



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 2009

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Deloitte.

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Report on Review of Interim Financial Information

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 18 which comprise the condensed consolidated statement of financial position of TC Interconnect Holdings Limited (the “Company”) and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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

22 September 2009

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 2009.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Turnover	3	331,460	397,536
Cost of sales		(283,490)	(334,483)
Gross profit		47,970	63,053
Other income		8,960	11,514
Other gains and losses		(4,061)	(8,139)
Selling and distribution expenses		(14,642)	(14,044)
Administrative expenses		(21,124)	(27,105)
Finance costs		(5,999)	(9,160)
Profit before tax		11,104	16,119
Income tax expense	4	(1,347)	(2,585)
Profit for the period	5	9,757	13,534
Earnings per share	7		
– Basic (HK cents)		4.07	5.64
– Diluted (HK cents)		4.07	5.57

Condensed Consolidated Statement of Financial Position

At 30 June 2009

		30 June 2009	31 December 2008
	<i>Notes</i>	HK\$'000 (unaudited)	<i>HK\$'000 (audited)</i>
Non-current assets			
Investment properties	8	3,100	3,100
Property, plant and equipment	8	455,396	460,456
Prepaid lease payments			
– non-current portion		22,843	23,150
Deposit paid for acquisition of property, plant and equipment		2,330	4,704
		483,669	491,410
Current assets			
Inventories		111,794	90,453
Prepaid lease payments			
– current portion		615	615
Trade and other receivables	9	224,261	247,289
Bills receivable	9	5,550	4,768
Tax recoverable		2,940	2,190
Investment designated as at fair value through profit or loss	10	–	9,349
Derivative financial instruments	11	782	1,301
Pledged bank deposits		24,619	–
Restricted bank deposits		11,395	18,373
Bank balances, deposits and cash		30,906	59,828
		412,862	434,166
Current liabilities			
Trade and other payables	12	205,129	230,261
Bills payable	12	53,359	39,995
Taxation payable		13,575	16,718
Bank and other borrowings			
– due within one year	13	169,926	177,962
Obligations under finance leases			
– due within one year		43,864	43,492
		485,853	508,428
Net current liabilities		(72,991)	(74,262)
Total assets less current liabilities		410,678	417,148

Condensed Consolidated Statement of Financial Position

(continued)

At 30 June 2009

	Note	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Non-current liabilities			
Bank and other borrowings			
– due after one year	13	6,224	8,000
Obligations under finance leases			
– due after one year		28,306	41,316
Amount due to a shareholder		20,531	20,627
Deferred tax liabilities		11,558	11,488
		66,619	81,431
Net assets		344,059	335,717
Capital and reserves			
Share capital		24,000	24,000
Reserves		320,059	311,717
Total equity		344,059	335,717

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital	Share premium	Revaluation reserve	The People's Republic of China statutory reserve	Special reserve	Share options reserve	Capital contribution reserve	Exchange reserve	Accumulated profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008 (audited)	24,000	30,609	17,373	3,504	1,156	3,217	-	79	228,542	308,480
Profit for the period and total comprehensive income for the period	-	-	-	-	-	-	-	-	13,534	13,534
Recognition of equity-settled share-based payments	-	-	-	-	-	2,647	-	-	-	2,647
Release of deferred tax liabilities	-	-	60	-	-	-	-	-	-	60
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
Profit for the period	-	-	-	-	-	-	-	-	14,187	14,187
Surplus on revaluation of properties	-	-	8,385	-	-	-	-	-	-	8,385
Deferred tax liabilities arising from revaluation of properties	-	-	(2,157)	-	-	-	-	-	-	(2,157)
Total comprehensive income for the period	-	-	6,228	-	-	-	-	-	14,187	20,415

Condensed Consolidated Statement of Changes in Equity

(continued)

For the six months ended 30 June 2009

	Share capital	Share premium	Revaluation reserve	The People's Republic of China statutory reserve	Special reserve	Share options reserve	Capital contribution reserve	Exchange reserve	Accumulated profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(Note)			
Deemed capital contribution from a shareholder	-	-	-	-	-	-	1,830	-	-	1,830
Recognition of equity-settled share based payment	-	-	-	-	-	751	-	-	-	751
Release upon forfeiture of vested share options	-	-	-	-	-	(467)	-	-	467	-
Transfer	-	-	-	42	-	-	-	-	(42)	-
At 31 December 2008 and at 1 January 2009 (audited)	24,000	30,609	23,661	3,546	1,156	6,148	1,830	79	244,688	335,717
Profit for the period and total comprehensive income for the period	-	-	-	-	-	-	-	-	9,757	9,757
Dividends paid	-	-	-	-	-	-	-	-	(2,400)	(2,400)
Release of deferred tax liabilities	-	-	104	-	-	-	-	-	-	104
Deemed capital contribution from a shareholder	-	-	-	-	-	-	706	-	-	706
Recognition of equity-settled share based payment	-	-	-	-	-	175	-	-	-	175
Release upon forfeiture of vested share options	-	-	-	-	-	(680)	-	-	680	-
At 30 June 2009 (unaudited)	24,000	30,609	23,765	3,546	1,156	5,643	2,536	79	252,725	344,059

Note: Capital contribution reserve represents a fair value adjustment on non-current interest-free loan from a shareholder. The shareholder's loan was extended for seven months under the same terms and repayable on 31 January 2011.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash from (used in) operating activities	<u>27,984</u>	<u>(10,601)</u>
Net cash (used in) from investing activities		
Increase in pledged bank deposits	(24,619)	–
Purchase of property, plant and equipment	(7,417)	(5,178)
Proceeds from disposal of investment designated at fair value through profit or loss	8,890	–
Other investing cash flows	7,431	9,098
Repayment from a related party	–	13,680
	<u>(15,715)</u>	<u>17,600</u>
Net cash used in financing activities		
Repayment of bank and other borrowings	(211,660)	(322,878)
Repayment of obligations under finance leases	(22,980)	(27,349)
Interest expense	(5,999)	(9,160)
Dividend paid	(2,400)	(12,000)
Borrowings raised	201,848	334,788
	<u>(41,191)</u>	<u>(36,599)</u>
Net decrease in cash and cash equivalents	<u>(28,922)</u>	<u>(29,600)</u>
Cash and cash equivalents at 1 January	<u>59,828</u>	<u>70,663</u>
Cash and cash equivalents at 30 June represented by bank balances, deposits and cash	<u><u>30,906</u></u>	<u><u>41,063</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

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 the fact that its current liabilities exceeded its current assets by HK\$72,991,000 as at 30 June 2009. As at 30 June 2009, certain loan covenants were breached by the Group, all these loans amounting to HK\$11,275,000 were included in current liabilities. At the date of report, the Group has reached an agreement in principle with one of the lenders for not demanding immediate payment of bank loan in connection with the breach of loan covenants and pending for written confirmation from the lender. The Group has agreed with the other lender to early settle the loan balance (see note 13). As at 30 June 2009, the Group has unutilised banking facilities of approximately HK\$115,672,000, the majority of which are subsequently renewed.

The directors are of the opinion that, taken into account of the internally generated funds of the Group and the present available banking facilities, the Group has sufficient working capital for it present requirements for the next twelve months from the date of this report. Accordingly, the condensed consolidated financial statements have been 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 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) "*Presentation of Financial Statement*" has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, an introduction of condensed consolidated statement of comprehensive income and has resulted in a number of changes in presentation and disclosure.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 8 “*Operating Segments*” is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “*Segment Reporting*”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the reportable segments determined in accordance with HKAS 14 (see note 3).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
Hong Kong (IFRIC) Interpretation (“HK(IFRIC) – Int”) 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

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

⁴ Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised 2008) may affect the Group’s accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company anticipate that, the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “*Operating Segments*” with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker being Chief Executive Officer of the Group in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard HKAS 14 “*Segment Reporting*” required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments.

In the past, the Group’s reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit. The Group determines its operating segment based on the reports reviewed by the chief operating decision maker for making strategic decisions. The reports are prepared by products and by aggregating similar economic characteristic, three reporting segments were presented. Summarised details of each of the three reporting segments are as follows:

- 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”)

3. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's turnover and results by operating segment for the periods under review:

	Six months ended	
	30 June	
	2009	2008
	HK\$'000	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Turnover – external sales		
Single-sided	86,673	94,057
Double-sided	96,527	150,071
Multi-layered	148,260	153,408
	<hr/>	<hr/>
Total	331,460	397,536
	<hr/> <hr/>	<hr/> <hr/>
Segment profit		
Single-sided	4,024	4,385
Double-sided	2,969	22,108
Multi-layered	11,363	4,726
	<hr/>	<hr/>
Other income	18,356	31,219
Central administrative costs	1,187	1,413
	(3,566)	(6,342)
Changes in fair value of investment designated at fair value through profit or loss	(459)	–
Changes in fair value of derivative financial instruments	1,585	(1,011)
Finance costs	(5,999)	(9,160)
	<hr/>	<hr/>
Profit before tax	11,104	16,119
Income tax expense	(1,347)	(2,585)
	<hr/>	<hr/>
Profit for the period	9,757	13,534
	<hr/> <hr/>	<hr/> <hr/>

Segment profit represents the profit earned by each segment after allocation of selling and administrative staff cost with reference to turnover and without allocation of other income, central administrative costs (mainly including audit fee and depreciation of property, plant and equipment for administrative purpose), changes in fair value of investment designated through profit or loss, changes in fair value of derivative financial instruments and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended	
	30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Enterprise Income Tax in other regions of the People's Republic of China (the "PRC")	1,173	2,645
Deferred tax	174	(60)
	<u>1,347</u>	<u>2,585</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2008: 16.5%) of the estimated assessable profit for the six months ended 30 June 2009. No provision for Hong Kong Profits Tax has been made as there was no assessable profit for both periods.

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 amounting to approximately HK\$79,549,000 (31 December 2008: HK\$51,821,000) 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	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Directors emoluments	2,284	4,527
Other staff costs	41,526	43,454
Equity-settled share-based payment expenses other than directors	194	986
	<hr/>	<hr/>
Total staff costs	44,004	48,967
Depreciation and amortisation	25,501	24,135
Impairment loss recognised on trade receivables	986	2,552
Changes in fair value of investment designated at fair value through profit or loss	459	–
Changes in fair value of derivative financial instruments	(1,585)	1,011
Reversal of impairment loss recognised on trade receivables	(856)	(199)
Interest income	(453)	(132)
	<hr/> <hr/>	<hr/> <hr/>

6. DIVIDENDS

During the period, a dividend of HK1 cent per share amounting to HK\$2,400,000 (six months ended 30 June 2008: 2007 final dividend of HK5 cents per share amounting to HK\$12,000,000) per share was paid to the shareholders as the final dividend for 2008.

The Board did not recommend the payment of an interim dividend for the both periods.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the period attributable to the owners of the Company of approximately HK\$9,757,000 (six months ended 30 June 2008: HK\$13,534,000) and on 240,000,000 (six months ended 30 June 2008: 240,000,000) ordinary shares in issue during the period.

For the period ended 30 June 2009, no dilutive earnings per share has been presented because the exercise price of share options granted by the Company is higher than the Company's market price. For the six months ended 30 June 2008, the calculation of the diluted earnings per share attributable to the owners of the Company was based on the profit for the period attributable to the owners of the Company of approximately HK\$13,534,000 and the weighted average number of approximately 242,849,000 ordinary shares which take into consideration of outstanding share options granted by the Company as at 30 June 2008.

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

At 30 June 2009, 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 reporting 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 2009, the Group spent approximately HK\$20,133,000 (six months ended 30 June 2008: HK\$35,863,000) on acquisition of property, plant and equipment, of which approximately HK\$10,342,000 (six months ended 30 June 2008: 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 reporting date, presented based on the invoice date:

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 30 days	57,575	63,142
31 – 60 days	53,433	64,683
61 – 90 days	39,073	47,629
91 – 180 days	42,141	42,148
Over 180 days	1,678	1,790
	193,900	219,392
Deposits, prepayments and other receivables	30,361	27,897
	224,261	247,289

(b) Bills receivable

The aged analysis of bills receivable is as follows:

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 30 days	–	122
31 – 60 days	5,090	2,382
61 – 90 days	–	1,952
91 – 180 days	460	312
	5,550	4,768

10. INVESTMENT DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

At 31 December 2008, the balance represented an unlisted commodity linked note issued by a financial institution with a principal amount of US\$1,200,000. The unlisted commodity linked note was redeemed at maturity on 3 April 2009 at approximately HK\$8,890,000, resulting in a loss of approximately HK\$459,000. The redemption amount at maturity date was calculated by a predetermined formula based on copper price on that date.

11. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2009, the Group has outstanding forward contracts entered into during the period to manage its exchange rate risk. The fair value of the forward contracts are determined based on the difference between the market forward rates at the reporting date for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an approximate discount rate to take account of the time value of money.

12. TRADE, BILLS AND OTHER PAYABLES

(a) Trade and other payables

The aged analysis of trade payables, presented based on the invoice date, is as follows:

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 30 days	34,952	22,453
31 – 60 days	32,979	20,705
61 – 90 days	28,759	48,553
91 – 180 days	58,589	101,450
Over 180 days	14,063	7,046
	169,342	200,207
Other payables and accruals	35,787	30,054
	205,129	230,261

(b) Bills payable

The aged analysis of bills payable is as follows:

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
0 – 30 days	48,141	32,125
31 – 60 days	3,154	3,695
61 – 90 days	884	2,872
91 – 180 days	1,180	1,303
	53,359	39,995

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately HK\$201,848,000 (six months ended 30 June 2008: HK\$334,788,000). The new loans bear interest ranging from 0.73% to 5.84% (six months ended 30 June 2008: 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 2009, in respect of bank loans with carrying amounts of approximately HK\$11,275,000 (30 June 2008: HK\$175,000,000) 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 net asset value and working capital ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with relevant bankers. At the reporting date, the lenders have not yet agreed to waive their right to demand immediate payment. All these loans were included in current liabilities in the condensed consolidated financial statements for the six months ended 30 June 2009. The Group agreed with one of the lenders to early settle the loan balance of approximately HK\$520,000 on 17 September 2009. At the date of report, the Group has reached an agreement in principle with the other lender of the remaining loan balance of approximately HK\$10,755,000 not to demand immediate payment from the Group and repayment terms of these loans are the same as if there is no breach of financial covenants. The Group is pending for written confirmation from the lender in relation to the waiver.

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	12,600,000
Forfeited during the period	<u>(2,600,000)</u>
Outstanding at the end of the period	<u><u>10,000,000</u></u>

15. CAPITAL COMMITMENTS

At 30 June 2009, the Group had commitments of approximately HK\$8,971,000 (31 December 2008: HK\$15,815,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

16. PLEDGE OF ASSETS

As at 30 June 2009, the equity interests of two PRC subsidiaries with an aggregate net asset values of approximately HK\$378,502,000 (31 December 2008: HK\$380,254,000), certain property, plant and equipment with aggregate carrying amount of approximately HK\$23,583,000 (31 December 2008: nil), and certain bank deposits with carrying amount of approximately HK\$24,619,000 (31 December 2008: nil), were pledged to banks to secure short-term bank borrowings granted to the Group.

Subsequent to the reporting date, the equity interests of two PRC subsidiaries were discharged and released from the banks.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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 2009		For the six months ended 30 June 2008		Increase/ (Decrease)	Change in
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Single-sided	86,673	26.2	94,057	23.6	(7,384)	(7.9)
Double-sided	96,527	29.1	150,071	37.9	(53,544)	(35.7)
Multi-layered	148,260	44.7	153,408	38.5	(5,148)	(3.4)
	<u>331,460</u>		<u>397,536</u>		<u>(66,076)</u>	<u>(16.6)</u>

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 52.0% of the Group's turnover. High end multi-layered PCBs remained the core product of the Group, accounting for 44.7% of turnover. During the period, the Group has successfully expanded business in the automotive and multimedia markets.

After securing TS16949 certification two years ago and capitalizing on the quantum growth of the market, the Group has gradually developed long term business with some major global players in the automotive electronics industry, including Clarion, Flextronics Automotive, Lite-On Group and TRW. Concurrently, the Group has also established foothold in supplying to some key worldwide OEM customers in the multimedia products like, Arcelik, MSI, Panasonic, Philips and Sony.

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

	Fox the six months ended 30 June 2009		Fox the six months ended 30 June 2008		Increase/ (Decrease)	Change in
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	67,151	20.3	106,115	26.7	(38,964)	(36.7)
PRC	51,420	15.5	49,949	12.6	1,471	2.9
Europe	92,316	27.9	57,026	14.3	35,290	61.9
Asia	113,235	34.2	171,671	43.2	(58,436)	(34.0)
Others	7,338	2.2	12,775	3.2	(5,437)	(42.6)
	<u>331,460</u>		<u>397,536</u>		<u>(66,076)</u>	<u>(16.6)</u>

During the period, the Group successfully expanded its foothold in European market, taking up 27.9% of turnover for the period that showed an increase of 61.9% compared with the same period of last year. As stated our commitment of increasing market share in the PRC, the Group gradually increased its turnover in the PRC, recording 15.5% of turnover, up 2.9% compared that of last year.

Financial Review

For the six months ended 30 June 2009, the Group's turnover amounted to approximately HK\$331.5 million, representing a decrease of 16.6% as compared to approximately HK\$397.5 million for the corresponding period last year.

The Groups' gross profit has decreased by 23.9% to approximately HK\$48.0 million. Gross profit margin dropped to approximately 14.5%. 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\$9.8 million, (2008: HK\$13.5 million), representing a decrease of 27.9%.

Liquidity and Capital Resources

As at 30 June 2009, the Group had total assets of approximately HK\$896.5 million (31 December 2008: HK\$925.6 million) and interest-bearing borrowings of approximately HK\$248.3 million (31 December 2008: HK\$270.8 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 27.7% (31 December 2008: 29.3%).

The Group's net current liabilities of approximately HK\$73.0 million (31 December 2008: HK\$74.3 million) consisted of current assets of approximately HK\$413.0 million (31 December 2008: HK\$434.2 million) and current liabilities of approximately HK\$485.9 million (31 December 2008: HK\$508.4 million), representing a current ratio of approximately 0.85 (31 December 2008: 0.85).

As at 30 June 2009, the Group had cash and bank balances of approximately HK\$66.9 million (31 December 2008: HK\$78.2 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, 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.

Dividends

The Board does not recommend the payment of the interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

Human Resources

As at 30 June 2009, the Group employed a total of approximately 3,362 employees (31 December 2008: 2,676), including approximately 3,332 employees in its Zhongshan production site and approximately 30 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 relationship and the prospects of upcoming projects, the management maintained an optimistic view on its business prospects in the second half of 2009. 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.

On the other hand, the Board takes an open view to explore high growth and potential projects in order to broaden the income stream and increase shareholders' value.

OTHER INFORMATION

Connected Transaction

On 29 December 2008, the Company entered into an agreement with Mr Yeung Hoi Shan, being the executive director and substantial shareholder of the Company, to advance an amount of approximately HK\$22,457,000 to the Group for the purpose of financing the daily operation of the Group (the "Advance"). The amount is unsecured, interest-free and repayable on 29 June 2010. The Advance has been extended on 22 June 2009 for seven months under the same terms and repayable on 31 January 2011.

The Advance constituted an exempted connected transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Director's Interests in Shares

As at 30 June 2009, the interests of the directors and their associates in the shares and underlying shares of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 Issuers, 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%

Interests in underlying shares pursuant to share options

Name of directors	Capacity	Number of share options granted
Yeung Hoi Shan	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.

Other than 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 30 June 2009.

Substantial Shareholders

At 30 June 2009, 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 shareholder	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.

Other than 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 2009.

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 and 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 2009
Yeung Hoi Shan	2,000,000
Pak Shek Kuen	2,000,000
Madam 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
	<hr/>
Total	<u><u>5,800,000</u></u>

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 2009.

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 Listing Rules during the six months ended 30 June 2009.

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 2009.

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 the chairman. The interim results for the six months ended 30 June 2009 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 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 Kwok Ping
Mr Cheung Sui Wing, Darius
Ms Ho Man Kay
Mr Wong Siu Fai, Albert

Company Secretary

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

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

China Construction Bank Corporation,
Zhongshan Branch
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong)
Limited
Citic Ka Wah Bank Limited

Investor Relations Consultant

Jovian Financial Communications Ltd.

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Ray Road
Grand Cayman
KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar 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

Chairman

Hong Kong, 22 September 2009