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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)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

GROUP FINANCIAL HIGHLIGHTS

- The Group's turnover increased by approximately 47% to approximately RMB261.61 million (2009: approximately RMB178.25 million).
- The Group's gross profit increased by approximately 53% to approximately RMB57.43 million (2009: approximately RMB37.53 million).
- The Group's profit attributable to equity shareholders increased by approximately 114% to approximately RMB22.07 million (2009: approximately RMB10.31 million).
- Consolidated net asset value increased to approximately RMB350.43 million (2009: approximately RMB312.15 million).
- Basic earnings per share was approximately RMB0.046 (2009: approximately RMB0.026).
- Diluted earnings per share was approximately RMB0.038 (2009: approximately RMB0.026).
- The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2010.

RESULTS

The board (the “Board”) of directors (the “Directors”) of Galaxy Semi-Conductor Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010 together with the comparative figures for the last corresponding period as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	261,607	178,245
Cost of sales		<u>(204,173)</u>	<u>(140,717)</u>
Gross profit		57,434	37,528
Other revenue		579	517
Distribution costs		(7,751)	(5,541)
Administrative expenses		<u>(22,392)</u>	<u>(18,470)</u>
Profit from operations		27,870	14,034
Finance Costs		<u>(2,711)</u>	<u>(3,324)</u>
Profit before taxation	4	25,159	10,710
Income tax	5	<u>(3,085)</u>	<u>(400)</u>
Profit for the period		22,074	10,310
Attributable to:			
Equity holders of the Company		22,074	10,310
Minority interests		<u>—</u>	<u>—</u>
Profit for the period		<u><u>22,074</u></u>	<u><u>10,310</u></u>
Earnings per share	7		
— Basic (RMB)		0.046	0.026
— Diluted (RMB)		0.038	0.026

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit for the period	22,074	10,310
Other comprehensive income		
Exchange differences on translation of financial statements of subsidiaries	<u>(376)</u>	<u>260</u>
Other comprehensive income for the period (net of tax)	<u>(376)</u>	<u>260</u>
Total comprehensive income for the period	<u><u>21,698</u></u>	<u><u>10,570</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	<u><u>21,698</u></u>	<u><u>10,570</u></u>

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

		As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	8	164,860	157,175
Lease prepayments		19,901	20,128
Deferred tax assets		2,182	2,182
		<u>186,943</u>	<u>179,485</u>
Current assets			
Inventories		45,474	56,725
Trade and other receivables	9	331,423	195,237
Lease prepayments		445	445
Pledge bank deposits		26,625	21,134
Cash and cash equivalents		75,283	97,566
		<u>479,250</u>	<u>371,107</u>
Current liabilities			
Bank loans	10	—	107,500
Trade and other payables	11	147,548	129,402
Current taxation		2,426	1,539
		<u>149,974</u>	<u>238,441</u>
Net current assets		329,276	132,666
Total assets less current liabilities		516,219	312,151
Non-current liabilities			
Convertible bond	12	105,794	—
Bank loans	10	60,000	—
NET ASSETS		350,425	312,151
CAPITAL AND RESERVES			
Share capital	13	4,785	4,785
Reserves		345,640	307,366
TOTAL EQUITY		350,425	312,151

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Company								
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Special reserve <i>RMB'000</i>	Statutory reserves <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Convertible		Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
						bonds reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>		
Balance as at 31 December 2008 (audited)	4,080	192,197	(82,562)	9,534	31,477	—	1,527	112,092	268,345
Profit for the period	—	—	—	—	—	—	—	10,310	10,310
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	—	260	—	260
Balance as at 30 June 2009 (unaudited)	4,080	192,197	(82,562)	9,534	31,477	—	1,787	122,402	278,915
Issue of shares	705	30,236	—	—	—	—	—	—	30,941
Profit for the period	—	—	—	—	—	—	—	2,267	2,267
Transfer to reserves	—	—	—	745	—	—	—	(745)	—
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	—	28	—	28
Balance as at 31 December 2009 (audited)	4,785	222,433	(82,562)	10,279	31,477	—	1,815	123,924	312,151
Profit for the period	—	—	—	—	—	—	—	22,074	22,074
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	—	(376)	—	(376)
Issue of convertible bonds	—	—	—	—	—	16,576	—	—	16,576
Balance as at 30 June 2010 (unaudited)	4,785	222,433	(82,562)	10,279	31,477	16,576	1,439	145,998	350,425

Notes to the Condensed Financial Statements

1. Basis of preparation

The unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2009.

2. Significant accounting policies

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

In the current interim period, the following revised Standards, Amendments and Interpretations (“new or revised HKFRSs”) issued by the HKICPA have become effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 32 (Amendment)	Classification of Rights Issues ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁴
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. Turnover

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

4. Profit before taxation

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before taxation are stated net of:		
Director's emoluments (including retirement benefit plan contributions)	758	502
Other staff costs	28,517	22,689
Retirement benefit scheme contributions, (excluding Directors)	1,679	1,449
Total staff costs	30,954	24,640
Impairment loss on trade receivables	(443)	987
Amortisation of prepaid lease payments	213	182
Cost of inventories	204,173	140,717
Depreciation of property, plant and equipment	12,038	9,690
Loss of disposal of property, plant and equipment and after crediting:	—	1
Interest income	272	404

5. Income tax

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Taxation expenses include:		
PRC enterprise income tax	3,085	400
Deferred tax	—	—
Total	<u>3,085</u>	<u>400</u>

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 periods.

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. 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 both periods.

Changzhou Galaxy Semiconductor Co., Ltd. is recognised as enterprise with advanced technology and is entitled to a preferential tax rate of 15% in both periods.

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., Changzhou Galaxy Technology Developing Co., Ltd. and Changzhou Galaxy Century Micro-Electronics Co., Ltd. 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.

Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are located in the coastal economic open zone and are recognised as Production Foreign Invested Enterprises. Years 2009 and 2010 are the first year of 50% reduction on the income tax for Galaxy Hi-New and Galaxy Micro-Electronics respectively. The tax-free years for Galaxy Technology were applicable for 2009 and 2010 and therefore no income taxes were provided for in both periods. The applicable income tax rate of Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. is 25% in 2009 and 2010 respectively.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (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.

6. Interim dividend

The Directors do not recommend the distribution of an interim dividend for the period ended 30 June 2010 (30 June 2009: Nil).

7. Earnings per share

Earnings per share has been calculated as follows:

	For the six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
BASIC:		
Profit attributable to equity shareholders of the Company (<i>RMB'000</i>)	22,074	10,310
Weighted average number of ordinary shares (<i>in '000 shares</i>)	480,000	400,000
Basic earnings per share (<i>RMB per share</i>)	0.046	0.026
DILUTED:		
Profit attributable to equity shareholders of the Company (<i>RMB'000</i>)	22,074	10,310
Weighted average number of ordinary shares (<i>in '000 shares</i>)	480,000	400,000
Effect of dilutive ordinary shares (<i>in '000 shares</i>):		
Convertible Bond	96,000	—
Weighted average number of ordinary shares after assuming dilution (<i>in '000 shares</i>)	576,000	400,000
Diluted earning per share (<i>RMB per share</i>)	0.038	0.026

8. Property, plant and equipment

For the period ended 30 June 2010, the Group acquired property, plant and equipment amounting to approximately RMB19,725,000 (30 June 2009: approximately RMB9,349,000).

9. Trade and other receivables

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Trade debtors	161,496	149,337
Less: allowance for doubtful debts	<u>(11,801)</u>	<u>(12,244)</u>
	149,695	137,093
Other receivables	124,253	2,518
Note receivables	<u>46,051</u>	<u>49,987</u>
Loans and receivables	319,999	189,598
Prepayment and deposits	<u>11,424</u>	<u>5,639</u>
	<u>331,423</u>	<u>195,237</u>

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

Included in trade and other receivables are trade debtors and note receivable (net of allowance for doubtful debts) with the following aging analysis as of the financial position date:

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Within three months	116,885	135,544
More than three months but within one year	32,628	1,346
More than one year	<u>182</u>	<u>203</u>
At 30 June/31 December	<u>149,695</u>	<u>137,093</u>

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

10. Bank loans

As at 30 June 2010, the amount of the Group's bank borrowings dropped to approximately RMB60,000,000 (31 December 2009: approximately RMB107,500,000), of which the secured bank borrowings amounting to RMB60,000,000 (31 December 2009: RMB107,500,000) which were secured by the buildings and the prepaid lease payment.

11. Trade and other payables

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Trade payables	78,461	69,767
Note payables	39,030	34,783
Other payables	24,652	19,269
Advance from customers	5,405	4,155
Amounts due to related companies	—	283
Amounts due to directors	—	1,145
	<u>147,548</u>	<u>129,402</u>

Included in trade and other payables are trade creditors with the following ageing analysis:

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Within three months	64,906	56,782
More than three months but within one year	9,785	10,234
More than one year	3,770	2,751
	<u>78,461</u>	<u>69,767</u>

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.

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

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

12. Convertible bond

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Liability component at the beginning of the period/year	—	—
Issue of convertible bond	<u>105,794</u>	<u>—</u>
Liability component at the end of the period/year	105,794	—
Less: Amount due within one year shown under current liabilities	<u>—</u>	<u>—</u>
Amount due after one year	<u>105,794</u>	<u>—</u>

13. Share capital

Ordinary shares of a par value of HK\$0.01 each	Number of share	Amount <i>HK\$</i>	Amount <i>RMB</i>
Authorised:			
As at 31 December 2009 (audited) and 30 June 2010 (unaudited)	<u>2,000,000,000</u>	<u>20,000,000</u>	<u>20,400,000</u>
Issued and fully paid:			
As at 31 December 2009 (audited) and 30 June 2010 (unaudited)	<u>480,000,000</u>	<u>4,800,000</u>	<u>4,785,000</u>

14. Commitments

- (a) Capital commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Contracted for	<u>—</u>	<u>1,996</u>

- (b) At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Within 1 year	<u>21</u>	<u>32</u>

15. Pledge of assets

As at 30 June 2010, the land and buildings pledged to banks to secure general banking facilities granted to the Group amounted to approximately RMB23,310,000 (31 December 2009: approximately RMB30,520,000).

16. Related party transactions

During the period, the Group entered into the following transaction with related party:

Names of related party	Nature of transaction	For the six months ended 30 June	
		2010	2009
		<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Zhong Shan Company Ltd.	Operating lease	<u>63</u>	<u>63</u>

17. Non-Adjusting Post Balance Sheet Events

On 1 April 2010, the Company (as purchaser) entered into a conditional agreement with Brown Beauty Business Limited (as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire and Brown Beauty Business Limited agreed to dispose of the entire issued share capital of Power Full Group Holdings Limited (“Target”) for a total consideration of HK\$830 million (the “Acquisition”). The consideration of HK\$830 million for the Acquisition was satisfied by a combination of (a) issue of convertible note in the principal amount of HK\$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK\$1.00 per Shares amounting to HK\$195 million; (c) issue of promissory note in the principal amount of HK\$330 million; and (d) payment of HK\$150 million in cash upon completion of the Acquisition. The Target and its subsidiaries are principally engaged in the manufacturing, processing and sales of wind power equipment and construction of power grid and transformer projects in the PRC. The Acquisition constitutes a very substantial acquisition of the Company and was completed on 7 July 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial Review

The Group is a leading diodes manufacturer and the largest rectifier manufacturer in the PRC. Its operations are mainly conducted through its six PRC subsidiaries, namely Changzhou Galaxy Electrical Co., Ltd. (“Galaxy Electrical”), Changzhou Galaxy Semiconductor Co., Ltd. (“Galaxy Semiconductor”), Changzhou Galaxy Technology Developing Co., Ltd. (“Galaxy Technology”), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. (“Galaxy Hi-New”), Changzhou Galaxy Century Micro-Electronics Co., Ltd. (“Galaxy Micro-Electronics”) and Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. (“Galaxy Huanyu”).

The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu are design, development, manufacturing and sale of different types of diodes. The principal operations of Galaxy Micro-Electronics are design, development, manufacturing and sale of micro surface mount plastic-packaged components (including diodes and transistor) (“micro components”). Galaxy Semiconductor and Galaxy Technology are principally engaged in design, development, manufacturing and sale of diode wafers, which are mainly used by the Group for production of diodes.

Following the completion of the Acquisition on 7 July 2010, the Group also engages in manufacturing, processing and sales of wind power equipment and construction of power grid and transformer project through its subsidiaries including Chengde Ruifeng Renewable Energy Windpower Company Limited and Hebei Beichen Power Grid Construction Co., Ltd.

Turnover

Turnover for the six months ended 30 June 2010 was approximately RMB261,607,000. It represented an increase of approximately 46.77% when compared with the turnover of approximately RMB178,245,000 in the corresponding period in 2009.

Analysis of the Group's turnover by geographical region and by product type for the period ended 30 June 2010 is set out below:

By geographical region

	For the six months ended 30 June				Increase/ (decrease)	Change in percentage
	2010		2009			
	RMB		RMB		RMB	
	million	%	million	%	million	%
	(unaudited)		(unaudited)			
The PRC (<i>note 1</i>)	215.37	82.32	144.54	81.09	70.83	49.00
Hong Kong and Korea (<i>note 2</i>)	16.21	6.20	13.20	7.41	3.01	22.80
Other countries and regions (<i>note 3</i>)	30.03	11.48	20.50	11.50	9.53	46.49
	<u>261.61</u>	<u>100.00</u>	<u>178.24</u>	<u>100.00</u>	<u>83.37</u>	<u>46.77</u>

Notes:

1. The PRC is the major market of the Group's products. The Group leverages on the advantages of its own brand-name and product quality, and as at 30 June 2010, the Group had over 1,350 customers in the PRC.
2. Hong Kong and Korea are the major overseas markets of the Group's products. The Group will strive to explore commercial opportunities through continuous participation in exhibitions in overseas regions such as Hong Kong and Korea.
3. Other countries and regions include Thailand, Taiwan, the United States, Italy, Canada, Germany, Spain and France. The Group is also exploring other overseas markets through commercial advertisements and participations in exhibitions.

Turnover by product type

	For the six months ended 30 June				Increase/ (decrease) RMB million	Change in percentage
	2010 RMB million (unaudited)	%	2009 RMB million (unaudited)	%		
Plastic packaged diodes (note 1)	143.74	54.94	102.02	57.24	41.72	40.89
Glass packaged diodes	12.97	4.96	11.76	6.60	1.21	10.29
Bridge rectifiers	3.59	1.37	9.38	5.26	(5.79)	(61.73)
Surface mount device packaged diodes (note 2)	100.53	38.43	54.93	30.82	45.60	83.01
Others (note 3)	0.78	0.30	0.15	0.08	0.63	420
	261.61	100.00	178.24	100.00	83.37	46.77

Notes:

1. Plastic packaged diodes are the Group's major products. For the 6 months ended 30 June 2010, both the sales and its proportion to total sales increased because of strong demand of the product.
2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the ongoing expansion of its customer base and the increase in operation of Galaxy Micro-Electronics in the first half of 2010, the Group's sales deriving from such products showed a growth momentum.
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 six months ended 30 June 2010 represented approximately 78.05% of the turnover, with a slight drop of approximately 0.9%, when compared with approximately 78.95% for the period ended 30 June 2009.

Gross profit

The Group's gross profit margin for the six months ended 30 June 2010 was approximately 21.95%, with a slight increase of approximately 0.9%, when compared with approximately 21.05% for the period ended 30 June 2009. The increase in the gross profit margin was mainly because the drop in the cost of sales as discussed above outweighed the drop in selling price of the Group's products.

Other revenue

Other revenue mainly comprised income generated by the sale of scrap material and subproducts (30 June 2010: approximately RMB240,000; 30 June 2009: approximately RMB150,000) and interest income from bank deposits (30 June 2010: approximately RMB270,000; 30 June 2009: approximately RMB400,000).

Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities, wages and salaries of sales personnel and transportation costs. Distribution costs for the period ended 30 June 2010 represented approximately 2.96% of the total turnover, showing a drop when compared with 3.11% for the period ended 30 June 2009. The drop in the distribution costs proportion is mainly because more sales were boosted during the first half of 2010.

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 period ended 30 June 2010 amounted to approximately RMB22,390,000, showing a significant increase when compared with approximately RMB18,470,000 for the period ended 30 June 2009. Items contributing to the increase in administrative expenses are as follows: Salaries and benefits of management staff increased by approximately RMB980,000 (30 June 2010: approximately RMB10,680,000; 30 June 2009: approximately RMB9,700,000). Office and entertainment expenses increased by RMB890,000 (30 June 2010: approximately RMB3,610,000; 30 June 2009: approximately RMB2,720,000). Legal and other professional expenses increased by RMB4,310,000 mainly because of the Acquisition (as defined in the paragraph headed “Acquisition and disposal” below).

Finance costs

Finance costs refer to interest expenses for bank loans obtained by the Group. Interest expenses for the period ended 30 June 2010 were approximately RMB2,710,000 while those for the period ended 30 June 2009 were approximately RMB3,320,000. The drop in finance costs was due to the drop in average bank loans for financing operations for the period ended 30 June 2010 compared with that for the period ended 30 June 2009.

Taxation

The effective tax rate increased from approximately 3.73% for the six month period ended 30 June 2009 to approximately 12.26% for the six month period ended 30 June 2010. The increase in effective tax rate was mainly because exemption for tax payment applicable to certain entities no longer applied in 2010.

Net profit for the period

The net profit margin for the period ended 30 June 2010 increased to 8.44% compared with that for the period ended 30 June 2009.

Net current assets

The net current assets of the Group as at 30 June 2010 increased to approximately RMB 329,280,000 compared to that of the previous year (31 December 2009: approximately RMB132,670,000).

Liquidity and financing

The balances of deposits at banks as at 30 June 2010 and 31 December 2009 amounted to approximately RMB101,910,000 which mainly comprised RMB67,180,000, USD420,000 and HK\$36,460,000 and approximately RMB118,700,000, respectively.

As at 30 June 2010, the total amount of borrowings by the Group was approximately RMB60,000,000 representing a decrease of approximately RMB47,500,000 compared with the balance outstanding as at 31 December 2009. All of the above borrowings was long term bank loan due over one year but within five years.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group's gearing ratio dropped to approximately 47.40% as at 30 June 2010 from approximately 43.31% as at 31 December 2009. That ratio was computed by dividing the Group's total liabilities by its total assets. During 2010, all of the Group's borrowings were settled in Renminbi. 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 RMB60,000,000. The Group had not engaged in any currency hedging facility for the period ended 30 June 2010 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.

The Placing of Convertible Bonds

On 16 April 2010, the Company entered into a placing agreement with China Merchants Securities (HK) Co., Ltd. (the “Placing Agent”), pursuant to which the Company has agreed to issue and the Placing Agent has agreed to procure not less than 6 independent placees to subscribe for, in cash at 100% of their principal amount, convertible bonds up to an aggregate principal amount of HK\$143,040,000, on a best effort basis.

Based on the initial conversion price of HK\$1.49 per share to be allotted and issued upon exercise of the conversion power attached to the said convertible bonds, a maximum number of 96,000,000 shares may be allotted and issued.

As at the date of this announcement, conversion rights attaching to convertible bonds in an aggregate principal amount of HK\$89,400,000 have been exercised. Accordingly, 60,000,000 shares have been issued under the said convertible bonds as at the date of this announcement.

Details of the placing are set out in the announcements of the Company dated 26 April 2010, 17 May 2010 and 27 May 2010, respectively.

Acquisition and disposal

Acquisition of shares in Power Full Group Holdings Limited

On 1 April 2010, the Company (as purchaser) entered into a conditional agreement with Brown Beauty Business Limited (as vendor) and Mr. Riley M Chung (as guarantor), pursuant to which the Company agreed to acquire and Brown Beauty Business Limited agreed to dispose of the entire issued share capital of Power Full Group Holdings Limited for a total consideration of HK\$830 million (the “Acquisition”). The consideration of HK\$830 million for the Acquisition was satisfied by a combination of (a) issue of convertible note in the principal amount of HK\$155 million; (b) allotment and issue of 195 million consideration shares at the issue price of HK\$1.00 per share amounting to HK\$195 million; (c) issue of promissory note in the principal amount of HK\$330 million; and (d) payment of HK\$150 million in cash upon completion of the Acquisition on 7 July 2010.

The Acquisition constitutes a very substantial acquisition of the Company pursuant to Chapter 14 of the Listing Rules. Details of the Acquisition are set out in the circular of the Company dated 21 June 2010 and the announcement of the Company dated 7 July 2010.

Pledge of assets

As at 30 June 2010, the Group had pledged assets comprising land and buildings with net book values of approximately RMB23,310,000 (31 December 2009: approximately RMB30,520,000), as security for the bank loans obtained by the Group.

Contingent liabilities

For the six months ended 30 June 2010 and for the year ended 31 December 2009, the Group had no material contingent liabilities.

Employees

As at 30 June 2010, the Group had approximately 2,200 full-time employees in Hong Kong and the PRC, including 700 employees provided by employment agents, responsible for management, administration and production. For the period ended 30 June 2010, the relevant employee costs (including Directors' remuneration) were approximately RMB30,950,000 (30 June 2009: approximately RMB24,640,000). 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.

2. Business Review

Looking back at the first half of year 2010, the Group benefited from the streamlining of the Group's products. The Group took advantage of the economic momentum with the Group's well-planned production capacity and therefore achieved record-high sales. During the period under review, the Group has integrated its production facilities, especially axial plastic-packaged diodes production base, and fine-tuned the product categories. It is believed that in the long run, such measures would reduce operational costs and reallocate resources to businesses with higher growth prospects.

3. Outlook

PRC region remains the largest market of the Group in the six months ended 30 June 2010 as before and it is expected that this tendency would remain unchanged in the foreseeable future. It is expected that the macroeconomy to be mildly declining in the second half of 2010 following the tightened monetary policy of the PRC government. We also expect the market demand for semi-conductor diode will remain strong. We are optimistic that by leveraging on our strength and advantages in the diode industry in the PRC, and with our efforts in the ongoing cost cutting and management improvements, the Group's diode business is expected to remain competitive and profitable. While the semiconductor diode business remains positive, we intend to focus lesser Group resources towards this industry relative to our newly acquired business.

On 7 July 2010, the Company completed the acquisition of Power Full Group Holdings Limited (the “Acquisition”). The acquired group principally engages in manufacturing, processing and sales of wind power equipment, construction of power grid and transformer project through its subsidiaries including Chengde Ruifeng Renewable Energy Windpower Company Limited and Hebei Beichen Power Grid Construction Co., Ltd.

The Company has been principally engaged in the business of manufacturing diodes for various electronics applications including the solar schottky range of diodes designed specifically for solar panels. It is believed that the development of clean and renewable energy will become the next industrial revolution in light of the emerging energy crisis faced by the world nowadays. Although the Company has been benefiting indirectly from supplying components to manufacture clean energy or energy saving equipment, the Acquisition allows the Company to participate directly in such industry. Furthermore, the Acquisition is in line with the Company’s expertise in the technology and manufacturing industry. Going forward, we intend to streamline the Company and continuously take advantage of such opportunities to allow the Group to gain a stronger foothold in the energy efficiency and renewable energy industry with a view of becoming a leading market player in this segment of the energy industry.

CORPORATE GOVERNANCE

The Company has been committed to establish and maintain high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasize effective internal control, high level of transparency and accountability to all shareholders. The Board comprises eleven members including five executive Directors, three non-executive Directors and three independent non-executive Director as at the date of this announcement. The Board will continue to review its practices from time to time in order to improve the Group’s corporate governance to meet internationally recognised best practices.

Director’s Compliance with the 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 its code of practice for securities transaction by the Directors. Specific enquiries have been made to all Directors, who have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2010.

Compliance with the Code on Corporate Governance Practices

For the six months ended 30 June 2010, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules.

OTHER INFORMATION

Remuneration Committee

The Company has set up a remuneration committee in accordance with the Code. Its members are Mr. Yang Senmao, Ms. Wong Wai Ling, Mr. Shu Mingding and Mr. Su Xiucheng.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the shares in the Company during the six months ended 30 June 2010.

Share Option Scheme

For the period ended 30 June 2010, no options were granted under the share option scheme operated by the Company and no options were outstanding, exercised, cancelled or lapsed during the period.

Proposed Change of Company's Name

On 21 July 2010, the Board announced that it proposed to change the English name of the Company from “Galaxy Semi-Conductor Holdings Limited” to “China Ruifeng Galaxy Renewable Energy Holdings Limited” and the Chinese name from “銀河半導體控股有限公司” to “中國瑞風銀河新能源控股有限公司”. Details of the proposed change of Company's name are set out in the circular of the Company dated 30 July 2010.

Publication of Information on the Stock Exchange Website

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

Audit Committee

The Company has established an audit committee. The audit committee comprises Ms. Wong Wai Ling, Mr. Su Xiucheng and Mr. Shu Mingding, being all the independent non-executive Directors. The audit committee has reviewed the unaudited financial results of the Company for the six months ended 30 June 2010 and this announcement. The audit committee has also discussed matters such as internal control practices adopted by the Group and the financial reporting matters of the Group for the six months ended 30 June 2010.

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

Hong Kong, 23 August 2010

As at the date of this announcement, the executive Directors are Mr. Yang Senmao, Mr. Yue Lian, Mr. Xu Xiaoping, Mr. Li Baosheng and Mr. Zhang Zhixiang; 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.