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 2009

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. Shu Mingding
Mr. Su Xiucheng

AUDIT COMMITTEE

Ms. Wong Wai Ling *(Chairman)*
Mr. Shu Mingding
Mr. Su Xiucheng

REMUNERATION COMMITTEE

Mr. Yang Senmao *(Chairman)*
Ms. Wong Wai Ling
Mr. Shu Mingding
Mr. Su Xiucheng

COMPANY SECRETARY

Mr. Cheng Koon Kau Alfred

AUTHORISED REPRESENTATIVES

Mr. Yang Senmao
Mr. Cheng Koon Kau Alfred

PRINCIPAL BANKERS

In Hong Kong:

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

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

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

www.galaxycn.com

LEGAL ADVISERS

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

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

DATES OF TEMPORARY SUSPENSION OF REGISTRATION OF SHAREHOLDERS

The transfer books and register of members of the Company will be closed from 27 May 2010 (Thursday) to 31 May 2010 (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 2009.

In order to be eligible to attend and vote at the Annual General Meeting to be held on 31 May 2010 (Monday), all share transfer together with the share certificates and transfer forms must reach the branch 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 4:30 p.m. on 26 May 2010 (Wednesday).

ANNUAL GENERAL MEETING

The 2009 Annual General Meeting will be held on 31 May 2010. The Notice for the 2009 Annual General Meeting has been included in a circular distributed to the Shareholders together with this Report.

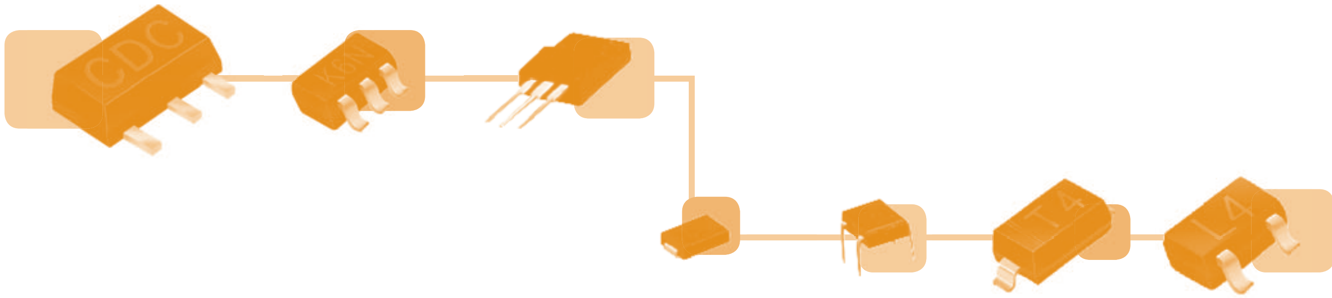
Corporate Profile

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").

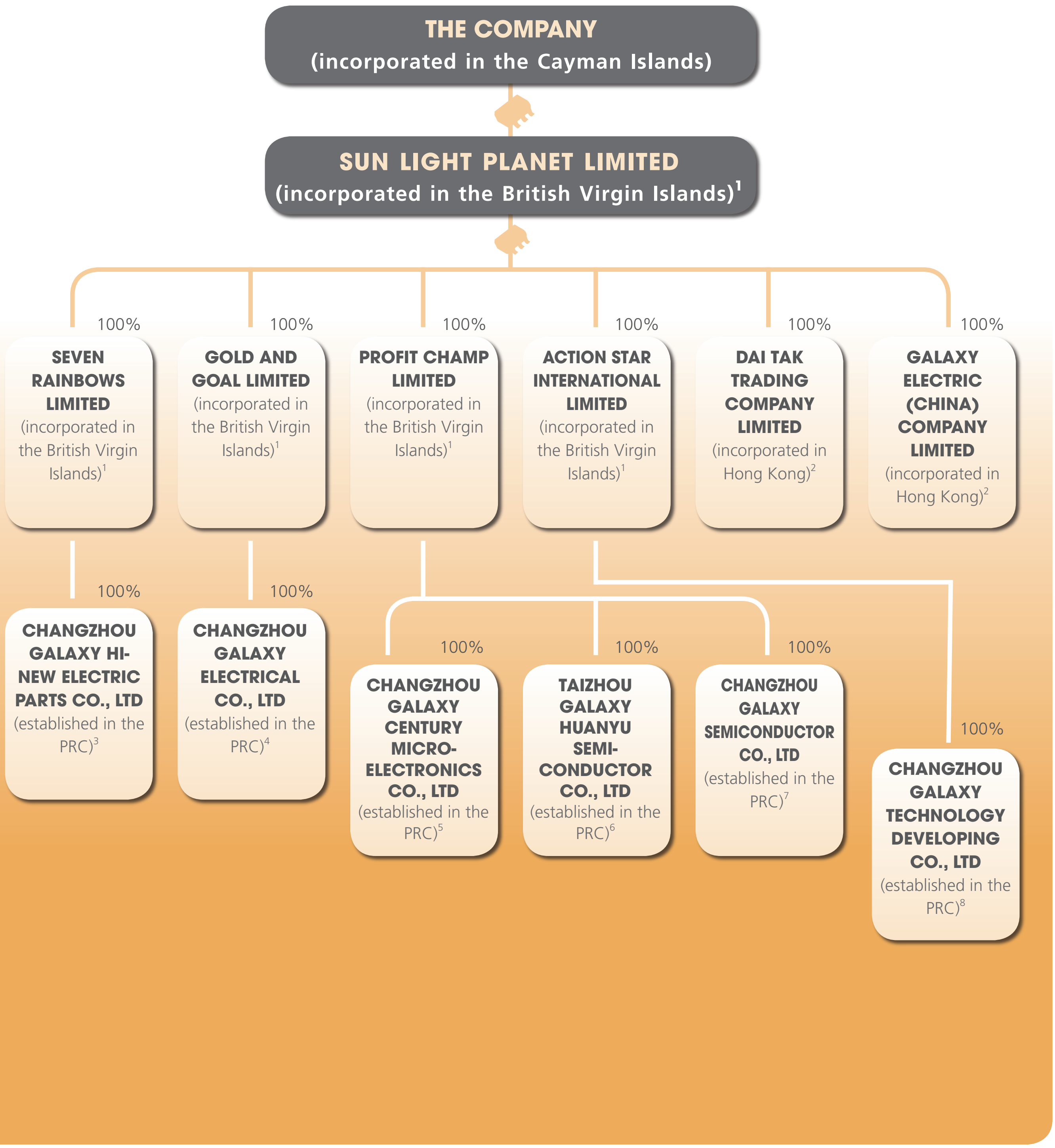
The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu are design, development, manufacturing and sale of different types of diodes. The principal operations of Galaxy Micro-Electronics are design, development, manufacturing and sale of micro surface mount plastic-packaged components (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 2009, the Group manufactured a total of approximately 7.4 billion pieces of different types of diodes due to the recovery of global and PRC economy, representing an increase compared to the 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 36% 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 economic downturn and maintain a stable growth.



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



Corporate Structure

Notes:

1. These companies are investment holding companies.

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

3. Galaxy Hi-New engages in the production and sales of plastic-packaged diodes. 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 diodes.

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.

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 2009.

For the year ended 31 December 2009, turnover of the Group was approximately RMB425,742,000, representing an increase of 9.86% compared to 2008. Profit attributable to equity holders of the Company was RMB12,577,000, representing a decrease of 32.79% compared to the same period of 2008. Earnings per share for the year was RMB0.031. During the second half of 2009, a provision for impairment of fixed assets in the amount of approximately RMB6,505,000 (2008: Nil) was made as the Group has decided to close production lines not contributing to its profits. If the impairment provision was excluded, profit attributable to equity holders of the Company and earnings per share for the year ended 31 December 2009 were RMB19,082,000 and RMB0.048, respectively, whereas profit attributable to equity holders and earnings per share for the year ended 31 December 2008 were RMB18,713,000 and RMB0.047, respectively.

Looking back to 2009, the Company overcame impacts of the global economic downturn in a relatively timely manner under the leadership of the Board, and the sales results of the year outperformed that of 2008. We expect that as the macroeconomy will remain fundamentally stable in 2010, improvements in consumer confidence and rigid demand for basic products will fuel the stable growth in market demand. Accompanying the anticipation for inflation, the price of raw materials such as copper will remain at high levels and possibly go up further. The Directors believe that the Company's semi-conductor diodes will be supported by strong market demand. Leveraging on its existing production capacity and comprehensive strength, and coupled with the operational strategies and measures currently adopted for its further growth, the Company will be capable of achieving fast growth in the sales indicators for the year, bringing substantial return to the Shareholders.

On behalf of the Board, I would like to thank our Shareholders and business partners for their consistent support for the Company, and to the management and the staff for their efforts and contributions made for our development.

Yang Senmao
Chairman

Hong Kong, 8 April 2010

Business Review and Prospects

BUSINESS REVIEW

The Group's business maintained a steady growth during 2009, with the exception of the first quarter. For the year ended 31 December 2009, the Group's turnover amounted to approximately RMB425,740,000, representing an increase of approximately 9.86% over the turnover of the previous year that amounted to approximately RMB387,540,000. Gross profit was approximately RMB75,270,000, representing an increase of approximately 18.35% as compared to the gross profit for the previous year which amounted to approximately RMB63,600,000. Gross profit margin increased to 17.68% (2008: approximately 16.41%). Profit attributable to equity holders was approximately RMB12,580,000, representing a decrease of 32.79% (2008: approximately RMB18,710,000) as compared to the previous year.

During the second half of 2009, a provision for impairment of fixed assets in the amount of approximately RMB6,500,000 (2008: Nil) was made as the Group has decided to close those production lines which were not contributing to its profits. If the impairment provision was excluded, gross profit and gross profit margin of the Company for the year ended 31 December 2009 would increase to approximately RMB81,770,000 and 19.21%, respectively, whereas profit attributable to equity holders would increase to approximately RMB19,080,000.

In response to changes in the domestic and overseas market brought about by the global economic downturn, the Group has accelerated the adjustments to sales strategies and the development of new client base, especially clients for surface mount components. As at 31 December 2009, the Group had over 1,600 domestic and overseas clients in total, with the increasing number of high-end clients. In 2009, the PRC remained as the Group's biggest market in terms of geographical turnover, with its turnover accounting for 86.42% of the total turnover.

The Group reinforced its efforts in implementation of its key projects, resulting in further enhancements in the development, production and sales of surface mount components. Galaxy Micro-Electronics recorded a monthly production capacity for micro surface mount components of over 200 million pieces, and over 1.3 billion pieces were manufactured during the year. Galaxy Electrical has implemented steady internal conversion of surface mount device plastic-packaged diode production and has further increased its production capacity, resulting in the actual annual production capacity being more than doubled as compared to the previous year. Galaxy Huanyu has opened its second axial plastic-packaged diode production line, with a monthly production capacity of 200 million pieces. The sales of all surface mount devices accounted for 36.47% of the Group's total sales in 2009, representing an increase of 14.41% over 2008.

The Group further enhanced its standard of enterprise management, achieving remarkable results in the management restructure of the member companies and the production department. The efforts on fundamental works were persistently stepped up, including applying for national patent registration, reinforcing system management, strengthening cost audit and lowering inventory capital.

PROSPECTS

The Directors anticipate that the global economy will show a more positive trend and China's economy will experience a stronger momentum with improving market sentiment, against the backdrop of a still unstable external environment filled with uncertainties. The Directors are of the view that the Group has fortified its market responsiveness and competitiveness in its course of overcoming the impacts brought by the global financial crisis, and has thereby equipped itself with the production capacity to realise its annual operating objectives. The Directors have also commenced structural adjustments and management restructure adopted in view of the Group's development in the forthcoming three years. All these will propel the Group to a new stage of faster growth.

Focusing on the three-year development objectives and taking the opportunities coming with the recovery of the domestic and overseas economies, the Group will continue to build on its existing competitive edges and create new comparative advantages, while at the same time further implement different sales strategies and measures to ensure the sustained and stable growth of the Company.

- Devise and implement the three-year development plan that strives to stimulate technology advancement through product structure adjustments and emphasizes the creation of system innovations through management restructure, with the aim to enhance the realisation of the development objectives.

- Accelerate the implementation of Galaxy Micro-Electronics' phase two development plan to construct a new plant on the new land parcel of Galaxy Micro-Electronics and strive for the targeted completion for commercial production during the third quarter of the coming year. Also, accelerate the development of new micro surface mount component products and market expansion with the aim to fully utilise its existing production capacity.

- Continue to explore new models of internal management, perfect the organisational structure and management basis of SMD business and Galaxy Semiconductor, establish an axial management department, and explore the differentiation between management roles and economic responsibilities and its implementation.

- Fully reinforce the fundamental management, refine the statistic and audit works, and perfect the performance assessment system.

- Strengthen the establishment of the people-oriented team, continue to enhance the Company's image, and continue to enhance the Group's vitality for sustainable development and its comprehensive competitiveness.

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 2009 were as follows:

	Year ended 31 December		**Increase/**	**% of**
	2009	2008	**(Decrease)**	**Change**
	RMB'000	*RMB'000*	*RMB'000*	*%*
Turnover	**425,742**	387,541	38,201	9.86
Gross profit	**75,266**	63,598	11,668	18.35
Operating profit	**16,527**	30,573	(14,046)	(45.94)
Profit before taxation	**11,314**	21,083	(9,769)	(46.34)
Profit for the year	**12,577**	18,713	(6,136)	(32.79)
Items attributable to:				
Equity holders of the Company	**12,577**	18,713	(6,136)	(32.79)

		Year ended 31 December	
	Note	**2009**	2008
Net cash *(RMB'000)*	*1*	**11,200**	(83,327)
Net assets *(RMB'000)*	*2*	**312,151**	268,345
Liquidity ratio	*3*	**155.64%**	148.19%
Inventory turnover (number of days)	*4*	**85 days**	134 days
Trade receivable turnover (number of days)	*5*	**139 days**	117 days
Trade payable turnover (number of days)	*6*	**83 days**	62 days
Earning interest multiple	*7*	**3.17 times**	3.25 times
Net debt to capital ratio	*8*	**30%**	31%

Notes:

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 2009 was approximately RMB425,740,000. It represented a growth of approximately 9.86% when compared with the turnover of approximately RMB387,540,000 in 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**
	2009		2008		**(Decrease)**	**percentage**
	RMB'million	%	*RMB'million*	%	*RMB'million*	%
PRC *(Note 1)*	367.94	86.42	322.68	83.26	45.26	14.03
Hong Kong and Korea	24.35	5.72	23.98	6.19	0.37	1.54
Other countries and regions *(Note 2)*	33.45	7.86	40.88	10.55	(7.43)	(18.18)
Total	425.74	100.00	387.54	100.00	38.20	9.86

Notes:

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 2009, the Group had over 1,600 customers.

2. Other countries and regions include Thailand, Taiwan, the United States, Italy, Canada, Germany, Spain and France.

Turnover by product type

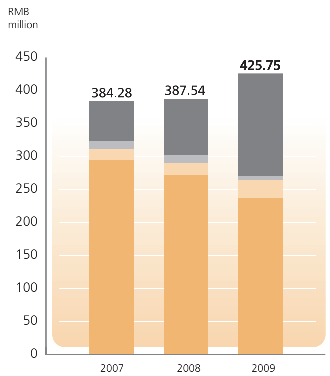
	Year ended 31 December				Increase/	Change in
	2009		2008		**(Decrease)**	**percentage**
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
Plastic packaged diodes *(Note 1)*	237.24	55.73	272.61	70.34	(35.37)	(12.97)
Glass packaged diodes	26.88	6.31	17.47	4.51	9.41	53.86
Bridge rectifiers	5.80	1.36	11.61	3.00	(5.81)	(50.04)
Surface mount device packaged diodes *(Note 2)*	155.27	36.47	85.49	22.06	69.78	81.62
Others *(Note 3)*	0.55	0.13	0.36	0.09	0.19	52.78
Total	425.74	100.00	387.54	100.00	38.20	9.86

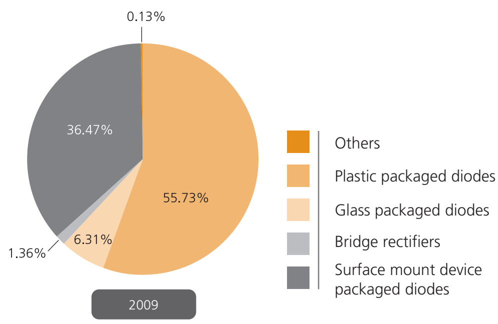
Notes:

1. Plastic packaged diodes are the Group's major products. For the year ended 31 December 2009, the sales amount dropped mainly because of the poor market condition in the first half of 2009, which resulted in a fall of the selling price of the products.

2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. The Group kept its momentum on selling such products in 2009.

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 the cost of raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2009 represented 82.32% of the turnover, with a slight decrease by approximately 1.27% when compared with that of approximately 83.59% for the year ended 31 December 2008. During the year of 2009, impairment of fixed assets amounting to approximately RMB6,500,000 (2008: Nil) was provided and included in cost of sales for obsolete machinery. Excluding this item, the cost of sales for the year ended 31 December 2009 would be RMB343,970,000 and would be reduced to 80.79% of the turnover.

GROSS PROFIT

The Group's gross profit margin for the year ended 31 December 2009 increased slightly to approximately 17.68% from approximately 16.41% for the year ended 31 December 2008. If impairment of fixed assets amounting to approximately RMB6,500,000 (2008: Nil) which was charged to cost of sales was excluded, the Group's gross profit margin for the year ended 31 December 2009 would be approximately 19.21% accordingly.

OTHER REVENUE AND NET INCOME

Other revenue and net income mainly comprised income generated by the sale of scrap materials and sub-products (2009: approximately RMB1,450,000; 2008: approximately RMB2,000,000), interest income from bank deposits (2009: approximately RMB720,000; 2008: approximately RMB500,000), subsidy income from government (including incentive subsidies) (2009: approximately RMB510,000; 2008: approximately RMB4,690,000) and net income recognised on write-back/(reinstatement) of trade and other payables (2009: approximately (RMB1,420,000); 2008: approximately RMB440,000). The decrease in other revenue and net income is mainly attributable to the fact that the long aged accounts payable which was provided prior to 2009 was written back in 2009 and the drop in the sale of scrap materials and sub-products.

DISTRIBUTION COSTS

Distribution costs mainly included commission expenses for sales and distribution activities (2009: approximately RMB8,900,000; 2008: approximately RMB3,830,000), wages and salaries of sales personnel (2009: approximately RMB3,870,000; 2008: approximately RMB2,620,000) and transportation costs (2009: approximately RMB1,860,000; 2008: approximately RMB1,900,000).

Distribution costs for the year ended 31 December 2009 represented approximately 3.91% of the total turnover, showing an increase when compared with 2.68% for the year ended 31 December 2008, mainly because more commission expenses were incurred to stimulate selling activities for 2009.

ADMINISTRATIVE EXPENSES

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

Administrative expenses for the year ended 31 December 2009 amounted to approximately RMB42,790,000, showing an increase by approximately RMB11,570,000 when compared with that of approximately RMB31,220,000 for the year ended 31 December 2008.

Items contributing to the increase in administrative expenses are mainly as follows: the salaries and benefits of management staff increased by approximately RMB4,290,000 (2009: approximately RMB19,830,000; 2008: approximately RMB15,540,000). The exchange gain dropped by approximately RMB3,220,000 (2009: approximately (RMB740,000); 2008: approximately RMB2,480,000). The provision of bad debt also increased by approximately RMB5,600,000 (2009: approximately RMB6,690,000; 2008: approximately RMB1,090,000).

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 2009 were approximately RMB5,210,000 while those for the year ended 31 December 2008 were approximately RMB9,490,000. The drop in finance costs was because more bank loans were repaid than those newly drawn during 2009 as a result of the improvement in cashflow position for the year ended 31 December 2009 compared with that for the year ended 2008.

TAXATION

The effective tax rate decreased from approximately 11.24% for the year ended 31 December 2008 to approximately (11.16%) for the year ended 31 December 2009. It was mainly because of the deferred tax liability, which was not expected to be crystallised in foreseeable future, was written off during 2009.

NET PROFIT

The net profit margin dropped from 4.83% for the year ended 31 December 2008 to 2.95% for the year ended 31 December 2009.

NET CURRENT ASSETS

The net current assets of the Group as at 31 December 2009 amounted to approximately RMB132,670,000, with an increase by approximately RMB33,210,000 when compared to the previous year (31 December 2008: approximately RMB99,460,000).

LIQUIDITY AND FINANCING

The cash and bank balances as at 31 December 2009 amounted to approximately RMB118,700,000, which comprised RMB80,180,000, USD550,000 and HK$39,440,000, and the same as at 31 December 2008 was approximately RMB53,130,000.

As at 31 December 2009, the total amount of borrowings by the Group was approximately RMB107,500,000 representing a decrease of approximately RMB28,950,000 compared with the balance outstanding as at 31 December 2008. All of the above borrowings was short term bank loan due within one year.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio dropped to approximately 43.31% as at 31 December 2009 from approximately 45% as at 31 December 2008. That ratio was computed by dividing the Group's total liabilities by its total assets. During 2009, 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 RMB107,500,000. The Group had not engaged in any currency hedging facility for the year ended 31 December 2009 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.

THE PLACING

On 12 November 2009, the Company entered into a placing agreement with China Merchants Securities (HK) Co., Ltd. for placing, through China Merchants Securities (HK) Co., Ltd. on a best efforts basis, a maximum of 80,000,000 new ordinary shares of the Company of HK$0.01 each (the "Placing Shares") to independent investors at a price of HK$0.45 per Placing Shares (the "Placing"). A supplemental agreement was entered into by the parties on 11 December 2009 to extend the long stop date for the Placing.

On 28 December 2009, a total of 80,000,000 Placing Shares were allotted at a price of HK$0.45 to not fewer than six independent investors. The placing price represented a discount of approximately 19.64% to the closing price of HK$0.56 per share of the Company as quoted on the Stock Exchange on the day before the date of the placing agreement. The Company raised a net sum of approximately HK$35,124,000, which was intended to be used for general working capital of the Group. The net price raised per Placing Share is approximately HK$0.44.

As a result of the above, the Company's total issued share capital increased to 480,000,000 shares as at 31 December 2009.

Details of the Placing are set out in the announcements of the Company dated 12 November 2009, 11 December 2009 and 28 December 2009.

PLEDGE OF ASSETS

As at 31 December 2009, the Group had pledged assets comprising land and buildings with net book values of approximately RMB30,515,000 (31 December 2008: approximately RMB25,800,000) as security for the bank loans obtained by the Group.

CONTINGENT LIABILITIES

For the year ended 31 December 2009, the Group had no material contingent liabilities.

EMPLOYEES

As at 31 December 2009, the Group had approximately 2,100 full-time employees (31 December 2008: 1,800 full-time employees) in Hong Kong and the PRC, including 1,500 employees (31 December 2008: 1,200 employees) provided by employment agents, responsible for management, administration and production. For the year ended 31 December 2009, the relevant employee costs (including the Directors' remuneration) were approximately RMB58,540,000 (2008: approximately RMB52,300,000). 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.

POST BALANCE SHEET EVENT

Acquisition of shares in Power Full Group Holdings Limited

On 1 April 2010, the Company (as purchaser) entered into a conditional agreement with Brown Beauty Business Limited (as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire and Brown Beauty Business Limited agreed to dispose of the entire issued share capital of Power Full Group Holdings Limited for a total consideration of HK$830 million (the "Acquisition"). The consideration of HK$830 million for the Aquisition will be satisfied by a combination of (a) issue of convertible note in the principal amount of HK$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK$1.00 per Shares amounting to HK$195 million; (c) issue of promissory note in the principal amount of HK$330 million; and (d) payment of HK$150 million in cash upon completion of the Acquisition.

As the Acquisition constitutes a very substantial acquisition of the Company pursuant to Chapter 14 of the Listing Rules, it is subject to shareholders' approval. Details of the Acquisition are set out in the announcement of the Company dated 26 April 2010.

DIRECTORS

The Board comprises nine 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 authorised 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 22 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 31.88% and 19.08% interest in the Company as at the date of this Report.

Mr. Yue Lian, aged 46, is an executive Director, 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 19 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 19.08% interest in the Company as at the date of this Report.

Mr. Xu Xiaoping, aged 43, is an executive Director, and the deputy 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 18 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 31.88% interest in the Company as at the date of this Report.

NON-EXECUTIVE DIRECTORS

Mr. Meng Quanda, aged 68, is a non-executive Director. 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 36 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 31.88% interest in the Company as at the date of this Report.

Mr. Shiu Kit, aged 60, is a non-executive Director. 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 22 years of experience in investment and corporate management.

Mr. Dong Renhan, aged 69, is a non-executive Director. 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 33 years of experience in corporate management for electronic companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling, aged 48, is an independent non-executive Director. 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 a member of The Association of Chartered Certified Accountants. She has 18 years of extensive experience in accounting, taxation and auditing. She had worked for more than 7 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, namely, Overseas Chinese Town (Asia) Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Ni Tongmu, aged 43, is an independent non-executive Director. Mr. Ni is a partner of 江蘇天豪律師事務所 (Jiangsu Top Hope Law Firm) in the PRC. Mr. Ni graduated in 1990 from 蘇州大學 (Suzhou University), majoring in Education in English and obtained a second degree and master degree both majoring in Laws at 復旦大學 (Fudan University) and Suzhou University respectively in 1992 and 2004. Mr. Ni is a qualified lawyer in the PRC. He was awarded the title of "江蘇知名律師" (the famous lawyer in Jiangsu), the PRC by 江蘇省律師協會 (the Jiangsu Bar Association, China) in 2002. Mr. Ni was appointed and resigned as an independent non-executive Director on 16 May 2006 and 31 March 2010 respectively.

Mr. Shu Mingding, aged 63, is an independent non-executive Director. 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.

Mr. Su Xiucheng, aged 49, is an independent non-executive Director. He graduated at the Correspondence Institute of the Party School of the Central Committee of C.P.C（中共中央黨校函授學院）in 2006, majoring in economic management and obtained a master degree at North China Electric Power University（華北電力大學）in 2007. Mr. Su was awarded a certificate of senior engineer by the Ministry of Power Industry-Huabei Electric Power Management Bureau（電力工業部華北電業管理局）in 1999. Mr. Su had joined Beijing Electric Power Transmission and Transformation Company（北京送變電公司）("Beijing Electric Power Company") from July 1981 to June 2007 and his last position was the vice general manager and chief engineer in 2007. He had also been employed as a specialist in design and infrastructure technology by State Grid Corporation of China（國家電網公司交流建設分公司）("State Grid Corporation") from 2007 to 2009 and has been the officer of the management department of State Grid Corporation. Mr. Su has been a committee member of the Standardisation of UHV AC Transmission Working Committee（特高壓交流輸電標準化技術工作委員會）since 2007. Mr. Su was appointed as an independent non-executive Director on 31 March 2010.

SENIOR MANAGEMENT

Mr. Cheng Koon Kau Alfred, aged 35, is the authorised representative and company secretary of the Company, and has over 12 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 64, is the deputy general manager of Galaxy Technology and Galaxy Semiconductor. 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 38 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 科技進步一等獎 (first prize of technological improvement) in the PRC.

Mr. Jin Yinlong, aged 52, 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 30 years of experience in the semi-conductor industry. Mr. Jin joined the Group in May 2007.

Mr. Zhang Xianli, aged 47, 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 27 years of experience in the semi-conductor industry. Mr. Zhang joined the Group in January 2007.

Ms. Guan Xufeng, aged 51, is the deputy finance general manager of Galaxy Electrical. Ms. Guan joined the Group in September 1995 and has over 20 years experience in accounting and financial management.

Mr. Liu Jun, aged 38, is the deputy production general manager of Galaxy Electrical and general manager of SMD division. 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 16 years of experience in the diode manufacturing business.

Mr. Li Enlin, aged 47, is the deputy general manager of administration of Galaxy Electrical and deputy general manager of Galaxy Hi-New. 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 南京大學 (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 25 years of experience in the management of large enterprises. Mr. Li joined the Group in July 2007.

Mr. Wang Xinglong, aged 46, is the director 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 25 years of experience in the semiconductor industry. Mr Wang was awarded several prizes in research of semiconductor.

Ms. Zhu Weiying, aged 42, is the marketing director 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 19 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.

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2009.

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 2009 are set out in the consolidated income statement on page 41 of this Report.

PROPOSED FINAL DIVIDEND

The Directors did not recommend the payment of dividends for the year ended 31 December 2009.

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 100 of this Report.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 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

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

RESERVES

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

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of the Cayman Islands, the Company's reserves available for distribution to Shareholders as at 31 December 2009 amounted to approximately RMB187,124,000.

DIRECTORS

The Directors during the year and up to the date of this Report were:

Executive directors

Mr. Yang Senmao
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 (resigned on 31 March 2010)
Mr. Shu Mingding
Mr. Su Xiucheng (appointed on 31 March 2010)

In accordance with Article 108 of the Company's Articles of Association, Ms. Wong Wai Ling, Mr. Shu Mingding and Mr. Su Xiucheng shall retire by rotation at the forthcoming annual general meeting of the Company. 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 May 2009, subject to the termination provisions therein.

Each of the non-executive Directors (including the independent non-executive Directors except Mr. Su Xiucheng) has entered into a service agreement with the Company for a term of two years from May 2008, which is determinable by either party by giving one month's written notice.

Mr. Su Xiucheng has been newly appointed on 31 March 2010 and has entered into a service agreement with the Company which is determinable by either party by giving one month's written notice. There is no fixed term of service in respect of his appointment and he is subject to retirement by rotation and re-election at the forthcoming annual general meeting of the Company.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company 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 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, namely, Ms. Wong Wai Ling, Mr. Ni Tongmu (resigned on 31 March 2010), Mr. Su Xiucheng (appointed on 31 March 2010) 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, which represented approximately 8.3% of the issued share capital of the Company as at the date of this Report. 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, 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 10 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 option has been granted under the Share Option Scheme from the date of adoption of the Share Option Scheme up to 31 December 2009.

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 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 any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" hereinafter, no contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, holding companies or its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY

As at 31 December 2009, save as disclosed below, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) of the Company which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long Position in the Shares of the Company

Name of Director	Nature of interest	Number of Shares held/ interested	Approximate percentage of the issued share capital of the Company
Mr. Yang Senmao (Mr. Yang)	Interest of controlled corporations *(note)*	244,600,000	50.96%

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. Therefore, Mr. Yang is deemed, or taken to be, interested in the 153,000,000 Shares owned by Rapid Jump Limited and the 91,600,000 Shares owned by Kalo Hugh Limited for the purposes of the SFO.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE PURSUANT TO THE SFO

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company) who, as at 31 December 2009, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Positions in the Shares

Name	Nature of interest	Number of Shares held/interested	Approximate percentage of the issued share capital of the Company
Rapid Jump Limited *(note 1)*	Beneficial owner	153,000,000	31.88%
Kalo Hugh Limited *(note 2)*	Beneficial owner	91,600,000	19.08%
Color Vision Limited *(note 2)*	Interest of a controlled corporation	91,600,000	19.08%
Ms. Zhang Jingru *(note 3)*	Interest of spouse	244,600,000	50.96%

Notes:

1. Rapid Jump Limited is owned by Mr. Yang as to 60%, and therefore Mr. Yang is deemed, or taken to be, interested in these Shares which are 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 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 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. For the purposes of the SFO, Ms. Zhang Jingru is deemed, or taken to be, interested in all the Shares in which Mr. Yang is interested.

Save as disclosed above, as at 31 December 2009, 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 of the Company 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 which the Company has to comply with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 30 December 2008, Galaxy Electrical, a wholly-owned subsidiary of the Company, renewed the agreement with Changzhou Lucky Star Electronic Equipment Co., Ltd. ("Lucky Star Electronic") under which Lucky Star Electronic agrees to supply to the Group copper wires with the aggregate annual amount not exceeding HK$9,500,000 for each of the three financial years ending 31 December 2011. Details are set out in the announcement of the Company dated 31 December 2008. During 2009, Lucky Star Electronic sold copper wires to the Group with an aggregate amount of approximately RMB297,000 (equivalent to approximately HK$337,000).

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

An announcement was made by the Company on 31 December 2008 in relation to the above transactions.

In respect of the continuing connected transactions, the Directors confirmed that the Company has compiled with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Directors have requested the auditors of the Company to perform certain agreed upon procedures on the above continuing connected transactions and have received a letter from the auditors as required under Rule 14A.38 of the Listing Rules.

Save as the transactions disclosed above, the Directors consider that those material related party transactions disclosed in note 28 to the consolidated financial statements did not fall under the definition of "connected transaction" or "continuing connectd transaction" (as the case may be) in Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, the above transactions 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 as a whole.

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	6.87%
— five largest customers	20.62%
— the largest supplier	9.13%
— five largest suppliers	28.01%

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

BANK LOANS

Particulars of bank loans are set out in note 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 the merit, qualifications and level of competence of the employees.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, their 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 Share Option Scheme are set out in note 25 to the consolidated financial statements and the paragraph headed "Share Options" in this Directors' Report.

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, as at the date of this Report, there was a sufficient public float of the issued shares of the Company as prescribed under the Listing Rules.

ACQUISITIONS

Apart from the Acquisition as set out in the paragraph headed "Post Balance Sheet Event" under the section headed "Management Discussion and Analysis on Financial Conditions and Operating Results" in this Report, there was no other material acquisition and disposal of subsidiaries and associated companies by the Group from 2009 to the date of this Report.

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 2007 annual general meeting, KPMG was re-appointed as 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 auditors of the Company with effect from 10 November 2008. Details of such change of auditors were disclosed in the announcement issued by the Company on 10 November 2008.

At the last annual general meeting, CCIF was re-appointed as the auditors of the Company. CCIF resigned as auditors of the Group with effect from 30 September 2009 and HLB Hodgson Impey Cheng ("HLB") were appointed as the new auditors of the Company with effect from 5 October 2009. Details of such change of auditors were disclosed in the announcement issued by the Company on 5 October 2009.

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

On behalf of the Board

Yang Senmao
Chairman

The PRC

8 April 2010

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 2009.

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 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 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 2009, 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 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 independent non-executive Directors are all independent persons with appropriate qualifications and the Company 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 a 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 19.08% 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.

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 2009, the Board had held 5 board meetings to consider (of which included) the Company's continuing connected transactions, financial affairs and other matters under the articles of associations to carry out its duties. The Board has adopted a tele-conference system to raise the attendance rates, the average rate of attendance was between 80% and 100%.

For the year ended 31 December 2009, the Board has compiled the following statistics:

Director's Name	Attendance Rate for Board Meeting Number	Attendance Rate for Board Meeting Percentage *(%)*	Title
Yang Senmao	5	100	Chairman, Executive Director
Yue Lian	4	80	Executive Director
Xu Xiaoping	5	100	Executive Director
Meng Quanda	5	100	Non-executive Director
Shiu Kit	5	100	Non-executive Director
Dong Renhan	5	100	Non-executive Director
Wong Wai Ling	5	100	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	5	100	Independent non-executive Director
Shu Mingding	5	100	Independent non-executive Director

During the relevant period, the term of appointment of the non-executive Directors and the independent non-executive Directors is 2 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 1 meeting in 2009 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.

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.

AUDITORS' REMUNERATION

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

Type of service	**Auditors** **HLB Hodgson Impey Cheng**
Annual audit	HK$638,000

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 2009, 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 auditors' responsibilities are set out in the Independent Auditors' Report on pages 39 to 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 Ms. Wong Wai Ling, Mr. Ni Tongmu (resigned on 31 March 2010), Mr. Su Xiucheng (appointed on 31 March 2010) and Mr. Shu Mingding, and Ms. Wong Wai Ling is the chairman of the audit committee.

For the year ended 31 December 2009, 4 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	4	100	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	3	75	Independent non-executive Director
Shu Mingding	4	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 2009. The audit committee has also reviewed this 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 (resigned on 31 March 2010), Mr. Su Xiucheng (appointed on 31 March 2010) 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 2 meetings for the year ended 31 December 2009, 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 meetings of the remuneration committee are as follows:

	Attendance Rate		
Name of member	**Number**	**Percentage *(%)***	**Title**
Yang Senmao	2	100	Chairman, Executive Director
Wong Wai Ling	2	100	Independent non-executive Director
Ni Tongmu (resigned on 31 March 2010)	2	100	Independent non-executive Director
Shu Mingding	2	100	Independent non-executive Director

DIRECTORS' REMUNERATION

The Group paid total Directors' remuneration amounts of approximately RMB935,000, RMB671,000, RMB671,000, RMB50,000, RMB88,000, RMB50,000, RMB88,000, RMB50,000 and RMB50,000 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 2009.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2009, 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 recognise the responsibility of safeguarding the interest of Shareholders. The Company reports its financial and operating performance to Shareholders through annual reports and interim reports. Shareholders 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.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GALAXY SEMI-CONDUCTOR HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Galaxy Semi-Conductor Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 auditors' 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 auditors consider 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 2009 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 8 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Turnover	4	**425,742**	387,541
Cost of sales		**(350,476)**	(323,943)
Gross profit		**75,266**	63,598
Other revenue and net income	5	**693**	8,569
Distribution costs		**(16,646)**	(10,375)
Administrative expenses		**(42,786)**	(31,219)
Profit from operations		**16,527**	30,573
Finance costs	6(a)	**(5,213)**	(9,490)
Profit before taxation	6	**11,314**	21,083
Income tax	7	**1,263**	(2,370)
Profit for the year		**12,577**	18,713
Attributable to:			
Equity shareholders of the Company	10	**12,577**	18,713
Minority interests		**—**	—
Profit for the year		**12,577**	18,713
Earnings per share			
— basic and diluted (RMB)	12	**0.031**	0.047

The notes on pages 48 to 99 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Profit for the year	**12,577**	18,713
Other comprehensive income		
Exchange differences on translation of financial statements of operations outside the PRC	**288**	1,926
Other comprehensive income for the year (net of tax)	**288**	1,926
Total comprehensive income for the year	**12,865**	20,639
Total comprehensive income attributable to:		
Equity shareholders of the Company	**12,865**	20,639

The notes on pages 48 to 99 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	13	**157,175**	155,978
Lease prepayments	14	**20,128**	24,477
Deferred tax assets	24(b)	**2,182**	1,633
		179,485	182,088
Current assets			
Inventories	16	**56,725**	106,167
Trade and other receivables	17	**195,237**	146,014
Lease prepayments	14	**445**	524
Pledged bank deposits	19	**21,134**	3,780
Time deposits	20	**—**	5,600
Cash and cash equivalents	20	**97,566**	43,746
		371,107	305,831
Current liabilities			
Bank loans	21	**107,500**	125,870
Trade and other payables	22	**129,402**	79,538
Current taxation	24(a)	**1,539**	968
		238,441	206,376
Net current assets		**132,666**	99,455
Total assets less current liabilities		**312,151**	281,543
Non-current liabilities			
Bank loans	21	**—**	10,583
Deferred tax liabilities	24(b)	**—**	2,615
		—	13,198
Net assets		**312,151**	268,345
Capital and reserves	26(a)		
Share capital		**4,785**	4,080
Reserves		**307,366**	264,265
Total equity		**312,151**	268,345

Approved and authorised for issue by the board of directors on 8 April 2010.

Yang Senmao
Director

Xu Xiaoping
Director

The notes on pages 48 to 99 form part of these financial statements.

Statement of Financial Position

At 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investment in subsidiaries	15	**114,614**	114,614
Current assets			
Other receivables	17	**—**	371
Amounts due from subsidiaries	15	**159,767**	160,045
Cash and cash equivalents	20	**31,142**	190
		190,909	160,606
Current liabilities			
Bank loans	21	**—**	79,370
Other payables	22	**122,015**	30,134
		122,015	109,504
Net current assets		**68,894**	51,102
Total assets less current liabilities		**183,508**	165,716
Non-current liabilities			
Bank loans	21	**—**	10,583
Net assets		**183,508**	155,133
Capital and reserves	26(a)		
Share capital		**4,785**	4,080
Reserves		**178,723**	151,053
Total equity		**183,508**	155,133

Approved and authorised for issue by the board of directors on 8 April 2010.

Yang Senmao
Director

Xu Xiaoping
Director

The notes on pages 48 to 99 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Special reserve	Statutory reserves	Other reserve	Translation reserve	Retained profits	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2008	4,080	192,197	(82,562)	7,696	31,477	(399)	95,217	247,706
Changes in equity for 2008:								
Transfer to statutory reserves	—	—	—	1,838	—	—	(1,838)	—
Total comprehensive income for the year	—	—	—	—	—	1,926	18,713	20,639
Balance at 31 December 2008 and 1 January 2009	4,080	192,197	(82,562)	9,534	31,477	1,527	112,092	268,345
Changes in equity for 2009:								
Issue of shares *(note 26(b))*	705	30,236	—	—	—	—	—	30,941
Transfer to statutory reserves	—	—	—	745	—	—	(745)	—
Total comprehensive income for the year	—	—	—	—	—	288	12,577	12,865
Balance at 31 December 2009	**4,785**	**222,433**	**(82,562)**	**10,279**	**31,477**	**1,815**	**123,924**	**312,151**

The notes on pages 48 to 99 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**11,314**	21,083
Adjustments for:			
Depreciation		**20,090**	16,816
Loss on disposal of property, plant and equipment		**786**	196
Impairment loss on property, plant and equipment		**6,505**	—
Impairment loss on trade and other receivables		**6,687**	1,086
Amortisation of lease prepayments		**445**	364
Interest income		**(718)**	(501)
Interest expenses		**5,153**	9,352
Operating profit before changes in working capital		**50,262**	48,396
Decrease in inventories		**49,442**	25,330
Decrease/(increase) in amount due from a director		**503**	(503)
(Increase)/decrease in trade and other receivables		**(56,413)**	5,933
Decrease in amounts due from related companies		**—**	5,934
Increase/(decrease) in trade and other payables		**48,589**	(18,004)
Increase in amounts due to directors		**1,145**	—
Decrease in amounts due to related companies		**(6)**	(7,513)
Cash generated from operations		**93,522**	59,573
PRC Enterprise Income Tax paid		**(1,330)**	(2,505)
Interest paid		**(5,017)**	(9,174)
Net cash generated from operating activities		**87,175**	47,894

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(24,595)**	(23,676)
Interest received		**718**	501
Proceeds from sale of property, plant and equipment		**—**	306
Decrease/(increase) in time deposits		**5,600**	(5,600)
Net cash used in investing activities		**(18,277)**	(28,469)
Financing activities			
Proceeds from new bank loans		**107,500**	72,442
Proceeds from issue of shares		**30,941**	—
Repayment of bank loans		**(136,453)**	(91,355)
(Increase)/decrease in pledged bank deposits		**(17,354)**	3,591
Net cash used in financing activities		**(15,366)**	(15,322)
Net increase in cash and cash equivalents		**53,532**	4,103
Cash and cash equivalents at 1 January		**43,746**	37,717
Effect of foreign exchange rate changes		**288**	1,926
Cash and cash equivalents at 31 December	*20*	**97,566**	43,746

The notes on pages 48 to 99 form part of these financial statements.

1 GENERAL INFORMATION

Galaxy Semi-Conductor Holdings Limited ("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 shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 9 June 2006. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Company information" in 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 RMB.

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 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 any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 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 major sources of estimation uncertainty are discussed in note 31.

(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 statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income 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 statement of financial position in accordance with notes 2(j) or (k) depending on the nature of the liability.

In the Company's statement of financial position, 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

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(g)(ii)):

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

— other items of plant and equipment.

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 (see note 2(r)).

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

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.

(e) Lease prepayments

Lease prepayments represent cost of land use rights paid to the People's Republic of China (the "PRC") Land Bureau. Land use rights 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 terms of the respective leases.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

— significant financial difficulty of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; 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:

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

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

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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

— property, plant and equipment;

— lease prepayment; 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).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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 realisable value.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Inventories *(continued)*

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

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

(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. 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 statement of cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly 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 end of the reporting period, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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) 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.

(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) Interest income

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

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Translation of foreign currencies

The functional currency of the Company and its subsidiaries outside the PRC is Hong Kong dollars and the functional currency of the subsidiaries in the PRC is RMB. For the purpose of presenting the consolidated financial statements, the Group adopts RMB as its presentation currency.

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 end of the reporting period. 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 other comprehensive income.

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.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Related parties

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

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

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

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

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

(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.

(t) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Board reviews the Group's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting *(continued)*

The Board considers that the business of the Group is organised in one operating segment which is the design, development, manufacturing and sales of diodes and related products in the PRC. Additional disclosure in relation to segment information is not presented as the Board assesses the performance of the only operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. As the Group's major operations and markets are located in the PRC, no further geographical segment information is provided.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures — improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment — vesting conditions and cancellations

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

- HK(IFRIC) 15, Agreements for the construction of real estate

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:

  — The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4 TURNOVER

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

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

For the year ended 31 December 2009, there was no customer with whom transactions have exceeded 10% of the Group's turnover (2008: Nil).

5 OTHER REVENUE AND NET INCOME

	2009	2008
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**718**	501
Government subsidy income	**505**	73
Sales of scrap	**1,451**	2,001
Incentive subsidies *(note a)*	**—**	4,616
Write back/(reinstatement) of trade and other payables	**(1,420)**	438
Others	**(561)**	940
	693	8,569

Note:

(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):

		2009 *RMB'000*	2008 *RMB'000*
(a)	**Finance costs:**		
	Interest on bank borrowings wholly repayable within five years	**5,153**	9,352
	Interest expense on financial liabilities not at fair value through profit or loss	**5,153**	9,352
	Others	**60**	138
		5,213	9,490
(b)	**Staff costs (including directors' remuneration):**		
	Contributions to defined contribution retirement plans	**2,919**	2,576
	Salaries, wages and other benefits	**55,620**	49,719
		58,539	52,295
(c)	**Other items:**		
	Amortisation of lease prepayments	**445**	364
	Impairment losses:		
	— trade and other receivables *(Note 17)* (included in administrative expenses)	**6,687**	1,086
	— property, plant and equipment *(Note 13)*	**6,505**	—
	Depreciation for property, plant and equipment	**20,090**	16,816
	Net foreign exchange loss/(gain)	**740**	(2,482)
	Auditors' remuneration — audit services	**561**	600
	Operating lease charges: minimum lease payments in respect of property rentals	**203**	268
	Cost of inventories *(Note 16)*	**350,476**	323,943
	Loss on disposal of property, plant and equipment	**786**	196

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2009 RMB'000	2008 RMB'000
Current tax		
PRC Enterprise Income Tax	**2,345**	2,140
Over provision in respect of prior years		
PRC Enterprise Income Tax	**(444)**	—
Deferred tax		
Origination and reversal of temporary differences	**(3,164)**	230
	(1,263)	2,370

No provision of Hong Kong Profits Tax has been made as the Group does not have assessable profits subject to Hong Kong Profits Tax during the year (2008: Nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the 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 2009.

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 a tax concession period in which they are fully exempted from PRC income tax for the first two years commencing from their first profit making year (after the offset of tax losses brought forward), followed by a 50% reduction in the PRC income tax for the next three years.

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

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

The first profit making year of Galaxy Micro-Electronics was 2008, thus Galaxy Micro-Electronics was exempted from income tax for 2008 and 2009. As the first profit making year for Galaxy Hi-New was 2007, Galaxy Hi-New was exempted from income tax for 2007 and 2008, and is entitled to a 50% income tax reduction from 2009 to 2011. Galaxy Technology sustained accumulated losses and thus no income taxes were provided for in 2009.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. 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 and 2009. As it sustained an accumulated loss, no income tax was provided for in 2009.

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

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**11,314**	21,083
Notional tax on profit before taxation, calculated at the rates applicable to profits in the PRC of 25%	**2,828**	5,271
Tax effect of non-deductible expenses	**6,591**	3,685
Tax effect of non-taxable income	**(4,398)**	(3,470)
Tax loss not recognised	**3,030**	2,050
Tax effect of tax concessions in the PRC	**(5,477)**	(5,397)
Over-provision in prior years	**(444)**	—
Others	**(3,393)**	231
Actual tax (credit)/expense	**(1,263)**	2,370

8 DIRECTORS' REMUNERATION

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

Year ended 31 December 2009

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2009 Total RMB'000
Chairman					
Yang Senmao	—	704	200	31	935
Executive directors					
Xu Xiaoping	—	440	200	31	671
Yue Lian	—	440	200	31	671
Non-executive directors					
Meng Quanda	—	50	—	—	50
Shiu Kit	—	88	—	—	88
Dong Renhan	—	50	—	—	50
Independent non-executive directors					
Wong Wai Ling	88	—	—	—	88
Ni Tongmu	50	—	—	—	50
Shu Mingding	50	—	—	—	50
	188	1,772	600	93	2,653

8 DIRECTORS' REMUNERATION *(continued)*

Year ended 31 December 2008

	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

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company whose emoluments are disclosed in note 8 above. The aggregate of the emoluments in respect of the remaining two (2008: two) individuals are as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Salaries and other benefits	**961**	998
Retirement scheme contributions	**42**	28
	1,003	1,026

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The above individuals' emoluments are within the band of Nil to HK$1,000,000.

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 (2008: Nil).

10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately RMB2,475,000 (2008: RMB6,294,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2009 (2008: Nil).

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 approximately RMB12,577,000 (2008: RMB18,713,000) and the weighted average number of 400,876,000 ordinary shares (2008: 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 2008	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 and 1 January 2009	29,765	129,449	29,481	4,558	5,631	198,884
Reclassification	(2,510)	2,407	103	—	—	—
Additions	3,996	20,092	2,430	661	1,399	28,578
Transfer	2,750	1,058	(118)	—	(3,690)	—
Disposals	(401)	—	(37)	—	(356)	(794)
At 31 December 2009	33,600	153,006	31,859	5,219	2,984	226,668
Accumulated depreciation:						
At 1 January 2008	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 disposals	—	(156)	(116)	—	—	(272)
At 31 December 2008 and 1 January 2009	3,868	24,118	12,692	2,228	—	42,906
Charge for the year	1,450	12,587	5,283	770	—	20,090
Impairment losses	—	6,347	158	—	—	6,505
Written back on disposals	—	—	(8)	—	—	(8)
At 31 December 2009	5,318	43,052	18,125	2,998	—	69,493
Net book value:						
At 31 December 2009	**28,282**	**109,954**	**13,734**	**2,221**	**2,984**	**157,175**
At 31 December 2008	25,897	105,331	16,789	2,330	5,631	155,978

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2009, the Group has pledged its buildings with carrying values of approximately RMB13,878,000 (2008: RMB8,797,000) to secure its bank loans (note 21).

Buildings held for own use are located on land with medium term leases.

Impairment loss

A production line of the Group ceased to operate during 2009. The Group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down by approxiamtely RMB6,505,000 (included in cost of sales in the consolidated income statement). The estimates of recoverable amount were based on the machines' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

14 LEASE PREPAYMENTS

The Group's lease prepayments comprise:

	2009	2008
	RMB'000	*RMB'000*
Land in PRC:		
Medium term leases	**20,573**	25,001
Analysed for reporting purpose as:		
Current assets	**445**	524
Non-current assets	**20,128**	24,477
	20,573	25,001

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

As at 31 December 2009, the Group has pledged its lease prepayments with carrying values of approximately RMB16,637,000 (2008: RMB17,001,000) to secure its bank loans (note 21).

15 INTEREST IN SUBSIDIARIES

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**114,614**	114,614
Amounts due from subsidiaries	**159,767**	160,045
	274,381	274,659

Notes:

(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 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.

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
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

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 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 Island ("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
Dai Tak Trading Company Limited 大得貿易有限公司	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	
	2009	2008
	RMB'000	*RMB'000*
Raw material	**11,086**	17,455
Work in progress	**34,253**	71,756
Finished goods	**11,386**	16,956
	56,725	106,167

(a) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**350,476**	323,943
	350,476	323,943

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**149,337**	126,217	**—**	—
Less: allowance for doubtful debts	**(12,244)**	(7,808)	**—**	—
	137,093	118,409	**—**	—
Other receivables	**2,518**	2,761	**—**	371
Note receivables	**49,987**	18,542	**—**	—
Amount due from a director *(note 18)*	**—**	503	**—**	—
Loans and receivables	**189,598**	140,215	**—**	371
Prepayments and deposits	**5,639**	5,799	**—**	—
	195,237	146,014	**—**	371

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

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB12,244,000 (2008: RMB7,808,000) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within three months	**135,544**	108,459
More than three months but less than one year	**1,346**	9,950
More than one year	**203**	—
At 31 December	**137,093**	118,409

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)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**7,808**	6,722
Impairment loss recognised	**6,687**	1,086
Uncollectible amounts written off	**(2,251)**	—
At 31 December	**12,244**	7,808

As at 31 December 2009, trade receivables of the Group amounting to approximately RMB12,244,000 (2008: RMB7,808,000) 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 end of the reporting period or related to customers that were in financial difficulties. The Group does not hold any collateral over these balances.

17 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade receivables that are not impaired

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**117,639**	73,291
Past due but not impaired		
— Less than three months past due	**18,975**	41,084
— More than three months but less than one year past due	**276**	4,034
— More than one year past due	**203**	—
	137,093	118,409

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 Group. 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 Group does not hold any collateral over these balances.

18 AMOUNT DUE FROM A DIRECTOR

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Mr. Shiu Kit	**—**	503
The maximum amount outstanding during the year is as follows:		
Mr. Shiu Kit	**503**	503

The amount was unsecured, interest-free and has been fully settled during the year ended 31 December 2009.

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 21).

20 CASH AND CASH EQUIVALENTS

An analysis of the balance of cash and cash equivalents is set out below:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**85,566**	33,746	**31,142**	190
Time deposits	**12,000**	15,600	**—**	—
	97,566	49,346	**31,142**	190
Less: Time deposits with original maturity more than 3 months	**—**	5,600	**—**	—
Cash and cash equivalents in the statements of financial position and the consolidated statement of cash flows	**97,566**	43,746	**31,142**	190

21 BANK LOANS

At 31 December 2009, the bank loans were repayable as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**107,500**	125,870	—	79,370
After 1 year but within 2 years	—	10,583	—	10,583
	107,500	136,453	—	89,953

As 31 December 2009, the bank loans were secured as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans				
— secured *(note a)*	**107,500**	46,500	—	—
— guaranteed *(note b)*	—	89,953	—	89,953
	107,500	136,453	—	89,953

Notes:

(a) The secured bank loans as at 31 December 2009 were secured by the Group's buildings with a carrying value of approximately RMB13,878,000 (2008: RMB8,797,000) and lease prepayments with a carrying value of approximately RMB16,637,000 (2008: RMB17,001,000).

(b) The balance was jointly guaranteed by all subsidiaries of the Group. At 31 December 2008, these banking facilities amounted to HKD120,000,000 (equivalent to approximately RMB106,140,000). The facilities have been cancelled during the year ended 31 December 2009.

The average effective interest rate on bank loans approximated 5.25% (2008: 5.51%) per annum.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**69,767**	50,337	**—**	—
Note payables	**34,783**	4,600	**—**	—
Other payables	**19,269**	20,101	**223**	844
Advances from customers	**4,155**	4,211	**—**	—
Amounts due to related companies	**283**	289	**—**	—
Amounts due to subsidiaries	**—**	—	**121,792**	29,290
Amounts due to directors	**1,145**	—	**—**	—
Financial liabilities measured at amortised cost	**129,402**	79,538	**122,015**	30,134

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within three months	**56,782**	32,495
More than three months but less than one year	**10,234**	16,140
More than one year	**2,751**	1,702
	69,767	50,337

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

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") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised 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 2009 (2008: 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 RMB2,919,000 (2008: RMB2,576,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**968**	1,333
Provision for PRC Enterprise Income Tax for the year	**2,345**	2,140
Over provision in respect of prior years	**(444)**	—
PRC Enterprise Income Tax paid	**(1,330)**	(2,505)
At 31 December	**1,539**	968

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Allowance for doubtful debts** *RMB'000*	**Unused tax losses** *RMB'000*	**Provision for unrealised profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2008	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)
Credited/(charged) to income statement	704	(500)	2,960	3,164
At 31 December 2009	**1,837**	**—**	**345**	**2,182**

	The Group	
	2009 *RMB'000*	2008 *RMB'000*
Net deferred tax asset recognised on the consolidated statement of financial position	**2,182**	1,633
Net deferred tax liabilities recognised on the consolidated statement of financial position	**—**	(2,615)
	2,182	(982)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB15,409,000 (2008: RMB4,299,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these 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.

25 SHARE OPTION SCHEME *(continued)*

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 quotations 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 option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2009.

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	Translation reserve	Share premium	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	4,080	(5,510)	192,197	(26,540)	164,227
Total comprehensive income for the year	—	(2,800)	—	(6,294)	(9,094)
At 31 December 2008 and at 1 January 2009	4,080	(8,310)	192,197	(32,834)	155,133
Issue of shares *(note 26(b))*	705	—	30,236	—	30,941
Total comprehensive income for the year	—	(91)	—	(2,475)	(2,566)
At 31 December 2009	**4,785**	**(8,401)**	**222,433**	**(35,309)**	**183,508**

26 CAPITAL AND RESERVES *(continued)*

(b) Share capital

	2009		2008	
	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	**400,000**	**4,080**	400,000	4,080
Issue of shares *(note (i))*	**80,000**	**705**	—	—
At 31 December	**480,000**	**4,785**	400,000	4,080

Note:

(i) Pursuant to the placing agreement dated 12 November 2009, the Company issued and allotted a total of 80,000,000 new shares (the "Placing Shares") at a price of HK$0.45 per Placing Share to not fewer than six placees on 28 December 2009 (the "Placing"). The Company raised net proceeds of approximately HK$35,124,000 (equivalent to approximately RMB30,941,000) from the Placing and the funds are intended to be used for the general working capital of the Group.

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)*

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The Companies Law of the Cayman Islands, permits, subject to a solvency test and the provisions, if any, of the Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(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 transfer to the reserve must be made before distribution of dividends to shareholders. The reserve can only be utilised, upon approval by the board of directors of respective enterprises and by relevant authority, to offset accumulated losses or increase registered capital, provided that the balance after such issue is not less than 25% of its registered 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.

26 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves *(continued)*

(v) Translation reserve

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

(d) Distributability of reserves

As at 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB187,124,000 (2008: RMB159,363,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability 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 2009, the Group's strategy, which was unchanged from 2008, was to maintain a gearing ratio within 50%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	2008
	RMB'000	*RMB'000*
Total borrowings *(Note 21)*	**107,500**	136,453
Less: Cash and cash equivalents *(Note 20)*	**(97,566)**	(43,746)
Net debt	**9,934**	92,707
Total equity	**312,151**	268,345
Gearing ratio	**3%**	35%

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and commodity price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

(i) As at 31 December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

(ii) In respect of trade and other receivables, in order to minimise 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 end of the reporting period, 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 the end of the reporting period.

(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 AND FAIR VALUES *(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 reserves 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 details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company required to pay:

The Group

	2009				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Bank loans	**111,159**	**—**	**—**	**111,159**	**107,500**
Trade and other payables (excluding advances from customers)	**125,247**	**—**	**—**	**125,247**	**125,247**
	236,406	**—**	**—**	**236,406**	**232,747**

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The Company

	2009				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	**122,015**	**—**	**—**	**122,015**	**122,015**
	122,015	**—**	**—**	**122,015**	**122,015**

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term bank loans, Bank loans issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

The Group is exposed to interest rate risk as its bank deposits are all interest-bearing. 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 bank loans at the end of the reporting period:

	The Group				The Company			
	2009		2008		**2009**		2008	
	Effective interest rate		Effective interest rate		**Effective interest rate**		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*	**%**	***RMB'000***	%	*RMB'000*
Fixed rate borrowings:								
Bank loans	**5.25**	**107,500**	—	—	**—**	**—**	—	—
Variable rate borrowings:								
Bank loans	**—**	**—**	5.51	136,453	**—**	**—**	4.32	89,953

(ii) Sensitivity analysis

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis above for 2008 indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. For 2009, all the borrowings are at fixed rates and management considers they do not expose the Group to a significant fair value interest rate risk as they are short-term and not re-priced. Therefore, sensitivity analysis is not prepared for 2009.

(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 which give rise to receivables and bank balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

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

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised 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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

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

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

	2009	2008	**2009**	2008
	USD'000	*USD'000*	***HKD'000***	*HKD'000*
The Group				
Trade and other receivables	**4,202**	1,289	**3,197**	993
Cash and cash equivalents	**549**	250	**39,441**	3,748
Trade and other payables	**(201)**	(103)	**(6,647)**	(1,094)
Bank loans	**—**	—	**—**	(102,000)
Overall exposure arising from recognised assets and liabilities	**4,550**	1,436	**35,991**	(98,353)
The Company				
Other receivables	**—**	—	**—**	420
Cash and cash equivalents	**—**	—	**35,370**	214
Other payables	**—**	—	**(253)**	(957)
Bank loans	**—**	—	**—**	(102,000)
Overall exposure arising from recognised assets and liabilities	**—**	—	**35,117**	(102,323)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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 end of the reporting period.

The Group

	2009		2008	
	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*
UNITED STATES DOLLARS	**5%/(5%)**	**1,555/(1,555)**	5%/(5%)	557/(557)
HONG KONG DOLLARS	**5%/(5%)**	**1,587/(1,587)**	5%/(5%)	4,350/(4,350)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period 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 end of the next annual reporting period. 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 end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2008.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009.

28 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	**Relationship**
Changzhou Lucky Star Electronic Equipment Co., Ltd. 常州吉星電子器材有限公司 ("Lucky Star Electronic")	Controlled by Mr Shiu Kit, a non-executive director
Zhong Shan Company Limited 鍾山有限公司 ("Zhong Shan")	A shareholder

(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:

		2009 ***RMB'000***	2008 *RMB'000*
Lucky Star Electronic	Purchase of goods	**297**	2,957
Zhong Shan	Office rentals paid	**127**	138

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Key management personnel remuneration

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

	2009	2008
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**3,521**	3,195
Post-employment benefits	**135**	79
	3,656	3,274

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

(c) Balance with related parties

As at 31 December 2009, the Group had the following balances with related parties:

	2009	2008
	RMB'000	*RMB'000*
Amount due from a director *(note 18)*	**—**	503
Amounts due to directors *(note 22)*	**1,145**	—
Amounts due to related companies *(note 22)*	**283**	289
	1,428	289

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

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

The Group

	2009	2008
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
— Contracted for	**1,996**	3,035

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 1 year	**32**	81
After 1 year but within 5 years	**—**	45
	32	126

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 NON-ADJUSTING POST BALANCE SHEET EVETNS

On 1 April 2010, the Company entered into a conditional agreement to acquire the entire issued share capital of Power Full Group Holdings Limited (the "Target") for a total consideration of HK$830 million which will be satisfied by cash and by the issue of convertible note, consideration shares and promissory note. The Target and its subsidiaries are principally engaged in the manufacturing, processing and sales of wind power equipment and construction of power grid and transformer projects in the PRC. The acquisition has not been completed as of the date of approval of these financial statements.

31 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 concer ning the future, and other key sources of estimated uncertainty at the end of the reporting period, 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 the end of each reporting period. 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.

(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.

31 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(iv) Net realisable value of inventories

Net realisable 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 the end of each reporting period.

(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 end of the reporting period. 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.

FIVE YEARS' FINANCIAL SUMMARY

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**425,742**	387,541	384,278	336,562	252,826
Profit from operations	**16,527**	30,573	49,751	37,516	44,850
Profit before taxation	**11,314**	21,083	41,074	34,622	43,025
Profit for the year	**12,577**	18,713	35,630	29,055	39,063
Attributable to:					
Equity holders of the Company	**12,577**	18,713	36,831	30,202	39,414
Minority shareholders	**—**	—	(1,201)	(1,147)	(351)
	12,577	18,713	35,630	29,055	39,063
Assets and liabilities					
Total assets	**550,592**	487,919	511,507	394,759	243,504
Total liabilities	**(238,441)**	(219,574)	(263,801)	(172,946)	(131,137)
Net assets	**312,151**	268,345	247,706	221,813	112,367
Equity					
Share capital	**4,785**	4,080	4,080	4,080	—
Reserves	**307,366**	264,265	243,626	214,734	108,221
Total equity attributable to equity shareholders of the Company	**312,151**	268,345	247,706	218,814	108,221
Minority interests	**—**	—	—	2,999	4,146
Total equity	**312,151**	268,345	247,706	221,813	112,367

Notes:

1 The financial information for the year ended 31 December 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 year ended 31 December 2005, and the assets and liabilities as at 31 December 2005 have been extracted from the Company's prospectus dated 29 May 2006.

2 The results for the year ended 31 December 2009, and the assets and liabilities as at 31 December 2009 have been extracted from the consolidated income statement and consolidated statement of financial position as set out on pages 41 to 43 respectively, of the consolidated financial statements.