

**GALAXY SEMI-CONDUCTOR HOLDINGS LTD:
GIVE THIS COMPANY A VERY WIDE BERTH**

It is well that Galaxy Semi-Conductor Holdings Ltd () (Code: 527, Main Board, The Stock Exchange of Hongkong Ltd) is dependant on sales of its single product to customers, based in the People's Republic of China (PRC), because, otherwise, it may not have a ghost of a chance in turning in a profit.

As it is, one can hardly be impressed with the performance of this manufacturer, primarily of one kind of diode, all things considered (a '*diode*' is defined as being a semi-conductor rectifier with 2 terminals).

And, since this Company is 12 years old, it would be fair to state that Management has not demonstrated very much dynamism.

However, having said that, when Galaxy Semi-Conductor pitched its story at its **Initial Public Offering (IPO)** in the Hongkong Special Administrative Region (HKSAR) of the PRC, investor response was somewhat astonishing, in **TARGET's** opinion.

Galaxy Semi-Conductor's IPO was 100 million, one-cent Shares at the Premium of 85 cents per Share.

Of the total number of Shares on Offer, originally, 90 million Shares were to be Placed and 10 million Shares were to be considered Public Offer Shares.

The May 29, 2006, Placing and Public Offer Prospectus created little fanfare when it was circulated, but, on June 8, 2006, it was announced that the Public Offer Shares had been oversubscribed some 23.93 times, equivalent to about 239,256,000 Shares, and so it was determined that this share tranche would be increased to 30 million Shares instead of the original 10 million Shares.

As for the Placing tranche, one was told that it had been fully subscribed, all 70 million Shares.

The net proceeds of this cash-raising exercise were about \$HK71 million.

The usage of the net proceeds is to be:

1. About \$HK63 million '*for the expansion of production facilities for diodes*'; and,
2. About \$HK2 million '*as additional working capital of the Group*'.

(Page 140 of the Prospectus assumed that the net proceeds would only be \$HK65 million.)

As at April 30, 2006, Galaxy Semi-Conductor's borrowings amounted to about 31 million renminbi (\$HK29.81 million), all of which was said to be '*short term secured bank loans*'.

Shareholders' Funds, as at December 31, 2005, stood at 112,367,000 renminbi (about \$HK108.05 million), of which figure, about 7.78 million renminbi (about \$HK7.48 million) was cash and bank balances, 100.75 million renminbi (about \$HK96.88 million) was trade and other receivables, and about 63.98 million renminbi (about \$HK61.52 million) was inventories.

As can be seen, the cash component of the Current Assets was very small.

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