

The Directors present their first annual report and the audited consolidated financial statements for the year ended 31 December 2006 since its Listing.

CORPORATE REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2004 Revision) of the Cayman Islands on 23 June 2005.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 9 May 2006.

Details of the reorganisation are set out in note 1 to the consolidated financial statements.

The shares of the Company ("Shares") were listed on the Main Board of the Stock Exchange with effect from 9 June 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 43.

PROPOSED FINAL DIVIDEND

The directors recommend the payment of a final dividend of HK\$0.016 per share to the shareholders whose names appear on the register of members of the Company at close of business on 28 May 2007, amounting to HK\$6,400,000 (equivalent to approximately RMB6,330,000).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial period/years is set out on page 82 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

Directors' Report

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 Group and the Company during the year are set out on page 45 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of Cayman Island, the Company's reserves available for distribution to shareholders as at 31 December, 2006 comprised the accumulated losses and share premium in aggregate amounting to RMB177,928,000.

DIRECTORS

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

Executive directors

Mr. Yang Senmao

Mr. Xu Xiaoping

Mr. Yue Lian (appointed on 16 May 2006)

Non-executive directors

Mr. Meng Quanda

Mr. Shiu Kit (appointed on 16 May 2006)

Mr. Dong Renhan (appointed on 16 May 2006)

Independent non-executive directors

Ms. Wong Wai Ling (appointed on 16 May 2006)

Mr. Ni Tongmu (appointed on 16 May 2006)

Mr. Shu Mingding (appointed on 16 May 2006)

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

In accordance with Article 112 of the Company's Articles of Association, Mr. Yue Lian, Mr. Shiu Kit, Mr. Dong Renhan, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding shall retire at the forthcoming annual general meeting, being eligible, offer themselves for re-election.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company is or was interest 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.

DIRECTORS' SERVICE CONTRACTS

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

Each of the non-executive directors (including the independent non-executive directors) has entered into a service agreement with the Company for a term of two years from June 2006, and is determinable by either party by given one month's written notice.

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

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

The maximum number of Shares issuable upon exercise of all options to be granted under the share option scheme of the Company must not in aggregate exceed 10% of the issued Shares as at the Listing Date, i.e. the Company may grant options in respect of up to 40,000,000 Shares to the participants under the share option scheme of the Company, representing 10% of the issued Shares as at the date of this report.

No share option has been granted during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

Directors' Report

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered, in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions:

Ordinary shares of HK\$0.01 each

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding
Mr. Yang Senmao (Mr. Yang)	Interest of controlled corporations (<i>note</i>)	279,000,000	69.75%

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

Other than as disclosed above, as at 31 December 2006, none of the directors nor chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO), as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2006, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in ordinary shares of the Company

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

Notes:

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

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

2. Ms. Zhang Jingru is the spouse of Mr. Yang. Under the SFO, Ms. Zhang Jingru is deemed to be interested in all the shares in which Mr. Yang is interested.
3. Good Label Trading Limited is wholly owned by Zhong Shan Company Limited. Therefore, Zhong Shan Company Limited is deemed to be or regarded as being interested in 21,000,000 shares which are beneficially owned by Good Label Trading Limited under the SFO. Zhong Shan Company Limited is wholly owned by 江蘇省人民政府 (Jiangsu Provincial People's Government).

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

Directors' Report

Save as disclosed above, as at 31 December 2006, the Company had not been notified of any substantial shareholders, other than directors of the Company, who had interests or short position 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.

As at 31 December 2006, so far as is known to the directors of the Company, the following persons (other than other members of the Group) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of the Group:

Name of shareholder	Name of company	Approximate shareholding percentage
常州市富林電子有限公司 (Changzhou Fulling Electronics Company Limited)	常州銀河科技開發有限公司 (Changzhou Galaxy Technology Developing Company Limited)	15.42%
常州僑弘電子有限公司 (Changzhou Qiaohong Electronics Co., Ltd.)	常州銀河科技開發有限公司 (Changzhou Galaxy Technology Developing Company Limited)	15%

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

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

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

- (i) an agreement with Changzhou Lucky Star Electronic Equipment Company Limited ("Lucky Star Electronic") in relation to the purchases of copper wire ("Purchases Agreement"). Pursuant to the Purchases Agreement, Lucky Star Electronic agrees to supply to the Group copper wire with the aggregate annual amounts not exceeding RMB21,000,000, RMB26,000,000 and RMB32,000,000 for each of the three financial years ending 31 December 2008, respectively. During the year, Lucky Star Electronic sold copper wire to the Group with an aggregate amount of approximately RMB17,472,000.

- (ii) an agreement with Fulling & CEIEC Company Limited ("Fulling CEIEC") in relation to the sales of diodes ("Sales Agreement"). Pursuant to the Sales Agreement, Galaxy Electrical agrees to supply diodes to Fulling CEIEC with the aggregate annual amounts not exceeding RMB16,000,000, RMB19,000,000 and RMB23,000,000 for each of the three financial years ending 31 December 2008, respectively. During the year, the Group supplied diodes to Fulling CEIEC with an aggregate amount of approximately RMB15,693,000.

Mr. Shiu Kit, a non-executive director, owns 55% equity interest in Lucky Spark Development Limited, which is the sole investor of Lucky Star Electronic.

Changzhou Fulling Electronics Company Limited ("Fulling Electronics"), a minority shareholder of a non-wholly owned subsidiary of the Company holding its 15.42% equity interest, owns 55% equity interest in Fulling CEIEC.

Particulars of the transactions are disclosed in note 39 to the consolidated financial statements. In respect of the above two continuing connected transactions, the directors of the Company confirm that the Company complied with the disclosure requirements in Chapter 14A of the Listing Rules.

During the year, the Company has also entered into the following continuing connected transaction, involving an aggregate annual amount of less than HK\$1,000,000, which is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules:

On 1 August 2005, Galaxy Hi-New and Galaxy Electrical entered into a tenancy agreement. Pursuant to such agreement, Galaxy Electrical agreed to lease from Galaxy Hi-New two blocks of single storey buildings with a total gross floor area of approximately 5,731.15 sq.m. located at Qin Ling Road, New North District, Changzhou City, the PRC, for a term of three years effective from 1 August 2005 to 31 July 2008 at an annual rent of RMB555,840 (exclusive of water and electricity charges, gas fees, telephone charges, cable television charges, sanitary fees and management fees). The rent shall be paid on a monthly basis and represent approximately RMB8 per sq.m. The leased buildings are used for the testing and packing of the Group's plastic packaged diodes. Vigers Appraisal & Consulting Limited, the property valuer of the Company, considers that such rent represents the market rent.

As Mr. Shiu, a non-executive director of the Company, was the ultimate sole shareholder of Galaxy Hi-New before the disposal of Seven Rainbows Limited to the Group in November 2006 as detailed below, Galaxy Hi-New was a connected person to the Company pursuant to the Listing Rules. Accordingly, the transaction under the above tenancy agreement constituted a continuing connected transaction under the Listing Rules before the disposal of Seven Rainbows Limited to the Group.

Directors' Report

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

- (1) have received the approval of the Board;
- (2) nothing had come to their attention which caused them to believe that:
 - (a) the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;
 - (b) the connected transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involved provision of goods by the Group; and
 - (c) the transaction amount occurred in 2006 for each of connected transactions was not within their respective cap amount as disclosed in the Company's prospectus dated 29 May 2006.

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

Sun Light Planet Limited, a wholly-owned subsidiary of the Company, entered into an agreement dated 2 November 2006 with Mr. Shiu Kit, a non-executive Director, pursuant to which Sun Light Planet Limited agreed to acquire and Mr. Shiu Kit agreed to dispose of the entire issued share capital of Seven Rainbows Limited and a shareholder's loan of approximately HK\$11.44 million, at a consideration of HK\$13.2 million. Seven Rainbows Limited is an investment holding company and its principal asset is an investment in Galaxy Hi-New. The transaction was completed as at the date of this report. Details of the acquisition was stated in the Company's announcement dated 7 November 2006 in compliance with the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The related party transactions are set out in note 39 to the financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

– the largest customer	7%
– five largest customers	23%
– the largest supplier	8%
– five largest suppliers	34%

For the year ended 31 December 2006, approximately 4.68% of the Group's sales were made to Fulling & CEIEC Co., Ltd.. Fulling & CEIEC Co., Ltd. is one of the five largest customers of the Group for the year ended 31 December 2006. Fulling & CEIEC Co., Ltd. is owned as to 55% by Changzhou Fulling Electronics Company Limited, a minority shareholder of Galaxy Technology holding 15.42% equity interest in Galaxy Technology. In addition, a director of Galaxy Technology, Mr. Shen Jian owns 23% equity interest in Changzhou Fulling Electronics Company Limited and directly owns 3.7% equity interest in Fulling & CEIEC Co., Ltd..

For the year ended 31 December 2006, approximately 6.27% of the Group's purchases were made from Changzhou Lucky Star Electronic Equipment Co., Ltd. ("Lucky Star Electronic"), being one of the Group's top five suppliers. Mr. Shiu Kit and Mr. Dong Renhan, who are non-executive Directors, are directors of Lucky Star Electronic. Mr. Shiu owns 55% equity interest in Lucky Spark Development Limited, which is the sole investor of Lucky Star Electronic.

Save as disclosed above, none of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned 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.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

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

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.

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 37 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CHAIRMAN

The Peoples' Republic of China
25 April 2007