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 2008

Contents

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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 17 which comprise the condensed consolidated balance sheet of TC Interconnect Holdings Limited as of 30 June 2008 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 this 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.

Without modifying our review conclusion, we draw attention to note 1 to the interim financial information which indicates that the Group's current liabilities exceeded its current assets as at 30 June 2008 by HK$120,529,000. This condition, along with the other matters as set forth in note 1 to the interim financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 September 2008

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 30 June 2008.

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June **2008** ***HK$'000*** **(unaudited)**	2007 *HK$'000* (unaudited)
Turnover	*3*	**397,536**	340,024
Cost of sales		**(334,483)**	(269,971)
Gross profit		**63,053**	70,053
Other income		**10,703**	9,887
Selling and distribution expenses		**(16,596)**	(16,099)
Administrative expenses		**(31,881)**	(23,958)
Finance costs		**(9,160)**	(7,446)
Profit before tax		**16,119**	32,437
Income tax expense	*4*	**(2,585)**	(6,143)
Profit for the period	*5*	**13,534**	26,294
Dividends paid	*6*	**12,000**	8,000
Earnings per share	*7*		
– Basic *(HK cents)*		**5.64**	10.96
– Diluted *(HK cents)*		**5.57**	N/A

Condensed Consolidated Balance Sheet

At 30 June 2008

	Notes	**30 June 2008 HK$'000 (unaudited)**	31 December 2007 HK$'000 (audited)
Non-current assets			
Investment properties	*8*	**3,500**	3,500
Property, plant and equipment	*8*	**467,016**	454,898
Prepaid lease payments – non-current portion		**30,432**	30,822
Deposit paid for acquisition of property, plant and equipment		**4,182**	6,984
		505,130	496,204
Current assets			
Inventories		**124,117**	88,933
Prepaid lease payments – current portion		**781**	781
Trade and other receivables	*9*	**281,959**	244,873
Bills receivable	*9*	**9,595**	6,017
Amount due from a related company		**–**	13,680
Investment designated as fair value through profit or loss	*10*	**9,349**	–
Bank balances and cash		**41,063**	70,663
		466,864	424,947
Current liabilities			
Trade and other payables	*11*	**235,774**	198,610
Bills payable	*11*	**13,935**	24,333
Derivative financial instrument	*12*	**1,011**	–
Taxation payable		**16,362**	18,716
Bank and other borrowings – due within one year	*13*	**274,970**	143,899
Obligations under finance leases – due within one year		**45,341**	39,008
		587,393	424,566
Net current (liabilities) assets		**(120,529)**	381
Total assets less current liabilities		**384,601**	496,585

Condensed Consolidated Balance Sheet *(continued)*
At 30 June 2008

	Notes	**30 June 2008 HK$'000 (unaudited)**	31 December 2007 HK$'000 (audited)
Non-current liabilities			
Bank and other borrowings			
– due after one year	13	**–**	119,161
Obligations under finance leases			
– due after one year		**62,719**	59,663
Deferred tax liabilities		**9,161**	9,281
		71,880	188,105
Net assets		**312,721**	308,480
Capital and reserves			
Share capital		**24,000**	24,000
Reserves		**288,721**	284,480
Total equity		**312,721**	308,480

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Share capital HK$'000	Share premium HK$'000	Revaluation reserve HK$'000	The People's Republic of China statutory reserve HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Accumulated profits HK$'000	Total equity HK$'000
At 1 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)
At 30 June 2007 (unaudited)	24,000	30,609	–	3,504	1,156	–	79	200,802	260,150
Surplus on revaluation of properties	–	–	23,402	–	–	–	–	–	23,402
Deferred tax liabilities arising from revaluation of properties	–	–	(6,029)	–	–	–	–	–	(6,029)
Net income recognised directly in equity	–	–	17,373	–	–	–	–	–	17,373
Profit for the period	–	–	–	–	–	–	–	33,740	33,740
Total recognised income for the period	–	–	17,373	–	–	–	–	33,740	51,113
Dividend paid	–	–	–	–	–	–	–	(6,000)	(6,000)
Recognition of equity-settled share based payment	–	–	–	–	–	3,217	–	–	3,217
At 31 December 2007 and at 1 January 2008 (audited)	24,000	30,609	17,373	3,504	1,156	3,217	79	228,542	308,480
Release of deferred tax liabilities	–	–	60	–	–	–	–	–	60
Net income recognised directly in equity	–	–	60	–	–	–	–	–	60
Profit for the period	–	–	–	–	–	–	–	13,534	13,534
Total recognised income for the period	–	–	60	–	–	–	–	13,534	13,594
Recognition of equity-settled share-based payments	–	–	–	–	–	2,647	–	–	2,647
Dividend paid	–	–	–	–	–	–	–	(12,000)	(12,000)
At 30 June 2008 (unaudited)	24,000	30,609	17,433	3,504	1,156	5,864	79	230,076	312,721

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	**(10,601)**	41,734
Net cash from (used in) investing activities		
Acquisition of property, plant and equipment	**(5,178)**	(37,286)
Decrease in pledged bank deposits	**–**	4,808
Repayment from a related party	**13,680**	–
Other investing cash flows	**9,098**	218
	17,600	(32,260)
Net cash (used in) from financing activities		
Borrowings raised	**334,788**	253,374
Repayment of bank and other borrowings	**(322,878)**	(215,773)
Repayment of obligations under finance leases	**(27,349)**	(14,121)
Dividend paid	**(12,000)**	(8,000)
Interest expense	**(9,160)**	(7,446)
	(36,599)	8,034
Net (decrease) increase in cash and cash equivalents	**(29,600)**	17,508
Cash and cash equivalents at 1 January	**70,663**	35,858
Cash and cash equivalents at 30 June represented by bank balances and cash	**41,063**	53,366

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

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").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of HK$120,529,000 as at 30 June 2008. Subsequent to the balance sheet date, the Group negotiated with an independent third party for a proposed disposal of a leasehold land for the net proceeds of approximately HK$28.5 million and a memorandum of understanding had been entered by the Group. The directors considered this additional funding will provide sufficient cash to finance the Group's working capital requirement. In addition, the Group obtained a waiver from the lenders for not demanding immediate payment of bank loans in connection with the breach of loan covenants (see note 13). Accordingly, the financial statements are prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, buildings and certain financial instruments, which are measured at fair values or revalued amounts, 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 2007.

In the current interim period, the Group has applied, for the first time, new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008. The adoption of these new Interpretations 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.

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

For management purposes, 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.

3. SEGMENT INFORMATION *(continued)*

Segment information about these businesses is presented below:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Turnover – external sales		
Single-sided	**94,057**	72,091
Double-sided	**150,071**	197,905
Multi-layered	**153,408**	70,028
Total	**397,536**	340,024
Segment results		
Single-sided	**4,385**	441
Double-sided	**22,108**	27,506
Multi-layered	**4,726**	8,063
	31,219	36,010
Unallocated income	**1,413**	9,887
Unallocated expenses	**(7,353)**	(6,014)
Finance costs	**(9,160)**	(7,446)
Profit before tax	**16,119**	32,437
Income tax expense	**(2,585)**	(6,143)
Profit for the period	**13,534**	26,294

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The charge comprises:		
Hong Kong Profits Tax		
Current period	**–**	1,153
Underprovision	**–**	565
	–	1,718
Enterprise Income Tax in other regions of the People's Republic of China (the "PRC")	**2,645**	4,425
Deferred tax	**(60)**	–
	2,585	6,143

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 June 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 June 2008.

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

Deferred taxation has not been provided for the condensed consolidated financial statements in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Directors emoluments	**4,527**	2,747
Other staff costs	**43,454**	28,012
Equity-settled share-based payment expenses other than Directors	**986**	–
Total staff costs	**48,967**	30,759
Depreciation and amortisation	**24,135**	13,777
Changes in fair value of derivative financial instruments	**1,011**	–
Impairment loss recognised on trade receivables	**2,353**	1,300
Interest income	**(132)**	(218)

6. DIVIDENDS

During the period, a dividend of HK5 cents (2007: HK3.33 cents per share) per share was paid to the shareholders as the final dividend for 2007.

The Board did not recommend the payment of an interim dividend for the current period. In last period, the Board had resolved to recommend the payment of an interim dividend of HK2.5 cents per share, amounting to approximately HK$6,000,000.

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 the shareholders of the Company of approximately HK$13,534,000 (2007: HK$26,294,000) and on 240,000,000 ordinary shares (2007: 240,000,000 ordinary shares) in issue during the period.

In the current period, the calculation of the diluted earnings per share attributable to the shareholders of the Company is based on the profit for the period attributable to the shareholders of the Company of approximately HK$13,534,000 and the weighted average number of approximately 242,849,000 ordinary shares. There were no dilutive potential ordinary shares during the last period and therefore, diluted earnings per share was not presented in the last period.

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

At 30 June 2008, the directors considered that the carrying amount of the Group's investment properties and buildings do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no fair value adjustment or revaluation surplus or deficit has been recognised in the current period.

During the six months ended 30 June 2008, the Group spent approximately HK$35,863,000 on acquisition of property, plant and equipment, of which HK$27,883,000 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 150 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**85,300**	58,854
31 – 60 days	**73,650**	62,141
61 – 90 days	**50,937**	51,410
91 – 180 days	**40,747**	58,487
Over 180 days	**3,684**	1,068
	254,318	231,960

(b) Bills receivable

The aged analysis of bills receivable is as follows:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**–**	59
31 – 60 days	**–**	3,258
61 – 90 days	**4,009**	2,207
91 – 180 days	**5,586**	493
	9,595	6,017

10. INVESTMENT DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

The balance represents a commodity linked note with principal amount of US$1,200,000 and matures on 3 April 2009. The redemption amount at maturity date is based on the copper price on that date. The fair value of the commodity note is determined by reference to the valuation report provided by counterparty financial institute, which is determined based on expected future price of copper.

11. TRADE, BILLS AND OTHER PAYABLES

(a) Trade and other payables

The aged analysis of trade payables is as follows:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**39,490**	29,720
31 – 60 days	**49,641**	29,320
61 – 90 days	**47,099**	46,774
91 – 180 days	**55,467**	46,754
Over 180 days	**6,296**	3,411
	197,993	155,979

(b) Bills payable

The aged analysis of bills payable is as follows:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**6,727**	1,604
31 – 60 days	**3,982**	4,566
61 – 90 days	**2,806**	6,685
91 – 180 days	**420**	11,478
	13,935	24,333

12. DERIVATIVE FINANCIAL INSTRUMENT

At 30 June 2008, the Group has outstanding a forward currency contract entered into during the period to manage its exchange rate risk. The fair value of the forward currency contract is determined by reference to the quoted price obtained from bank for equivalent instruments as at the balance sheet date.

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately HK$334,788,000. The new loans bear interest ranging from 4.00% to 6.04% per annum and are payable within one year. The proceeds are used to finance the operations of the Group.

As at 30 June 2008, in respect of bank loans with carrying amounts of approximately HK$175 million as at that date, the Group breached certain financial covenants as stipulated in the banking facilities letters entered into by the Group, which are primarily related to the working capital ratio and gearing ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. At the balance sheet date, as the lenders have not yet agreed to waive their right to demand immediate payment, the non-current portion of these loans amounting to approximately HK$69,580,000 has been classified as a current liability in the condensed consolidated financial statements for the six months ended 30 June 2008. On 22 September 2008, the Group completed the negotiations and the lenders have agreed in writing not to demand from the Group immediate payment and repayment terms of these loans are the same as if no breach of financial covenants. The waiver is subject to the dividend payout ratio not in excess of 30% of the net profit after tax.

14. SHARE OPTION SCHEME

The Company has a share option scheme for the eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	13,780,000
Forfeited during the period	(680,000)
Outstanding at the end of the period	13,100,000

15. CAPITAL COMMITMENTS

At 30 June 2008, the Group had commitments of approximately HK$8,139,000 (31 December 2007: HK$23,057,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements.

16. PLEDGE OF ASSETS

As at 30 June 2008, the total equity interest of two PRC subsidiaries of HK$371,353,000 (31 December 2007: HK$353,553,000) were pledged to banks to secure general banking facilities granted to the Group.

17. POST BALANCE SHEET EVENT

On 28 August 2008, the Group entered into a memorandum of understanding with an independent third party for the disposal of a piece of leasehold land for the net proceeds of approximately HK$28.5 million. The carrying amount of that piece of leasehold land at 30 June 2008 was approximately HK$6.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first quarter of 2008, the Group has been affected by the demand drop in the volatile global market environment that led to the under-utilization of the production capacities, regardless of this, the Group was able to pick up the business momentum in the second quarter of 2008.

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 12 layers, the breakdown are summarized as follows:

	Fox the six months ended 30 June 2008		For the six months ended 30 June 2007		**Increase/ (Decrease)**	**Change in**
	HK$'000	**%**	*HK$'000*	%	***HK$'000***	**%**
Single-sided	**94,057**	**23.6**	72,091	21.2	21,966	30.5
Double-sided	**150,071**	**37.9**	197,905	58.2	(47,834)	(24.2)
Multi-layered	**153,408**	**38.5**	70,028	20.6	83,380	119.1
	397,536		340,024		57,512	16.9

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 50% of the Group's turnover.

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

	Fox the six months ended 30 June 2008		For the six months ended 30 June 2007		**Increase/ (Decrease)**	**Change in**
	HK$'000	**%**	*HK$'000*	%	***HK$'000***	**%**
Hong Kong	**106,115**	**26.7**	78,030	22.9	28,085	36.0
PRC	**49,949**	**12.6**	63,585	18.7	(13,636)	(21.5)
Europe	**57,026**	**14.3**	59,858	17.6	(2,832)	(4.7)
Asia	**171,671**	**43.2**	125,678	37.0	45,993	36.6
Others	**12,775**	**3.2**	12,873	3.8	(98)	(0.8)
	397,536		340,024		57,512	16.9

Financial Review

For the six months ended 30 June 2008, the Group's turnover amounted to approximately HK$397.5 million, representing an increase of 16.9% as compared to approximately HK$340.0 million for the corresponding period last year.

The Groups' gross profit has decreased by 10.0% to approximately HK$63.1 million. Gross profit margin dropped to approximately 15.9%. The decrease in gross profit was mainly attributable by under-utilisation of the Group's existing production capacities particularly in the first quarter of the year due to decrease in demand of PCB. Profit attributable to shareholders was approximately HK$13.5 million (2007: HK$26.3 million), representing a decrease of 48.5%.

Liquidity and Capital Resources

As at 30 June 2008, the Group had total assets of approximately HK$972.0 million (31 December 2007: HK$921.2 million) and interest-bearing borrowings of approximately HK$383.0 million (31 December 2007: HK$361.7 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 39.4% (31 December 2007: 39.3%).

The Group's net current liabilities of approximately HK$120.5 million (31 December 2007: net current assets of HK$0.4 million) consisted of current assets of approximately HK$466.9 million (31 December 2007: HK$424.9 million) and current liabilities of approximately HK$587.4 million (31 December 2007: HK$424.6 million), representing a current ratio of approximately 0.8 (31 December 2007: 1.0).

As at 30 June 2008, in respect of bank loans with carrying amounts of approximately HK$175.0 million as at that date, the Group breached certain financial covenants as stipulated in the banking facilities letters entered into by the Group, which are primarily related to the working capital ratio and gearing ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. At the balance sheet date, as the lenders have not yet agreed to waive their right to demand immediate payment, the non-current portion of these loans amounting to approximately HK$69,580,000 has been classified as a current liability in the condensed consolidated financial statements for the six months ended 30 June 2008. On 22 September 2008, the Group completed the negotiations and the lenders have agreed in writing not to demand from the Group immediate payment and repayment terms of these loans are the same as if no bread of financial covenants. The waiver is subject to the dividend payout ratio not in excess of 30% of the net profit after tax.

As at 30 June 2008, the Group had cash and bank balances of approximately HK$41.1 million (31 December 2007: HK$70.7 million).

Foreign Currency Exposure

The Group operates in Hong Kong and the PRC with most of the transactions demoniated and settled in Hong Kong Dollars, United States Dollars and Renminbi ("RMB"). However, foreign currencies, mainly United States Dollars and RMB 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 4 January 2007, the Group obtained a syndicated loan facility of HK$130,000,000 by entering into loan facilities agreements (the "Agreements") with Hang Seng Bank Limited being the co-ordinating arranger. The purpose of this syndicated loan facility is to finance the 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 did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: HK2.5 cents).

Human Resources

As at 30 June 2008, the Group employed a total of approximately 3,198 employees (31 December 2007: 3,150), including approximately 3,163 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.

Prospects

Due to tough business environment, the Group has consolidated its business focus and the capital expenditure to developing the second phase of Plant 2 will be on hold until further analysis of market situation by end of this year. In view of the existing customer relationships and the prospect of upcoming projects, the management maintained an optimistic view on its business prospects in the second half of 2008. The Group is confident to achieve bigger market share and improve its profitability through optimization of production facilities, consistent cost control measures and comprehensive sales and marketing networks.

OTHER INFORMATION

Director's Interests and Short Positions in Shares and Underlying Shares of the Company and Its Associated Companies

As at 30 June 2008, 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 recoded 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:

Interest in securities

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

Interests in underlaying shares pursuant to share options

Name of director	Capacity	Number of ordinary shares held
Yeung Hoi Shan	Beneficial	2,000,000
Wong Wing Choi	Beneficial	2,000,000
Pak Shek Kuen	Beneficial	2,000,000
Li Jinxia	Beneficial	1,000,000
Yeung Tai Hoi	Beneficial	200,000
Cheung Sui Wing, Darius	Beneficial	200,000
Ho Man Kay	Beneficial	200,000
Wong Siu Fai, Albert	Beneficial	200,000

The options were granted on 3 July 2007 with exercise price HK$1.52.

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 is associated corporations as at 30 June 2008.

Substantial Shareholders

At 30 June 2008, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Interest in securities

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

Interest in underlying shares pursuant to share options

Name of shareholders	Capacity	Number of share options granted	Exercise price
			HK$
Zhao Man Qi *(Note 1)*	Interest of spouse	2,000,000	1.52

Notes:

(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 30 June 2008.

Share Option Scheme

On 5 June 2006, a share option scheme (the "Share Option Scheme") was adopted by a resolution in writing by the sole shareholder. The purposes of the Share Option Scheme are to attract and retain best available personnel to provide additional incentive to employees, directors, consultants, and advisers of the Group and to promote the success of the business of the Group. The directors may, at their discretion, offer any employee (whether full-time or part-time), director, consultant or adviser of the Group options to subscribe for new shares at a price and terms set out in the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme when aggregated with the maximum number of shares in respect of which options may be granted under any other scheme involving the issue or grant of options over shares or other securities by the Group shall not exceed 10% of the issued share capital on 22 June 2006 (such 10% limit representing 24,000,000 shares).

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted the to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital from time to time, unless the approval of the shareholders is obtained. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

The amount payable on acceptance of an option is HK$1. The exercise price is determined by the board of directors, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the share options held by the directors are as follows:

	Balance as at 30 June 2008
Yeung Hoi Shan	2,000,000
Wong Wing Choi	2,000,000
Pak Shek Kuen	2,000,000
Li Jinxia	1,000,000
Yeung Tai Hoi	200,000
Cheung Sui Wing, Darius	200,000
Ho Man Kay	200,000
Wong Siu Fai, Albert	200,000
Total	7,800,000

The exercise price per share is HK$1.52.

The options were granted on 3 July 2007 and will be expired on 2 July 2011.

Options are exercisable subject to (i) up to 40% of the options are exercisable a year after the date of grant; (ii) up to 70% of the options are exercisable two years after the date of grant and (iii) all the remaining options are exercisable three years after the date grant.

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 30 June 2008.

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 30 June 2008.

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 30 June 2008.

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 30 June 2008 had been reviewed by the Audit Committee.

Remuneration Committee

The Group has set up a remuneration committee, in accordance with the requirements of the Code of Corporate Governance Practices, for the purpose of formulating remuneration policy and structure for all the Directors and senior management personnel and for providing related advice and recommendations to the Board of Directors. The remuneration committee comprises three independent non-executive directors, namely Mr Cheung Sui Wing, Darius, Ms Ho Man Kay and Mr Wong Siu Fai, Albert, a non-executive director Mr Cheung Kwok Ping and Chairman of the Company and executive director Mr Yeung Hoi Shan. Mr Yeung also chairs the remuneration committee.

Corporate Information

Executive Directors
Mr Yeung Hoi Shan *(Chairman)*
Mr Wong Wing Choi
(Chief Executive Officer)
Mr Pak Shek Kuen

Non-executive Directors
Madam Li Jinxia
Mr Yeung Tai Hoi
Mr Cheung Kwok Ping

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

Auditors
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

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
Chariman

Hong Kong, 26 September 2008