	48	—	—	48
Independent non-executive directors					
Wong Wai Ling	89	—	—	—	89
Ni Tongmu	48	—	—	—	48
Shu Mingding	48	—	—	—	48
	185	1,822	190	51	2,248

8 DIRECTORS' REMUNERATION *(continued)*

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

Note: The Company did not grant any share options during the current and the previous year. As at the balance sheet dates, no share options were held by directors of the Company. The details of the share option scheme are set out in note 25 to the financial statements.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included on the disclosure in note 8 above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008	2007
	RMB'000	*RMB'000*
Salaries and other benefits	**998**	1,129
Retirement scheme contributions	**28**	22
	1,026	1,151

The emoluments of each individual were all within RMB1,000,000.

During the year, no emolument or incentive payments were paid to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB6,294,000 (2007: loss of RMB9,847,000 (restated)) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

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

	2008	2007
	RMB'000	*RMB'000*
Final dividends proposed after the balance sheet date	—	—

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

	2008	2007
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of Nil (2007: HK$0.016 per ordinary share)	—	6,272

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB18,713,000 (2007: RMB36,831,000) and the weighted average number of 400,000,000 ordinary shares (2007: 400,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The amount of diluted earnings per share is equal to basic earnings per share as there were no dilutive potential ordinary shares in existence for both years.

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Construct-ion in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2007	19,671	52,762	19,155	3,388	4,741	99,717
Reclassification	830	—	(1,014)	184	—	—
Additions	500	24,292	5,103	1,014	44,486	75,395
Transfer	429	19,953	140	267	(20,789)	—
Disposals	—	(891)	(60)	(410)	—	(1,361)
At 31 December 2007	21,430	96,116	23,324	4,443	28,438	173,751
Reclassification	—	954	(142)	—	(812)	—
Additions	—	12,070	6,420	115	7,302	25,907
Transfer	8,335	20,945	17	—	(29,297)	—
Disposals	—	(636)	(138)	—	—	(774)
At 31 December 2008	**29,765**	**129,449**	**29,481**	**4,558**	**5,631**	**198,884**
Accumulated depreciation:						
At 1 January 2007	1,910	7,231	5,117	1,158	—	15,416
Charge for the year	1,035	6,823	3,323	683	—	11,864
Written back on disposal	—	(527)	(34)	(357)	—	(918)
At 31 December 2007	2,945	13,527	8,406	1,484	—	26,362
Reclassification	—	21	(21)	—	—	—
Charge for the year	923	10,726	4,423	744	—	16,816
Written back on disposal	—	(156)	(116)	—	—	(272)
At 31 December 2008	**3,868**	**24,118**	**12,692**	**2,228**	**—**	**42,906**
Net book value:						
At 31 December 2008	**25,897**	**105,331**	**16,789**	**2,330**	**5,631**	**155,978**
At 31 December 2007	18,485	82,589	14,918	2,959	28,438	147,389

The Group has pledged its buildings with carrying values of approximately RMB8,797,000 (2007: 12,368,000) to secure its interest-bearing borrowings (note 21).

Building held for own use are located on land with medium term lease.

14 PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008	2007
	RMB'000	*RMB'000*
Land in PRC:		
Medium term lease	**25,001**	17,366
Analysed for reporting purpose as:		
Current assets	**524**	343
Non-current assets	**24,477**	17,023
	25,001	17,366

The amortization charge for the year is included in administrative expenses in the consolidated income statement.

The Group has pledged its prepaid lease payments with carrying value of approximately RMB17,001,000 (2007: RMB14,681,000) to secure its interest-bearing borrowings (note 21).

15 INTEREST IN SUBSIDIARIES

	The Company	
	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Unlisted shares at cost	**114,614**	114,614
Amounts due from subsidiaries	**160,045**	167,874
	274,659	282,488

Note:

(a) The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group reorganisation in 2006.

(b) Amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

(c) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

15 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
Changzhou Galaxy Semiconductor Co., Ltd* 常州銀河半導體有限公司	PRC	PRC	Registered capital US$1,500,000	—	100%	Manufacturing and trading of electrical parts and spares
Changzhou Galaxy Technology Developing Co., Ltd* 常州銀河科技開發有限公司	PRC	PRC	Registered capital US$1,600,000	—	100%	Research, development, manufacturing and trading of electrical parts and spares
Changzhou Galaxy Century Micro-Electronics Co., Ltd* 常州銀河世紀微電子有限公司	PRC	PRC	Registered capital HK$80,000,000	—	100%	Manufacturing and trading of diodes and semi-conductor products
Changzhou Galaxy Hi-New Electric Parts Co., Ltd* 常州銀河高新電裝有限公司	PRC	PRC	Registered capital US$1,204,819	—	100%	Manufacturing and trading of diodes and semi-conductor products
Taizhou Galaxy Huanyu Semi-conductor Co., Ltd* 泰州銀河寰宇半導體有限公司	PRC	PRC	Registered capital US$5,000,000	—	100%	Manufacturing and trading of diodes and semi-conductor products
Sun Light Planet Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary shares US$1	100%	—	Investment holding
Galaxy Electric (China) Company Limited 銀河電子(中國)有限公司	Hong Kong	Hong Kong	Ordinary shares HK$10,000	—	100%	Inactive

15 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Dai Tak Trading Company Limited 大得贸易有限公司	Hong Kong	Hong Kong	Ordinary shares HK$1	—	100%	Inactive
Changzhou Galaxy Electrical Co. Ltd* 常州銀河電器有限公司	PRC	PRC	Registered capital US$11,263,000	—	100%	Manufacturing and trading of diodes and semi-conductor products

* wholly-owned foreign enterprise

16 INVENTORIES

	The Group 2008 RMB'000	2007 RMB'000
Raw materials	**17,455**	22,537
Work in progress	**71,756**	69,669
Finished goods	**16,956**	39,291
	106,167	131,497

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

	2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	**323,943**	304,932
Transfer out due to sales	**—**	(482)
	323,943	304,450

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**126,217**	136,181	**—**	—
Less: allowance for doubtful debts	**(7,808)**	(6,722)	**—**	—
	118,409	129,459	**—**	—
Other receivables	**2,761**	5,940	**371**	394
Note receivables	**18,542**	10,689	**—**	—
Amounts due from related companies	**—**	5,934	**—**	—
Amount due from a director *(note 18)*	**503**	—	**—**	—
Loans and receivables	**140,215**	152,022	**—**	—
Prepayments and deposit	**5,799**	6,442	**—**	—
	146,014	158,464	**371**	394

All of the trade and other receivables (including note receivables and amounts due from related parties) are expected to be recovered or recognised as expense within one year.

(a) Age analysis

Trade receivables are net of allowance for doubtful debts of RMB7,808,000 (2007: RMB6,722,000) with the following age analysis as of the balance sheet date:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Within three months	**108,459**	114,361
More than three months but within one year	**9,950**	14,118
More than one year	**—**	980
At 31 December	**118,409**	129,459

Trade receivables are due within 60 - 180 days from the date of billing. Further details on the Group's credit policy is set out in note 27(a).

17 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade receivables

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

Movement in the allowance for doubtful debts:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**6,722**	7,423
Impairment loss recognized	**1,086**	—
Impairment loss reversed	**—**	(701)
At 31 December	**7,808**	6,722

As at 31 December 2008, trade receivables of the Group amounting to RMB1,086,000 (2007: RMB nil) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 180 days as at the balance sheet date or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

The factors which the Group considered in determining whether these trade receivables were individually impaired include, for example, the followings:

— significant financial difficulty of the debtor;

— receivables that have been outstanding for a certain period;

— the Group granting to the debtor, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Group would not otherwise consider;

— it is becoming probable that the debtor will enter into bankruptcy or other financial reorganization;

17 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade receivables *(Continued)*

— observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:

  — adverse changes in the payment status of debtors in the Group;

  — economic conditions that correlate with defaults on the trade receivables in the Group.

No cash deposits nor collateral had been placed by the related trade debtors with the Group (2007: HK$ nil).

(c) Trade receivables that are not impaired

The ageing analysis of trade debtor that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**114,375**	114,361
Past due but not impaired		
— More than 3 months but within one year past due	**4,034**	14,118
— More than one year past due	**—**	980
	118,409	129,459

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral over these balances.

18 AMOUNT DUE FROM A DIRECTOR

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Mr. Shiu Kit	**503**	—

The maximum amount outstanding during the year is as follows:

Mr. Shiu Kit	**503**	—

The amount was unsecured, interest-free and fully settled subsequent to the year end.

19 PLEDGED BANK DEPOSITS

The amounts are pledged to banks as securities for the Group to issue bank acceptance bills and other banking facilities (see note 22).

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**33,746**	37,717	**190**	151
Deposit with bank (maturity of within three months)	**10,000**	—	**—**	—
Cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement	**43,746**	37,717	**190**	151

Bank balances carry interest at market rate of 1.25%-2.25% (2007: 0.72%) per annum.

21 INTEREST-BEARING BORROWINGS

At 31 December 2008, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**125,870**	116,038	**79,370**	73,038
After 1 year but within 2 years	**10,583**	28,091	**10,583**	28,091
After 2 years but within 5 years	**—**	11,237	**—**	11,237
	10,583	39,328	**10,583**	39,328
	136,453	155,366	**89,953**	112,366

As 31 December 2008, the bank loans were secured as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans				
— secured *(note a)*	**46,500**	35,000	**—**	—
— unsecured	**—**	8,000	**—**	—
— unsecured but guaranteed *(note b)*	**89,953**	112,366	**89,953**	112,366
	136,453	155,366	**89,953**	112,366

Notes:

All of the non-current interest bearing borrowings are carried at amortized cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

(a) The secured interest-bearing borrowings amounts are secured by the buildings and prepaid lease payments of the Group as set out in notes 13 and note 14.

(b) The balance is jointly guaranteed by all subsidiaries of the Group.

At 31 December 2008, these banking facilities amounting to HKD120,000,000 (equivalent to approximately RMB106,140,000) (2007: HKD120,000,000) (equivalent to approximately RMB112,366,000). The facilities were fully utilized as at balance sheet date.

These banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2008, none of the covenants relating to drawn down facilities had been breached (2007: nil).

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

The average effective interest rate on interest-bearing borrowings approximated 5.51% (2007: 6.36%) per annum.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**50,337**	59,014	**—**	—
Note payables	**4,600**	7,200	**—**	—
Other payables	**20,101**	24,548	**844**	601
Advance from customers	**4,211**	5,813	**—**	—
Amounts due to related companies	**289**	7,802	**—**	—
Amounts due to subsidiaries	**—**	—	**29,290**	5,839
Financial liabilities measured at amortized cost	**79,538**	104,377	**30,134**	6,440

The following is an age analysis of trade payables as at the balance sheet date:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Within three months	**32,495**	45,178
More than three months but within one year	**16,140**	10,910
More than one year	**1,702**	2,926
	50,337	59,014

All of the trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

The note payables of the Group are secured by pledged bank deposits (see note 19).

23 EMPLOYEE RETIREMENT BENEFITS

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

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

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organized by the Changzhou Municipal Government for the staff employed by the operations in the PRC. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2008 (2007: 22%). A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above.

The total expenses recognised in the consolidated income statement for the year of RMB2,576,000 (2007: RMB1,635,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2008 and 2007 in respect of the retirement of its employees.

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**1,333**	8,680
Provision for the year (PRC Enterprise Income tax)	**2,140**	5,437
Write off	**—**	(6,314)
Provisional tax paid (PRC Enterprise Income tax)	**(2,505)**	(6,470)
At end of the year	**968**	1,333

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the year are as follows:

	Allowance for doubtful debts *RMB'000*	Accumulated loss *RMB'000*	Unrealised profits *RMB'000*	Subsidy income *RMB'000*	Total *RMB'000*
Deferred tax arising from:					
At 1 January 2007	1,211	—	735	3,347	5,293
Overprovision	—	—	(1,982)	(3,347)	(5,329)
Credited/(Charged) to income statement	150	612	(1,478)	—	(716)
At 31 December 2007	1,361	612	(2,725)	—	(752)
Credited/(Charged) to income statement	(228)	(112)	110	—	(230)
At 31 December 2008	**1,133**	**500**	**(2,615)**	**—**	**(982)**

	The Group	
	2008 ***RMB'000***	2007 *RMB'000*
Net deferred tax asset recognised on the balance sheet	**1,633**	1,973
Net deferred tax liabilities recognised on the balance sheet	**(2,615)**	(2,725)
	(982)	(752)

(c) Deferred tax assets not recognised

At the balance sheet date, the Group has unused tax losses of RMB4,299,000 (2007: RMB nil) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

25 SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

No option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2008.

26 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Statutory reserves *RMB'000*	Other reserve *RMB'000*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2007	4,080	192,197	(82,562)	5,177	33,804	(1,272)	67,390	218,814	2,999	221,813
Profit for the year	—	—	—	—	—	—	36,831	36,831	(1,201)	35,630
Acquisition of minority interests	—	—	—	—	(2,327)	—	—	(2,327)	(1,798)	(4,125)
Transfer to welfare funds	—	—	—	—	—	—	(213)	(213)	—	(213)
Transfer to statutory reserves	—	—	—	2,519	—	—	(2,519)	—	—	—
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	873	—	873	—	873
Dividends approved in respect of the previous year *(note 11(b))*	—	—	—	—	—	—	(6,272)	(6,272)	—	(6,272)
At 31 December 2007 and 1 January 2008	**4,080**	**192,197**	**(82,562)**	**7,696**	**31,477**	**(399)**	**95,217**	**247,706**	**—**	**247,706**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**18,713**	**18,713**	**—**	**18,713**
Transfer to statutory reserves	**—**	**—**	**—**	**1,838**	**—**	**—**	**(1,838)**	**—**	**—**	**—**
Exchange differences on translation of financial statements of subsidiaries	**—**	**—**	**—**	**—**	**—**	**1,926**	**—**	**1,926**	**—**	**1,926**
At 31 December 2008	**4,080**	**192,197**	**(82,562)**	**9,534**	**31,477**	**1,527**	**112,092**	**268,345**	**—**	**268,345**

26 CAPITAL AND RESERVES *(continued)*

(b) The Company

	Share capital	Translation reserve	Share premium	Accumulated losses (Restated)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	4,080	(3,848)	192,197	(10,421)	182,008
Foreign currency translation differences	—	(1,662)	—	—	(1,662)
Loss for the year	—	—	—	(9,847)	(9,847)
Dividends approved in respect of the previous year *(note 11(b))*	—	—	—	(6,272)	(6,272)
At 31 December 2007 and at 1 January 2008	4,080	(5,510)	192,197	(26,540)	164,227
Foreign currency translation differences	—	(2,800)	—	—	(2,800)
Loss for the year	—	—	—	(6,294)	(6,294)
At 31 December 2008	**4,080**	**(8,310)**	**192,197**	**(32,834)**	**155,133**

(c) Share capital

	2008		2007	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Authorised:				
Ordinary shares of HK$0.01 each	**2,000,000**	**20,400**	2,000,000	20,400
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**400,000**	**4,080**	400,000	4,080

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

26 CAPITAL AND RESERVES *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Acts of the Cayman Islands. Under the Companies Acts of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed the Company is able to pay off its debts as they fall due in the ordinary course of business.

(ii) Special reserve

The special reserve represented:

— The differences between the aggregate nominal value of the registered capital of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology, other than those contributed by minority shareholders prior to the Group reorganisation, and the aggregate nominal value of the shares of the three existing immediate holding companies of Galaxy Electrical, Galaxy Semiconductor and Galaxy Technology issued in 2005.

— The difference between the net assets value of the acquired subsidiaries and the nominal value of the shares issued by the Company at the time of Group reorganisation.

(iii) Statutory reserves

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

(iv) Other reserve

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

(v) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(q).

26 CAPITAL AND RESERVES *(continued)*

(e) Distributability of reserves

As at 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB159,363,000 (2007: RMB165,657,000).

(f) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008	2007
	RMB'000	*RMB'000*
Total borrowings *(Note 21)*	**136,453**	155,366
Less: Cash and cash equivalents *(Note 20)*	**(43,746)**	(37,717)
Net debt	**92,707**	117,649
Total equity	**268,345**	247,706
Gearing ratio	**35%**	47%

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade receivables and trade payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

(i) As at 31 December 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

(ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 60 to 180 days from the date of billing.

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the balance sheet date, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at balance sheet date.

(iv) The credit risk on liquid funds is limited because the counter parties are financial institutions with established high credit ratings.

(v) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

The following liquidity table set out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company required to pay:

The Group

			2008		
	Within 1 year or on demand	**More than 1 year but less than 2 year**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Interest bearing borrowings	**135,149**	**11,363**	**—**	**146,512**	**136,453**
Trade and other payables (excluding advance from customers)	**75,327**	**—**	**—**	**75,327**	**75,327**
	210,476	**11,363**	**—**	**221,839**	**211,780**

			2007		
	Within 1 year or on demand	More than 1 year but less than 2 year	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest bearing borrowings	122,179	29,769	11,355	163,303	155,366
Trade and other payables (excluding advance from customers)	98,564	—	—	98,564	98,564
	220,743	29,769	11,355	261,867	253,930

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Liquidity risk *(Continued)*

The Company

			2008		
	Within 1 year or on demand	More than 1 year but less than 2 year	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest bearing borrowings	**85,221**	**11,363**	**—**	**96,584**	**89,953**
Other payables	**30,134**	**—**	**—**	**30,134**	**30,134**
	115,355	**11,363**	**—**	**126,718**	**120,087**

			2007		
	Within 1 year or on demand	More than 1 year but less than 2 year	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest bearing borrowings	76,982	29,769	11,355	118,106	112,366
Other payables	6,440	—	—	6,440	6,440
	83,422	29,769	11,355	124,546	118,806

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Interest rate

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 21 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

The Group is exposed to interest rate risk as its bank deposits are all interest-bearing. All bank deposits are short-term deposits with maturities less than or equal to three months. Management does not anticipate any significant impact resulting from the change in interest rates because the Group's bank balances are carried at low interest rates and the interest income thereon is not significant.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings at the balance sheet date:

	The Group				The Company			
	2008		2007		**2008**		2007	
	Effective interest rates %	***RMB'000***	Effective interest rates %	*RMB'000*	**Effective interest rates %**	***RMB'000***	Effective interest rates %	*RMB'000*
Variable rate borrowings:								
Bank loans	**5.51**	**136,453**	6.36	155,366	**4.32**	**89,953**	5.82	112,366
Total net borrowings		**136,453**		155,366		**89,953**		112,366

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitiveity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate borrowing, with all other variables held constant, would decrease/(increase) the Group's profit after tax and retained profits by approximately RMB996,000 (2007: RMB1,364,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currency is RMB as substantially all the turnover are in RMB. The Group's transactional foreign exchange exposure was insignificant.

(i) Exposure to currency risk

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

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

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk (Continued)

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

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

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2008	2007	**2008**	2007
	USD'000	*USD'000*	***HKD'000***	*HKD'000*
The Group				
Trade and other receivables	**1,289**	1,373	**993**	55
Cash and cash equivalents	**250**	484	**3,748**	5,313
Trade and other payables	**(103)**	(1,433)	**(1,094)**	(4,017)
Interest-bearing borrowings	**—**	—	**(102,000)**	(120,000)
Overall exposure arising from recognized assets and liabilities	**1,436**	424	**(98,353)**	(118,649)
The Company				
Other receivables	**—**	—	**420**	420
Cash and cash equivalents	**—**	—	**214**	161
Other payables	**—**	—	**(957)**	(642)
Interest-bearing borrowings	**—**	—	**(102,000)**	(120,000)
Overall exposure arising from recognized assets and liabilities	**—**	—	**(102,323)**	(120,061)

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits** *RMB'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*
US DOLLARS	**5%/(5%)**	**557/(557)**	5%/(5%)	155/(155)
HONG KONG DOLLARS	**5%/(5%)**	**4,350/(4,350)**	5%/(5%)	5,555/(5,555)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(e) Price risk

The major raw material used in the production of the Group's products included copper. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes. To protect the Group's business from the impact of copper price fluctuation, the Group closely monitors the net exposure and ensures that is kept to an acceptable level.

(f) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of financial assets traded on active liquid markets are determined with reference to listed market prices. The carrying amounts of bank loans approximate their fair values.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

28 MATERIAL RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with related parties

In addition to the transactions disclosed elsewhere in the financial statements, the Group also entered into the following related party transactions:

		2008 ***RMB'000***	2007 *RMB'000*
Fulling CEIEC	Sales of goods	**—**	8,241
Lucky Star	Purchase of goods	**2,957**	8,412
Shenzhen Yuechang	Sales of goods	**—**	11,020
	Consulting fee paid	**—**	1,559
	Transfer of equity interests	**—**	540
Fulling Electronics	Transfer of equity interests	**—**	1,817
Changzhou Qiaohong	Transfer of equity interests	**—**	1,767
Zhong Shan	Operating lease	**138**	120

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personnel remuneration

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

	2008 **RMB'000**	2007 RMB'000
Salaries and other short-term employee benefits	**3,195**	3,331
Retirement scheme contributions	**79**	70
Salaries and other emoluments	**3,274**	3,401

Total remuneration is included in "staff costs" (see note 6(b)).

The remuneration of directors and key executives is determined by the remuneration committee having repaid to the performance of individual and market trends.

(c) Balance with related parties

As at 31 December 2008, the Group had the following balances with related parties:

Name of party	**2008** **RMB'000**	2007 RMB'000
Amounts due from related parties:		
— Fulling CEIEC	**—**	2,068
— Shenzhen Yuechang	**—**	3,866
Amount due from a director	**503**	—
	503	5,934
Amount due to related parties		
— Lucky Star	**289**	3,678
— Shenzhen Yuechang	**—**	540
— Fulling Electronics	**—**	1,817
— Changzhou Qiaohong	**—**	1,767
	289	7,802

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

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

The Group

	2008	2007
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
— Contracted for	**3,035**	4,492
— Authorised but not contracted for	**—**	240
	3,035	4,732

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 1 year	**81**	1,067
After 1 year but within 5 years	**45**	1,085
	126	2,152

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of the leases include contingent rentals.

30 FINANCIAL GUARANTEE

During 2007, the Groups' subsidiaries had given corporate guarantees to a bank in connection with banking facilities granted by the bank to the Company. At 31 December 2008, such facilities was drawn down by the Company to the extent of RMB89,953,000 (2007: RMB112,366,000). No recognition was made because the fair value of the guarantee was insignificant and that the directors did not consider it probable that a claim would be made against the Group under the guarantee.

31 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2008, the directors consider the parent and ultimate controlling party of the Group to be Color Vision Limited and Kalo Hugh Limited, which are incorporated in BVI. Neither of them produces financial statements available for public use.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Impairment of property, plant and equipment and land lease prepayments

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables, where applicable, at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Key sources of estimation uncertainty *(Continued)*

(iii) Depreciation

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

(iv) Net realizable value of inventories

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

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

33 COMPARATIVE FIGURES

Certain comparative figures of the Company have been adjusted or reclassified as a result of the restatement of prior period and opening balances. Further details are disclosed in note 3(b).

In addition, certain comparative figures of the Group have been reclassified to confirm with current year's presentation.

FIVE YEARS' FINANCIAL SUMMARY

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**387,541**	384,278	336,562	252,826	182,761
Profit from operations	**30,573**	49,751	37,516	44,850	37,211
Profit before taxation	**21,083**	41,074	34,622	43,025	36,323
Profit for the year	**18,713**	35,630	29,055	39,063	32,274
Attributable to:					
Equity holders of the Company	**18,713**	36,831	30,202	39,414	32,394
Minority shareholders	**—**	(1,201)	(1,147)	(351)	(120)
	18,713	35,630	29,055	39,063	32,274
Assets and liabilities					
Total assets	**487,919**	511,507	394,759	243,504	165,512
Total liabilities	**(219,574)**	(263,801)	(172,946)	(131,137)	(92,136)
Net assets	**268,345**	247,706	221,813	112,367	73,376
Equity					
Share capital	**4,080**	4,080	4,080	—	17,397
Reserves	**264,265**	243,626	214,734	108,221	51,482
Total equity attributable to equity shareholders of the Company	**268,345**	247,706	218,814	108,221	68,879
Minority interests	**—**	—	2,999	4,146	4,497
Total equity	**268,345**	247,706	221,813	112,367	73,376

Notes:

1 The financial information for each of the years ended 31 December 2004 and 2005 has been prepared using the principles of merger accounting to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the years ended 31 December 2004 and 2005, and the assets and liabilities as at 31 December 2004 and 2005 have been extracted from the Company's prospectus dated 29 May 2006.

2 The results for the year ended 31 December 2008, and the assets and liabilities as at 31 December 2008 have been extracted from the consolidated income statement and consolidated balance sheet as set out on pages 41 to 43 respectively, of the consolidated financial statements.