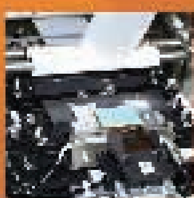
Nam Tai Electronic & Electrical Products Limited

(Incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2004

KEY HIGHLIGHTS

Comparing the Continuing Businesses of 2nd Quarter 2004 to 2nd Quarter 2003

- Turnover up 39.6% from approximately US$33.90 million to approximately US$47.32 million
- Net Profit up 66.2% from approximately US$4.85 million to approximately US$8.06 million
- Basic Earnings per share up 65.6% from 0.61 US cent to 1.01 US cents

Comparing the Continuing Businesses of 2nd Quarter 2004 to 1st Quarter 2004

- Turnover up 72.2% from approximately US$27.48 million to approximately US$47.32 million
- Net Profit up 130.9% from approximately US$3.49 million to approximately US$8.06 million
- Basic Earnings per share up 129.5% from 0.44 US cent to 1.01 US cents

The Group achieved 6.8% and 2.5% growth of Turnover and Net Profit for the six months ended 30 June 2004 for its Continuing Businesses as compared to the same period last year

The Group will consider to record the gain on its 3.69% interest in TCL Corporation in the second half of year 2004. The decision and the final amount will be determined subject to the valuation by an independent advisor of the promoter's shares held by the Group

The Directors have resolved to declare an interim dividend of 0.48 US cent (equivalent to 3.75 HK cents) per share. The interim dividend represents the dividend for the second quarter of year 2004 only as the Company was listed on SEHK on 28 April 2004

Summarised Statement of Incomes of the Company's Continuing Businesses

(In thousands of US Dollars, except as otherwise stated)

	Quarterly Results			Half-Year Results		
	2Q2004	2Q2003	YoY(%)	**1H2004**	1H2003	YoY(%)
Turnover	**47,316**	33,903	39.6	**74,794**	70,029	6.8
Profit from Operations	**8,105**	4,897	65.5	**11,593**	11,314	2.5
Net Profit	**8,058**	4,848	66.2	**11,546**	11,265	2.5
% of sales	**17.03%**	14.30%	19.1	**15.44%**	16.09%	-4.0
Basic EPS (US cents)	**1.01**	0.61	65.6	**1.44**	1.41	2.1
Weighted average number of shares						
Basic (Note 1)	**800,000,000**	800,000,000		**800,000,000**	800,000,000	

Note 1: Assuming that the Group Reorganisation and the Capitalisation Issue (details of which are disclosed in Appendix V to the Prospectus) had become effective on 1 January 2003.

Quarterly Sales Breakdown of the Company's Continuing Businesses

(In thousands of US Dollars, except percentages)

Quarter	**2004**	2003	YoY(%) (Quarterly)	YoY(%) (Quarterly accumulated)
1st Quarter	**27,478**	36,126	-23.9%	-23.9%
2nd Quarter	**47,316**	33,903	39.6%	6.8%
3rd Quarter	**N/A**	24,855		
4th Quarter	**N/A**	33,895		
Total	**74,794**	128,779		

Financial Position of the Company's Continuing Businesses

	As at 30 June 2004	As at 31 December 2003
Cash on Hand (US$'000)	**14,702**	8,873
Cash/Current Liabilities	**0.62**	0.08
Current Ratio	**2.89**	0.87
Total Asset/Total Liabilities	**4.98**	1.28
Debtor's turnover days (Note 1)	**86.9**	51.0
Inventory turnover days (Note 2)	**40.7**	31.4

Note 1: The calculation of debtor's turnover days is based on the amount of trade debtors as at the relevant period end divided by sales of the relevant period and multiplied by 183 days for the six months ended 30 June 2004 and 365 days for the year ended 31 December 2003.

Note 2: The calculation of inventory turnover days is based on the amount of inventories as at the relevant period end divided by cost of sales of the relevant period and multiplied by 183 days for the six months ended 30 June 2004 and 365 days for the year ended 31 December 2003.

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Nam Tai Electronic & Electrical Products Limited (the "Company" or "NTEEP") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004.

Condensed Consolidated Income Statement

For the six months ended 30 June 2004

		Six months ended 30 June					
		2004			2003		
	NOTES	Continuing Businesses US$'000 (unaudited)	Discontinued Businesses US$'000 (unaudited)	Total US$'000 (unaudited)	Continuing Businesses US$'000 (unaudited)	Discontinued Businesses US$'000 (unaudited)	Total US$'000 (unaudited)
Turnover	3 & 4	74,794	-	74,794	70,029	7,114	77,143
Cost of sales		(59,008)	-	(59,008)	(53,142)	(6,641)	(59,783)
Gross profit		15,786	-	15,786	16,887	473	17,360
Other operating income (expenses)		1,243	51	1,294	218	(11)	207
Selling and distribution costs		(1,419)	(182)	(1,601)	(987)	(26)	(1,013)
Administrative expenses		(2,981)	(122)	(3,103)	(4,018)	(384)	(4,402)
Research and development expenditure		(1,036)	-	(1,036)	(786)	(14)	(800)
Profit before taxation	5	11,593	(253)	11,340	11,314	38	11,352
Taxation	6	(47)	-	(47)	(49)	-	(49)
Net profit for the period		11,546	(253)	11,293	11,265	38	11,303
Earnings per share – basic	8			1.41 US cents			1.41 US cents

Continuing Businesses represent the trading and manufacturing of consumer electronics and communications products.

Discontinued Businesses represent the trading and manufacturing of essential components and subassemblies for mobile phones, which have been completely ceased in the current period.

Condensed Consolidated Balance Sheet

At 30 June 2004

	NOTES	At 30 June 2004 US$'000 (unaudited)	At 31 December 2003 US$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**38,062**	32,659
Investment securities	10	**11,968**	11,968
Other asset		**65**	65
		50,095	44,692
Current assets			
Inventories		**13,114**	8,509
Trade and other receivables	11	**36,606**	20,674
Amounts due from fellow subsidiaries		**–**	54,006
Dividend receivable		**923**	844
Taxation recoverable		**3,655**	3,216
Term deposits		**10,845**	340
Bank balances and cash		**3,857**	8,533
		69,000	96,122
Current liabilities			
Trade and other payables	12	**23,755**	17,351
Amount due to ultimate holding company		**–**	90,000
Amount due to fellow subsidiaries		**138**	2,998
Taxation payable		**–**	41
		23,893	110,390
Net current assets (liabilities)		**45,107**	(14,268)
Total assets less current liabilities		**95,202**	30,424
Capital and reserves			
Share capital	13	**1,026**	13
Reserves		**94,176**	30,411
		95,202	30,424

Condensed Consolidated Statements of Changes in Equity

For the six months ended 30 June 2004

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Special reserve US$'000	Statutory reserve US$'000	Retained profits US$'000	Proposed dividends US$'000	Total US$'000
At 1 January 2003	90,000	–	–	(3,869)	35	11,452	–	97,618
Net profit for the period	–	–	–	–	–	11,303	–	11,303
At 30 June 2003	90,000	–	–	(3,869)	35	22,755	–	108,921
Net profit for the period	–	–	–	–	–	11,490	–	11,490
Appropriation of Namtai Electronic (Shenzhen) Co., Ltd. 2002's profits	–	–	–	–	980	(980)	–	–
Arising from Group Reorganisation	(90,000)	–	(3,869)	3,869	–	–	–	(90,000)
Capital contribution by way of profit reinvestment	–	–	8,829	–	(877)	(7,952)	–	–
Issue of quota capital	13	–	–	–	–	–	–	13
At 31 December 2003	13	–	4,960	–	138	25,313	–	30,424
Arising from Group Reorganisation	1,013	90,518	(2,131)	–	–	–	–	89,400
Dividend paid after Capitalisation Issue	–	(35,915)	–	–	–	–	–	(35,915)
Net profit for the period	–	–	–	–	–	11,293	–	11,293
Proposed interim dividends (Note 7)	–	–	–	–	–	(3,840)	3,840	–
At 30 June 2004	1,026	54,603	2,829	–	138	32,766	3,840	95,202

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	US$'000	US$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**5,836**	3,003
Net cash used in investing activities	**(7,292)**	(2,371)
Net cash from (used in) financing activities	**7,285**	(854)
Net increase (decrease) in cash and cash equivalents	**5,829**	(222)
Cash and cash equivalents at beginning of the period	**8,873**	759
Cash and cash equivalents at end of the period	**14,702**	537
Analysis of the balances of cash and cash equivalents:		
Term deposits	**10,845**	–
Bank balances and cash	**3,857**	537
	14,702	537

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2004

1. Basis of Presentation

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 June 2003. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 28 April 2004.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the SEHK, the Company became the holding company of the Group, as more fully explained in "Further Information About the Company – Corporate Reorganisation" in Appendix V to the prospectus of the Company dated 16 April 2004 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group.

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 SEHK ("Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost convention.

The basis of preparation and the principal accounting policies adopted are consistent with those followed in the preparation of the Group's Accountants' Report as set out in Appendix I to the Prospectus.

3. **Segment Information**

The Group is principally engaged in the trading and manufacturing of consumer electronics and communications products (the "Continuing Businesses") during the six months ended 30 June 2004 and 30 June 2003, and the trading and manufacturing of essential components and subassemblies for mobile phones (the "Discontinued Businesses") which were completely ceased in the current period. It is on this basis that the Group reports its primary segment information, of which the results were disclosed in the condensed consolidated income statement.

The Group's principal operations are located in the People's Republic of China (the "PRC"). The Group's customers are mainly located in Europe, North America and Asia.

The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by destination Six months ended 30 June	
	2004	2003
	US$'000	US$'000
	(unaudited)	(unaudited)
Continuing Businesses:		
Asia Pacific region, other than Japan	**26,108**	5,570
North America	**23,280**	32,340
Europe	**22,395**	23,618
Japan	**2,018**	4,783
Others	**993**	3,718
	74,794	70,029
Discontinued Businesses:		
Asia Pacific region, other than Japan	**–**	2,488
North America	**–**	243
Europe	**–**	2,487
Japan	**–**	1,896
	–	7,114
	74,794	77,143

4. Turnover

	Six months ended 30 June 2004 US$'000 (unaudited)	Six months ended 30 June 2003 US$'000 (unaudited)
Continuing Businesses:		
Optical devices	**20,894**	4
Educational products	**20,220**	34,254
Home entertainment devices	**18,641**	2,223
Mobile phone accessories	**15,039**	33,423
Others	**–**	125
	74,794	70,029
Discontinued Businesses:		
Subassemblies and components	**–**	6,380
Others	**–**	734
	–	7,114
	74,794	77,143

5. Profit before Taxation

	Six months ended 30 June	
	2004	2003
	US$'000	US$'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Allowance for and write off of inventories	**–**	700
Depreciation and amortisation	**2,758**	2,106
Less: Depreciation and amortisation included in research and development expenditure	**(39)**	(55)
	2,719	2,051
Rental expenses	**23**	–
Staff costs	**3,552**	2,467
Less: Staff costs included in research and development expenditure	**(775)**	(640)
	2,777	1,827
and after crediting:		
Bank interest income	**36**	2
Commission income	**52**	90
Dividend income from investment securities	**926**	–
Write back of allowance for inventories	**18**	–

6. Taxation

	Six months ended 30 June	
	2004	2003
	US$'000	US$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax	**–**	49
PRC enterprise income tax charge	**47**	–
	47	49

For the six months ended 30 June 2004, no provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit in Hong Kong during the period.

Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profit for the six months ended 30 June 2003.

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ"), a wholly owned subsidiary of the Company, is subject to a tax rate of 15% on the assessable profits for each of the periods. In addition, if a foreign investment enterprise ("FIE") exports 70% or more of the production value of its products ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For the year ended 31 December 2003, NTSZ exported more than 70% of the production value of its products and qualified as an Export Enterprise and was subject to a reduced tax rate of 10%. The Directors expect that NTSZ will also qualify for a reduced tax rate of 10% for the year 2004.

Furthermore, a FIE whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of the taxes already paid on those profits. As the shareholder of NTSZ reinvested or intends to reinvest the profits for each of the periods, the management of the Group recorded tax expense net of the benefit related to the refunds.

As at 30 June 2004, income tax recoverable under the above arrangements is approximately US$3.66 million (31 December 2003: approximately US$3.22 million). Tax for the six months ended 30 June 2004 that would otherwise have been payable without the tax refund concession amounted to approximately US$0.96 million (six months ended 30 June 2003: approximately US$1.22 million).

Nam Tai Investments Consultant (Macao Commercial Offshore) Company Limited ("NTIC"), a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 18/99/M, Chapter 2, Article 12, dated 18 October 1999.

7. Dividends

During the six months ended 30 June 2004 and prior to the Company being listed on SEHK, the Company declared a dividend of approximately US$35.92 million out of the Company's share premium account after the capitalisation of approximately US$91.54 million owed by the Company to Nam Tai Electronics, Inc. ("NTE Inc."), its ultimate holding company, details of which are disclosed in Appendix V to the Prospectus (the "Capitalisation Issue").

The Directors have determined that an interim dividend of 0.48 US cent equivalent to 3.75 HK cents (2003: Nil) per share be payable to the shareholders of the Company whose names appear in the register of members on 17 August 2004. The dividend represents the dividend for the second quarter of year 2004 only as the Company was listed on SEHK on 28 April 2004.

8. Earnings Per Share

The calculation of basic earnings per share for the period is based on the profit for the period of approximately US$11.29 million (six months ended 30 June 2003: approximately US$11.30 million) and 800,000,000 shares in issue for both periods on the assumption that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2003.

Based on the anti-dilutive effect of the assumption with regard to the exercise of the Company's share options, no diluted earnings per share has been presented.

9. Movements in Property, Plant and Equipment

During the six months ended 30 June 2004, the Group spent approximately US$4.15 million on the construction of its new office and factory located in the PRC, and approximately US$4.07 million on plant and equipment, in order to increase and upgrade the manufacturing capabilities.

During the six months ended 30 June 2004, there was no material disposal of property, plant and equipment for the Group.

10. Investment Securities

The amount represents the Group's cost of investment in the 95.52 million promoter's shares of TCL Corporation. In January 2004, TCL Corporation listed its A-shares on the Shenzhen Stock Exchange. The Group's interest in TCL Corporation has then been diluted from 6% to 3.69%. According to Article 147 of the Company Law of the PRC, the Group is restricted to transfer its promoter's shares within three years from the date of conversion of TCL Corporation from a limited liability company to a company limited by shares, that is, until April 2005. The Group is, however, entitled to dividend and other rights similar to the holders of A-shares.

11. Trade and Other Receivables

The Group allows its trade customers with credit period normally ranging from 30 to 60 days.

The following is an aged analysis of trade receivables at the balance sheet dates:

	30 June 2004 US$'000 (unaudited)	31 December 2003 US$'000 (audited)
Trade receivables:		
Up to 30 days	**20,175**	9,991
31 – 60 days	**13,261**	7,404
Over 60 days	**2,077**	596
	35,513	17,991
Other receivables	**1,093**	2,683
	36,606	20,674

12. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet dates:

	30 June 2004 US$'000 (unaudited)	31 December 2003 US$'000 (audited)
Trade payables:		
Up to 30 days	**11,792**	10,408
31 – 60 days	**5,485**	3,199
Over 60 days	**691**	67
	17,968	13,674
Other payables	**5,787**	3,677
	23,755	17,351

13. Share Capital

	Number of shares		Amount	
	30 June 2004	31 December 2003	30 June 2004 HK$000	31 December 2003 HK$'000
	(unaudited)	(audited)	(unaudited)	(audited)
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of the period/year	**10,000,000**	10,000,000	**100**	100
Increase in ordinary shares during the period	**1,990,000,000**	–	**19,900**	–
At end of the period/year	**2,000,000,000**	10,000,000	**20,000**	100
Issued and fully paid:				
At beginning of the period/year	**10**	–	**–**	–
Ordinary share issued on incorporation	**–**	1	**–**	–
Issue of shares	**–**	9	**–**	–
Capitalisation Issue	**799,999,990**	–	**8,000**	–
At end of the period/year	**800,000,000**	10	**8,000**	–
			US$'000	US$'000
Shown in the condensed consolidated financial statements as			**1,026**	–

The share capital at 31 December 2003 as shown on the condensed consolidated balance sheet represented the share capital of the Company and quota capital of NTIC before the Group Reorganisation.

The Company was incorporated on 9 June 2003 with an authorised share capital of HK$100,000 (equivalent to US$12,821). At the time of incorporation, 1 share of HK$0.01 was issued for cash at par to the subscriber.

On 13 June 2003, the Company issued 9 shares of HK$0.01 each for cash at par for a total consideration of HK$0.09 to the then existing shareholder.

Pursuant to written resolutions of the sole shareholder of the Company passed on 8 April 2004:

(i) the authorised share capital of the Company was increased from HK$100,000 to HK$20,000,000 by the creation of an additional 1,990,000,000 shares; and

(ii) the capitalisation of approximately US$91.54 million owed by the Company to NTE Inc. was approved and the Directors were authorised to allot and issue 799,999,990 shares to NTE Inc.

14. Capital Commitments

	30 June 2004 US$'000 (unaudited)	31 December 2003 US$'000 (audited)
Capital expenditures in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in in the financial statements	**13,276**	15,164
– authorised but not contracted for	**2,872**	3,668
	16,148	18,832

15. Contingent Liabilities

	30 June 2004 US$'000 (unaudited)	31 December 2003 US$'000 (audited)
Cross guarantee given to a bank in respect of credit facilities utilised by Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron") (Note)	**–**	158

Note: During the six months ended 30 June 2004, the cross guarantee given to a bank in respect of credit facilities utilised by Zastron was released.

16. Related Party Transactions

Name of fellow subsidiaries	Nature of transactions	Notes	Six months ended 30 June 2004 US$'000 (unaudited)	2003 US$'000 (unaudited)
Zastron	Sales of property, plant and equipment	(a)	–	76
	Rental income received	(b)	219	–
Nam Tai Group Management Limited	License fee paid	(b)	150	–
	Management fee paid	(c)	–	1,656
Nam Tai Telecom (Hong Kong) Company Limited	Sales of finished products of Discontinued Businesses	(d)	–	7,114
J.I.C. Technology Company Limited	Purchase of materials	(d)	245	374
Shenzhen Namtek Co. Ltd.	Commission received	(e)	52	90

Notes:

(a) Sales of property, plant and equipment represented the net book value of the property, plant and equipment calculated in accordance with accounting principles generally accepted in the PRC.

(b) Rental income received from and license fee paid to related parties were charged based on fixed monthly charges.

(c) Management fee was charged on an actual cost basis.

(d) Sales of finished products and purchase of materials represented the cost of finished products or materials plus a percentage mark-up.

(e) Commission received represented a certain percentage on turnover of the related party.

In the opinion of the Directors, the above transactions were carried out in the normal course of the Group's businesses.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 0.48 US cent equivalent to 3.75 HK cents (2003: Nil) per ordinary share for the six months ended 30 June 2004 to be payable to shareholders whose names appear on the Register of Members of the Company on 17 August 2004. The dividend will be paid in Hong Kong Dollars. The interim dividend represents the dividend for the second quarter of year 2004 only as the Company was listed on SEHK on 28 April 2004.

The interim dividend will be paid on or around 31 August 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 August 2004 to 17 August 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 13 August 2004.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

NTEEP provides its customers of international brands of electronics and communications products with vertically-integrated manufacturing solution ranging from design and development, industrialisation and qualification, volume manufacturing, quality control to supply chain management. This competitive business model provides the Group's customers with time-to-market and time-to-volume manufacturing of their products with high quality at lower cost. This business model also provides the Group with flexibility to adapt to the requirements of different customers and market demand, thus ensuring that the Group has the capabilities to capture valuable opportunities of the electronics and communications market.

The Group achieved satisfactory results for its Continuing Businesses in the second quarter of 2004. Comparing the Group's second quarter results of 2004 to that of the same period last year, turnover of the Continuing Businesses for the three months ended 30 June 2004 increased 39.6% from approximately US$33.90 million to approximately US$47.32 million. Net profit of the Continuing Businesses for the three months ended 30 June 2004 increased 66.2% from approximately US$4.85 million to approximately US$8.06 million. Earnings per share for the three months ended 30 June 2004 increased 65.6% from 0.61 US cent to 1.01 US cents. Further, comparing the Group's Continuing Businesses of the second quarter ended 30 June 2004 to the first quarter ended 31 March 2004, turnover increased 72.2% from approximately US$27.48 million to approximately US$47.32 million while net profit surged 130.9% from approximately US$3.49 million to approximately US$8.06 million. Earnings per share for the three months ended 30 June 2004 also surged 129.5% from 0.44 US cent to 1.01 US cents. On an interim basis, turnover of the Continuing Businesses for the six months ended 30 June 2004 was up by 6.8% from approximately US$70.03 million for the six months ended 30 June 2003 to approximately US$74.79 million. Gross profit of the Continuing Businesses for the six months ended 30 June 2004 was approximately US$15.79 million, a slight decrease of 6.5% as compared to gross profit of approximately US$16.89 million for the six months ended 30 June 2003. Profit before taxation of the Continuing Businesses for the six months ended 30 June 2004 was approximately US$11.59 million, an increase of 2.5% as compared to profit before taxation of approximately US$11.31 million for the six months ended 30 June 2003. Net profit of the Continuing Businesses for the six months ended 30 June 2004 was approximately US$11.55 million, an increase of 2.5% as compared to net profit of approximately US$11.27 million for the same period last year. Basic earnings per share for the Continuing Businesses for the six months ended 30 June 2004 were 1.44 US cents as compared to the earnings per share of 1.41 US cents for the six months ended 30 June 2003.

Contrary to the Group's historical seasonal trend of slow down in sales in the first quarter, exceptionally high sales of snap-on cameras were recorded during the first quarter of last year whereas the sales for the first quarter of 2004 were in line with the Group's historical seasonal sales trend. Nevertheless, the Group managed to achieve an increase of 6.8% in turnover of the Continuing Businesses for the six months ended 30 June 2004 as compared to the turnover of the Continuing Businesses in the same period last year. In this respect, the Group successfully broadened its product mix to cover optical devices, home entertainment devices and new models of mobile phone accessories in recent years.

Optical Devices

The Group manufactures CMOS image sensor modules which utilise light-sensing semiconductors to translate images into digital signals. The Group commenced the manufacturing of CMOS image sensor modules in 2003. Currently, the Group manufactures over 10 models of CMOS image sensor modules. The Group's competitiveness in the market is premised upon its specialized optical devices experiences and stringent quality control over the optical devices.

Photo-taking is becoming a standard function of mobile handsets. More and more handsets are equipped with built-in camera function. The fast growing market demand on high-quality CMOS image sensor module in line with the demand on handsets with built-in camera globally contributed to the remarkable growth of the Group's optical devices business. In February 2004, the Group received a firm order from one of the leading global mobile phone brands for the manufacturing of CMOS image sensor modules. During the six months ended 30 June 2004, the business of optical devices achieved sales of approximately US$20.89 million, a substantial growth when compared to the same period last year. The substantial growth is attributable to the fact that mass production of optical devices had only commenced in the second half of 2003. The Group foresees continual growth in the business of its optical devices.

Educational Products

The Group currently manufactures basic calculators, scientific calculators, graphic calculators, and electronic dictionaries. The discontinuation of old products and a delay in the introduction of certain new products have led to the decline in overall sales of the Group's educational products. During the period under review, the Group's educational product business achieved sales of approximately US$20.22 million, representing a decrease of 41.0% when compared to the same period last year.

During these few years, the Group actively broadened its product mix to cover electronics products with good market potential while keeping the high-end calculators. This ensured the Group's profitability and growth potential in the future. Sales of new product lines in other product segments are picking up quickly, compensating the drop in sales of educational products, which proves that the Group's strategies are successful.

Home Entertainment Products

The Group manufactures the EyeToy® USB camera and SingStar® USB microphone and converter box for Sony Computer Entertainment's PlayStation®2. The EyeToy® USB camera is an accessory of PlayStation®2 which employs motion-tracking technology to capture a player's body movement and transforms the image into on-screen interaction as a control method. On the other hand, the SingStar® USB microphone and converter box are used for PlayStation®2 singing games which allow players to sing along a number of musical tracks and will provide them with feedback of their performances.

The Group commenced the manufacturing and delivery of the EyeToy® USB camera and SingStar® USB microphone and converter box in the second quarter of 2003 and first quarter of 2004 respectively. During the six months ended 30 June 2004, sales of home entertainment devices reached approximately US$18.64 million from approximately US$2.22 million for the same period last year.

Mobile Phone Accessories

The Group manufactures accessories for mobile phones including Bluetooth™ headsets, snap-on cameras and snap-on flash lights. Bluetooth™ headsets are small and light headsets which can be used with all Bluetooth™ enabled mobile phones.

During the period under review, the Group recorded sales of mobile phone accessories of approximately US$15.04 million, representing a decline of 55.0% when compared to the same period last year. This is attributable to the fact that the Group only commenced the manufacturing of Bluetooth™ headsets in 2004 with initial shipment in May 2004 and that the sales of snap-on cameras during the first quarter of 2003 was exceptionally high contrary to the Group's historical sales trend of relatively low sales for the first quarter.

The sales of mobile phone accessories are expected to grow upon the more developed scale of sales of the Bluetooth™ headsets during the second half of the year and the years to come whereas snap-on cameras are anticipated to be gradually replaced by built-in cameras which will contribute to the growth of the Group's sales in optical devices.

Progress and Achievements in Research and Development

During the six months under review, NTEEP has successfully acquired the technology of manufacturing CMOS image sensor modules with mega pixels level. Currently, the Group is manufacturing VGA (Video Graphic Array) CMOS image sensor modules. It is expected that mega pixels CMOS image sensor modules can be put into mass production in the third quarter of 2004. The Group is also actively conducting research and development on advanced Chip On Board ("COB") technology in the production process of CMOS image sensor modules. With the introduction of COB the Group would be able to further improve its vertically integrated manufacturing technology for the production of CMOS image sensor modules, to allow the Group to enjoy greater flexibility in raw material sourcing and to widen its manufacturing technology to handle various forms of components.

The Group is currently researching on the technologies to adopt macro lens and auto-focused lens to camera modules. Upon successful development of this technology, the Group will acquire the capabilities to manufacture optical devices with zoom functionality. The Group is also developing the technologies to add value-added functions, like MP3 and radio, to Bluetooth™ headsets. It is expected that the newly developed products will bring new businesses and thus new source of income to the Group.

The electronics manufacturing services industry is characterized by rapid changes caused by the frequent emergence of new technologies or assembly capabilities. In order to keep abreast of the latest technologies, NTEEP will continue to invest in the latest and most advanced equipments and enhance the Group's technological expertise through continued training and further hiring of qualified engineers. As at 30 June 2004, NTEEP had 75 in-house experts with an average of over six years' industry experience engaged in research and development.

Future Prospects

In the second half of 2004, the Group envisaged that the mobile phone market will continue to grow with the trend of adopting built-in camera as a standard function. As a result, the Group believes that the sales of its optical devices and mobile phone accessories businesses should benefit from this trend.

Facing the ever-changing electronics services market, the Group will continue to enhance its competitiveness in the market by:

- ensuring good relationships with its existing reputable customers and exploring new customer relationship;
- advancing product and module design, development and product industrialization capabilities;
- ensuring a flexible, efficient and cost effective manufacturing process and utilizing a wide range of manufacturing technologies to produce high quality products in a timely manner;
- maintaining a balanced product mix; and
- leveraging on the relationship with other companies under NTE Inc., such as technology synergy, market intelligence, customer and business referral, resources sharing, economies of scale from common sourcing, and brand name and corporate identity.

Based on the foreseeable growth in businesses in the future, expansion of production capacity is needed. NTEEP is in the course of building a new office and a new factory adjacent to the existing production site. The Group will relocate from the existing office and factory with total gross floor area of approximately 12,000 square metres to the new office and factory with total gross floor area of approximately 29,000 square metres. The Group expects the relocation of its staff to the new office to be completed by the end of the third quarter of 2004 whilst the existing production facilities are expected to be relocated to the new factory in the second quarter of 2005. Upon complete relocation, the existing factory and office will no longer be used by the Group.

Upon the expansion of the new office and factory spaces, the Group's research and development capabilities will be enhanced and will contribute to the business development of the Group.

Financial Overview

For the three months ended 30 June 2004, the Group achieved turnover of approximately US$47.32 million for its Continuing Businesses, representing 39.6% and 72.2% increase as compared to the same period last year and the first quarter of 2004 respectively. Net profit of the Continuing Businesses for the three months ended 30 June 2004 increased 66.2% and 130.9% from the same period last year and the first quarter of 2004 respectively to approximately US$8.06 million. Earnings per share for the three months ended 30 June 2004 increased 65.6% and 129.5% to 1.01 US cents as compared to the same period last year and the first quarter of 2004 respectively. For the six months ended 30 June 2004, the Group achieved turnover of approximately US$74.79 million for its Continuing Businesses representing a growth of 6.8% as compared with the Continuing Businesses of the corresponding period last year.

The increase in turnover was attributable to the continual growth in the sales of the new lines of products. The Group expects that contributions from optical devices and mobile phone accessories will further increase in the second half of 2004.

The gross profit and gross profit margin for the six months ended 30 June 2004 was approximately US$15.79 million and 21.1%, representing a slight decrease of 6.5% and 3.0% respectively when compared to that of the Continuing Businesses in the same period last year. The slight decrease in gross profit and gross profit margin was mainly attributable to the shift in composition of product mix and the reduction to the Value Added Tax refund by PRC government effective January 2004.

Strategic Investment in TCL Corporation

In January 2002, the Group acquired 6% equity interest, representing 95.52 million promoter's shares in TCL Corporation for a total consideration of approximately US$11.97 million. In January 2004, TCL Corporation listed its A-Shares on the Shenzhen Stock Exchange and the Group's interest was diluted to approximately 3.69%. According to PRC Company Law, the Group is restricted to transfer its promoter's shares in TCL Corporation within 3 years from the date of conversion of TCL Corporation from a limited liability company to a company limited by shares, that is, until April 2005. The Group is, however, entitled to dividend and other rights similar to the other holders of TCL Corporation's A-shares. During the period under review, the Group received dividend from TCL Corporation in the sum of approximately US$0.93 million. The value of 95.52 million promoter's shares held in TCL Corporation is estimated to be approximately US$64.16 million as at 30 July 2004 based on the closing price of 67.17 US cents (RMB5.56) of each A-share of TCL Corporation as at the same day. The Group will consider to record the gain on its investment in TCL Corporation in the second half of year 2004. The decision and the final amount will be determined subject to the valuation of the promoter's shares by an independent advisor. The profit and loss of the Group in the quarters following the recorded gain may be affected by the fluctuation in the share price of TCL Corporation.

Capital Expenditure

The Group has budgeted US$20.0 million to cover the costs of construction, fixtures and equipment for the new office and factory. During the six months ended 30 June 2004, an amount of approximately US$4.15 million had been spent for the construction of the new office and factory. The construction is financed by internal cash resources.

Liquidity, Financial Resources and Financial Ratios

The Group continued to maintain a strong liquidity position throughout the interim period of 2004 with 1.84 US cents (31 December 2003: 1.11 US cents) of cash per share and 11.90 US cents (31 December 2003: 3.80 US cents) of net asset per share based on 800,000,000 shares (31 December 2003: 800,000,000 shares (assuming that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2003)). The Group had, as at 30 June 2004, a cash to current liabilities ratio of 0.62 (31 December 2003: 0.08), a current ratio of 2.89 (31 December 2003: 0.87), a total assets to total liabilities ratio of 4.98 (31 December 2003: 1.28) and approximately US$14.70 million (31 December 2003: approximately US$8.87 million) of bank balances and cash.

At the period end, the Group had no external loans of any kind. The gearing ratio was nil.

The Continuing Businesses of the Group recorded debtor's turnover days of approximately 86.9 days for the six months ended 30 June 2004 (approximately 51.0 days for the year ended 31 December 2003) based on the amount of trade debtors as at the relevant period end divided by sales of the relevant period and multiplied by 183 days for the six months ended 30 June 2004 (365 days for the year ended 31 December 2003).

The Continuing Businesses of the Group recorded inventories turnover days of approximately 40.7 days for the six months ended 30 June 2004 (approximately 31.4 days for the year ended 31 December 2003) based on the amount of inventories as at the relevant period end divided by cost of sales of the relevant period and multiplied by 183 days for the six months ended 30 June 2004 (365 days for the year ended 31 December 2003).

Taxes

The tax charge during the six months ended 30 June 2004 was approximately US$47,000.

In accordance with the applicable enterprise income tax law and regulations of the PRC and the relevant rules promulgated by the Shenzhen municipal government, NTSZ, the main operational arm of the Company, is subject to a tax rate of 15% on its assessable profits. Nonetheless, as NTSZ exports 70% or more of the production value of its products, NTSZ was able to enjoy a reduced tax rate of 10% for the year ended 31 December 2003. The Directors expect that NTSZ will continue to qualify for a reduced tax rate of 10% for the year 2004.

Furthermore, as the Company directly reinvests NTSZ' profits in expanding its business, the Group was able to enjoy tax refunds on profits that were reinvested.

As at 30 June 2004, income tax recoverable under the above arrangements was approximately US$3.66 million (31 December 2003: approximately US$3.22 million). For details, please refer to note 6 to the Condensed Consolidated Income Statement.

However, the tax benefit enjoyed by the Group may be affected should there be any changes in respect of the current taxation policies of the PRC tax authorities, the rates of taxation or methods of taxation which are unfavourable to NTSZ.

Foreign Exchange Exposures

Since most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi, the use of financial instruments for hedging purposes is not considered to be necessary.

Employee & Remuneration Policy

Up to 30 June 2004, the Group had a total of 1,624 dynamic and talented employees, among which 18 were marketing staff and 75 were research and development staff. All staff was dedicated to maintaining and advancing the quality and reliability of the Group's operations. Total staff cost for the period was approximately US$3.55 million. Remuneration policy is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff. In order to align the interests of staff with those of shareholders, 20,000,000 share options were granted to employees under the Company's share option scheme adopted on 22 March 2004 ("Pre-IPO Share Option Scheme"). All share options granted to directors and employees under the Pre-IPO Share Option Scheme remained outstanding at the period end.

DIRECTORATE AND SENIOR MANAGEMENT

Executive Directors

Ms. WONG Kuen Ling *(Chairman)*

Mr. Guy Jean Francois BINDELS *(Chief Executive Officer)* (Note 1)

Non-Executive Directors

Mr. KOO Ming Kown

Mr. Tadao MURAKAMI

Mr. LI Shi Yuen, Joseph

Independent Non-executive Directors

Mr. Thaddeus Thomas BECZAK

Mr. WONG Chi Chung (Note 2)

Mr. LEE Wa Lun, Warren

Note: (1) Mr. Bindels has been appointed by the Board as Chief Executive Officer of the Company on 30 July 2004

(2) Mr. Wong is a Fellow Member of The Association of Chartered Certified Accountants, Associate Member of The Chartered Institute of Management Accountants and Associate Member of The Hong Kong Society of Accountants

Senior Management

Mr. HSU Kar Hing, Joseph *(Chief Financial Officer)*

Mr. CHEN William Yee *(Managing Director)*

ISSUE OF SHARES

During the six months ended 30 June 2004 the Company issued and allotted a total of 799,999,990 shares of HK$0.10 each of the Company to NTE Inc., the controlling shareholder of the Company, pursuant to the capitalization of approximately US$91.54 million owed by the Company to NTE Inc.

REPURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules were as follows:

(I) Long position in shares of the Company

Share Options under the Pre-IPO Share Option Scheme

Name of director	Capacity	Number of options held	Number of underlying shares
Ms. WONG Kuen Ling	Beneficial Owner	7,000,000	7,000,000
Mr. Guy Jean Francois BINDELS	Beneficial Owner	1,200,000	1,200,000

(II) Long position of shares in associated corporations

Shareholding in NTE Inc.

Name of Directors	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Ms. WONG Kuen Ling	Personal	Beneficial Owner	39,100	0.09%
Mr. Guy Jean Francois BINDELS	Personal	Beneficial Owner	1,000	0.0023%
Mr. KOO Ming Kown	Personal (Note 1)	Beneficial Owner	5,880,386	13.48%
Mr. LI Shi Yuen, Joseph	Personal and Corporate (Note 2)	Beneficial Owner	3,013,957	6.91%
Mr. Tadao MURAKAMI	Personal	Beneficial Owner	1,849,225	4.24%

Note:

(1) Includes 4,880,386 common shares registered in the names of Mr. Koo Ming Kown and his wife, Ms. Sui Sin Cho.

(2) Includes 2,935,087 common shares held by Li & Chui Holdings (B.V.I.) Limited in which Mr. Li Shi Yuen, Joseph has 50% interest.

Save as disclosed above, no Directors or Chief Executive have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Options", at no time during the six months ended 30 June 2004 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors of the Company (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or Chief Executive of the Company, as at 30 June 2004, shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long position of substantial shareholders in the shares of the Company

Name of substantial shareholder	Number of ordinary shares beneficially held
NTE Inc.	600,000,000 (Note)

Note: The number of shares held by NTE Inc. represents 75% of the share capital of the Company.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

(I) Pre- IPO Share Option Scheme

The Pre-IPO Share Option Scheme is to recognize the contribution of certain Directors and employees of the Group to the Group as a whole. The total number of shares subject to the Pre-IPO Share Option Scheme is 20,000,000 and no further options shall be granted under the Pre-IPO Share Option Scheme.

Details of the share options which were granted under the Pre-IPO Share Option Scheme and remained outstanding as at 30 June 2004 are as follows:

Directors	Date of grant	Subscription price per share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 1 January 2004	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options outstanding as at 30 June 2004
Ms. WONG Kuen Ling	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	note	–	7,000,000	–	–	7,000,000
Mr. Guy Jean Francois BINDELS	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	note	–	1,200,000	–	–	1,200,000
Employees Under Continuous Employment Contract	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	note	–	11,800,000	–	–	11,800,000
					–	20,000,000	–	–	20,000,000

Note: During the first 12 months from 28 April 2004, no option may be exercised by any of the Directors and/or employees.

During the second 12 months from 28 April 2004, a cumulative maximum of 30% of the share options may be exercised by the Directors and/or employees.

During the third 12 months from 28 April 2004, a cumulative maximum of 60% of the share options may be exercised by the Directors and/or employees.

During the remaining option period, a cumulative maximum of 100% of the share options may be exercised by the Directors and/or employees.

The financial impact of options granted will not be recorded in the accounts of the Group until such time when the options are exercised. Upon the exercise of the options, the relevant number of shares issued will be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of shares will be recorded by the Company in the share premium account. Options which have lapsed prior to their exercise date will be deleted from the outstanding options.

The Directors do not consider it appropriate to state the value of the options granted during the six months ended 30 June 2004 as a number of variables which are crucial for the calculation of the value of the options have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

(II) Share Option Scheme

On 8 April 2004, the Company adopted a share option scheme ("Share Option Scheme"). During the six months ended 30 June 2004, no options under the Share Option Scheme have been granted.

CODE OF BEST PRACTICE AND MODEL CODE

The Company had on 8 April 2004 adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules and the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 to the Listing Rule.

None of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not in compliance with the Model Code or the Code of Best Practice for any part of the period ended 30 June 2004.

AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company has established an Audit Committee in April 2004. The Committee comprises the three independent non-executive Directors and has adopted terms of reference governing the authority and duties of the Audit Committee. The present members of the Audit Committee are Mr. Wong Chi Chung, Mr. Thaddeus Thomas Beczak and Mr. Lee Wa Lun, Warren.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management auditing, internal control and financial reporting matters including the review of the Unaudited Interim Financial Statements for the six months ended 30 June 2004.

By Order of the Board
Wong Kuen Ling
Chairman

Hong Kong, 30 July 2004