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 2009

GROUP FINANCIAL HIGHLIGHTS

— The Group's turnover rose by approximately 10% to approximately RMB425.74 million (2008: approximately RMB387.54 million).

— The Group's gross profit rose by approximately 18% to approximately RMB75.27 million (2008: approximately RMB63.60 million).

— The Group's profit attributable to equity holders dropped by approximately 33% to approximately RMB12.58 million (2008: approximately RMB18.71 million).

— Consolidated net assets value of the Group increased to approximately RMB312.15 million (2008: approximately RMB268.35 million).

— Earnings per share was approximately RMB0.031 (2008: approximately RMB0.047).

— The Board does not recommend a final dividend for the year ended 31 December 2009.

RESULTS

The board (the "Board") of directors (the "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 2009 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
For the year ended 31 December 2009

	Note	**2009** **RMB'000**	2008 *RMB'000*
Turnover	*4*	**425,742**	387,541
Cost of sales		**(350,476)**	(323,943)
Gross profit		**75,266**	63,598
Other revenue and net income	*5*	**693**	8,569
Distribution costs		**(16,646)**	(10,375)
Administrative expenses		**(42,786)**	(31,219)
Profit from operations		**16,527**	30,573
Finance costs	*6(a)*	**(5,213)**	(9,490)
Profit before taxation	*6*	**11,314**	21,083
Income tax	*7*	**1,263**	(2,370)
Profit for the year		**12,577**	18,713
Attributable to:			
Equity shareholders of the Company		**12,577**	18,713
Profit for the year		**12,577**	18,713
Earnings per share			
— basic and diluted *(RMB)*	*9*	**0.031**	0.047

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Profit for the year	**12,577**	18,713
Other comprehensive income		
Exchange differences on translation of financial statements of operations outside the PRC	**288**	1,926
Other comprehensive income for the year (net of tax)	**288**	1,926
Total comprehensive income for the year	**12,865**	20,639
Total comprehensive income attributable to:		
Equity shareholders of the Company	**12,865**	20,639

Consolidated Statement of Financial Position

At 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment		**157,175**	155,978
Lease prepayments		**20,128**	24,477
Deferred tax assets		**2,182**	1,633
		179,485	182,088
Current assets			
Inventories	*10*	**56,725**	106,167
Trade and other receivables	*11*	**195,237**	146,014
Lease prepayments		**445**	524
Pledged bank deposits		**21,134**	3,780
Time deposits		**—**	5,600
Cash and cash equivalents		**97,566**	43,746
		371,107	305,831
Current liabilities			
Bank loans		**107,500**	125,870
Trade and other payables	*12*	**129,402**	79,538
Current taxation		**1,539**	968
		238,441	206,376
Net current assets		**132,666**	99,455
Total assets less current liabilities		**312,151**	281,543
Non-current liabilities			
Bank loans		**—**	10,583
Deferred tax liabilities		**—**	2,615
		—	13,198
Net assets		**312,151**	268,345
Capital and reserves			
Share capital		**4,785**	4,080
Reserves		**307,366**	264,265
Total equity		**312,151**	268,345

Notes

1. GENERAL INFORMATION

Galaxy Semi-Conductor Holdings Limited ("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 shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 9 June 2006. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of its major subsidiaries are Renminbi ("RMB"). The consolidated financial statements are presented in RMB.

The annual results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2009 but are extracted from those financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The 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 under the Companies Ordinance (Chapter 32, Laws of Hong Kong). The 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 new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 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. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures — improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment — vesting conditions and cancellations
- HK(IFRIC) 15, Agreements for the construction of real estate
- HK(IFRIC) 16, Hedges of a net investment in a foreign operation

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:

  — The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. TURNOVER AND SEGMENT REPORTING

The principal activities of the Group are design, development, manufacturing and sales of diodes and related products.

Turnover represents the sales value of goods supplied to customers, net of value added tax and other sales taxes and is after deduction of any trade discounts and goods returns.

For the year ended 31 December 2009, there was no customer with whom transactions have exceeded 10% of the Group's turnover (2008: Nil).

The Board considers that the business of the Group is organised in one operating segment which is the design, development, manufacturing and sales of diodes and related products in the PRC. Additional disclosures in relation to segment information is not presented as the Board assesses the performance of the only operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

5. OTHER REVENUE AND NET INCOME

	2009	2008
	RMB'000	*RMB'000*
Interest income on financial assets not at fair value through profit or loss	**718**	501
Government subsidy income	**505**	73
Sales of scrap	**1,451**	2,001
Incentive subsidies *(note a)*	**—**	4,616
Write back/(reinstatement) of trade and other payables	**(1,420)**	438
Others	**(561)**	940
	693	8,569

Note:

(a) The amount represents incentives received from the relevant 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):

	2009	2008
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**5,153**	9,352
Interest expense on financial liabilities not at fair value through profit or loss	**5,153**	9,352
Others	**60**	138
	5,213	9,490
(b) Staff costs (including directors' remuneration):		
Contributions to defined contribution retirement plans	**2,919**	2,576
Salaries, wages and other benefits	**55,620**	49,719
	58,539	52,295

	2009	2008
	RMB'000	*RMB'000*
(c) Other items:		
Amortisation of lease prepayments	**445**	364
Impairment losses:		
— trade and other receivables (included in administrative expenses)	**6,687**	1,086
— property, plant and equipment (included in cost of sales)	**6,505**	—
Depreciation for property, plant and equipment	**20,090**	16,816
Net foreign exchange loss/(gain)	**740**	(2,482)
Auditors' remuneration — audit services	**561**	600
Operating lease charges: minimum lease payments in respect of property rentals	**203**	268
Cost of inventories	**350,476**	323,943
Loss on disposal of property, plant and equipment	**786**	196

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**2,345**	2,140
Over provision in respect of prior years		
PRC Enterprise Income Tax	**(444)**	—
Deferred tax		
Origination and reversal of temporary differences	**(3,164)**	230
	(1,263)	2,370

No provision of Hong Kong Profits Tax has been made as the Group does not have assessable profits subject to Hong Kong Profits Tax during the year (2008: Nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the 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 2009.

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 a tax concession period in which they are fully exempted from PRC income tax for the first two years commencing from their first profit making year (after the offset of tax losses brought forward), followed by a 50% reduction in the PRC income tax for the next three years.

The first profit making year of Galaxy Micro-Electronics was 2008, thus Galaxy Micro-Electronics was exempted from income tax for 2008 and 2009. As the first profit making year for Galaxy Hi-New was 2007, Galaxy Hi-New was exempted from income tax for 2007 and 2008, and is entitled to a 50% income tax reduction from 2009 to 2011. Galaxy Technology sustained accumulated losses and thus no income taxes were provided for in 2009.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. 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 and 2009. As it sustained an accumulated loss, no income tax was provided for in 2009.

8. DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2009 (2008: Nil).

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 approximately RMB12,577,000 (2008: RMB18,713,000) and the weighted average number of 400,876,000 ordinary shares (2008: 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

	2009	2008
	RMB'000	*RMB'000*
Raw material	**11,086**	17,455
Work in progress	**34,253**	71,756
Finished goods	**11,386**	16,956
	56,725	106,167

11. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**149,337**	126,217
Less: allowance for doubtful debts	**(12,244)**	(7,808)
	137,093	118,409
Other receivables	**2,518**	2,761
Note receivables	**49,987**	18,542
Amount due from a director	**—**	503
Loans and receivables	**189,598**	140,215
Prepayments and deposits	**5,639**	5,799
	195,237	146,014

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

Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB12,244,000 (2008: RMB7,808,000) with the following ageing analysis as of the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within three months	**135,544**	108,459
More than three months but less than one year	**1,346**	9,950
More than one year	**203**	—
At 31 December	**137,093**	118,409

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

12. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**69,767**	50,337
Note payables	**34,783**	4,600
Other payables	**19,269**	20,101
Advances from customers	**4,155**	4,211
Amounts due to related companies	**283**	289
Amounts due to directors	**1,145**	—
Financial liabilities measured at amortised cost	**129,402**	79,538

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within three months	**56,782**	32,495
More than three months but less than one year	**10,234**	16,140
More than one year	**2,751**	1,702
	69,767	50,337

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

13. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	2009	2008
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
— Contracted for	**1,996**	3,035

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**32**	81
After one year but within five years	**—**	45
	32	126

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of the leases include contingent rentals.

14. PLEDGE OF ASSETS

At the end of the reporting period, the Group had the following assets pledged to banks to secure its bank loans:

	2009	2008
	RMB'000	*RMB'000*
Lease prepayments	**16,637**	17,001
Buildings	**13,878**	8,797
	30,515	25,798

BUSINESS REVIEW AND PROSPECTS

Business Review

The Group's business maintained a steady growth during 2009, with the exception of the first quarter. For the year ended 31 December 2009, the Group's turnover amounted to approximately RMB425,740,000, representing an increase of approximately 9.86% over the turnover of the previous year that amounted to approximately RMB387,540,000. Gross profit was approximately RMB75,270,000, representing an increase of approximately 18.35% as compared to the gross profit for the previous year which amounted to approximately RMB63,600,000. Gross profit margin increased to 17.68% (2008: approximately 16.41%). Profit attributable to equity holders was approximately RMB12,580,000, representing a decrease of 32.79% (2008: approximately RMB18,710,000) as compared to the previous year.

During the second half of 2009, a provision for impairment of fixed assets in the amount of approximately RMB6,500,000 (2008: nil) was made as the Group has decided to close those production lines which were not contributing to its profits. If the impairment provision was excluded, gross profit and gross profit margin of the Company for the year ended 31 December 2009 would increase to approximately RMB81,770,000 and 19.21%, respectively, whereas profit attributable to equity holders would increase to approximately RMB19,080,000.

In response to changes in the domestic and overseas market brought about by the global financial crisis, the Group has accelerated the adjustments to sales strategies and the development of new clients, base especially clients for surface mount components. As at 31 December 2009, the Group had over 1,600 domestic and overseas clients in total, with the increasing number of high-end clients. In 2009, the PRC remained as the Group's biggest market in terms of geographical turnover, with its turnover accounting for 86.42% of the total turnover.

The Group reinforced its efforts in implementation of its key projects, resulting in further enhancements in the development, production and sales of surface mount components. Galaxy Micro-Electronics recorded a monthly production capacity for micro surface mount components of over 200 million pieces, and over 1.3 billion pieces were manufactured during the year. Galaxy Electrical has implemented steady internal conversion of surface mount device plastic-packaged diode production and has further increased its production capacity, resulting in the actual annual production capacity being more than doubled as compared to the previous year. Galaxy Huanyu has opened its second axial plastic-packaged diode production line, with a monthly production capacity of 200 million pieces. The sales of all surface mount devices accounted for 36.47% of the Group's total sales in 2009, representing an increase of 14.41% over 2008.

The Group further enhanced its standard of enterprise management, achieving remarkable results in the management restructure of the member companies and the production department. The efforts on fundamental works were persistently stepped up, including applying for national patent registration, reinforcing system management, strengthening cost audit and lowering inventory capital.

Prospects

The Directors anticipate that the global economy will show a more positive trend and China's economy will experience a stronger momentum with improving market sentiment, against the backdrop of a still unstable external environment filled with uncertainties. The Directors are of the view that the Group has fortified its market responsiveness and competitiveness in its course of overcoming the impacts brought by the global financial crisis, and has thereby equipped itself with the production capacity to realise its annual operating objectives. We have also commenced structural adjustments and management restructure adopted in view of our development in the forthcoming three years. All these will propel the Group to a new stage of faster growth.

Focusing on the three-year development objectives and taking the opportunities coming with the recovery of the domestic and overseas economies, the Group will continue to build on its existing competitive edges and create new comparative advantages, while at the same time further implement different sales strategies and measures to ensure the sustained and stable growth of the Company.

- Devise and implement the three-year development plan that strives to stimulate technology advancement through product structure adjustments and emphasizes the creation of system innovations through management restructure, with the aim to enhance the realisation of the development objectives.

- Accelerate the implementation of Galaxy Micro-Electronics' phase two development plan to construct a new plant on the new land parcel of Galaxy Micro-Electronics and strive for the targeted completion for commercial production during the third quarter of the coming year. Also, accelerate the development of new micro surface mount component products and market expansion with the aim to fully utilise its existing production capacity.

- Continue to explore new models of internal management, perfect the organisational structure and management basis of SMD business and Galaxy Semiconductor, establish an axial management department, and explore the differentiation between management roles and economic responsibilities and its implementation.

- Fully reinforce the fundamental management, refine the statistic and audit works, and perfect the performance assessment system.

- Strengthen the establishment of the people-oriented team, continue to enhance the Company's image, and continue to enhance the Group's vitality for sustainable development and its comprehensive competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATING RESULTS

Turnover

Turnover for the year ended 31 December 2009 was approximately RMB425,740,000. It represented a growth of approximately 9.86% when compared with the turnover of approximately RMB387,540,000 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
	2009		2008		**(Decrease)**	**percentage**
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
PRC *(Note 1)*	367.94	86.42	322.68	83.26	45.26	14.03
Hong Kong and Korea	24.35	5.72	23.98	6.19	0.37	1.54
Other countries and regions *(Note 2)*	33.45	7.86	40.88	10.55	(7.43)	(18.18)
Total	425.74	100.00	387.54	100.00	38.20	9.86

Notes:

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 2009, the Group had over 1,600 customers.

2. Other countries and regions include Thailand, Taiwan, the United States, Italy, Canada, Germany, Spain and France.

Turnover by product type

	Year ended 31 December				Increase/	Change in
	2009		2008		**(Decrease)**	**percentage**
	RMB'million	*%*	*RMB'million*	*%*	*RMB'million*	*%*
Plastic packaged diodes *(Note 1)*	237.24	55.73	272.61	70.34	(35.37)	(12.97)
Glass packaged diodes	26.88	6.31	17.47	4.51	9.41	53.86
Bridge rectifiers	5.80	1.36	11.61	3.00	(5.81)	(50.04)
Surface mount device packaged diodes *(Note 2)*	155.27	36.47	85.49	22.06	69.78	81.62
Others *(Note 3)*	0.55	0.13	0.36	0.09	0.19	52.78
Total	425.74	100.00	387.54	100.00	38.20	9.86

Notes:

1. Plastic packaged diodes are the Group's major products. For the year ended 31 December 2009, the sales amount dropped mainly because of the poor market condition in the first half of 2009, which resulted in a fall of the selling price of the products.

2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. The Group kept its momentum on selling such products in 2009.

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 the cost of raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2009 represented 82.32% of the turnover, with a slightly decrease by approximately 1.27% when compared with that of approximately 83.59% for the year ended 31 December 2008. During the year of 2009, impairment of fixed assets amounting to approximately RMB6,500,000 (2008: nil) was provided and included in cost of sales for obsolete machinery. Excluding this item, the cost of sales for the year ended 31 December 2009 would be RMB343,970,000 and would be reduced to 80.79% of the turnover.

Gross profit

The Group's gross profit margin for the year ended 31 December 2009 increased slightly to approximately 17.68% from approximately 16.41% for the year ended 31 December 2008. If impairment of fixed assets amounting to approximately RMB6,500,000 (2008: nil) which was charged to cost of sales was excluded, the Group's gross profit margin for the year ended 31 December 2009 would be 19.21% accordingly.

Other revenue and net income

Other revenue and net income mainly comprised income generated by the sale of scrap materials and sub-products (2009: approximately RMB1,450,000; 2008: approximately RMB2,000,000), interest income from bank deposits (2009: approximately RMB720,000; 2008: approximately RMB500,000), subsidy income from government (including incentive subsidies) (2009: approximately RMB510,000; 2008: approximately RMB4,690,000) and net income recognized on write-back/(reinstatement) of trade and other payables (2009: approximately (RMB1,420,000); 2008: approximately RMB440,000). The decrease in other revenue and net income is mainly attributable to the fact that the long aged accounts payable which was provided prior to 2009 was written back in 2009 and drop in the sale of scrap materials and sub-products.

Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities (2009: approximately RMB8,900,000; 2008: approximately RMB3,830,000), wages and salaries of sales personnel (2009: approximately RMB3,870,000; 2008: approximately RMB2,620,000) and transportation costs (2009: approximately RMB1,860,000; 2008: approximately RMB1,900,000).

Distribution costs for the year ended 31 December 2009 represented approximately 3.91% of the total turnover, showing an increase when compared with 2.68% for the year ended 31 December 2008, mainly because more commission expenses were incurred to stimulate selling activities for 2009.

Administrative expenses

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

Administrative expenses for the year ended 31 December 2009 amounted to approximately RMB42,790,000, showing an increase by approximately RMB11,570,000 when compared with that of approximately RMB31,220,000 for the year ended 31 December 2008.

Items contributing to the increase in administrative expenses are mainly as follows: the salaries and benefits of management staff increased by approximately RMB4,290,000 (2009: approximately RMB19,830,000; 2008: approximately RMB15,540,000). The exchange gain dropped by approximately RMB3,220,000 (2009: approximately (RMB740,000); 2008: approximately RMB2,480,000). The provision of bad debt also increased by approximately RMB5,600,000 (2009: approximately RMB6,690,000; 2008: approximately RMB1,090,000).

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 2009 were approximately RMB5,210,000 while those for the year ended 31 December 2008 were approximately RMB9,490,000. The drop in finance costs was because more bank loans were repaid than newly drawn during 2009 as a result of the improvement in cashflow position for the year ended 31 December 2009 compared with that for the year ended 2008.

Taxation

The effective tax rate decreased from approximately 11.24% for the year ended 31 December 2008 to approximately (11.16%) for the year ended 31 December 2009. It was mainly because of the deferred tax liability, which was not expected to be crystallised in foreseeable future, was written off during 2009.

Net profit

The net profit margin dropped from 4.83% for the year ended 31 December 2008 to 2.95% for the year ended 31 December 2009.

Net current assets

The net current assets of the Group as at 31 December 2009 amounted to approximately RMB132,670,000, with an increase by approximately RMB33,210,000 when compared to the previous year (31 December 2008: approximately RMB99,460,000).

Liquidity and financing

The cash and bank balances as at 31 December 2009 amounted to approximately RMB118,700,000, which comprised RMB80,180,000, USD550,000 and HK$39,440,000 and the same as at 31 December 2008 was approximately RMB53,130,000.

As at 31 December 2009, the total amount of borrowings by the Group was approximately RMB107,500,000 representing a decrease of approximately RMB28,950,000 compared with the balance outstanding as at 31 December 2008. All of the above borrowings was short term bank loan due within one year.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio dropped to approximately 43.31% as at 31 December 2009 from approximately 45% as at 31 December 2008. That ratio was computed by dividing the Group's total liabilities by its total assets. During 2009, 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 RMB107,500,000. The Group had not engaged in any currency hedging facility for the year ended 31 December 2009 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 2009, the Group had pledged assets comprising land and buildings with net book values of approximately RMB30,515,000 (31 December 2008: approximately RMB25,800,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the years ended 31 December 2009 and 31 December 2008, the Group had no material contingent liabilities.

Employees

As at 31 December 2009, the Group had approximately 2,100 full-time employees (31 December 2008: 1,800 full-time employees) in Hong Kong and the PRC, including 1,500 employees (31 December 2008: 1,200 employees) provided by employment agents, responsible for management, administration and production. For the year ended 31 December 2009, the relevant employee costs (including the Directors' remuneration) were approximately RMB58,540,000 (2008: approximately RMB52,300,000). 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 2009.

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 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 of the Company 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 2009 and this announcement had been reviewed by the audit committee of the Company before being presented to the Board for approval.

CLOSURE OF REGISTER

The transfer books and register of members of the Company will be closed from 27 May 2010 (Thursday) to 31 May 2010 (Monday) (both days 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 2009.

In order to be eligible to attend and vote at the annual general meeting of the Company to be held on 31 May 2010 (Monday), all transfer documents, together with the relevant share certificates, must reach the Company's branch share registrar and transfer office, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on 26 May 2010 (Wednesday).

ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies by the Group during the financial year ended 31 December 2009.

The Company entered into a transaction, which constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules, on 1 April 2010. An announcement containing details of the transaction will be issued by the Company in due course.

SCOPE OF WORK OF AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditors, HLB Hodgson Impey Cheng ("HLB"), to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2009. The work performed by HLB 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 HLB on the preliminary announcement.

SHARE OPTION SCHEME

For the year ended 31 December 2009, no options have been granted under the share option scheme operated by the Company and no options were outstanding during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

THE PLACING

On 12 November 2009, the Company and China Merchants Securities (HK) Co., Ltd. entered into a placing agreement for placing, through China Merchants Securities (HK) Co., Ltd. on a best efforts basis, a maximum of 80,000,000 new shares (the "Placing Shares") to independent investors at a price of HK$0.45 per Placing Shares (the "Placing"). A supplemental agreement was entered into by the parties on 11 December 2009 to extend the long stop date for the Placing.

On 28 December 2009, a total of 80,000,000 Placing Shares were allotted at a price of HK$0.45 to not fewer than six placees. The Company raised a net sum of approximately HK$35,124,000, which was intended to be used for the general working capital of the Group. Details of the Placing are set out in the announcements of the Company dated 12 November 2009, 11 December 2009 and 28 December 2009.

PUBLICATION OF 2009 ANNUAL REPORT

The 2009 annual report of the Company containing all the information required by the Listing Rules will be despatched 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.

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

Hong Kong, 8 April 2010

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. Shu Mingding and Mr. Su Xiucheng.