

## Business Review

In 2006, through continuous expansion of the production capacity for diode, dedicating itself to developing, producing and selling products with high gross profit margin, as well as developing PRC and overseas markets, the Group continued to perform strongly. For the year ended 31st December 2006, the Group's turnover amounted to approximately RMB336,560,000, representing an increase of approximately 33.12% compared with the turnover of the previous year that amounted to approximately RMB252,830,000. The Group's gross profit for the year ended 31 December 2006 was approximately RMB73,410,000, and has increased over gross profit for the previous year which amounted to approximately RMB66,060,000. The gross profit ratio for the year ended 31 December 2006 decreased to approximately 21.81% (2005: approximately 26.13%). The decrease in gross profit ratio was mainly due to cost increases in our major raw materials (i.e. copper wire and silicon) used in the production of diodes.



After deducting the one-off listing expenses of approximately RMB9,690,000 incurred for the listing of the Company in June 2006, profit attributable to equity holders for the year ended 31 December 2006 was approximately RMB30,200,000. Excluding the impact of the one-off listing expenses incurred for the listing which had been charged to the profit and loss account, profit attributable to equity holders for the year ended 31 December 2006 increased approximately 1.22% to approximately 39,890,000 (2005: approximately RMB39,410,000).

The Group further implemented a production expansion strategy to cope with the continuously increasing demand from existing and new customers. In 2006, the Group had invested in and built two new plastic packaged diodes production lines, and purchased production facilities which improved the production capacity and raised the technological standard in the production of diodes and their wafers. Up to the present, the Group has successfully invested in and is operating 12 production lines, among which 10 are diodes production lines, and the other 2 are diode wafers production lines. Total output of the various diodes for 2006 was approximately 5,700,000,000 pieces, representing an increase of about 27% compared with the output of 2005. In addition, the Group has successfully acquired Galaxy Hi-New, registered and incorporated Galaxy Micro-Electronics. Upon the successful implementation of these projects, the Group can further expand and increase its production capacity of diodes, diversify products and improve the technological standard of diodes.

## Business Review and Prospects

The Group has been continuously developing local and overseas markets. For the year ended 31st December 2006, we have gained a total of 438 new domestic and overseas customers, so that the total number of customers increased to 1,366. In 2006, the Group's biggest market in terms of geographical business revenue was PRC (which accounted for 85.33% of the total revenue), sales amounts to overseas markets including South Korea and Hong Kong grew continuously. In addition, the Group had succeeded in winning several well-known international companies to purchase our products, which has boosted the popularity of the Group's products in China and even the global diode markets.



### Prospects

The Directors believe that, in 2007, the growth trend of global market of electronic information products will continue. Growth of semiconductor industry is in its peak, and there is a trend in deepening foreign industrial transfer, which is driven by the global market and construction in relation to the 2008 Olympics. China's electronic information industry will grow continuously and rapidly. This will provide more room for further development of the semiconductor and diode market.

In order to grasp business opportunities which present themselves, the Group will exert efforts to promote the continuous and rapid development of the Group in the following aspects, and strive to achieve favorable returns to the shareholders:

- to develop new products continuously; further improve the functions, performance and quality of the products. The Group will emphasize on the development of surface mount diodes and special diodes to enhance the capacity to develop wafer and the control diode packaging techniques, actively perfect the range of diode products so as to meet the demand of the market, to keep the Company's profit level and to enhance the Company's competitive advantages.
- to continuously expand the production capacity; further improve the efficiency of the Company's investment and output. The newly incorporated Galaxy Micro-Electronics will commence regular production in the second half of the year 2007, which will bring monthly production capacity to 30,000,000 pieces of micro components. To cope with the market demand, the Group will construct another plastic package diode production line, and improve the output volume of other kinds of diodes. The Group may carry out OEM processing for foreign counterparts.

- to strengthen sale and marketing activities; further expand market share in the domestic and overseas market. In view of the bright prospects in the diode market, the Group intends to step up marketing activities for local and overseas markets by recruiting sales and marketing personnel. The Group will further develop the overseas market, foster and develop a batch of high quality portfolio of customer groups to increase our market share in overseas markets. In addition, we shall keep on strengthening sale management, providing customers with better services and to improving and strengthening the relationship with the customers.
- the Group will perfect the land planning and construction and further expand production facilities for diode. In 2006, the Group had acquired two plots of land close to the existing production plants through Galaxy Micro-Electronics and Galaxy Hi-New. The total area is 46,749 m<sup>2</sup>, of which the area of the plot purchased by Galaxy Micro-Electronics is 40,049 m<sup>2</sup>, the plot purchased by Galaxy Hi-New is close to its existing plant with an area of 6,700 m<sup>2</sup>. The newly purchased plots of land and the bank loans will mainly be used to expand the factory buildings and related facilities, to develop and produce new products including surface mount components and to set up new production lines. It is expected that growth in production capacity of the Group's major products including micro components, plastic packaged diodes, surface mount device packaged diodes and bridge rectifiers will be relatively strong in the coming three years, and the Group will enjoy sustained and strong business growth.
- In March 2007, the Company has entered into an agreement (the "Facility Agreement") with a syndicate of banks and financial institution. As such, the Company has successfully taken out syndicated bank loans totaling HK\$120,000,000 (a term loan facility of up to HK\$60,000,000 and a revolving loan facility of up to HK\$60,000,000). The Facility Agreement imposes obligations on the Company to ensure that (i) Mr. Yang Senmao and Mr. Xu Xiaoping jointly shall, directly or indirectly, own not less than 40% of all issued voting shares of the Company; and (ii) Mr. Yang Senmao shall remain as the Chairman and Managing Director of the Company and shall maintain management control of the Company. The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. The syndicated bank loan will be used for general working capital and expansion of Group's production.