



**TC INTERCONNECT HOLDINGS LIMITED**

**達進精電控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 515

**Interim Report 2007**

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# Deloitte.

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### Independent Interim Review Report

#### **TO THE BOARD OF DIRECTORS OF TC INTERCONNECT HOLDINGS LIMITED**

達進精電控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

#### **Introduction**

We have reviewed the interim financial information set out on pages 4 to 15 which comprises the condensed consolidated balance sheet of TC Interconnect Holdings Limited as of 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

12th September, 2007

The Board of Directors (the “Board”) is pleased to announce the unaudited consolidated interim results of TC Interconnect Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the six months ended 30th June, 2007.

## Condensed Consolidated Income Statement

For the six months ended 30th June, 2007

		<b>For the six months ended 30th June,</b>	
	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b> <b>(unaudited)</b>	2006 <i>HK\$'000</i> (unaudited)
Turnover	3	<b>340,024</b>	247,910
Cost of sales		<b>(269,971)</b>	(196,027)
Gross profit		<b>70,053</b>	51,883
Other income		<b>9,887</b>	3,519
Selling and distribution expenses		<b>(16,099)</b>	(11,060)
Administrative and other expenses		<b>(23,958)</b>	(16,475)
Listing expenses		<b>–</b>	(7,108)
Finance costs		<b>(7,446)</b>	(5,584)
Profit before tax		<b>32,437</b>	15,175
Income tax expense	4	<b>(6,143)</b>	(5,048)
Profit for the period	5	<b>26,294</b>	10,127
Dividends paid	6	<b>8,000</b>	–
Basic earnings per share ( <i>HK cents</i> )	7	<b>11.0</b>	5.5

## Condensed Consolidated Balance Sheet

At 30th June, 2007

	Notes	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
Non-current assets			
Investment properties	8	<b>3,000</b>	3,000
Property, plant and equipment	8	<b>308,943</b>	271,485
Prepaid lease payment			
– non-current portion		<b>34,339</b>	34,822
Deposit paid for acquisition of property, plant and equipment		<b>14,495</b>	2,863
		<b>360,777</b>	312,170
Current assets			
Inventories		<b>80,304</b>	67,920
Prepaid lease payment			
– current portion		<b>862</b>	897
Trade and other receivables	9	<b>259,770</b>	264,736
Bills receivable	9	<b>5,601</b>	2,451
Pledged bank deposits		<b>3,959</b>	8,767
Bank balances and cash		<b>53,366</b>	35,858
		<b>403,862</b>	380,629
Current liabilities			
Trade and other payables	10	<b>187,031</b>	186,369
Bills payable	10	<b>18,940</b>	18,502
Taxation payable		<b>17,840</b>	13,937
Bank and other borrowings			
– due within one year	11	<b>103,875</b>	180,922
Obligations under finance leases			
– due within one year		<b>24,687</b>	22,276
		<b>352,373</b>	422,006
Net current assets (liabilities)		<b>51,489</b>	(41,377)
Total assets less current liabilities		<b>412,266</b>	270,793

## Condensed Consolidated Balance Sheet *(continued)*

At 30th June, 2007

	<i>Notes</i>	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
Non-current liabilities			
Bank and other borrowings			
– due after one year	11	<b>114,727</b>	79
Obligations under finance leases			
– due after one year		<b>35,077</b>	26,546
Deferred tax liability		<b>2,312</b>	2,312
		<b>152,116</b>	28,937
Net assets		<b>260,150</b>	241,856
Capital and reserves			
Share capital	12	<b>24,000</b>	24,000
Reserves		<b>236,150</b>	217,856
Total equity		<b>260,150</b>	241,856

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2007

	Share capital	Share premium	PRC statutory reserve	Special reserve	Exchange reserve	Accumulated profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006 (audited)	10	-	1,401	1,156	79	145,513	148,159
Profit and total recognised income for the period	-	-	-	-	-	10,127	10,127
Share issue expense	-	(5,401)	-	-	-	-	(5,401)
Issue of shares for cash	6,000	54,000	-	-	-	-	60,000
Capitalisation issue	17,990	(17,990)	-	-	-	-	-
At 30th June, 2006 (unaudited)	24,000	30,609	1,401	1,156	79	155,640	212,885
Profit and total recognised income for the period	-	-	-	-	-	28,971	28,971
Transfer	-	-	889	-	-	(889)	-
At 31st December, 2006 and at 1st January, 2007 (audited)	24,000	30,609	2,290	1,156	79	183,722	241,856
Profit and total recognised income for the period	-	-	-	-	-	26,294	26,294
Transfer	-	-	1,214	-	-	(1,214)	-
Dividend paid	-	-	-	-	-	(8,000)	(8,000)
<b>At 30th June, 2007 (unaudited)</b>	<b>24,000</b>	<b>30,609</b>	<b>3,504</b>	<b>1,156</b>	<b>79</b>	<b>200,802</b>	<b>260,150</b>



## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2007

	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>41,734</b>	4,731
Net cash used in investing activities		
Acquisition of property, plant and equipment	<b>(37,286)</b>	(8,528)
Decrease (increase) in pledged bank deposits	<b>4,808</b>	(5,456)
Other investing cash flows	<b>218</b>	97
	<b>(32,260)</b>	(13,887)
Net cash from financing activities		
Borrowings raised	<b>253,374</b>	125,420
Repayment of bank and other borrowings	<b>(215,773)</b>	(109,501)
Repayment of obligations under finance leases	<b>(14,121)</b>	(13,154)
Dividend paid	<b>(8,000)</b>	–
Interest expense	<b>(7,446)</b>	(5,584)
Proceeds on issue of shares received	–	36,000
Repayment to a related party and a shareholder	–	(9,060)
	<b>8,034</b>	24,121
Net increase in cash and cash equivalents	<b>17,508</b>	14,965
Cash and cash equivalents at 1st January	<b>35,858</b>	15,038
Cash and cash equivalents at 30th June, represented by bank balances and cash	<b>53,366</b>	30,003

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2007

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, which are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs") that are effective for the Group's financial year beginning on 1st January, 2007. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

#### **Standards or interpretations issued but not effective**

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

The Group has commenced considering the potential impact of these new standards or interpretations but is not yet in a position to determine whether these new standards or interpretations would have a significant impact on the results and financial position of the Group.

### 3. SEGMENT INFORMATION

The Group is currently organised into the following three business divisions:

- Manufacturing and trading of Single-sided printed circuit boards (“PCB”) (“Single-sided”)
- Manufacturing and trading of Double-sided PCB (“Double-sided”)
- Manufacturing and trading of Multi-layered PCB (“Multi-layered”)

These divisions are the basis on which the Group reports its primary segment information.

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Turnover – external sales		
Single-sided	<b>72,091</b>	59,323
Double-sided	<b>197,905</b>	138,964
Multi-layered	<b>70,028</b>	49,623
	<hr/>	<hr/>
Total	<b>340,024</b>	247,910
	<hr/> <hr/>	<hr/> <hr/>
Segment results		
Single-sided	<b>441</b>	8,660
Double-sided	<b>27,506</b>	19,241
Multi-layered	<b>8,063</b>	417
	<hr/>	<hr/>
	<b>36,010</b>	28,318
Unallocated income	<b>9,887</b>	3,519
Unallocated expenses	<b>(6,014)</b>	(11,078)
Finance costs	<b>(7,446)</b>	(5,584)
	<hr/>	<hr/>
Profit before tax	<b>32,437</b>	15,175
Income tax expense	<b>(6,143)</b>	(5,048)
	<hr/>	<hr/>
Profit for the period	<b>26,294</b>	10,127
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#### 4. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
The charge comprises:		
Hong Kong Profits Tax		
Current period	<b>1,153</b>	912
Underprovision in previous year	<b>565</b>	–
	<b>1,718</b>	912
Foreign Enterprise Income tax in other regions of the People's Republic of China (the "PRC")	<b>4,425</b>	3,466
Deferred tax	<b>–</b>	670
	<b>6,143</b>	5,048

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for each of the six months ended 30th June, 2007 and 2006.

PRC Foreign Enterprise Income Tax is calculated at the applicable rates relevant to the PRC subsidiaries.

#### 5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest income	<b>(218)</b>	(97)
Depreciation and amortisation	<b>13,777</b>	11,095
Impairment loss recognised on trade receivables	<b>1,300</b>	2,085
Remunerations for directors and key management personnel	<b>2,747</b>	856
Other staff cost	<b>28,012</b>	25,749
Total employee benefits expenses	<b>30,759</b>	26,605

## 6. DIVIDENDS

During the period, 2006 final dividend of HK3.33 cents (2006: Nil) per share was paid to the shareholders.

The Board has resolved to recommend the payment of the interim dividend of HK2.5 cents per share, amounting to approximately HK\$6,000,000 (2006: Nil).

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the shareholders of the Company is based on the profit for the period attributable to shareholders of the Company of approximately HK\$26,294,000 and on 240,000,000 ordinary shares in issue during the period.

For the period ended 30th June, 2006, the calculation of the basic earnings per share attributable to the shareholders of the Company is based on the profit for the period attributable to shareholders of the Company of approximately HK\$10,127,000 and on the weighted average number of 182,983,000 ordinary shares in issue during that period.

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for the period ended 30th June, 2006 has been retrospectively adjusted for the effect of the capitalisation issue of 179,900,000 shares ("Capitalisation Issue") completed during that period.

There were no dilutive potential ordinary shares during the period and therefore, diluted earnings per share is not presented.

## 8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors consider that the carrying amount of the Group's investment properties at 30th June, 2007 does not differ significantly from that which would be determined using fair values. Consequently, no fair value adjustment has been recognised in the current period.

During the six months ended 30th June, 2007, the Group spent approximately HK\$62,349,000 on acquisition of property, plant and equipment, of which HK\$25,063,000 was acquired under finance leases.

## 9. TRADE, BILLS AND OTHER RECEIVABLES

### (a) Trade and other receivables

The Group generally allows an average credit period of 30 days to 180 days to its trade customers. An aged analysis of trade receivables is as follows:

	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
0 – 30 days	<b>62,358</b>	74,218
31 – 60 days	<b>57,312</b>	64,045
61 – 90 days	<b>47,265</b>	54,271
91 – 180 days	<b>51,364</b>	47,113
Over 180 days	<b>13,157</b>	3,837
	<b><u>231,456</u></b>	<u>243,484</u>

### (b) Bills receivable

The aged analysis of bills receivable is as follows:

	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
0 – 30 days	<b>2,784</b>	35
31 – 60 days	<b>2,162</b>	930
61 – 90 days	<b>206</b>	1,040
91 – 180 days	<b>449</b>	446
	<b><u>5,601</u></b>	<u>2,451</u>

## 10. TRADE, BILLS AND OTHER PAYABLES

### (a) Trade and other payables

The aged analysis of trade payables is as follows:

	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
0 – 30 days	<b>40,658</b>	36,589
31 – 60 days	<b>38,313</b>	44,072
61 – 90 days	<b>41,840</b>	41,708
91 – 180 days	<b>39,105</b>	44,509
Over 180 days	<b>6,701</b>	2,231
	<b><u>166,617</u></b>	<b><u>169,109</u></b>

### (b) Bills payable

The aged analysis of bills payable is as follows:

	<b>30th June, 2007 HK\$'000 (unaudited)</b>	31st December, 2006 HK\$'000 (audited)
0 – 30 days	<b>7,440</b>	7,168
31 – 60 days	<b>4,890</b>	3,197
61 – 90 days	<b>3,631</b>	4,544
91 – 180 days	<b>2,979</b>	3,593
	<b><u>18,940</u></b>	<b><u>18,502</u></b>

## 11. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately HK\$253,374,000. The new loans bear interest ranged from 5.23% to 6.03% per annum and are repayable in one to five years. The proceeds were used to repay the short-term bank loans and finance the operations of the Group.

## 12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st January, 2006	10,000	1
Issue of shares	90,000	9
Capitalisation issue	179,900,000	17,990
Issue of shares by way of placing and public offer	<u>60,000,000</u>	<u>6,000</u>
At 30th June, 2006, 31st December, 2006 and 30th June, 2007	<u><u>240,000,000</u></u>	<u><u>24,000</u></u>

## 13. CAPITAL COMMITMENTS

At 30th June, 2007, the Group had commitments of approximately HK\$50,026,000 (31st December, 2006: HK\$5,971,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

## 14. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks to secure the general banking facilities granted to the Group:

	30th June, 2007 HK\$'000 (unaudited)	31st December, 2006 HK\$'000 (audited)
Bank deposits	3,959	8,767
Investment properties	3,000	3,000
Buildings	1,382	63,306
Prepaid lease payment	<u>6,573</u>	<u>20,479</u>
	<u><u>14,914</u></u>	<u><u>95,552</u></u>

In addition to the above, the Group has pledged the entire capital interests of two subsidiaries, Zhongshan Tatchun Electric Company Limited and Zhongshan Tatchun PCB Company Limited, to banks to secure the banking facilities granted to the Group. The carrying value of the net assets of these subsidiaries as at 30th June, 2007 is HK\$246,489,000 (31st December, 2006: Nil).

## 15. POST BALANCE SHEET EVENT

On 3rd July, 2007, the Group has granted share options to its employees. The total number of options granted is 15,760,000 with an exercise price of HK\$1.52 per share. The options can be exercised in three tranches from 3rd July, 2008 to 2nd July, 2011. The estimated fair value of the share option on the date of grant is HK\$10,358,000.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In the first half of 2007, the Group by leveraging on its established business relationships and by offering wide range of printed circuit boards (“PCBs”), captured market opportunities and took advantage in economies of scale in operations managed to achieve remarkable result in comparison with results of the corresponding period last year.

The Group is principally engaged in manufacturing and trading of board range of PCBs including single-sided PCBs, double-sided PCBs and multi-layered PCBs up to 8 layers, the breakdown are summarised as follows:

	For the six months ended 30th June, 2007		For the six months ended 30th June, 2006		Increase/ (Decrease) HK\$'000	Change in %
	HK\$'000	%	HK\$'000	%		
Single-sided	<b>72,091</b>	<b>21.2</b>	59,323	23.9	12,768	21.5
Double-sided	<b>197,905</b>	<b>58.2</b>	138,964	56.1	58,941	42.4
Multi-layered	<b>70,028</b>	<b>20.6</b>	49,623	20.0	20,405	41.1
	<b><u>340,024</u></b>		<u>247,910</u>		<u>92,114</u>	37.2

The products in the three categories are mainly applied in consumer electronics, computers and computer peripherals, and communications equipment. During the review period, application wise, consumer electronics remained to contribute the highest turnover that accounted for approximately 55.8% of the Group's turnover.

Moreover, the Group's turnovers by geographical regions are summarised as follows:

	For the six months ended 30th June, 2007		For the six months ended 30th June, 2006		Increase/ (Decrease) HK\$'000	Change in %
	HK\$'000	%	HK\$'000	%		
Hong Kong	<b>78,030</b>	<b>22.9</b>	48,803	19.7	29,227	59.9
PRC	<b>63,585</b>	<b>18.7</b>	100,383	40.5	(36,798)	(36.7)
Europe	<b>59,858</b>	<b>17.6</b>	41,186	16.6	18,672	45.3
Asia	<b>125,678</b>	<b>37.0</b>	49,619	20.0	76,059	153.3
Others	<b>12,873</b>	<b>3.8</b>	7,919	3.2	4,954	62.6
	<b><u>340,024</u></b>		<u>247,910</u>		<u>92,114</u>	37.2

## Financial Review

For the six months ended 30th June, 2007, the Group's turnover amounted to approximately HK\$340.0 million, representing an increase of 37.2% as compared to approximately HK\$247.9 million for the corresponding period last year. The increase in turnover was mainly driven by the steady growth of market demand for PCBs in the Asia Pacific.

The Groups' gross profit has increased by 35.0% to approximately HK\$70.1 million. Gross profit margin remained at the same level as for the corresponding period last year at approximately 20.6%. The increase in gross profit was mainly attributable by better utilisation of the Group's existing production capacity, in spite of price increase of raw materials mainly from laminates and metals. Profit attributable to shareholders was approximately HK\$26.3 million (2006: HK\$10.1 million), representing an increase of 160%.

## Liquidity and Capital Resources

As at 30th June, 2007, the Group had total assets of approximately HK\$764.6 million (31st December, 2006: HK\$692.8 million) and interest-bearing borrowings of approximately HK\$278.4 million (31st December, 2006: HK\$229.8 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 36.4% (31st December, 2006: 33.2%).

The Group's net current assets of approximately HK\$51.5 million (31st December, 2006: net current liabilities of HK\$41.4 million) consisted of current assets of approximately HK\$403.9 million (31st December, 2006: HK\$380.6 million) and current liabilities of approximately HK\$352.4 million (31st December, 2006: HK\$422.0 million), representing a current ratio of approximately 1.1 (31st December, 2006: 0.9).

As at 30th June, 2007, the Group had cash and bank balances of approximately HK\$53.4 million (31st December, 2006: HK\$35.9 million).

## Foreign Currency Exposure

The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in Hong Kong Dollars, United States Dollars and Renminbi ("RMB"). However, foreign currencies, United States Dollars, Euro and Japanese Yen, are required to settle the Group's expenses and additions on plant and equipment. The Group will use forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

### **Specific Performance Obligations of the Controlling Shareholder**

On 4th January, 2007, the Group obtained a syndicated loan facility of HK\$130 million by entering into loan facilities agreements (the "Agreement") with Hang Seng Bank Limited being the co-ordinating arranger. The purpose of this syndicated loan facility is to finance the general corporate requirement of the Group including the capital expenditure requirements in relation to the production facilities in Zhongshan and the refinancing of its then existing indebtedness. Pursuant to the Agreement, the following specific performance obligations are imposed on Mr Yeung Hoi Shan, an executive director and substantial shareholder of the Company throughout the life of the syndicated loan facility:

- Mr Yeung Hoi Shan shall at all times remain, directly or indirectly, the single largest shareholder of the Company; or
- Mr Yeung Hoi Shan shall at all times maintain, directly or indirectly, at least 50% of the issued share capital of the Company from any encumbrance; or
- Mr Yeung Hoi Shan shall at all times maintain management control over the Group.

A breach of the aforesaid obligations will constitute an event of default under the Agreement which may result in the cancellation of all or any part of the commitments under the Agreement and all borrowed amounts outstanding becoming immediately due and payable.

### **Dividends**

The Board has resolved to recommend the payment of the interim dividend of HK2.5 cents per share, amounting to approximately HK\$6.0 million (30th June, 2006: Nil). The interim dividends will be payable to the shareholders on or around 10th October, 2007 whose names appear on the register of members of the Company on 2nd October, 2007.

### **Closure of Register of Members**

The register of members of the Group will be closed from Thursday, 27th September, 2007 to Tuesday, 2nd October, 2007 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch registrars, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 25th September, 2007.

## Human Resources

As at 30th June, 2007, the Group employed a total of approximately 2,600 employees (31st December, 2006: 2,380), including approximately 2,565 employees in its Zhongshan production site and approximately 35 employees in its Hong Kong office.

Remuneration policy of the Group is reviewed regularly, referring to legal framework, market condition and performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are also reviewed by the Remuneration committee.

On 3rd July, 2007, the Group has granted share options to its employees. The total number of options granted is 15,760,000 with an exercise price of HK\$1.52 per share. The options can be exercised in three tranches from 3rd July, 2008 to 2nd July, 2011. The estimated fair value of the share option on the date of grant is HK\$10,358,000.

## Prospects

Driven by increased demand for PCBs globally, and particularly in China, management maintained an optimistic view on its business prospects in the second half of 2007. The Group is confident to achieve bigger market share and enhance its profitability through advanced production facilities, optimised internal control systems, comprehensive sales and marketing networks.

Adhering to its proven business strategy, The Group has continuously expanded its production capacity to meet increasing market demand for PCBs. The Group has acquired a new manufacturing plant in Zhongshan, Guangdong of the PRC in October 2006 ("Plant 2"). This new plant is equipped with advanced machineries and commenced production in early September 2007. Together with the existing plant ("Plant 1") that also locates in the same region in Zhongshan, they can provide a total production capacity up to approximately 3.5 million sq. ft. per month. The huge production capacity enables the Group to be capable of achieving high volume production with short turnaround time.

Production plant	Location	Area	Products	Production capacity
Plant 1	Zhongshan, Guangdong, the PRC (Commenced in 2003)	58,000 sq. m.	1 – 8 layered PCBs	3.2 million sq. ft. per month
Plant 2	Zhongshan, Guangdong, the PRC (To be commenced in September 2007)	52,000 sq. m.	4 – 12 layered PCBs	300,000 sq. ft. per month

The PCB market condition remains competitive and challenging. In order to curb continuous pricing pressure from the market, the Group continues to pursue the business of higher value multi-layered PCBs. To keep pace with the market demand, 10-layered PCBs and 12-layered PCBs will be launched in Plant 2. Additionally, the Group has already started the prototype of High Density Interconnect ("HDI") and plans to commence mass production of HDI by 2008. At the same time, by focusing on manufacturing efficiencies and economies of scale, the Group also hopes to improve the profitability of products with lower margins.

The Group will continue its efforts in gaining more market share in Europe, United States, Taiwan and Japan. In doing so, the Group shall balance a portfolio of large and small volume PCB businesses with lower and higher margins respectively. With continuous product range expansion as well as anticipated high average gross margin of multi-layered PCBs, the Group believes that it could achieve the business objective of establishing long-term turnover growth and deliver satisfactory investment returns to its shareholders.

Apart from expanding its PCB business by organic growth, the Group will continue to explore opportunities of forming of strategic partnerships with local and overseas enterprises seeking new synergies to drive its growth potential at greater paces.

## OTHER INFORMATION

### Director's interests and short positions in shares and underlying shares of the Company and its Associated Companies

As at 30th June, 2007, the interests and/or short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### *The Company*

Name of director	Capacity		Number of ordinary shares held	Percentage of issued capital
Yeung Hoi Shan	Beneficial	Long position	179,000,000	74.58%
Wong Wing choi	Beneficial	Long Position	1,000,000	0.42%

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2007.

### Substantial Shareholders

As at 30th June, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of a director, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name shareholders	Capacity	Number of ordinary shares held	Percentage of issued capital	Notes
Yeung Hoi Shan	Beneficial	179,000,000	74.58%	
Zhao Man Qi	Interest of spouse	179,000,000	74.58%	(1)
Hallgain Management Limited	Interest of controlled corporation	23,760,000	9.9%	(2)
Jamplan (BVI) Limited	Interest of controlled corporation	23,760,000	9.9%	(2)
Kingboard Chemical Holdings Limited	Interest of controlled corporation	23,760,000	9.9%	(2)
Kingboard Investments Limited	Beneficial	23,760,000	9.9%	(2)
Full Prosper Corporation	Beneficial	15,000,000	6.25%	(3)
Lam Man Chan	Interest of controlled corporation	15,000,000	6.25%	(3)



- (1) Ms Zhao Man Qi is the spouse of Mr Yeung Hoi Shan.
- (2) Kingboard Investments Limited is a wholly-owned subsidiary of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings limited. Hallgain Management Limited owns 30.94% interest in Kingboard Chemical Holdings Limited.
- (3) Full Prosper Corporation is wholly-owned by Mr Lam Man Chan.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as recorded under Section 336 of the SFO as at 30th June, 2007.

### **Share Option Scheme**

The Company conditionally adopted a share option scheme (the “Share Option Scheme”) on 5th June, 2006 which became unconditional on 23rd June, 2006. The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants and advisors of the Group and to promote the success of the business of the Group. Eligible participants of the Share Option Scheme include any employee, director, consultant or advisor of the Group.

Up to 30th June, 2007, no option had been granted or agreed to be granted to any person under the Share Option Scheme.

On 3rd July, 2007, options to subscribe 15,760,000 shares have been granted to the directors and eligible employees under the Share Option Scheme. A total of 15,560,000 options have been accepted by the directors and employees. Details of the grants up to date of this report were as follows:

	<b>Number of options held at reporting date</b>	<b>Exercise price HK\$</b>
<i>Executive directors</i>		
Yeung Hoi Shan	2,000,000	1.52
Wong Wing Choi	2,000,000	1.52
Pak Shek Kuen	2,000,000	1.52
<i>Non-executive directors</i>		
Li Jin Xia	1,000,000	1.52
Yeung Tai Hoi	200,000	1.52
<i>Independent non-executive directors</i>		
Cheung Sui Wing, Darius	200,000	1.52
Ho Man Kay, Angela	200,000	1.52
Wong Siu Fai, Albert	200,000	1.52
<i>Employees of the Group</i>		
In aggregate	<u>7,760,000</u>	1.52
	<u><u>15,560,000</u></u>	



All options referred to the above are subject to vesting schedules and exercise periods as follows:

<b>% of the options granted</b>	<b>Vesting date</b>	<b>Exercise period</b>
40%	3rd July, 2008	3rd July, 2008 to 2nd July, 2011
30%	3rd July, 2009	3rd July, 2009 to 2nd July, 2011
30%	3rd July, 2010	3rd July, 2010 to 2nd July, 2011

### **Purchase, Sale or Redemption of the Company's Listed Securities**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2007.

### **Compliance with the Code of Corporate Governance Practices**

The Company and the Directors confirm, to the best of their knowledge, that the Company has complied with the Code of Corporate Governance practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30th June, 2007.

With respect to Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and not be performed by the same individual. With effect from 2nd January, 2007, Mr Wong Wing Choi, an executive director, has been appointed as the Company's CEO with Mr Yeung Hoi Shan, an executive director, remained to be Chairman of the Company.

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")**

The Company has also adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Specific enquiry was made with all the Directors and they confirmed that they had complied with the required standards set out in the Model Code regarding securities transactions by Directors for the six months ended 30th June, 2007.

### **Audit Committee**

The Company has set up an audit committee, in accordance with the requirements of the Code of Corporate Governance Practices, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises three independent non-executive directors with Mr Cheung Sui Wing, Darius as chairman. The interim results for the six months ended 30th June, 2007 had been reviewed by the Audit Committee.

## Corporate Information

### *Executive Directors*

Mr Yeung Hoi Shan (*Chairman*)

Mr Wong Wing Choi  
(*Chief Executive Officer with effect from 2nd January, 2007*)

Mr Pak Shek Kuen  
(*appointed on 2nd January, 2007*)

### *Non-executive Directors*

Madam Li Jinxia

Mr Yeung Tai Hoi

Mr Cheung Kwok Ping  
(*appointed on 2nd January, 2007*)

### *Independent Non-executive Directors and Audit Committee*

Mr Cheung Sui Wing, Darius

Ms Ho Man Kay

Mr Wong Siu Fai, Albert

### *Remuneration Committee*

Mr Yeung Hoi Shan

Mr Cheung Sui Wing, Darius

Ms Ho Man Kay

Mr Wong Siu Fai, Albert

Mr Cheung Kwok Ping

### *Company Secretary and Qualified Accountant*

Mr Pak Shek Kuen, CPA FCCA

### *Authorised Representatives*

Mr Yeung Hoi Shan

Mr Pak Shek Kuen, CPA FCCA

### *Head Office*

31/F, Aitken Vanson Centre

61 Hoi Yuen Road

Kwun Tong

Kowloon

Hong Kong

### *Registered Office*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

### *Compliance Advisor*

CAF Securities Company Limited

### *Auditor*

Deloitte Touche Tohmatsu

### *Principal bankers*

Hang Seng Bank Limited

Standard Chartered Bank (Hong Kong) Limited

Dah Sing Bank, Ltd

China Construction Bank Corporation  
Hong Kong Branch

Citic Ka Wah Bank Limited

### *Principal share register and transfer office*

Bank of Bermuda (Cayman) Limited

P.O. Box 513 GT

Strathvale House

North Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

### *Hong Kong branch share register and transfer office*

Tricor Investor Services Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

### *Stock Code*

515

### *Web-site*

[www.tatchun.com](http://www.tatchun.com)

On behalf of the Board, I would like to extend our sincere appreciation to all management and staff members for their diligence and dedication, the continuing support of our business partners and the Company's shareholders.

On behalf of the Board

**Yeung Hoi Shan**

*Chairman*

Hong Kong, 12th September, 2007