1. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group on 9 May 2006. Details of the Group Reorganisation were set out in the prospectus issued by the Company, dated 29 May 2006. The Company's shares were listed on the Main Board of the Stock Exchange on 9 June 2006 (the "Listing Date").

The principal step of the Group Reorganisation involved the exchange of shares when the Company acquired Sun Light Planet Limited ("Sun Light Planet") from Rapid Jump Limited, the previous holding company, in consideration of which the Company (i) alloted and issued 9,999 shares of HK$0.01 each, credited as fully paid to Rapid Jump Limited, and (ii) credited as fully paid at par the 1 nil paid share which was held by Rapid Jump Limited.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" as if the group structure under the Group Reorganisation had been in existence throughout the two years ended 31 December 2006 or since their respective dates of incorporation, whichever is the shorter period, except for the acquisition of Seven Rainbows Limited and Galaxy Electric (China) Company Limited being accounted for using purchase method.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 41.

The consolidated financial statements are presented in Renminbi ("RMB").

Notes to the Financial Statements

For the year ended 31 December 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[8]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[5]
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-INT 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations not under common control

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations not under common control – continued

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations under common control

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sale of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Prepaid lease premium for land

Prepaid lease premium for land are up-front payments to acquire long term leased land interests. The premiums are stated at cost and amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefits plans, which are defined contribution schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into as loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies and directors, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies, amounts due to directors, dividend payable to the then shareholders and secured bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payables under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is classified as a finance lease.

Notes to the Financial Statements

For the year ended 31 December 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status, creditworthiness and the past collection history of each customer. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL INSTRUMENTS

a. *Financial risk management objectives and policies*

The Group's major financial instruments include bank balance, secured bank borrowings, trade and other receivables, trade and other payables, amounts due to related companies, amounts due to directors and amounts due from related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

5. FINANCIAL INSTRUMENTS – continued

a. *Financial risk management objectives and policies* – continued

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank borrowings. It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not have a cash flow interest rate risk hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

b. *Fair value*

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The director consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. TURNOVER AND SEGMENTAL INFORMATION

The Group is engaged solely in the manufacture and sale of electrical products and operates in the People's Republic of China (the "PRC"). All the identifiable assets and liabilities of the Group are located in the PRC. Accordingly, no business or geographical segment is presented.

7. OTHER INCOME

	2006 *RMB'000*	2005 *RMB'000*
Interest income	570	47
Sales of scrap	3,108	2,484
Government subsidy income	211	254
Dividend income	384	382
Write back of trade and other payables	1,988	—
Others	502	655
	6,763	3,822

Notes to the Financial Statements

For the year ended 31 December 2006

8. PROFIT BEFORE TAXATION

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments, including retirement benefit plan contributions *(note 9)*	2,271	1,083
Other staff costs	34,488	26,342
Retirement benefit scheme contributions, excluding directors	1,176	947
Total staff costs	37,935	28,372
Impairment loss on trade receivables	1,904	889
Impairment loss on inventories	482	—
Auditors' remuneration	1,200	51
Amortisation of prepaid lease premium for land	73	53
Cost of inventories recognised as an expense	262,672	186,768
Depreciation of property, plant and equipment	6,441	3,818
Loss on disposal of property, plant and equipment	—	238

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Mr. Yeng Senmao RMB'000	Mr. Xu Xiaoping RMB'000	Mr. Yue Lian RMB'000	Mr. Meng Quanda RMB'000	Mr. Shiu Kit RMB'000	Mr. Dong Renhan RMB'000	Ms. Wong Wai Ling RMB'000	Mr. Ni Tongmu RMB'000	Mr. Shu Mingding RMB'000	Total RMB'000
2006										
Fees	—	—	—	—	—	—	54	28	28	110
Other emoluments:										
Salaries and other benefits	508	340	324	28	54	28	—	—	—	1,282
Bonus	298	168	177	—	—	—	—	—	—	643
Retirement benefit scheme contributions	12	12	12	—	—	—	—	—	—	36
Total emoluments	818	520	513	28	54	28	54	28	28	2,071

	Mr. Yeng Senmao RMB'000	Mr. Xu Xiaoping RMB'000	Mr. Yue Lian RMB'000	Mr. Meng Quanda RMB'000	Mr. Shiu Kit RMB'000	Mr. Dong Renhan RMB'000	Ms. Wong Wai Ling RMB'000	Mr. Ni Tongmu RMB'000	Mr. Shu Mingding RMB'000	Total RMB'000
2005										
Fees	—	—	—	—	—	—	—	—	—	—
Other emoluments:										
Salaries and other benefits	115	93	111	—	—	—	—	—	—	319
Bonus	245	245	245	—	—	—	—	—	—	735
Retirement benefit scheme contributions	10	9	10	—	—	—	—	—	—	29
Total emoluments	370	347	366	—	—	—	—	—	—	1,083

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Of the five individuals with the highest emoluments in the Group, three (2005: three) were the directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 *RMB'000*	2005 *RMB'000*
Salaries and other benefits	839	252
Bonus	533	112
Retirement benefit plan contributions	41	12
	1,413	376

The emolument of each individual during the year was within the band of less than HK$1,000,000.

During the years ended 31 December 2006 and 2005, no emolument were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

10. TAXATION

	2006 *RMB'000*	2005 *RMB'000*
The charge comprises:		
PRC enterprise income tax	7,489	5,931
Other income tax benefit	—	(1,026)
Deferred tax *(note 17)*	(1,922)	(943)
	5,567	3,962

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

Changzhou Galaxy Electrical Company Limited ("Galaxy Electrical") and Changzhou Galaxy Semiconductor Company Limited ("Galaxy Semiconductor") are recognised as high-technology companies according to the PRC tax regulations and are entitled to a preferential tax rate of 15%. Changzhou Galaxy Technology Developing Company Limited ("Galaxy Technology") has not been approved by local tax bureau as high-technology company at the balance sheet dates since this company has not yet started its first profit-making year. Galaxy Technology is subject to income tax at 24% for both years.

10. TAXATION – continued

Pursuant to the relevant laws and regulations in the PRC, Galaxy Electrical and Galaxy Semiconductor are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operation, after offsetting all unexpired tax losses carried forward, and thereafter will be entitled to a 50% relief from the PRC enterprise income tax for the following three years. The tax preferential treatment for Galaxy Electrical has been expired and Galaxy Electrical is subject to income tax at 15% for both years. Galaxy Semiconductor commenced its profit-making year in 2002 and it was exempted from the PRC enterprise income tax for 2002 and 2003 and is eligible for a 50% relief from the PRC enterprise income tax from 2004 and 2006. Galaxy Semiconductor is subject to income tax rate at 7.5% for both years.

Other income tax benefit was resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Group. The tax benefit is calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authorities.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 *RMB'000*	2005 *RMB'000*
Profit before taxation	34,622	43,025
Tax at the PRC enterprise income tax rate of 15%	5,193	6,454
Tax effect of expenses not deductible for tax purpose	2,121	466
Tax effect of income not taxable for tax purpose	(189)	—
Other income tax benefit	—	(1,026)
Effect of tax exemptions granted to PRC subsidiaries	(1,534)	(1,685)
Tax effect of tax losses not recognised	—	202
Utilisation of temporary differences previously not recognised	—	(449)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(24)	—
Income tax expense for the year	5,567	3,962

Details of deferred taxation for the year are set out in note 17.

Notes to the Financial Statements

For the year ended 31 December 2006

11. DIVIDENDS

The directors recommend the payment of 2006 final dividend of HK$0.016 per share amounting to HK$6,400,000 (equivalent to RMB6,330,000).

For the year ended 31 December 2005, two subsidiaries of the Company declared dividends of RMB14,727,000 to its then shareholders prior to the Group Reorganisation. The rates of dividend and the number of shares ranking for dividends declared by these subsidiaries are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data:

	2006 *RMB'000*	2005 *RMB'000*
Profit for the year and earnings for the purposes of basic earnings per share	30,202	39,414
Weighted average number of shares for the purposes of basic earnings per share (Note)	362,740	300,000

Note: The weighted average number of shares is computed assuming that the Group Reorganisation and the capitalisation issue of shares have been taken place on 1 January 2005.

There was no diluted earnings per share for the both years as there was no potential dilutive shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2005	9,544	—	16,005	7,029	1,745	14,886	49,209
Acquisition of a subsidiary	—	—	—	7	—	—	7
Additions	3,108	—	7,405	2,088	307	7,032	19,940
Transfer	3,770	—	3,593	222	—	(7,585)	—
Disposals	—	—	(207)	(22)	(198)	—	(427)
At 31 December 2005	16,422	—	26,796	9,324	1,854	14,333	68,729
Reclassification	(6,152)	—	5,841	—	—	311	—
Acquisition of subsidiaries	5,100	745	1,087	21	—	3,488	10,441
Additions	—	—	11,577	5,303	1,534	5,214	23,628
Transfer	4,301	1,378	10,083	2,843	—	(18,605)	—
Disposals	—	—	(2,622)	(459)	—	—	(3,081)
At 31 December 2006	19,671	2,123	52,762	17,032	3,388	4,741	99,717
DEPRECIATION AND AMORTISATION							
At 1 January 2005	1,277	—	2,201	1,451	634	—	5,563
Provided for the year	715	—	1,851	941	311	—	3,818
Eliminated on disposals	—	—	(1)	—	(178)	—	(179)
At 31 December 2005	1,992	—	4,051	2,392	767	—	9,202
Reclassification	(589)	—	589	—	—	—	—
Provided for the year	507	248	2,767	2,528	391	—	6,441
Eliminated on disposals	—	—	(176)	(51)	—	—	(227)
At 31 December 2006	1,910	248	7,231	4,869	1,158	—	15,416
CARRYING VALUES							
At 31 December 2006	17,761	1,875	45,531	12,163	2,230	4,741	84,301
At 31 December 2005	14,430	—	22,745	6,932	1,087	14,333	59,527

13. PROPERTY, PLANT AND EQUIPMENT – continued

The following rates are used for the depreciation and amortisation of property, plant and equipment:

Buildings	4.5% or over the term of lease or the land use rights, whichever is shorter
Leasehold improvements	20% or over the term of the lease, whichever is shorter
Plant and machinery	9%
Equipment, furniture and fixtures	18%
Motor vehicles	18%

The buildings of the Group are situated in the PRC.

The Group has pledged its buildings with carrying values of approximately RMB9,301,000 (2005: RMB14,430,000) to secure its bank borrowings.

14. PREPAID LEASE PREMIUM FOR LAND

	2006	2005
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current portion	133	53
Non-current portion	8,792	2,345
	8,925	2,398

The amount represents the land use rights which is situated in the PRC and is held under medium-term lease.

The Group has pledged its land use rights with carrying value of approximately RMB9,925,000, (2005: RMB2,398,000) to secure its bank borrowings.

15. GOODWILL

	RMB'000
COST	
At 1 January 2005	—
Arising on acquisition of a subsidiary	389
At 31 December 2005 and 2006	389
IMPAIRMENT	
At 1 January 2005	—
Impairment loss recognised for the year	389
At December 31, 2005 and 2006	389
CARRYING VALUE	
At December 31, 2006	—
At December 31, 2005	—

16. AVAILABLE-FOR-SALE INVESTMENTS

	2006 RMB'000	2005 RMB'000
Unlisted equity securities, at cost	162	162

The amount represents the Group's 8.54% equity interest in Changzhou Fuxin Electronics Co., Ltd. The directors consider that the fair value of this company cannot be measured reliably since the range of reasonable fair value estimates is so significant.

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17. DEFERRED TAX ASSETS

The movements of deferred tax assets for the Group are as follows:

	Impairment loss on trade receivables	Unrealised Profits	Subsidy income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	792	—	—	792
Credit to consolidated income statement for the year *(note 10)*	133	810	—	943
At 31 December 2005	925	810	—	1,735
Acquisition of subsidiaries	—	—	1,636	1,636
Credit (charge) to consolidated income statement for the year *(note 10)*	286	(75)	1,711	1,922
At 31 December 2006	1,211	735	3,347	5,293

18. INVENTORIES

	2006	2005
	RMB'000	*RMB'000*
Raw materials	21,611	12,093
Work in progress	81,886	47,878
Finished goods	17,992	4,013
	121,489	63,984

19. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 90 days to 120 days to its trade customers.

	2006	2005
	RMB'000	*RMB'000*
0 – 30 days	55,694	51,244
31 – 60 days	29,365	16,526
61 – 90 days	14,663	8,584
91 – 120 days	6,136	8,642
121 – 180 days	5,108	2,599
Over 180 days	838	2,908
	111,804	90,503
Other receivables	8,882	10,244
	120,686	100,747

20. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Name of related company	2006	2005
	RMB'000	*RMB'000*
Amounts due from related companies:		
Changzhou Fulling Electronics Co., Ltd. 常州富林中電工貿有限公司 ("Changzhou Fulling") *(note a)*	5,188	4,432
Shenzhen Yuechang Industrial Co., Ltd. 深圳市粵常實業有限公司 ("Shenzhen Yuechang") *(note b)*	3,391	2,736
	8,579	7,168

20. AMOUNTS DUE FROM (TO) RELATED COMPANIES – continued

The following is an aged analysis of amounts due from related companies with trade nature at the balance sheet dates:

	2006 *RMB'000*	2005 *RMB'000*
0 – 30 days	2,735	4,553
31 – 60 days	2,121	952
61 – 180 days	3,452	1,663
Over 180 days	271	—
	8,579	7,168

	2006 RMB'000	2005 RMB'000
Amounts due to related companies:		
Changzhou Lucky Star Electronic Equipment Co., Ltd. 常州吉星電子器材有限公司 ("Lucky Star") *(note c)*	(5,217)	(8,458)
Shenzhen Yuechang	(197)	—
Changzhou Galaxy Hi-New Electric Parts Co., Ltd. 常州銀河高新電裝有限公司 ("Galaxy Hi-New") *(note d)*	—	(568)
Dai Tak Trading Company ("Dai Tak") *(note d)*	—	(6,909)
	(5,414)	(15,935)

The following is an aged analysis of amounts due to related companies with trade nature at the balance sheet dates:

	2006 *RMB'000*	2005 *RMB'000*
0 – 30 days	(1,058)	(3,870)
31 – 60 days	(1,083)	(1,946)
61 – 180 days	(3,273)	(2,642)
	(5,414)	(8,458)

As at 31 December 2005, the amounts due to related companies with non-trade nature was RMB7,477,000 (2006: Nil), which were fully settled in 2006.

20. AMOUNTS DUE FROM (TO) RELATED COMPANIES – continued

Notes:

(a) Being a subsidiary of a minority shareholder of a subsidiary.

(b) Being minority shareholders of a subsidiary.

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

(d) Certain directors of Galaxy Hi-New and Dai Tak were also the directors of the Company. These companies became the subsidiaries of the Company after Group Reorganisation.

The amounts due from (to) related companies are unsecured, interest-free and repayable on demand.

21. AMOUNTS DUE FROM DIRECTORS

	2006 *RMB'000*	2005 *RMB'000*
Mr. Yang Senmao	—	—
Mr. Xu Xiaoping	—	2
Mr. Meng Quanda	—	2
	—	4

The maximum amount outstanding during the year are as follows:

	2006 *RMB'000*	2005 *RMB'000*
Mr. Yang Senmao	—	1,430
Mr. Xu Xiaoping	2	206
Mr. Meng Quanda	2	2

The amounts were unsecured, interest-free and fully settled during the year ended 31 December 2006.

22. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.72% to 2.63% (2005: 0.01% to 2.22%) per annum.

23. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables as at the balance sheet date are as follows:

	2006	2005
	RMB'000	*RMB'000*
0 – 30 days	20,602	24,782
31 – 60 days	14,152	9,386
61 – 180 days	22,436	12,418
Over 180 days	4,944	4,222
	62,134	50,808
Other payables	21,818	20,222
	83,952	71,030

24. AMOUNTS DUE TO DIRECTORS

	2006	2005
	RMB'000	*RMB'000*
Mr. Yang Senmao	—	1,169
Mr. Shiu Kit	9,900	—
	9,900	1,169

The amounts are unsecured, non-interest bearing and repayable on demand.

25. BANK BORROWINGS

	2006	2005
	RMB'000	*RMB'000*
Bank borrowings due within one year		
Unsecured	44,550	—
Secured	20,450	33,700
	65,000	33,700

The secured bank borrowings amounts are secured by the buildings and the prepaid lease premium for land of the Group as set out in notes 13 and 14.

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

The average effective interest rate on bank borrowings approximated 6.62% (2005: 6.67%) per annum.

26. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK$'000	Nominal value RMB'000
Ordinary shares of HK$0.01 each				
Authorised:				
On incorporation and at 31 December 2005	(a)	38,000,000	380,000	387,600
Increase on 17 May 2006 (ci)		1,962,000,000	19,620,000	20,012,400
At 31 December 2006		2,000,000,000	20,000,000	20,400,000
Issued and fully paid:				
Allotted and issued on incorporation and at 31 December 2005	(a)	1	—	—
Issue of shares on the Group Reorganisation	(b)	9,999	100	102
Issue of shares on capitalisation of share premium account	(cii)	299,990,000	2,999,900	3,059,898
Issue of shares through initial public offer	(d)	100,000,000	1,000,000	1,020,000
At 31 December 2006		400,000,000	4,000,000	4,080,000

Notes:

(a) The Company was incorporated with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. As at the date of incorporation, the Company allotted and issued one nil-paid share to the subscriber and subsequently transferred the nil-paid share to Rapid Jump Limited.

(b) On 9 May 2006, the Company acquired from Rapid Jump Limited the entire issued share capital of Sun Light Planet, in consideration of which the Company (1) allotted and issued 9,999 shares, credited as fully paid, to Rapid Jump Limited, and (2) credited as fully paid at par one nil-paid share then held by Rapid Jump Limited.

(c) Pursuant to the written resolution passed by all the shareholders of the Company on 17 May 2006 to effect the Group Reorganisation of the Group, the following movements in the authorised and issue share capital of the Company took place:

(i) The authorised share capital of the Company increased from HK$380,000 to HK$20,000,000 by the creation of additional 1,962,000,000 shares of a par value of HK$0.01 each. The new shares rank pari passu in all respects with the then existing shares.

(ii) 299,990,000 ordinary shares of a par value of HK$0.01 each in the Company were allotted and issued as fully paid to the shareholders on 17 May 2006 in proportion to their respective shareholdings, by the capitalisation of an amount of HK$2,999,900 in the share premium account of the Company.

(d) On 9 June 2006, the Company issued 100,000,000 shares of HK$0.01 each at a price of HK$0.86 per share to the public. These new shares ranked pari passu in all respects with the then existing shares.

The share capital of the Group at 31 December 2005 represented the share capital of Sun Light Planet and the Company.

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27. SPECIAL RESERVE

The special reserve represented:

(a) 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.

(b) 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.

28. STATUTORY RESERVES

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

29. 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.

30. 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 participants 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 any 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 share in issue from time to time.

30. SHARE OPTION SCHEME – continued

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

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

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

No option has been granted under the Share Option Scheme from the date of adoption of the scheme up to 31 December 2006.

31. NON-CASH TRANSACTION

During the year ended 31 December 2005, capital contribution of RMB14,655,000 was injected by offsetting the dividend payable to the then shareholder.

32. ACQUISITION OF SUBSIDIARIES

On 30 September 2006, the Group acquired 100% of the issued share capital of Seven Rainbows Limited and the loan due to Mr. Shiu Kit at a consideration of RMB1,795,000 and RMB11,669,000 respectively. Seven Rainbows Limited was wholly-owned by Mr. Shiu Kit, a director of the Company. This acquisition has been accounted for using the purchase method. The discount on acquisition arising as a result of the acquisition was RMB1,709,670.

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	8,615	1,826	10,441
Prepaid lease premium for land	3,846	2,754	6,600
Deferred tax assets	1,636	—	1,636
Trade and other receivables	34	—	34
Bank and cash balances	364	—	364
Trade and other payables	(2,265)	—	(2,265)
Amount due to the group company	(11,669)	—	(11,669)
Tax payable	(1,636)	—	(1,636)
	(1,075)	4,580	3,505
Discount on acquisition			(1,710)
Total consideration satisfied by:			
Cash			1,795
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,795)
Cash and cash equivalents acquired			364
			(1,431)

Seven Rainbows Limited contributed RMB258,419 to the Group's profit for the period between the date of acquisition and the balance sheet date.

32. ACQUISITION OF SUBSIDIARIES – continued

If the acquisition had been completed on 1 January 2006, total group revenue for the period would have been RMB336,562,000, and profit for the period would have been RMB28,518,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

On 1 September 2005, the Group acquired 100% of the issued share capital of Galaxy Electric (China) Company Limited ("Galaxy China") at a consideration of RMB3. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB389,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	7	—	7
Other receivables	42	—	42
Bank and cash balances	259	—	259
Other payable	(697)	—	(697)
	(389)	—	(389)
Goodwill			389
Total consideration satisfied by:			
Cash			—
Net cash inflow arising on acquisition:			
Cash consideration paid			—
Cash and cash equivalents acquired			259
			259

The impact of Galaxy China on the Group's result for the period between the date of acquisition and 31 December 2005 is insignificant.

If the acquisition had been completed on 1 January 2005, the impact of Galaxy China on the Group's result for the year ended 31 December 2005 would be insignificant. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2006	2005
	RMB'000	*RMB'000*
Minimum lease payments under operating leases in respect of rented premises and equipment	996	549

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	RMB'000	*RMB'000*
Within one year	849	646
In the second to fifth year inclusive	365	880
	1,214	1,526

Operating lease payment represent rentals payable by the Group for certain of its equipment. Lease terms are negotiated for a term of one to three years and the rental are fixed throughout the lease term.

34. CAPITAL COMMITMENTS

	2006	2005
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	4,920	8,864

35. PLEDGE OF ASSETS

At the balance sheet date, the Group had the following assets pledged to banks to secure the general banking facilities granted to the Group:

	2006	2005
	RMB'000	*RMB'000*
Lease premium for land	8,924	2,398
Builidings	9,301	14,430
	18,225	16,828

36. DEFINED BENEFITS PLANS

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

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

The employees employed by the operations in the PRC are members of the state-managed retirement benefits plans operated by the PRC government. The PRC operations are required to contribute a certain percentage of their payroll to the retirement benefits plans to fund the benefits. The only obligation of the Group with respect to the retirement benefits plans operated by the PRC government is to make the required contributions under the plans.

The total expenses recognised in the consolidated income statement for the year of RMB1,212,000 (2005: RMB976,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

37. POST BALANCE SHEET EVENT

On 7 March 2007, one of the subsidiaries of the Company entered into an agreement ("Agreement") relating to a term loan facility of up to HK$60,000,000 and a revolving loan facility of up to HK$60,000,000 with a syndicate of banks and financial institutions. The loans will be used towards financing the capital expenditure and general corporate funding requirements of the Group. The maturity date of the loans is the date falling 36 months after the date of the Agreement.

38. GOVERNMENT GRANTS

During the year, the Group received government subsidies of RMB6,187,000 towards the cost of its land use rights. The amount has been deducted from the carrying amount of the relevant assets. The amount is transferred to income in the form of reduced amortisation charges over the lease term of the relevant assets.

39. RELATED PARTY DISCLOSURES

(a) *Related party balances*

Details of balances with related parties as at the respective balance sheet dates are set out on the consolidated balance sheets and in notes 20, 21 and 24.

(b) *Related party transactions*

During the year, the Group entered into the following transactions with related parties:

Related parties	Nature of transactions	2006 *RMB'000*	2005 *RMB'000*
Changzhou Fulling	Sales of goods	15,693	13,233
Lucky Star	Purchase of goods	17,472	17,031
Shenzhen Yuechang	Sales of goods	9,009	7,204
	Consulting fee paid	2,349	2,877
Galaxy Hi-New	Operating lease paid	417	232

In addition to the above, the Group had acquired 100% of the issued share capital of Seven Rainbows Limited, which is owned by Mr. Shiu Kit, a director of the Company. Details of the transactions are set out in note 32.

(c) *Compensation of key management personnel*

The remuneration of directors and other members of key management during the year was as follows:

	2006 *RMB'000*	2005 *RMB'000*
Short-term benefits	2,235	1,055
Post-employment benefits	36	28
	2,271	1,083

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

40. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2006 is as follows:

	Note	RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary		112,367
CURRENT ASSETS		
Other receivables		145
Amounts due from subsidiaries		66,480
Cash and cash equivalents		5,375
		72,000
CURRENT LIABILITIES		
Other payables		200
Amounts due to subsidiaries		2,159
		2,359
NET CURRENT ASSETS		69,641
		182,008
CAPITAL AND RESERVES		
Share capital		4,080
Reserves	(a)	177,928
		182,008

As at 31 December 2005, the Company had issued share capital of HK$0.01 and did not have any reserve available for distribution.

40. BALANCE SHEET OF THE COMPANY – continued

Note:

(a) Reserves of the Company

	Share premium	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 23 June 2005, date of incorporation	—	—	—
Loss for the year	—	(21)	(21)
At 31 December 2005	—	(21)	(21)
Issue of shares	83,640	—	83,640
Shares issue expenses	(6,057)	—	(6,057)
Effect of Group Reorganisation	114,614	—	114,614
Loss for the year	—	(14,248)	(14,248)
At 31 December 2006	192,197	(14,269)	177,928

The effect of Group Reorganisation represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's share issued in exchange thereof pursuant to the Group Reorganisation.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
Sun Light Planet Limited	British Virgin Island ("BVI") September 3, 2004	Hong Kong	Ordinary shares US$1	100%	—	Investment holding
Galaxy China 銀河電子（中國）有限公司	Hong Kong December 17, 2003	Hong Kong	Ordinary shares HK$10,000	—	100%	Inactive
Dai Tak 大得貿易有限公司	Hong Kong April 7, 2005	Hong Kong	Ordinary shares HK$1	—	100%	Investment holding
Galaxy Electrical 常州銀河電器有限公司	People's Republic of China (the "PRC") June 29, 1994	The PRC	Registered capital US$3,030,000	—	100%	Manufacturing and trading of electrical products
Galaxy Semiconductor 常州銀河半導體有限公司	The PRC November 16, 2001	The PRC	Registered capital US$500,000	—	100%	Manufacturing and trading of electrical products
Galaxy Technology 常州銀河科技開發有限公司	The PRC September 29, 2003	The PRC	Registered capital US$1,600,000	—	65%	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	The PRC October 8, 2006	The PRC	Registered capital HK$80,000,000	—	100%	Manufacturing and trading of diodes and semi-conductor products
Galaxy Hi-New 常州銀河高新電裝有限公司	The PRC March 18, 2004	The PRC	Registered capital US$6,000,000	—	100%	Manufacturing and trading of electric components and specific equipments

Note: Galaxy Electrical, Galaxy Semiconductor, Changzhou Galaxy Century Micro-Electronics Co., Ltd. and Galaxy Hi-New are wholly foreign owned enterprises established in the PRC. Galaxy Technology is a sino foreign equity joint venture established in the PRC.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.