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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007

GROUP FINANCIAL HIGHLIGHTS

– The Group's turnover rose by approximately 14% to approximately RMB384.28 million (2006: approximately RMB336.56 million).

– The Group's gross profit rose by approximately 9% to approximately RMB79.83 million (2006: approximately RMB73.41 million).

– The Group's profit attributable to equity holders rose by approximately 22% to approximately RMB36.83 million (2006: approximately RMB30.20 million).

– One-off listing expenses decreased to RMB nil (2006: approximately RMB9.69 million).

– Consolidated net assets value increased to approximately RMB247.71 million (2006: approximately RMB221.81 million).

– Earnings per share was approximately RMB0.092 (2006: approximately RMB0.083).

– The Board did not recommend a final dividend.

RESULTS

The board (the "Board") of directors ("Directors") of Galaxy Semi-Conductor Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
For the year ended 31 December 2007

	Note	**2007** *RMB'000*	2006 *RMB'000*
Turnover	*3*	**384,278**	336,562
Cost of sales		**(304,450)**	(263,154)
Gross profit		**79,828**	73,408
Other revenue	*4*	**7,290**	6,763
Distribution costs		**(9,471)**	(7,572)
Administrative expenses		**(27,896)**	(27,103)
Listing expenses		**–**	(9,690)
Discount on acquisition		**–**	1,710
Profit from operations		**49,751**	37,516
Interest on bank borrowings wholly repayable within five years		**(8,677)**	(2,894)
Profit before taxation	*5*	**41,074**	34,622
Income tax	*6*	**(5,444)**	(5,567)
Profit for the year		**35,630**	29,055
Attributable to:			
Equity shareholders of the Company		**36,831**	30,202
Minority interests		**(1,201)**	(1,147)
Profit for the year		**35,630**	29,055
Dividends proposed after the balance sheet date	*7*	**–**	6,330
Earnings per share			
Basic *(RMB)*	*8*	**0.092**	0.083

Consolidated Balance Sheet
At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		**147,389**	84,301
Prepaid lease premium for land		**17,366**	8,925
Available-for-sale investments		**–**	162
Deferred tax assets		**1,973**	5,293
Deposit paid for acquisition of property, plant and equipment		**9,730**	4,406
Deposit paid for prepaid lease premium for land		**–**	7,873
		176,458	110,960
Current assets			
Inventories	*9*	**131,497**	121,489
Trade and other receivables	*10*	**152,530**	120,686
Amounts due from related companies		**5,934**	8,579
Pledged bank deposits over three months		**2,519**	–
Cash and cash equivalents		**42,569**	33,045
		335,049	283,799
Current liabilities			
Trade and other payables	*11*	**96,575**	83,952
Amounts due to related companies		**7,802**	5,414
Amount due to directors		**–**	9,900
Interest-bearing borrowings		**116,038**	65,000
Current taxation		**1,333**	8,680
		221,748	172,946
Net current assets		**113,301**	110,853
Total assets less current liabilities		**289,759**	221,813
Non-current liabilities			
Interest-bearing borrowings		**39,328**	–
Deferred tax liabilities		**2,725**	–
NET ASSETS		**247,706**	221,813
EQUITY			
Share capital		**4,080**	4,080
Reserves		**243,626**	214,734
Total equity attributable to equity shareholders of the Company		**247,706**	218,814
Minority interests		**–**	2,999
TOTAL EQUITY		**247,706**	221,813

Notes

1. GROUP REOGANISATION 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. The Company's shares were listed on the Main Board of the Stock Exchange on 9 June 2006 (the "Listing Date").

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2006 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 year 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 consolidated financial statements are presented in Renminbi ("RMB"). All financial information in RMB has been rounded to the nearest thousand.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TURNOVER AND SEGMENTAL INFORMATION

The Group is engaged solely in the manufacture and sale of diodes and related 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.

4. OTHER REVENUE

	2007	2006
	RMB'000	*RMB'000*
Interest income	**533**	570
Sales of scrap	**3,706**	3,108
Government subsidy income	**805**	211
Dividend income	**588**	384
Write back of trade and other payables	**1,133**	1,988
Others	**525**	502
	7,290	6,763

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2007	2006
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	**8,677**	2,894

No borrowing costs have been capitalised in 2007 (2006: Nil).

	2007	2006
(b) Staff costs		
Directors' emolument, including retirement benefit plan contributions	**3,401**	2,972
Other staff's salaries, wage and other benefits, including retirement benefit scheme contributions	**44,539**	34,488
	47,940	37,460
(c) Other items		
Amortisation of prepaid lease premium for land	**343**	73
Depreciation of property, plant and equipment	**11,864**	6,441
Impairment losses of trade and other receivables	**(513)**	1,904
Net foreign exchange (gain)/loss	**(3,597)**	160
Cost of inventories	**304,450**	263,154

6. INCOME TAX IN THE INCOME STATEMENT

Taxation in the income statement represents:

	2007	2006
	RMB'000	*RMB'000*
Current tax – PRC enterprise income tax		
Provision for the year	**5,437**	7,489
Over provision in respect of prior years	**(709)**	–
Deferred tax		
Origination and reversal of temporary differences	**716**	(1,922)
	5,444	5,567

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.

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

Changzhou Galaxy Electrical Co., Ltd. ("Galaxy Electrical") is recognised as high-technology companies and located in high-technology zone. According to the PRC tax regulations, Galaxy Electrical is entitled to a preferential tax rate of 15% in 2007.

Changzhou Galaxy Semiconductor Co., Ltd. ("Galaxy Semiconductor") is recognised as enterprise with advanced technology and is entitled to a preferential tax rate of 10% in 2007.

Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises ("FEIT"), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. ("Galaxy Hi-New"), Changzhou Galaxy Technology Developing Co., Ltd. ("Galaxy Technology"), Changzhou Galaxy Century Micro-Electronics Co., Ltd. ("Galaxy Micro-Electronics") and Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. ("Galaxy Huanyu") are entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years starting from the earlier of the year in which a taxable income is made after the offset of deductible losses incurred in prior years or 2008.

Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are located in the coastal economic open zone and are entitled to a preferential income tax rate of 24% for both years. Year 2007 is the first profit making year for Galaxy Hi-New and thus no income tax was provided for in 2007. Galaxy Technology and Galaxy Micro-Electronics sustained accumulated losses and thus no income taxes were provided for in 2007. The applicable income tax rate of Galaxy Huanyu is 30% in 2007. As it sustained an accumulated loss, no income tax was provided for in 2007.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, higher income tax rate was reduced to 25% from 1 January 2008 and the preferential income tax rate will gradually increase to the standard rate of 25% over a five-year transition period after the enactment of the tax law. Except for Galaxy Huanyu, the applicable income tax rate to the Group's subsidiaries will gradually increase to 25% in the following 5 years. The applicable income tax rate for Galaxy Huanyu will be 25% from 2008 onwards. The new rate was used to measure the Group's deferred tax assets as at 31 December 2007. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

7. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007	2006
	RMB'000	*RMB'000*
Dividends proposed after the balance sheet date (2006: HK$0.016 per share)	**–**	6,330

The dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007	2006
	RMB'000	*RMB'000*
Dividends in respect of the previous financial year, approved and paid during the year, of HK$0.016 per share	**6,272**	–

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB36,831,000 (2006: RMB30,202,000) and 400,000,000 (2006: 362,740,000) shares in issue during the year.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for either year.

9. INVENTORIES

Inventories in the balance sheet comprise:

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**22,537**	21,611
Work in progress	**69,669**	81,886
Finished goods	**39,291**	17,992
	131,497	121,489

10. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade debtors and bills receivables	**146,870**	119,876
Less: allowance for doubtful debts	**(6,722)**	(7,423)
Other debtors	**12,382**	8,233
	152,530	120,686

Other debtors balances, including deposits and advances to third parties, are expected to be settled or recovered within one year.

Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubt debts) with the following aging analysis as of the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Within three months	**125,050**	99,722
More than three months but within one year	**14,118**	12,731
More than one year	**980**	–
At 31 December	**140,148**	112,453

11. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables	**66,214**	62,134
Other payables and accruals	**24,548**	17,173
Advances from customers	**5,813**	4,645
	96,575	83,952

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Within three months	**52,378**	55,277
More than three months but within one year	**10,910**	2,892
More than one year	**2,926**	3,965
	66,214	62,134

12. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	2007	2006
	RMB'000	*RMB'000*
Contracted for	**4,492**	4,920
Authorised but not contracted for	**240**	–
	4,732	4,920

13. 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:

	2007	2006
	RMB'000	*RMB'000*
Lease premium for land	**2,291**	9,925
Buildings	**24,758**	9,301
	27,049	19,226

BUSINESS REVIEW AND PROSPECTS

Business Review

In 2007, the Group's business grew steadily. For the year ended 31 December 2007, the Group's turnover amounted to approximately RMB384,280,000, representing an increase of approximately 14.18% compared with the turnover of the previous year that amounted to approximately RMB336,560,000. Gross profit was approximately RMB79,830,000, representing an increase of 8.75% over the gross profit for the previous year which amounted to approximately RMB73,410,000. Gross profit margin was 20.77%, which approximated to that of the previous year (2006: approximately 21.81%).

Profit attributable to equity holders for the year ended 31 December 2007 was approximately RMB36,830,000, representing an increase of 21.95% compared to the profit of approximately RMB30,200,000 for the previous year, which would have been approximately RMB39,890,000, if excluding the impact of the one-off listing expenses of approximately RMB9,690,000 incurred for the listing of the Company in June 2006 which had been charged to the profit and loss account for the year ended 31 December 2006.

The Group has been continuously expanding local and overseas markets. For the year ended 31 December 2007, the Group has gained a total of 114 new domestic and overseas customers that the total number of customers increased to 1,480. The Group also continued to expand its sales network in major cities of the PRC. In 2007, the Group's biggest market in terms of geographical business revenue remained to be PRC (which accounted for 86.91% of the total turnover).

The Group made great efforts on restructuring its product mix and focused on development and manufacturing of micro surface mount components to cope with the rising demand of customers and improve the throughput efficiency. Galaxy Micro-Electronics, a wholly-owned subsidiary of the Company, incorporated in October 2006, commenced production in July 2007. During the year, 160 million pieces of micro surface mount components were manufactured with sales of approximately RMB6,950,000 and monthly production capacity of 60 million pieces were achieved. After expansion and reconstruction, the surface mount device packaged diode production line of Galaxy Electrical reached a monthly production capacity of 50 million pieces and 370 million pieces were manufactured during the year, representing an increase of 51.86% compared to the previous year.

To further increase the production scale and market share of the Group, a plastic-packaged diode production base was relocated during the year. During July 2007, Galaxy Huanyu was incorporated as a wholly-owned subsidiary of Profit Champ Limited, an indirect wholly-owned subsidiary of the Company, to acquire a parcel of land of 33,350 square metres and its ancillary buildings located in Taizhou City Gaogang Science & Technology Park, Jiangsu Province, the PRC. Galaxy Huanyu has launched a trial run of its first production line of plastic-packaged diodes after 6 months had been used for its setup. It is anticipated that the production line will contribute to the business of the Group in 2008.

To further enhance the Group's corporate governance standard, Galaxy Electrical passed the ISO/TS16949 Quality System Certification of SGS during the year ended 31 December 2007, marking a new progress from the ISO9001 and QS9000 quality control systems adopted previously. The Group also facilitated the development and application of ERP and office automation (OA) software actively which improved the efficiency of the Group's information management and office duties.

Prospects

The Directors believe that the Group has laid a sound foundation for its business development and is of rich experience in business management after years of rapid growth. The Group is prudent and optimistic about the development of the global market for electronic information products in 2008 and believes that the PRC market maintains steady growth. However, the market is vulnerable to many factors and the Group anticipates that business development in 2008 and in the future is full of opportunities and challenges.

In order to grasp business opportunities and cope with challenges, the Group continues to strengthen its competitiveness and improve the overall operating efficiency and profitability by implementing the following measures:

- to refine the development strategies for different types of products among which micro surface mount component will be mainly developed, to fully utilize and allocate various resources and to speed up product diversification and sales of micro components, thereby enhancing the Group's product profile, restructuring its product mix and improving the throughput efficiency.

- to further increase the capital expenditure in Galaxy Micro-Electronics in order to achieve a monthly capacity of over 150 million pieces, meanwhile to perfect the planning and construction for a parcel of land with an area of 40,049 square metres and to expand the market actively, so as to speed up the production capacity expansion of the new products for micro surface mount components.

- to fully utilize the existing production capacity of the Changzhou production base, to accelerate the production capacity expansion of Taizhou production base and to reasonably adjust the production layout step by step in order to satisfy the increasing demand of different customers for our products.

- to focus on technological reforms and process advancement, to further strengthen the operating strategy of vertical integration of the Company, to fully utilize the chip development and production ability of Galaxy Semiconductor and Galaxy Technology and to implement internal cost accountability for the purpose of overall product quality improvement and control of production cost and management expenses.

- to appreciate talents by improving the Company's policy on seeking and managing human resources and establishing a sound remuneration and performance assessment system, so as to bring in high-calibre personnel and reinforce internal cohesion, thereby enhancing the Company's sustainable development momentum and its overall competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATING RESULTS

Turnover

Turnover for the year ended 31 December 2007 was approximately RMB384,280,000. It represented a growth of approximately 14.18% when compared with the turnover of approximately RMB336,560,000 of the previous year.

Analysis of the Group's turnover by geographical region and product type is set out below:

Turnover by geographical region

	Year ended 31 December				Increase/	Change in
	2007		2006		(Decrease)	percentage
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
China *(Note 1)*	**333.99**	**86.91**	287.20	85.33	46.79	16.29
Hong Kong and Korea	**23.20**	**6.04**	27.47	8.16	(4.27)	(15.54)
Other countries and regions *(Note 2)*	**27.09**	**7.05**	21.89	6.51	5.20	23.76
Total	**384.28**	**100.00**	336.56	100.00	47.72	14.18

Note:

1. The PRC is the major market for the Group's products. The Group leverages on the advantages of its own brand-name and product quality. As at 31 December 2007, the Group had over 1,300 customers in the PRC.

2. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. Sales in these 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

	Year ended 31 December				Increase/	Change in
	2007		2006		(Decrease)	percentage
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
Plastic packaged diodes *(Note 1)*	**294.05**	**76.52**	270.95	80.51	23.10	8.53
Glass packaged diodes *(Note 2)*	**17.92**	**4.66**	14.97	4.45	2.95	19.71
Bridge rectifiers *(Note 3)*	**12.10**	**3.15**	10.45	3.10	1.65	15.79
Surface mount device packaged diodes *(Note 4)*	**60.01**	**15.62**	40.05	11.90	19.96	49.84
Others *(Note 5)*	**0.20**	**0.05**	0.14	0.04	0.06	42.86
Total	**384.28**	**100.00**	336.56	100.00	47.72	14.18

Note:

1. Plastic packaged diodes are the Group's major products. For the year ended 31 December 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 its product range. As a result, sales of plastic packaged diodes grew more than 8.53% while its proportion to total sales declined.

2. Both the sales of glass packaged diodes and its proportion to total sales for the year ended 31 December 2007 increased compared with that for the year ended 31 December 2006.

3. With the expansion in the production of bridge rectifiers to meet the requirements of customers, both the sales and its proportion in total sales increased.

4. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the expansion of our customer base and the commencement of operation of Galaxy Micro-Electronics in 2007, the Group's sales of such products showed a rapid growth.

5. This refers to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.

Cost of sales

Cost of sales mainly includes raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2007 represented 79.23% of the turnover, which has not changed significantly when compared with approximately 78.19% for the year ended 31 December 2006.

Gross profit

The Group's gross profit margin for the year ended 31 December 2007 was approximately 20.77%, which has not changed significantly when compared with 21.81% for the year ended 31 December 2006.

Other operating income

Other operating income mainly comprised of income generated by the sale of scrap material and sub-products (2007: approximately RMB3,710,000; 2006: approximately RMB3,110,000), interest income from bank deposits (2007: approximately RMB530,000; 2006: approximately RMB570,000), dividend received from available-for-sale investment (2007: approximately RMB590,000; 2006: approximately RMB380,000), proceeds from government subsidy (2007: approximately RMB810,000; 2006: approximately RMB210,000) and income recognized on write back of trade and other payables (2007: approximately RMB1,130,000; 2006: approximately RMB1,990,000). The increase in other operating income is mainly attributable to the fact that the decrease in write back of trade and other payables is offset by the increase in sales of scrap material and sub-products and the proceeds from government subsidy.

On the other hand, the Group's turnover increased by 14.18% as compared with the previous year and the sale of scrap material and sub-products increased accordingly as a result of the increase in production volume.

Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities (2007: approximately RMB3,900,000; 2006: approximately RMB3,640,000), wages and salaries of sales personnel (2007: approximately RMB2,430,000; 2006: approximately RMB1,260,000) and transportation costs (2007: approximately RMB1,800,000; 2006: approximately RMB1,350,000).

Distribution costs for the year ended 31 December 2007 represented approximately 2.46% of the total turnover, showing an increase when compared with 2.25% for the year ended 31 December 2006, mainly due to expansion of the sales of new products by the Group.

Administration expenses

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

Administration expenses for the year ended 31 December 2007 amounted to RMB27,900,000, showing a slight increase when compared with RMB27,100,000 for the year ended 31 December 2006.

The items of increase in administrative expenses are as follows: Salaries and benefits of management staff increased by approximately RMB2,730,000 (2007: approximately RMB13,540,000; 2006: approximately RMB10,810,000). The number of management staff and the amount of salaries and benefits increased as a result of our efforts to strengthen corporate governance. With the growth in turnover, the Group's entertainment expenses increased by approximately RMB380,000 (2007: approximately RMB2,460,000; 2006: approximately RMB2,080,000). Also, legal and other professional expenses increased by RMB630,000. Due to the Group's expansion, other administrative expenses increased correspondingly by RMB1,350,000. However, the increase in the above expenses are offset by the decrease in the following expenses: The exchange gain increased by RMB3,760,000 (2007: approximately RMB3,600,000; 2006: approximately RMB(160,000)). In the year, the substantial increase in the exchange gain of the Group was mainly attributable to the increase in foreign currency-denominated borrowings as a result of the appreciation of the Renminbi after currency revaluation at year end. The audit fee decreased by approximately RMB300,000 (2007: approximately RMB900,000; 2006: approximately RMB1,200,000). With the improvement of credit procedure, the provision of bad debt written off also decreased correspondingly by RMB2,540,000 (2007: approximately RMB(510,000); 2006: approximately RMB2,030,000).

Listing expenses

Since listing expenses were one-off expenses in 2006, no such expenses were incurred in 2007.

Finance costs

Finance costs refer to interest expenses for bank loans obtained by the Group.

Interest expenses for the year ended 31 December 2007 were approximately RMB8,680,000 while those for the year ended 31 December 2006 were approximately RMB2,890,000. The increase in finance costs was due to the increase in average bank loans for financing operations for the year ended 31 December 2007 compared with that for the year ended 31 December 2006.

Taxation

The effective tax rate decreased from approximately 16.08% for the year ended 31 December 2006 to approximately 13.25% for the year ended 31 December 2007. The decrease in effective tax rate was mainly due to the one-off listing expenses for the year ended 31 December 2006 of approximately RMB9,690,000 which was not allowed to be set off for tax purposes.

Net profit for the year

Net profit margin increased from 8.97% for the year ended 31 December 2006 to 9.58% for the year ended 31 December 2007.

Net current assets

The net current assets of the Group as at 31 December 2007 amounted to approximately RMB113,300,000 which approximated to that of the previous year (31 December 2006: approximately RMB110,850,000).

Liquidity and Financing

With the net proceeds from the Listing of approximately HK$70,000,000 and the total syndicated loan of HK$120,000,000 obtained in 2007, the balances of deposits at banks as at 31 December 2007 and 31 December 2006 amounted to approximately RMB45,090,000 and approximately RMB33,050,000, respectively.

As at 31 December 2007, the total amount of borrowings by the Group was approximately RMB155,370,000, representing an increase of approximately RMB90,370,000 compared with the balance outstanding as at 31 December 2006. RMB116,040,000 of the above borrowings was short term bank loan due within one year and RMB39,330,000 thereof was long term bank loan due after one year.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio increased to approximately 51.57% as at 31 December 2007 from approximately 43.81% as at 31 December 2006. That ratio was computed by dividing the Group's total liabilities by total assets.

As at 31 December 2007, all of the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 90% of the Group's income was denominated in Renminbi and the remaining approximately 10% was denominated in Hong Kong dollars and US dollars. The borrowings of the Group are fixed-rate and floating-rate loans, which amounted to RMB43,000,000 and RMB112,370,000 respectively.

On 7 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 term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. 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. Due to the appreciation of Renminbi, the Board considered that the syndicated bank loans in Hong Kong currency would be favourable to the Group.

The Group had not exposed to any currency hedging facility for the year ended 31 December 2007 and up to the date of this announcement 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 31 December 2007, the Group had pledged assets comprising land and buildings with net book values of approximately RMB27,049,000 (31 December 2006: approximately RMB19,226,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the years ended 31 December 2007 and 31 December 2006, the Group had no material contingent liabilities.

Employees

As at 31 December 2007, the Group had approximately 2,500 full-time employees (31 December 2006: 2,400 employees) in Hong Kong and the PRC, including 2,100 employees (31 December 2006: 2,000 employees) provided by employment agents, responsible for management, administration and production. In 2007, the relevant employee costs (including Directors' remuneration) were approximately RMB47,940,000 (2006: approximately RMB37,460,000). The Group ensured that the remuneration of employees was attractive and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance in order to raise the quality of management and protect the interests of shareholders as a whole. To honor these commitments, the Group believes that good corporate governance reflects that a responsible enterprise must be credit worthy and transparent and abide by a high level of code of practice.

Corporate Governance Practices

The Board is of the opinion that the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2007.

Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") as set out in Appendix 10 to the Listing Rules as the code of practice for securities transactions by the Company's directors. The Company had made specific enquiries with all the directors and all the directors confirmed that they had complied with the practice as contained in the Model Code.

Audit Committee

The audit committee comprises of the three independent non-executive directors and Ms. Wong Wai Ling is the chairman of the audit committee. The audited financial statements of the Company for the year ended 31 December 2007 and this announcement had been reviewed by the Audit Committee of the Company before they were presented to the Board for approval.

Dates of temporary suspension of registration of shareholders

The transfer books and register of members of the Company will be closed from 27 May 2008 (Tuesday) to 30 May 2008 (Friday) (both dates inclusive). During such period, no share transfers will be effected. The Board has resolved not to recommend the payment of final dividends for the year ended 31 December 2007.

In order to be eligible to attend and vote at the Annual General Meeting to be held on 30 May 2008 (Friday), all share transfer together with the shares and transfer forms must reach the share registrar and transfer office, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 26 May 2008 (Monday) before 4 p.m..

Share Option Scheme

For the year ended 31 December 2007, no options have been granted under the option scheme operated by the Company and no options were outstanding during the year.

ACQUISITION OF GALAXY TECHNOLOGY

On 28 December 2007, Galaxy Semiconductor, a wholly-owned subsidiary of the Company, entered into an agreement with each of Changzhou Fulling Electronics Company Limited ("Fulling Electronics"), Changzhou Qiaohong Electronics Company Limited ("Changzhou Qiaohong") and Shenzhen Yue Chang Industrial Company Limited ("Shenzhen Yuechang") for acquiring 15.42%, 15% and 4.58% equity interest in Galaxy Technology from Fulling Electronics, Changzhou Qiaohong and Shenzhen Yuechang, respectively. Upon completion of the acquisition, Galaxy Technology became a wholly-owned subsidiary of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

Hong Kong, 23 April 2008

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.