Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

BILIN

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: 00527)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

GROUP FINANCIAL HIGHLIGHTS

— The Group's turnover rose by approximately 1% to approximately RMB387.54 million (2007: approximately RMB384.28 million).

— The Group's gross profit dropped by approximately 20% to approximately RMB63.60 million (2007: approximately RMB79.83 million).

— The Group's profit attributable to equity holders dropped by approximately 49% to approximately RMB18.71 million (2007: approximately RMB36.83 million).

— Consolidated net assets value increased to approximately RMB268.35 million (2007: approximately RMB247.71 million).

— Earnings per share was approximately RMB0.047 (2007: approximately RMB0.092).

— 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 2008 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	4	**387,541**	384,278
Cost of sales		**(323,943)**	(304,450)
Gross profit		**63,598**	79,828
Other revenue	5	**8,569**	7,290
Distribution costs		**(10,375)**	(9,471)
Administrative expenses		**(31,219)**	(27,896)
Profit from operations		**30,573**	49,751
Finance costs	6(a)	**(9,490)**	(8,677)
Profit before taxation	6	**21,083**	41,074
Income tax	7	**(2,370)**	(5,444)
Profit for the year		**18,713**	35,630
Attributable to:			
Equity shareholders of the Company		**18,713**	36,831
Minority interests		**—**	(1,201)
Profit for the year		**18,713**	35,630
Dividends payable to equity shareholders of the Company attributable to the year	8(a)	**—**	—
Earnings per share			
Basic and diluted *(RMB)*	9	**0.047**	0.092

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**155,978**	147,389
Prepaid lease payments		**24,477**	17,023
Deferred tax assets		**1,633**	1,973
Deposit paid for acquisition of property, plant and equipment		**—**	9,730
		182,088	176,115
Current assets			
Inventories	*10*	**106,167**	131,497
Trade and other receivables	*11*	**146,014**	158,464
Prepaid lease payments		**524**	343
Pledged bank deposits		**3,780**	7,371
Deposits with bank (maturity over 3 months)		**5,600**	—
Cash and cash equivalents		**43,746**	37,717
		305,831	335,392
Current liabilities			
Interest-bearing borrowings		**125,870**	116,038
Trade and other payables	*12*	**79,538**	104,377
Current taxation		**968**	1,333
		206,376	221,748
Net current assets		**99,455**	113,644
Total assets less current liabilities		**281,543**	289,759
Non-current liabilities			
Interest-bearing borrowings		**10,583**	39,328
Deferred tax liabilities		**2,615**	2,725
		13,198	42,053
NET ASSETS		**268,345**	247,706
CAPITAL AND RESERVES			
Share capital		**4,080**	4,080
Reserves		**264,265**	243,626
TOTAL EQUITY		**268,345**	247,706

Notes

1. GENERAL INFORMATION

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.

The consolidated financial statements are presented in Renminbi ("RMB"). All financial information in RMB has been rounded to the nearest thousand.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company.

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The application 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 year adjustment is required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfer of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010.

HKAS 27 (Revised) will affect the accounting treatment for changes in Group's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER AND SEGMENTAL INFORMATION

The principal activities of the Group are design, development, manufacturing and sale of diodes. Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales, discounts and returns. All the identifiable assets and liabilities of the Group are located in the PRC. Accordingly, no business or geographical segment is presented.

5. OTHER REVENUE

	2008	2007
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**501**	533
Government subsidy income	**73**	805
Sales of scrap	**2,001**	3,706
Dividend income from other investment	**—**	588
Incentive subsidies *(note a)*	**4,616**	—
Write back of trade and other payables	**438**	1,133
Others	**940**	525
	8,569	7,290

Notes:

(a) The amount represents incentives received from the relevant People's Republic of China (the "PRC") government authorities in the form of return of income tax for the reinvestment on the PRC enterprises.

6. PROFIT BEFORE TAXATION

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

	2008	2007
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**9,352**	8,677
Interest expense on financial liabilities not at fair value through profit or loss	**9,352**	8,677
Other	**138**	—
	9,490	8,677
(b) Staff costs (including director's remuneration):		
Contributions to defined contribution retirement plans	**2,576**	1,635
Salaries, wages and other benefits	**49,719**	46,305
	52,295	47,940
(c) Other items:		
Amortisation		
– prepaid lease payments	**364**	343
Impairment loss for trade receivables and other receivables	**1,086**	(513)
Depreciation for property, plant and equipment	**16,816**	11,864
Net foreign exchange gain	**(2,482)**	(3,597)
Auditors' remuneration – audit services	**600**	900
Operating lease charges – minimum lease payments	**268**	143
Cost of inventories	**323,943**	304,450
Loss on disposal of property, plant and equipment	**196**	347

7. INCOME TAX IN THE INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2008	2007
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**2,140**	5,437
Over provision in respect of prior years		
PRC Enterprise Income Tax	**—**	(709)
Deferred tax		
Current year	**230**	716
	2,370	5,444

7. INCOME TAX IN THE INCOME STATEMENT *(continued)*

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") and Changzhou Galaxy Semiconductor Co., Ltd ("Galaxy Semiconductor") are recognised as high-technology enterprises. According to the PRC tax regulations, Galaxy Electrical and Galaxy Semiconductor have been entitled to a preferential tax rate of 15% in 2008. Galaxy Semiconductor was previously recognised as advance technology enterprises and entitled to a preferential tax rate of 10% in 2007.

Changzhou Galaxy Hi-New Electric Parts Co., Ltd ("Galaxy Hi-New"), Changzhou Galaxy Technology Developing Co., Ltd ("Galaxy Technology") and Changzhou Galaxy Century Micro-Electronics Co., Ltd ("Galaxy Micro-Electronics") are located in the coastal economic open zone and are recognised as Production Foreign invested enterprises. According to the PRC tax regulations, Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are entitled to the tax incentives 2 years exemption and 3 years half rate. Year 2008 is the second profit making year for Galaxy Hi-New and the first profit making year for Galaxy Micro-Electronics, thus no income tax was provided for in 2008. Galaxy Technology sustained accumulated losses and thus no income taxes were provided for in 2008.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Except for Galaxy Electrical, Galaxy Semi-Conductor and Taizhou Galaxy Huanyu Semi-Conductor Co., Ltd. ("Galaxy Huanyu"), the applicable income tax rate to the Group's subsidiaries will gradually be adjusted to 25% in the following five years. The applicable income tax rate of Galaxy Huanyu is 25% in 2008. As it sustained an accumulated loss, no income tax was provided for in 2008. In 2007, the deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

8. DIVIDENDS

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

	2008	2007
	RMB'000	*RMB'000*
Final dividends proposed after the balance sheet date	—	—

8. DIVIDENDS *(continued)*

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

	2008	2007
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of Nil (2007: HK$0.016 per ordinary share)	**—**	6,272

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB18,713,000 (2007: RMB36,831,000) and the weighted average number of 400,000,000 ordinary shares (2007: 400,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The amount of diluted earnings per share is equal to basic earnings per share as there were no dilutive potential ordinary shares in existence for both years.

10. INVENTORIES

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**17,455**	22,537
Work in progress	**71,756**	69,669
Finished goods	**16,956**	39,291
	106,167	131,497

11. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**126,217**	136,181
Less: allowance for doubtful debts	**(7,808)**	(6,722)
	118,409	129,459
Other receivables	**2,761**	5,940
Note receivables	**18,542**	10,689
Amounts due from related companies	**—**	5,934
Amount due from a director	**503**	—
Loans and receivables	**140,215**	152,022
Prepayments and deposit	**5,799**	6,442
	146,014	158,464

All of the trade and other receivables (including note receivables and amounts due from related parties) are expected to be recovered or recognised as expense within one year.

Age analysis

Trade receivables are net of allowance for doubtful debts of RMB7,808,000 (2007: RMB6,722,000) with the following age analysis as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Within three months	**108,459**	114,361
More than three months but within one year	**9,950**	14,118
More than one year	**—**	980
At 31 December	**118,409**	129,459

Trade receivables are due within 60 - 180 days from the date of billing.

12. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**50,337**	59,014
Note payables	**4,600**	7,200
Other payables	**20,101**	24,548
Advance from customers	**4,211**	5,813
Amounts due to related companies	**289**	7,802
Financial liabilities measured at amortized cost	**79,538**	104,377

The following is an age analysis of trade payables as at the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Within three months	**32,495**	45,178
More than three months but within one year	**16,140**	10,910
More than one year	**1,702**	2,926
	50,337	59,014

All of the trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

13. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	2008	2007
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
– Contracted for	**3,035**	4,492
– Authorised but not contracted for	**—**	240
	3,035	4,732

14. PLEDGE OF ASSETS

At the balance sheet date, the Group had the following assets pledged to banks to secure its interest-bearing borrowings:

	2008	2007
	RMB'000	*RMB'000*
Lease premium for land	**17,001**	14,681
Buildings	**8,797**	12,368
	25,798	27,049

BUSINESS REVIEW AND PROSPECTS

Business Review

The Group's business maintained steady growth during the first half of 2008, but was slowed down since the second half of the year as a result of the global and domestic macro economic environment. For the year ended 31 December 2008, the Group's turnover amounted to approximately RMB387,540,000, representing an increase of approximately 0.85% over the turnover of the previous year that amounted to approximately RMB384,280,000. Gross profit was approximately RMB63,600,000, representing a decrease of approximately 20.33% as compared to the gross profit for the previous year which amounted to approximately RMB79,830,000. Gross profit margin dropped to 16.41% (2007: approximately 20.77%), which was mainly attributable to a drop in the selling prices of its products.

Profit attributable to equity holders for the year ended 31 December 2008 was approximately RMB18,710,000, representing a decrease of 49.19% (2007: approximately RMB36,830,000) as compared to the previous year.

The Group continued to explore new clients in response to changes in the PRC and overseas markets, focusing on clients of surface mount components. For the year ended 31 December 2008, the Group recorded the total number of customers of 1,400. The Group also continued to expand its sales network in the major cities in the PRC. In 2008, the PRC remained as the Group's biggest market in terms of geographical turnover, with its turnover accounting for 83.26% of the total turnover.

The Group reinforced its efforts in the implementation of key projects, resulting in further enhancement in the development, production and sales of surface mount components. Galaxy Micro-Electronics commenced the commercial production of micro surface mount components in July 2007. During the year, over 600 million pieces of micro surface mount components were manufactured. Through strengthening its internal operation management, Galaxy Micro-Electronics has formed a preliminary development platform for the continuous expansion of product type and realized a relatively strong profitability. The surface mount device packaged diode production line of Galaxy Electrical reached an annual production capacity of 445 million pieces in 2008, representing an increase of 19.7% over the previous year. The sales of the above surface mount components accounted for 22% of the Group's total sales in 2008, representing a rise of 6% over the previous year.

The Group is proactively implementing the transition project of the axial plastic-packaged diodes production base. After the trial production of the first middle and back-end production line at the end of 2007, Galaxy Huanyu further streamlined the production-operation interface. During the year, a total of 470 million pieces of plastic-packaged diodes were manufactured, forming a solid foundation for effective adjustment of the Group's production system in the future.

Business Review *(continued)*

During the year ended 31 December 2008, Galaxy Electrical and Galaxy Semiconductor were accredited as high-technology enterprises by the relevant authority of Jiangsu Provincial Government and were therefore entitled to a preferential rate for enterprise income tax at 15%.

Prospects

The Directors expect that the effect of global and domestic economic recession will persist in 2009, which will affect the Group's orders from its domestic and overseas customers to a certain extent. The Directors are of the view that the market demand for semi-conductor diodes as a fundamental product will remain strong, and it is optimistic that by leveraging on its strength and advantages in the diode industry in the PRC and coupled with efforts in expanding its market share, cutting its costs and improving its management, the Group's business will soon enter a stage of growth and achieve further and faster development.

In face of new business opportunities and challenges, the Group aims to further consolidate its existing competitive edges, create new advantages and facilitate the stable growth of the Company by implementing various measures, including:

- Actively adjust its products and market structure in a market and customer-oriented approach, reorganize the Group's sales management, order delivery and quality control processes to mitigate its operation risk and maintain a fundamentally stable turnover.

- Implement the strategy of segmented operation: Galaxy Electrical will adjust its production structure and set up a Surface Mount Device business department to accelerate the development of surface mount components; Galaxy Micro-Electronic will speed up the development of new micro surface mount component products and market expansion, with the aim to fully utilise its existing production capacity while paving the way for further investment; Galaxy Huanyu will complete the self-supportive measures for product electroplating and straightening processes with the aim to reinforce cost control while facilitating mass production.

- Promote the implementation of the Group's vertical integration strategy through stepping up its chip development, manufacturing technology and management standards, identifying new business model and creating new complementary advantages.

- Adopt a people-oriented principle to nurture the creation and management of human resources within the Group, paralleled by the integration of people recruitment, people deployment and staff cost control, in order to continually strengthen the Group's vitality for sustainable development and its comprehensive competitive advantages.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATING RESULTS

Turnover

Turnover for the year ended 31 December 2008 was approximately RMB387,540,000. It represented a growth of approximately 0.85% when compared with the turnover of approximately RMB384,280,000 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
	2008		2007		(Decrease)	percentage
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
China *(Note 1)*	**322.68**	**83.26**	333.99	86.91	(11.31)	(3.39)
Hong Kong and Korea	**23.98**	**6.19**	23.20	6.04	0.78	3.36
Other countries and regions *(Note 2)*	**40.88**	**10.55**	27.09	7.05	13.79	50.90
Total	**387.54**	**100.00**	384.28	100.00	3.26	0.85

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 2008, the Group had over 1,200 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 developing new products and exploring other overseas markets through commercial advertisements and participations in exhibitions.

Turnover by product type

	Year ended 31 December				Increase/	Change in
	2008		2007		(Decrease)	percentage
	RMB'million	**%**	*RMB'million*	%	*RMB'million*	%
Plastic packaged diodes *(Note 1)*	**272.61**	**70.34**	294.05	76.52	(21.44)	(7.29)
Glass packaged diodes	**17.47**	**4.51**	17.92	4.66	(0.45)	(2.51)
Bridge rectifiers	**11.61**	**3.00**	12.10	3.15	(0.49)	(4.05)
Surface mount device packaged diodes *(Note 2)*	**85.49**	**22.06**	60.01	15.62	25.48	42.46
Others *(Note 3)*	**0.36**	**0.09**	0.20	0.05	0.16	80
Total	**387.54**	**100.00**	384.28	100.00	3.26	0.85

Note:

1. Plastic packaged diodes are the Group's major products. For the year ended 31 December 2008, the sales amount dropped mainly because the poor market condition dropped down the selling price of the product in the second half of 2008.

2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the expansion of its customer base and the commencement of operation of Galaxy Micro-Electronics in 2007, the Group kept its momentum on selling such products in 2008.

3. 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 2008 represented 83.59% of the turnover, with an increase approximately by 4.36% when compared with approximately 79.23% for the year ended 31 December 2007. Though the economic downturn allowed lower operating costs especially on raw materials like copper, the benefit of cost saving was outweighed by the drop in selling price of the Group's products during the year. As a result, the percentage of cost of sales to sales for 2008 increased compared to that of 2007.

Gross profit

The Group's gross profit margin for the year ended 31 December 2008 dropped to approximately 16.41% from approximately 20.77% for the year ended 31 December 2007. The drop in the gross profit margin was mainly because the drop in selling price of the Group's products outweighed the drop in the cost of sales as discussed above.

Other revenue

Other revenue mainly comprised income generated by the sale of scrap material and sub-products (2008: approximately RMB2,000,000; 2007: approximately RMB3,710,000), interest income from bank deposits (2008: approximately RMB500,000; 2007: approximately RMB530,000), dividend income from other investment (2008: RMB nil; 2007: approximately RMB590,000), subsidy income from government (2008: approximately RMB4,690,000; 2007: approximately RMB810,000) and income recognized on write-back of trade and other payables (2008: approximately RMB440,000; 2007: approximately RMB1,130,000). The increase in other revenue is mainly attributable to the fact that the drop in the sale of scrap materials and sub-products was offset by the increase in the subsidy income from government.

Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities (2008: approximately RMB3,830,000; 2007: approximately RMB3,900,000), wages and salaries of sales personnel (2008: approximately RMB2,620,000; 2007: approximately RMB2,430,000) and transportation costs (2008: approximately RMB1,900,000; 2007: approximately RMB1,800,000).

Distribution costs for the year ended 31 December 2008 represented approximately 2.68% of the total turnover, showing an increase when compared with 2.46% for the year ended 31 December 2007, mainly due to the intense market competition that more resources were allocated to selling activities.

Administration expenses

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

Administration expenses for the year ended 31 December 2008 amounted to approximately RMB31,220,000, showing an increase when compared with approximately RMB27,900,000 for the year ended 31 December 2007.

Items contributing to the increase in administrative expenses are as follows: The exchange gain dropped by RMB1,120,000 (2008: approximately RMB2,480,000; 2007: approximately RMB3,600,000). The salaries and benefits of management staff increased by approximately RMB2,000,000 (2008: approximately RMB15,540,000; 2007: approximately RMB13,540,000). The provision of bad debt written off also increased by RMB1,600,000 (2008: approximately RMB1,090,000; 2007: approximately (RMB510,000)).

However, the increase in the above expenses was offset by the decrease in the following expenses: legal and other professional expenses dropped by RMB590,000 as a result of the drop in consulting services. Audit fee also dropped by RMB300,000 (2008: approximately RMB600,000; 2007: approximately RMB900,000). In view of tightened control of operating expenses, other administrative expenses decreased correspondingly by RMB670,000.

Finance costs

Finance costs refer to interest expenses and bank charges for bank loans obtained by the Group. Finance costs for the year ended 31 December 2008 were approximately RMB9,490,000 while those for the year ended 31 December 2007 were approximately RMB8,680,000. The increase in finance costs was due to the increase in average bank loans for financing operations for the year ended 31 December 2008 compared with that for the year ended 2007.

Taxation

The effective tax rate decreased from approximately 13.25% for the year ended 31 December 2007 to approximately 11.24% for the year ended 31 December 2008. The decrease in effective tax rate was mainly because more profit was generated from the Group companies which are entitled to tax-free period of PRC enterprise income tax compared with that for the year ended 31 December 2007.

Net profit for the year

The net profit margin dropped from 9.58% for the year ended 31 December 2007 to 4.83% for the year ended 31 December 2008.

Net current assets

The net current assets of the Group as at 31 December 2008 amounted to approximately RMB99,460,000 which approximated to that of the previous year (31 December 2007: approximately RMB113,640,000).

Liquidity and financing

The cash and bank balances as at 31 December 2008 and 31 December 2007 amounted to approximately RMB53,130,000 which comprised RMB48,100,000, USD250,000 and HK$3,750,000 and approximately RMB45,090,000, respectively.

As at 31 December 2008, the total amount of borrowings by the Group was approximately RMB136,450,000 representing a decrease of approximately RMB18,910,000 compared with the balance outstanding as at 31 December 2007. RMB125,870,000 of the above borrowings was short term bank loan due within one year and RMB10,580,000 thereof was long term bank loan due after one year.

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

Liquidity and financing *(continued)*

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.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio dropped to approximately 45% as at 31 December 2008 from approximately 51.57% as at 31 December 2007. That ratio was computed by dividing the Group's total liabilities by total assets. During 2008, all of the Group's borrowings were settled in Renminbi and Hong Kong dollars. Approximately 80% of the Group's income was denominated in Renminbi and the remaining approximately 20% was denominated in Hong Kong dollars and US dollars. The borrowings of the Group were floating-rate loans, which amounted to RMB136,450,000. The Group had not engaged in any currency hedging facility for the year ended 31 December 2008 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 at controlling foreign exchange fluctuations and interest rate fluctuations in individual transactions.

Pledge of assets

As at 31 December 2008, the Group had pledged assets comprising land and buildings with net book values of approximately RMB25,800,000 (31 December 2007: approximately RMB27,050,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the years ended 31 December 2008 and 31 December 2007, the Group had no material contingent liabilities.

Employees

As at 31 December 2008, the Group had approximately 1,800 full-time employees (31 December 2007: 2,500 full-time employees) in Hong Kong and the PRC, including 1,200 employees (31 December 2007: 2,100 employees) provided by employment agents, responsible for management, administration and production. For the year ended 31 December 2008, the relevant employee costs (including the directors' remuneration) were approximately RMB52,300,000 (2007: approximately RMB47,940,000). 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 2008.

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 2008 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 25 May 2009 (Monday) to 1 June 2009 (Monday) (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 2008.

In order to be eligible to attend and vote at the Annual General Meeting to be held on 1 June 2009 (Monday), 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 22 May 2009 (Friday) before 4:30 p.m..

Share Option Scheme

For the year ended 31 December 2008, no options have been granted under the option scheme operated by the Company and no options were outstanding during the year.

ACQUISITION AND DISPOSAL

On 28 December 2007, the Group entered into an agreement with each of Changzhou Fulling Electronics Company Limited ("Fulling Electronics"), Changzhou Qiaohong Electronics Company Limited ("Changzhou Qiaohong") and Shenzhen Yuechang 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 the issue of the approval certificate by the governmental bureau, all the relevant rights and obligations in Galaxy Technology shall be deemed to be transferred to Galaxy Semiconductor from 30 November 2007. The transaction had been completed as at 19 March 2008.

On 20 June 2008 and 18 August 2008, the Group entered into a share transfer agreement and a supplemental agreement, respectively, with independent third parties to indirectly acquire 90% equity interest in a PRC company principally engaged in real estate development in the PRC at a consideration of HK$120,000,000 (the "Acquisition"). Details of the Acquisition are set out in the circular of the Company dated 27 August 2008. The Group entered into a termination deed with the relevant parties to terminate the Acquisition with immediate effect on 22 September 2008, details of which are set out in the announcement of the Company dated 22 September 2008.

SCOPE OF WORK OF AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Group's auditors, CCIF CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2008. The work performed by CCIF CPA Limited in this respect did not constitute as assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

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.

PUBLICATION OF 2008 ANNUAL REPORT

The 2008 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will also be published on the website of the Company at http://www.galaxycn.com and the "HKExnews" website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk in due course.

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

Hong Kong, 22 April 2009

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.