



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: 0527)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

GROUP FINANCIAL HIGHLIGHTS

- The Group's turnover rose by approximately 13% to approximately RMB177.36 million (2006: approximately RMB157.28 million).
- The Group's gross profit dropped by approximately 7% to approximately RMB37.18 million (2006: approximately RMB40.10 million).
- The Group's profit attributable to equity holders increased by approximately 8% to approximately RMB14.22 million (2006: approximately RMB13.23 million).
- Consolidated net asset value increased to approximately RMB230.75 million (2006: approximately RMB221.81 million).
- Earnings per share was approximately RMB0.036 (2006: approximately RMB0.042).
- The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2007.

Results

The board of directors (the “Board”) of Galaxy Semi-Conductor Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2007 together with the comparative figures for the last corresponding period as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
	Note	(unaudited)	(unaudited)
Turnover	3	177,364	157,275
Cost of sales		(140,188)	(117,180)
Gross profit		37,176	40,095
Other operating income		1,831	1,625
Distribution costs		(4,720)	(4,165)
Administrative expenses		(13,929)	(10,229)
Other operating costs		(368)	(106)
Operating profit		19,990	27,220
Listing expenses		—	(9,883)
Interest on bank borrowings repayable in full within five years		(3,714)	(1,069)
Profit before taxation	4	16,276	16,268
Taxation	5	(2,484)	(3,344)
Profit for the period		13,792	12,924
Items attributable to:			
Equity holders of the Company		14,224	13,229
Minority Interests		(432)	(305)
Net profit for the period		13,792	12,924
Earnings per share			
—basic (RMB)	7	0.036	0.042

Condensed Consolidated Balance Sheet

As at 30 June 2007

		As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited)
	<i>Note</i>		
Non-current Assets			
Property, plant and equipment	8	115,088	84,301
Prepaid lease premium			
for land–non-current portion		17,160	8,792
Available-for-sale investments		162	162
Deferred tax assets		6,253	5,293
Deposits paid for acquisition			
of property, plant and equipment		949	4,406
Deposits paid for prepaid lease			
premium for land		—	7,873
		139,612	110,827
Current Assets			
Inventories		122,448	121,489
Prepaid lease premium			
for land–current portion		407	133
Trade and other receivables	9	134,594	120,686
Amounts due from related companies		6,195	8,579
Bank balances and cash		55,613	33,045
		319,257	283,932

		As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited)
	<i>Note</i>		
Current Liabilities			
Trade and other payables	10	75,199	83,952
Amount due to related companies		2,524	5,414
Amount due to directors		—	9,900
Tax payable		8,000	8,680
Bank borrowings	12	90,020	65,000
		175,743	172,946
Net Current Assets		143,514	110,986
Total assets less current liabilities		283,126	221,813
Non-current liabilities			
Bank borrowings		52,380	—
Net assets		230,746	221,813
Capital and Reserves			
Paid-in Capital	13	4,080	4,080
Reserves		224,099	214,734
Equity attributable to the equity holders of the Company		228,179	218,814
Minority interests		2,567	2,999
		230,746	221,813

Notes to the Condensed Financial Statements

1. Basis of preparation

These unaudited consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". These unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

2. Accounting Policies

The accounting policies and basis of presentation adopted are consistent with those of the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standard and interpretation, which are relevant to the Group, have been issued but are not effective for 2007 and have not been early adopted by the Group:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions

The adoption of these new standard or interpretation will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

3. Turnover and segment information

The Group is engaged solely in the manufacture and sale of electrical products and operates in the PRC. All the identifiable assets and liabilities of the Group are located in the PRC. Accordingly, no business or geographical segment is presented.

4. Profit before taxation

	For the six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit before taxation are stated net of:		
Director's emoluments (including retirement benefit plan contributions)	1,134	305
Other staff costs	15,612	13,675
Retirement benefit scheme contributions, (excluding directors)	665	539
Total staff costs	17,411	14,519
Impairment loss on trade receivables	1,010	1,314
Amortisation of prepaid lease premium for land	214	27
Cost of inventories recognised as an expense	111,045	89,579
Depreciation of property, plant and equipment	4,912	2,774
Listing expenses charged to the Income Statement	—	9,883
Loss on disposal of property, plant and equipment	20	—
and after crediting: Interest income	188	16

5. Taxation

	For the six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Taxation expenses include:		
PRC enterprise income tax	3,444	3,562
Deferred tax	(960)	(218)
Total	2,484	3,344

No provision for Hong Kong profits tax had been made for the period ended 30 June 2007 (for the period ended 30 June 2006: Nil) as the income neither arises in, nor is derived from, Hong Kong.

Galaxy Electrical and Galaxy Semiconductor are regarded as high-technology companies according to the PRC tax regulations and are entitled to a preferential tax rate of 15%. Galaxy Technology has not been approved by local tax bureau as high-technology company for the period ended 30 June 2007 since this company has not yet started its first profit-making year. Galaxy Technology is subject to an income tax rate of 24% for the period ended 30 June 2007.

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 and Galaxy Semiconductor has been expired and Galaxy Electrical is subject to income tax at 15% for 2006 and 2007. Galaxy Semiconductor is subject to income tax at 15% for 2007 (2006: 7.5%).

6. Interim Dividend

The Directors do not recommend the distribution of an interim dividend for the period ended 30 June 2007 (30 June 2006: Nil).

7. Earnings per share

	For the six months ended 30 June	
	2007	2006
	(unaudited)	(unaudited)
Profit attributable to equity holders of the Company (RMB'000)	14,224	13,229
Number of issued ordinary shares (in '000 shares)	400,000	312,707
Earnings per share (RMB per share)	0.036	0.042

The calculation of the basic earnings per share for the period ended 30 June 2007 is based on the profit attributable to equity holders of the Company of approximately RMB14,224,000 (for the period ended 30 June 2006: approximately RMB13,229,000) and the weighted average number of 400,000,000 (for the period ended 30 June 2006: 312,707,182) issued shares during the period. The weighted average number of shares for the period ended 30 June 2006 have been retrospectively adjusted for the effect of the capitalisation of share premium and the effect of the Reorganisation of the Group as detailed in the Prospectus.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period.

8. Property, plant and equipment

For the period ended 30 June 2007, the Group acquired property, plant and equipment amounting to approximately RMB35,723,000 (for the period ended 30 June 2006: approximately RMB11,556,000).

9. Trade and other receivables

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

The following is an aged analysis of trade receivables as at each balance sheet date:

	As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited)
0 - 30 days	59,711	55,694
31 - 60 days	31,365	29,365
61 - 90 days	16,656	14,663
91 - 120 days	3,912	6,136
121 - 180 days	3,435	5,108
Over 180 days	6,575	838
	121,654	111,804
Other receivables	12,940	8,882
	134,594	120,686

The Directors consider that the carrying amount of trade and other receivables approximates its fair value.

10. Trade and other payables

The following is an aged analysis of trade payables as at each balance sheet date:

	As at 30 June 2007 RMB'000 (unaudited)	As at 31 December 2006 RMB'000 (audited)
0 - 30 days	25,673	20,602
31 - 60 days	10,699	14,152
61 - 180 days	13,157	22,436
Over 180 days	9,103	4,944
	58,632	62,134
Other payables	16,567	21,818
	75,199	83,952

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximates its fair value.

11. Operating lease commitments

As at 30 June 2007, the Group had commitments for future minimum lease payments under irrevocable operating leases in respect of rented equipment and property which fall due amounting to approximately RMB104,000 (30 June 2006: approximately RMB1,272,000).

12. Bank borrowings

For the period ended 30 June 2007, the amount of the Group's bank borrowings increased to approximately RMB77,400,000 (for the period ended 30 June 2006: approximately RMB45,000,000), and the secured bank borrowings secured by the buildings and the prepaid lease premium for land amounted to RMB14,000,000 (30 June 2006: RMB45,000,000).

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 raised 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.

13. Share capital

Ordinary shares of a par value of HK\$0.01 each	Number of share	Amount HK\$ (unaudited)	Amount RMB (unaudited)
Authorised: As at 31 December 2006 and 30 June 2007	2,000,000,000	20,000,000	20,400,000
Issued and fully paid: As at 31 December 2006 and 30 June 2007	400,000,000	4,000,000	4,080,000

14. Capital commitments

As at 30 June 2007, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB2,791,000 (31 December 2006: approximately RMB8,864,000).

15. Pledge of assets

As at 30 June 2007, the land and buildings pledged to banks to secure general banking facilities granted to the Group amounted to approximately RMB11,385,000 (31 December 2006: approximately RMB18,225,000).

16. Events after the balance sheet date

Up to the approval date of these financial statements, there was no material post balance sheet event required to be disclosed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Financial review

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. The Group’s production base is located in Changzhou, Jiangsu Province, the PRC, and its operations are mainly conducted through its five PRC subsidiaries, namely Changzhou Galaxy Electrical Company Limited (“Galaxy Electrical”), Changzhou Galaxy Semiconductor Company Limited (“Galaxy Semiconductor”), Changzhou Galaxy Technology Developing Company Limited (“Galaxy Technology”), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. (“Galaxy Hi-New”) and Changzhou Galaxy Century Micro-Electronics Company Limited (“Galaxy Micro-Electronics”). The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Micro-Electronics are manufacture and sale of diodes, while the principal operations of Galaxy Semiconductor and Galaxy Technology are manufacture and sale of wafers, which are mainly used by Galaxy Electrical, Galaxy Hi-New and Galaxy Micro-Electronics in the packaging of various diodes.

Turnover

Turnover for the period ended 30 June 2007 was approximately RMB177,364,000. It represented a growth of approximately 12.77% when compared with the turnover of approximately RMB157,275,000 in the corresponding period of last year.

Analysis of the Group’s turnover by geographical region and by product type for the period ended 30 June 2007 are set out below:

By geographical region

	For the six months ended 30 June				Increase/ Change in (decrease) percentage	
	2007 RMB million (unaudited)	%	2006 RMB million (unaudited)	%	RMB million	%
The PRC (note 1)	157.18	88.62	131.01	83.30	26.17	19.98
Korea (note 2)	5.03	2.84	6.57	4.17	(1.54)	(23.44)
Hong Kong (note 2)	3.05	1.72	8.58	5.46	(5.53)	(64.45)
Other countries and regions (note 3)	12.10	6.82	11.12	7.07	0.98	8.81
Total	177.36	100.00	157.28	100.00	20.08	12.77

Notes:

1. The PRC is the major market of the Group's products. The Group leverages on the advantages of its own brand-name and product quality, and as at 30 June 2007, the Group had over 1,200 customers in the PRC.
2. Korea and Hong Kong are the major overseas markets of the Group's products. The Group will strive to explore commercial opportunities through continual participation in exhibitions in overseas regions such as Korea and Hong Kong.
3. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. Sales in such countries and regions continued to grow due to the Group's efforts in exploring other overseas markets through commercial advertisements and participations in exhibitions.

Turnover by product type

	For the six months ended 30 June					
	2007		2006		Increase/ (decrease)	Change in percentage
	RMB		RMB		RMB	
	million (unaudited)	%	million (unaudited)	%	million	%
Plastic packaged diodes (note 1)	141.67	79.88	127.27	80.92	14.40	11.31
Glass packaged diodes (note 2)	8.46	4.77	6.57	4.18	1.89	28.77
Bridge rectifiers (note 3)	5.72	3.23	5.00	3.18	0.72	14.40
SMD packaged diodes (note 4)	21.45	12.09	18.40	11.70	3.05	16.58
Others (note 5)	0.06	0.03	0.04	0.02	0.02	50.00
Total	177.36	100.00	157.28	100.00	20.08	12.77

Notes:

1. Plastic packaged diodes are the Group's major products. For the period ended 30 June 2007, in order to satisfy the increasing demands of the Group's customers, the Group continued to expand its production capacity, adjust its product mix and increase product range, thereby enabling the Group to achieve a steady sales growth.
2. During the period, the Group continued in the development and production of glass packaged diodes in order to meet the requirements of customers. As a result, both its sales and the ratio over the total sales went up.
3. Following the expansions in the production of bridge rectifiers which met the requirements of customers, there was slight growth in its sales.

4. SMD plastic packaged diodes are miniaturized diodes under key development by the Group. For the period ended 30 June 2007, through the expansions of the customer base, the Group's sales of the products had recorded rapid growth.
5. Others refer to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.

Cost of sales

Cost of sales for the period ended 30 June 2007 represented approximately 79.04% of the turnover, an increase of approximately 4.53% compared with approximately 74.51% for the period ended 30 June 2006, which was mainly due to the increase in the cost of the Group's major raw materials (being copper and silicon chips).

Copper and silicon chips accounted for over 50% of the cost of sales for the period ended 30 June 2007. During the period ended 30 June 2007, average purchase prices of copper and silicon chips increased by approximately 11.43% and 12.51% respectively as compared with the period ended 30 June 2006.

The turnover of the Group increased by 12.77% while the cost of sales increased by 19.63% for the period ended 30 June 2007 as a result of the increase in the cost of raw material as discussed above.

Gross profit

The Group's gross profit margin for the period ended 30 June 2007 was approximately 20.96%. There was a slight reduction compared with approximately 25.49% for the period ended 30 June 2006 as a result of the increase in cost of sales. Hence, the Group adjusted the product mix by producing and selling higher margin products so as to reduce the impact from the increased cost of major raw materials (being copper and silicon chips).

Other operating income

Other operating income mainly comprised income arising from the sale of waste and sub-products (30 June 2007: approximately RMB1,327,000; 30 June 2006: approximately RMB1,213,000), interest income (30 June 2007: approximately RMB188,000; 30 June 2006: approximately RMB16,000) and dividend received from available-for-sale investment (30 June 2007: nil; 30 June 2006: approximately RMB384,000).

Distribution costs

Distribution costs mainly included commission expenses in respect of the sales and distribution activities, wages and salaries of the sales personnel and transportation costs.

Distribution costs for the period ended 30 June 2007 represented approximately 2.66% of the total turnover, which remained broadly flat compared with approximately 2.65% for the period ended 30 June 2006.

Administration expenses

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

Administration expenses for the period ended 30 June 2007 amounted to approximately RMB13,929,000, representing an increase compared with approximately RMB10,229,000 over the period ended 30 June 2006. This was mainly due to the increases in the wages and welfare of the management personnel, bad debt provisions and other general administration expenses.

During the period ended 30 June 2007, in order to enhance the Group's governance, the number of the Group's management members, wages and welfare expenses have increased by approximately RMB1,781,000. After the Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"), relevant listing expenses (including legal and other professional fees) increased by approximately RMB1,185,000. Due to the expansions in the Group's business, other administration expenses also increased correspondingly by approximately RMB734,000.

Listing expenses

During the period ended 30 June 2006, listing expenses refer to one-off expenses for the Listing of approximately RMB9,883,000 which were charged to the income statement.

Finance costs

Finance costs refer to interest expenses in respect of bank loans obtained.

Interest expenses for the period ended 30 June 2007 was approximately RMB3,714,000, while those for the period ended 30 June 2006 was approximately RMB1,069,000. The increase in costs was due to an increase in the average bank loans for financing operation activities for the period ended 30 June 2007 compared with the period ended 30 June 2006.

Taxation

The effective tax rate as at 30 June 2007 was 15.26%, showing a decrease compared with approximately 20.56% as at 30 June 2006. The decrease in effective tax rate was mainly due to the one-off listing expenses of approximately 9,690,000 for the period ended 30 June 2006 which was not allowed to be set off for tax purposes.

Net profit for the period

Due to the above reasons, net profit ratio dropped from 8.22% for the period ended 30 June 2006 to 7.78% for the period ended 30 June 2007.

Net current assets

With the increase in the Group's capital structure and increase in operation cash-flow, the Group's net current assets as at 30 June 2007 amounted to approximately RMB143,514,000 (31 December 2006: approximately RMB110,986,000).

Liquidity and financing

With the net proceeds from the Listing of approximately HK\$70,000,000, in addition to the syndicated bank loans totaling HK\$120,000,000 obtained in 2007, balances of bank deposits as at 30 June 2007 and 30 December 2006 were approximately RMB55,613,000 and approximately RMB33,045,000 respectively.

The Group's total borrowings as at 30 June 2007 were approximately RMB142,400,000, representing an increase of approximately RMB77,400,000 compared with 31 December 2006. Of which, an amount of RMB90,020,000 was short-term bank loans maturing within one year, while RMB52,380,000 was long-term bank loans maturing after one year.

The Group repaid its debts mainly through the steady recurrent cash-flow derived from its business. The Group's gearing ratio as at 30 June 2007 increased to approximately 49.71%, while the gearing ratio as at 31 December 2006 was approximately 43.81%, which was calculated by dividing the Group's total liabilities by the total assets.

As at 30 June 2007, the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 90% of the Group's incomes were denominated in Renminbi, and the remaining of approximately 10% were denominated in Hong Kong dollars and US dollars. As at 30 June 2007, the Group's borrowings were bearing fixed interest rate and floating interest rate amounted to RMB26,000,000 and RMB116,400,000 respectively.

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. Since Renminbi had experienced an appreciation in 2006, the Board considered that the syndicated bank loans in Hong Kong currency would be favourable to the Group in 2007.

The Group had not exposed to any currency hedging facility for the period ended 30 June 2007 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 to control foreign exchange fluctuations and interest rate fluctuations in individual transactions.

Pledge of assets

As at 30 June 2007, the Group had pledged assets comprising land and buildings with net book values of approximately RMB11,385,000 (31 December 2006: approximately RMB18,225,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the period ended 30 June 2007 and 30 June 2006, the Group had no material contingent liabilities.

Employees

As at 30 June 2007, the Group had approximately 2,400 full-time employees in Hong Kong and the PRC, including 2,000 workers provided by employment agents, responsible for management, administration and production. During the period, the relevant employee costs (including directors' remuneration) were approximately RMB17,411,000 (30 June 2006: approximately RMB14,519,000). The Group ensured the remuneration of employees to be attractive, and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

Use of the proceeds from the Listing

The Company's shares were listed on the Stock Exchange on 9 June 2006. The net proceeds from the offer of shares, after deducting the relevant costs of the Listing, were approximately HK\$70,000,000.

For the period ended 30 June 2007, the amount spent on the purchase of diode production equipment was approximately RMB46,300,000, the amount spent on the construction of factory buildings was approximately RMB1,800,000, while payments on land use rights was approximately RMB8,700,000. The amount paid for the acquisition of Seven Rainbows Limited and its shareholder's loan was approximately RMB13,200,000.

(2) Business review

In the first half of the financial year 2007, the Group experienced steady growth in its business. For the period ended 30 June 2007, the Group's turnover amounted to approximately RMB177,364,000, representing a growth of approximately 12.77% over the corresponding period of last year; the gross profit ratio was approximately 20.96%, representing a decrease of 4.53% over the same period last year; profit attributable to equity holders was approximately RMB14,224,000, representing an increase of 7.52% over the same period last year. In March this year, the Group has successfully raised syndicated bank loans totaling HK\$120,000,000 which further strengthened the financial position of the Group and provided more resources to consolidate the Group's leading position in the diode market in the PRC.

During the period, sales of plastic-packaged diodes in the PRC market remained to be the Group's major sources of income. For the period ended 30 June 2007, sales of various diodes and plastic-packaged diodes in the PRC market reached approximately RMB157,190,000 and RMB141,668,000 respectively, accounting for approximately 88.63% and 79.87% of the total turnover.

In order to enhance production capacities and efficiency, the Group's production and equipment improvement projects were carried out on schedule during the period with capacity expanded as planned. In 2006, Changzhou Galaxy Hi-New Electric Parts Co., Ltd., which was acquired by our indirect wholly-owned subsidiary, Sun Light Planet Limited, had commenced production. Its production line is mainly devoted to the production of plastic-packaged diodes and has generated both sales and profit. Changzhou Galaxy Century Micro-Electronics Company Limited, invested by our indirect wholly-owned subsidiary, Profit Champ Limited, was incorporated in October 2006. Its micro surface mount components developed during the period performed a successful trial run in June and the monthly production capacity was expected to reach 30,000,000 pieces in the second half year. This will further improve capacity, raise technological standard and enhance profitability.

In July 2007, Profit Champ Limited has entered into an agreement with Taizhou City Gaogang Science & Technology Park Development and Investment Company Limited (泰州市高港科技創業園開發投資有限責任公司). Through the acquisition of a parcel of 50-acre land and its ancillary buildings located in Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC, the Company will set up a semiconductor device production line dedicated to the production of plastic-packaged diodes. This will expand the production scale of the Group's diodes and increase market coverage.

(3) Outlook

The Directors believe that the world economy will prolong its growth in the second half year of 2007, and the PRC economy will continue to proceed rapidly. The demand for semiconductors and diodes will be driven by the continual development of the manufacturing industries of home appliances, electrical lighting, computer and external device. The Group's products are expected to see steady growth in sales in the second half year of 2007. It will focus on promoting the rapid development of the Group in the following aspects, and strive to obtain satisfactory returns for the Shareholders:

- To fully utilize the capacities to satisfy the increasing demand of customers for products.
- To observe closely the market changes and to continuously develop products with higher margins, so as to enhance market coverage on high-margin products.
- To focus on technological reforms and process advancement for product quality improvement and cost reduction.
- To perfect the planning and construction for a parcel of land with an area of 40,049 m², belonged to Changzhou Galaxy Century Micro-Electronics Company Limited, so as to speed up the capacity expansion of the new products for micro surface mount components.
- To facilitate the Taizhou diode production project and to speed up its infrastructure construction as well as the installation, trial run and production of the plastic-packaged diode production line.

CORPORATE GOVERNANCE

The Company has been committed to establishing and maintaining high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasizes effective internal control, high transparency and accountability to all Shareholders promoted by the Board. The Board comprises nine members including three executive Directors, three non-executive Directors and three independent non-executive Directors. The Board will continue to review its practices from time to time in order to improve the Group's corporate governance practices to meet international recognised best practices.

Director's Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all Directors, who have confirmed that they have complied with the required standard set out in the Model Code.

Compliance with the Code on Corporate Governance Practices

For the six months ended 30 June 2007, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

OTHER INFORMATION

Remuneration Committee

The Company has set up a remuneration committee in accordance with Appendix 14 to the Listing Rules. Its members are Mr. Yang Senmao, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

Purchase, Sale or Redemption of Shares

The Company did not redeem any of its shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any of the Shares during the period.

Share Option Scheme

For the period ended 30 June 2007, no options had been granted under the option scheme operated by the Company and no options were outstanding during the period.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the interim period, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Publication of Information on the Stock Exchange website

The interim report of the Company, which will contain all the information required by the Listing Rules, will be sent to shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.galaxycn.com), respectively, in due course.

Audit Committee

The Company has established an audit committee. The audit committee comprises Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding. The audit committee has discussed and reviewed with the Group the unaudited interim results for the six months ended 30 June 2007 and the interim report and discussed matters such as internal control, financial reporting matters, etc.

APPRECIATION

I would like to take this opportunity to express my hearty gratitude to our shareholders, our business partners, directors and loyal and dedicated colleagues.

By Order of the Board
Galaxy Semi-Conductor Holdings Limited
Yang Senmao
Chairman

Hong Kong, 5 September 2007

As at the date of this announcement, the executive Directors are Mr. Yang Senmao, Mr. Yue Lian and Mr. Xu Xiaoping; the non-executive Directors are Mr. Meng Quanda, Mr. Shiu Kit and Mr. Dong Renhan; and the independent non-executive Directors are Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.