

OVERVIEW

We are a well-established vertically-integrated manufacturing solutions provider for some of the world's reputable leading brand owners of consumer electronics and communications products. Our largest customers include Sony Ericsson, Texas Instruments, Sony Computer Entertainment, Seiko Instruments, OmniVision, Appeal Telecom and Canon (C.E.B.M.). The vertically-integrated manufacturing solutions we provide to our customers range from design and development, industrialisation and qualification, volume-manufacturing, quality control to supply chain management. Currently we focus on four segments of the consumer electronics and communications sectors: optical devices, home entertainment devices, mobile phone accessories and educational products. We are also actively exploring opportunities in the automotive electronics sector and have pursued research and development in this sector. We recorded a turnover of approximately US\$73.4 million, US\$94.0 million and US\$128.8 million and a net profit of approximately US\$3.7 million, US\$8.0 million and US\$22.1 million for each of the three years ended 31 December 2003, from our Continuing Businesses. Turnover and net profit of our Continuing Businesses increased 28.1% and 118.1% respectively, between the year ended 31 December 2001 and the year ended 31 December 2002 and 37.0% and 175.2% respectively between the year ended 31 December 2002 and the year ended 31 December 2003.

We consider that our achievements are principally attributable to the strong growth in demand for consumer electronics and communications products, the increasing global trend in outsourcing by consumer electronics and communications products brand owners, our strong customer relationships, our expertise in providing vertically-integrated manufacturing solutions and our experienced and dedicated management team and engineers. Our objective is to capture the continuing growth opportunities in the outsourcing trend of the consumer electronics, communications and automotive electronics sectors, and enhance profitability as well as maximise shareholder value.

We believe that we are in a position to further benefit from the global trend in outsourcing. In particular, we believe that our vertically-integrated manufacturing capability, our flexible, efficient and cost effective manufacturing process, our wide range of manufacturing technologies utilised, our commitment to high product quality and our lower cost structure will continue to offer us significant competitive advantages and will continue to enable us to secure and increase orders from existing customers and enhance our ability to attract new customers.

CORPORATE STRATEGIES AND KEY STRENGTHS

Our objective is to capture the continuing growth opportunities in the outsourcing trend of the consumer electronics, communications and automotive electronics sectors, enhance profitability as well as maximise shareholder value. To achieve this objective, we intend to continue to capitalise on our strong manufacturing capabilities and low-cost base by participating in the strong growth, high profit-margin and large volume segments of the consumer electronics,

communications and automotive electronics sectors by delivering vertically-integrated manufacturing solutions to reputable global leading customers in these respective segments. Our corporate strategies and key strengths are as follows:

- **Capitalise on strong, growing demand for consumer electronics, communications and automotive electronics products and the increasing global outsourcing trend**

Our current key products are consumer electronics and communications products which are experiencing strong growing demand, including optical devices, home entertainment devices and mobile phone accessories. We will continue our strategy of participating in these strong growing segments of the consumer electronics and communications sectors whilst at the same time we will further diversify our product offerings as we identify other growing areas in the consumer electronics and communications sectors. In addition, we aim to diversify into the automotive electronics sector and capitalise on the growing demand in automotive electronics products.

Moreover, we believe that in recent years consumer electronics, communications and automotive electronics product brand owners throughout the world have increasingly accepted and relied upon the outsourcing of product and module design and development, product industrialisation, assembly and manufacturing and post-assembly inspection to manufacturers like us to meet their customers' demands and to remain competitive. We believe that this global trend to outsource will continue. We believe that our strategies and strengths identified in “— Corporate Strategies and Key Strengths” will allow us to take advantage of this increasing global outsourcing trend.

- **Strengthen our existing reputable customer base and develop new customer relationships**

We have a global reputable customer base. Our largest customers include Sony Ericsson, Texas Instruments, Sony Computer Entertainment, Seiko Instruments, OmniVision, Appeal Telecom and Canon (C.E.B.M.), some of the world's leading brand names and component suppliers in the consumer electronics and communications sectors. Our strategy is to establish and strengthen long-term relationships with leading customers in these sectors. We will continue to focus on expanding our relationships with existing customers to increase the volume of existing products and also to include new products that they outsource to us. We will also continue to collaborate with our customers to improve existing product and module design and our manufacturing process and to identify changing customers' needs and market demand in order to develop new products. Our engineering and design staff work with our customers on the specification requirements for new products and these relationships provide us with a valuable insight into the future of the marketplace and technological trends.

In addition, we have a focused effort to identify and develop relationships with new customers. In 2003, we established relationships with new customers which included Sony Computer Entertainment, OmniVision and Appeal Telecom. In February 2004, we have received a firm order from another new customer, being one of the leading global mobile phone brands, for the manufacturing of CMOS image sensor modules. In the future, we aim to contract more external sales representatives, agents and distributors both overseas and in the PRC to explore and secure new customers that meet our profile.

We also aim to diversify our customer base through strategic partnerships with component suppliers that we work with. We position ourselves as their manufacturing partner to supply complete products or modules to end-customers. One example of this is our manufacturing of CMOS image sensor modules using CMOS image sensors supplied by OmniVision which are then sold to the end-customers of OmniVision or to our other customers such as Appeal Telecom. We aim to further extend our strategic partnerships with more key component suppliers to cover a wider product range and a wider end-customer base.

We are committed and are able to monitor emerging trends in the markets and proactively develop products ourselves to allow us to attract new customers. An example of this is our initiative in the investment in research and development of applications of Bluetooth™ technology since 2002 which has resulted in us developing our capacity of manufacturing Bluetooth™ headsets for our new customers.

We believe that an existing reputable customer base and a strategy to identify new customers that fit our profile, will position us to continue to capture the growth opportunities in the outsourcing trend of the consumer electronics and communications sectors.

- **Advance our product and module design, development, and product industrialisation capabilities and develop strategic partnerships with key design companies**

As part of our vertically-integrated manufacturing services, we offer product and module design and development, and product industrialisation services to our customers. As our customers are continually required to reduce the time to bring products to market, they demand manufacturers that offer the required product and module design and development, and product industrialisation services. We have product and module design and development, and product industrialisation capabilities and we aim to further enhance our capabilities with a particular focus on the areas employing optical, acoustic and RF technologies.

We will also continue to develop strategic partnerships with design houses, to enhance our product and module design and development capabilities so as to satisfy customers' requirements.

By advancing our product and module design and development and product industrialisation capabilities and by partnering with design houses, we can assist our customers in improving the product development cycle and hence accelerate our customers' time-to-market and time-to-volume manufacturing for their products and further enhance our goal of providing vertically-integrated solutions to our customers.

- **Continue to ensure a flexible, efficient and cost effective manufacturing process and to utilise a wide range of manufacturing technologies to produce high quality products in a timely manner**

We believe that the following factors have contributed to our highly regarded reputation amongst our customers and we will continue to maintain these competitive advantages: flexible and efficient manufacturing process, lower cost structure, wide ranging manufacturing technologies and high quality products.

We are focused on driving flexibility and efficiency throughout the manufacturing process. In particular, we have a system of production lines which allows us to rapidly ramp up operations to high volume production to meet customer needs and to flexibly switch between production of different products. Through our supply chain management process, we are also able to identify high-quality and cost-effective materials and components and also suppliers who can meet changes in demand for materials and components with shorter lead times. Our flexible manufacturing process allows us to cater for different product structures and requirements from different customers and to ensure timely delivery.

Our customers can realise lower costs by engaging our services as a result of several factors: (i) our ability to pool purchasing of raw materials and components across our customer base and to leverage on the corporate pricing support of our reputable customers, (ii) our ability to perform services in a cost-effective location, the PRC, which allows us to access one of the lower cost engineering and production work forces in the world and also to source materials and components from PRC suppliers at comparatively lower prices, (iii) our product and module design with cost-effective focus, (iv) our efficient manufacturing process to maximise daily output and (v) our ability to minimise production scraps flowing from our stringent quality control. We undertake continuous efforts to further enhance our lower cost competitiveness.

Our manufacturing and assembly processes apply a wide range of advanced bonding and other sophisticated technologies, including COB and SMT that are essential to the production of complex products. As we utilise a wide range of manufacturing technologies, we are able to handle different package forms of components which significantly reduce the risk of component shortage. Moreover, many of these technologies have applications across multiple product offerings, allowing us to leverage on our accumulated technology investment. We have a continuous strategy to further

widen and advance our range of design and manufacturing technologies. Identified future initiatives include the upgrading of our clean room from class three thousand level to class one thousand level and class one hundred level in order to enable us to produce higher precision products and higher resolution optical products, and investment in production technology advancement which will allow us to handle optical devices of higher imaging resolutions and also extend our ability to handle CMOS image sensors in various package forms.

On top of our flexible and efficient manufacturing process, lower cost structure and wide-range of advanced manufacturing technologies, we believe that the quality of our manufacturing services and products is central to maintaining customer trust and loyalty. Therefore, we strive to ensure that our product and module design and development and our production processes are of world-class standard and we implement stringent product qualification and quality control programmes. The products that we manufacture are subject to ISO 9001:2000 quality control standard and have consistently met the stringent specifications and quality demands of our customers. We implement initiatives aimed at continuous quality improvement.

- **Maintain a balanced product mix and high profit margins**

Our current product offerings include products in both our traditional market in the consumer electronics industry, being the educational products segment, where we have over 20 years' experience, and also the growing areas of mobile communications, optical and home entertainment segments. Our sales in the traditional market of educational products provide a stable and high-volume source of business. At the same time, our focus on the growing segments in the consumer electronics, communications and automotive electronics industry allow us to leverage on our core strengths and earn high and growing profit margins. We have and will continue to maintain a balanced product mix consisting of both traditional products and new-technology products.

- **Leverage on the relationship with other members of the NTE Group**

Apart from us, the other profit centres of the NTE Group comprise Zastron, the J.I.C. Group and the Namtek Group and each of them currently occupies a different specialised segment of the electronics industry.

Being a significant part of the NTE Group, we enjoy certain intangible benefits such as:

- Technological synergy;
- Market intelligence;
- Customer and business referral;
- Resource sharing;

- Economies of scale from common sourcing; and
- Brand name and corporate identity.

Immediately after completion of the Global Offering and assuming that the Over-allotment Option is not exercised, NTE Inc. will own about 75% of the then issued share capital of the Company and will thus continue to be a controlling shareholder of the Company. We have been informed by NTE Inc. that it intends to maintain a majority ownership in the Company in the foreseeable future and we will be able to continue to leverage on the relationship with other members of the NTE Group.

- **Continue to attract and retain experienced and dedicated management team and engineers**

We regard our people as our most valuable asset. Our management team, which has successfully developed our business, has an average of ten years' industry experience. We place huge responsibilities and accountability on our management whilst at the same time we give them great autonomy in the operation of the business.

We have also been able to attract and retain a pool of engineering talent. As at 17 March 2004, we have 150 in-house engineers, who have an average of seven years' industry experience each. Our engineers play a significant role in enabling us to deliver vertically-integrated manufacturing solutions to our customers. We aim to continue to identify, attract and recruit highly skilled engineering resources.

In recognition of the contribution of our management and our engineers and to further incentivise them, we have put in place effective performance evaluation systems. We believe that the significant experience and dedication of our management team and our engineers better enable us to capitalise on opportunities in the strong growing demand for consumer electronics, communications and automotive electronics products and the increasing outsourcing trend in these sectors.

HISTORY AND DEVELOPMENT

Production and Product Development

We started our operations with the manufacturing of calculators and other electronic products such as thermometers, blood pressure meters, weighing scales and typewriters. Responding to customers' need and market demands, in the 1990's we expanded our product mix to various types of electronic organisers, PDAs, and linguistic products such as language translators, spell-checkers and electronic dictionaries. At the same time, we evolved from a contract manufacturer to a provider of vertically-integrated manufacturing solutions to our customers. Since 2001, we have continued our developments in the consumer electronics and

communications product market and diversified into optical devices, home entertainment devices and mobile phone accessories capturing the business opportunities in these areas. We commenced the manufacturing of mobile phone accessories in 2001 and optical devices and home entertainment devices in 2003.

We received the ISO 9001:1994 and ISO 9001:2000 certificates for quality control in 1996 and 2002 respectively. In 2000 and 2003, we received the ISO 14001:1996 certificates for environmental management control.

In January 2003, we commenced the planning stage of building a new office and a new factory of a total gross floor area of approximately 29,005.3 square metres on a piece of vacant land, having a site area of approximately 26,313.9 square metres, adjacent to our existing production site. Construction commenced in September 2003 and we expect it to be completed by the end of 2004. Once the new factory is completed, we expect to relocate our existing production facilities to the new factory in the second quarter of 2005.

Corporate Development

Our business in its current form commenced on 24 June 1989 in the form of 寶安(南太)電子有限公司(Baoan (Nam Tai) Electronic Co. Ltd.), a co-operative joint venture company with limited liability established pursuant to the relevant laws of the PRC. The registered capital of Baoan (Nam Tai) Electronic Co. Ltd. was owned approximately 70% by NTEEPHK and approximately 30% by 寶安縣縣城建設發展總公司 (Baoan County City Construction Development Company).

In 1992, Baoan County City Construction Development Company transferred all of its equity interest in Baoan (Nam Tai) Electronic Co. Ltd to NTEEPHK and Baoan (Nam Tai) Electronic Co. Ltd. changed its name to 南太電子(深圳)有限公司 (Namtai Electronic (Shenzhen) Co. Ltd.). NTSZ became a wholly foreign owned enterprise under the relevant laws of the PRC and a wholly owned subsidiary of NTEEPHK.

In January 2002, we acquired a 6% equity interest, representing 95.52 million promoter's shares in TCL Corporation (formerly known as TCL Holdings Corporation Ltd.) for a consideration of US\$11,968,000. TCL Corporation is incorporated in the PRC and is principally engaged in the import and export of raw materials, the design, manufacturing and sale and marketing of telephones, VCD players, colour television sets, mobile phones and other consumer electronic products. According to PRC Company Law, our ability to transfer the promoter's shares held in TCL Corporation within three years from the date of establishment of TCL Corporation, that is, until April 2005, is restricted. In January 2004, TCL Corporation listed its A shares on the Shenzhen Stock Exchange and our shareholding was diluted to 3.69% as a result.

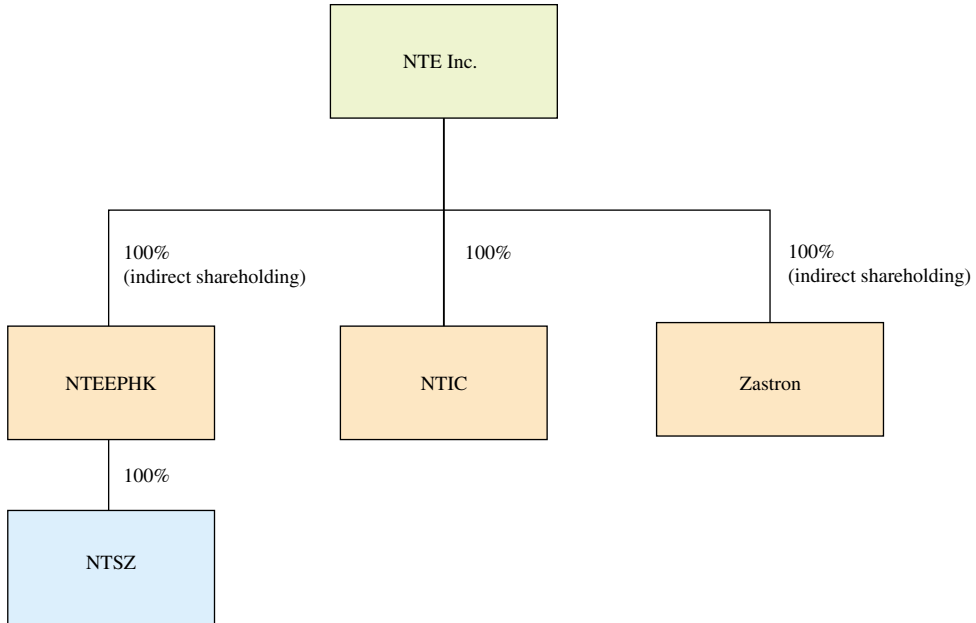
Restructuring and the Reorganisation

Taking into account the differences in the nature of the Continuing Businesses and the Discontinued Businesses and the fact that each had its own group of core customers and management team at the operational level, NTE Inc. decided in 1997 that the Continuing Businesses and the Discontinued Businesses would be run as different responsibility centres for management purposes. A further step was taken in 2001 when the Continuing Businesses and the Discontinued Businesses became different profit centres, thereby effectively making them different divisions within NTSZ. The final step to completely segregate these businesses was taken when Zastron took over the Discontinued Businesses from NTSZ, which then allowed us to concentrate our effort and resources on the manufacturing of consumer electronics and communications products, including optical devices, home entertainment devices, mobile phone accessories and educational products.

Shortly before restructuring, Zastron was engaged in silk screening business which operation was subsequently ceased in about October 2002. As the final step to completely segregate the Continuing Businesses and the Discontinued Businesses amongst the different divisions within NTSZ, NTSZ entered into an agreement with Zastron on 30 December 2002 (as supplemented by a supplemental agreement dated 26 March 2004) for the transfer to Zastron of certain plant and equipment relating to the manufacturing of essential components and subassemblies in relation to mobile phones, such as LCD modules and RF modules, for the consideration of US\$9,167,447.33 and RMB5,991,094.42 which was equivalent to the then carrying amounts of the plant and equipment calculated in accordance with accounting principles generally accepted in the PRC. The approval authority, Shenzhen Foreign Trade and Economic Cooperation Bureau had in its letter of 10 February 2004 stated that, after consulting the PRC Ministry of Commerce, it had no objection to the transfer of the plant and equipment. Part of the plant and equipment amounting to approximately US\$4.1 million, are currently subject to the monitoring and control by the PRC customs. Once the monitoring period expires, NTSZ can apply to the PRC customs to release such plant and equipment from monitoring and control by the PRC customs and can then formally complete the transfer of such plant and equipment to Zastron. The Company has obtained a confirmation from Guangdong Jingtian Law Firm, its PRC legal counsel, that there is no legal impediment of obtaining such release from the PRC customs. To expedite matters, NTSZ is in the process of applying to the PRC customs for an approval to transfer such plant and equipment to Zastron which is required for transfer within the monitoring period. As part of this restructuring exercise, employment of 909 full time staff was also transferred to Zastron. For further details, please refer to “— Relationship with other members of the NTE Group”.

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Between December 2002 and March 2004, the Company and relevant entities of the NTE Group underwent the Reorganisation. The following diagram illustrates the relevant corporate structure of the Company and the NTE Group immediately prior to the Reorganisation taking place:



On 9 June 2003, the Company was formed under the laws of the Cayman Islands and acquired from NTEEPHK the entire equity interest in NTSZ at a consideration of US\$90 million, which transfer became effective on 4 December 2003.

Prior to the Reorganisation, NTEEPHK was responsible for sales co-ordination and marketing of our consumer electronics and communications products, being certain clerical and administrative work such as arranging invoicing, handling of customer purchase orders and conducting marketing activities. As part of the Reorganisation, NTSZ assumed from NTEEPHK sales co-ordination and marketing activities, as a result of which all customers' contracts were transferred to NTSZ by way of novation or by NTSZ entering into new contracts with customers. No monetary consideration was involved in the transfer and upon its completion, NTEEPHK acted and is acting as an investment holding company holding certain land and properties in Hong Kong for NTE Inc.. In March 2004, NTSZ and NTEEPHK signed a memorandum of understanding in respect of the transfer, under which it was confirmed that title to and risk in the property, undertaking, rights and assets (if any) of such business in relation to the sales coordination and marketing activities previously conducted by NTEEPHK had passed to NTSZ and that NTEEPHK would not in the future engage itself in any business similar to that assumed by NTSZ. On 1 October 2003, NTSZ entered into a consultancy agreement with NTIC, the then PRC headquarters of NTE Inc. in Macao, which had re-engaged those marketing personnel previously under the employment of NTEEPHK.

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On 3 July 2003, NTEEPHK and the Company entered into a sale and purchase agreement for the transfer of the entire 100% equity interest in NTSZ to the Company at a consideration of US\$90 million which corresponded with the then registered capital of NTSZ. On 3 December 2003, the Ministry of Commerce of the PRC issued an approval document approving, amongst others, the transfer of the entire 100% equity interest in NTSZ from NTEEPHK to the Company and the increase of the registered capital of NTSZ from US\$90 million to US\$98.8 million. On 4 December 2003, the Ministry of Commerce of the PRC issued to NTSZ a new approval certificate showing the Company as the sole investor of NTSZ and the registered capital of NTSZ as US\$98.8 million.

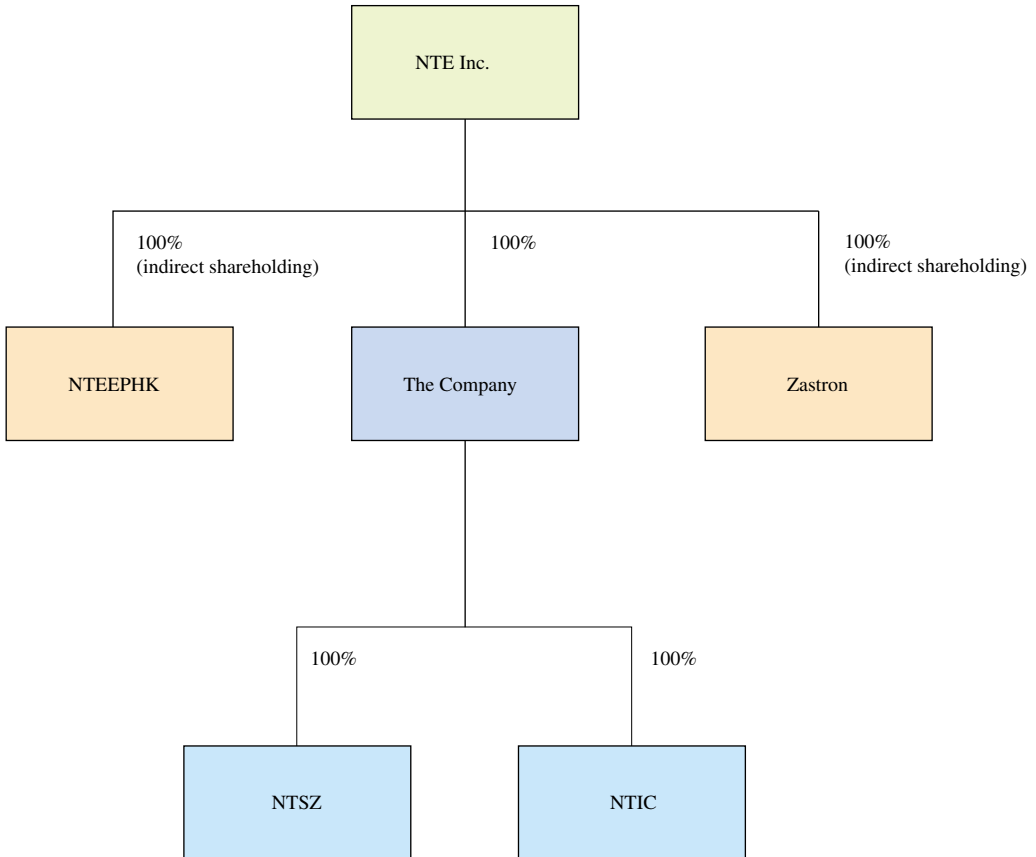
In April 2004, NTE Inc. transferred its entire equity interest in NTIC (which before the Reorganisation served as the headquarter of NTE Inc.'s PRC operations) to the Company. NTIC then became the Group's offshore consultancy company to provide sales and marketing consultancy services to NTSZ.

Pursuant to the written resolution of the sole shareholder of the Company passed on 8 April 2004, 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 an amount of US\$91,543,520.63, being the aggregate consideration payable by the Company to NTE Inc. for the transfers of the equity interest in both NTSZ and NTIC, was capitalised for the allotment and issue of 799,999,990 Shares to NTE Inc..

As part of the Reorganisation, certain amounts due from fellow subsidiaries to the Group as of 31 March 2004 were settled through intercompany assignment of debts to NTE Inc., of which the net balance was offset by the payment of a dividend of US\$35,915,023 to NTE Inc. declared out of the Company's share premium account pursuant to the written resolution of the sole shareholder of the Company passed on 8 April 2004.

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The following diagram illustrates the relevant corporate structure of NTE Inc. and the Group immediately following the completion of the Reorganisation:



PRODUCTS AND SERVICES

Current Products

Currently, our main products can be generally divided into the following categories:

- optical devices such as CMOS image sensor modules;
- home entertainment devices such as the EyeToy® USB camera accessory and the USB microphone and converter box for Sony Computer Entertainment's PlayStation®2;
- mobile phone accessories such as Bluetooth™ headsets, snap-on digital cameras and snap-on flash lights; and
- educational products such as calculators and electronic dictionaries.

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The following table shows a breakdown of the turnover of our Continuing Businesses by product category for each of the three years ended 31 December 2003:

	Year ended 31 December					
	2001		2002		2003	
	<i>US\$'000</i>	%	<i>US\$'000</i>	%	<i>US\$'000</i>	%
		<i>(Note 1)</i>		<i>(Note 1)</i>		<i>(Note 1)</i>
Optical devices	—	—	—	—	4,650	3.61
Home entertainment devices	—	—	—	—	29,178	22.66
Mobile phone accessories <i>(Note 2)</i>	3,157	4.30	39,753	42.28	49,255	38.25
Educational products	69,810	95.07	53,574	56.97	45,562	35.38
Others <i>(Note 3)</i>	463	0.63	705	0.75	134	0.10
Total	<u>73,430</u>	<u>100.00</u>	<u>94,032</u>	<u>100.00</u>	<u>128,779</u>	<u>100.00</u>

Notes:

1. As a percentage of the total turnover of our Continuing Businesses for the three years ended 31 December 2003.
2. Our turnover of mobile phone accessories in the three years ended 31 December 2003 did not include Bluetooth™ headsets which we will commence manufacturing in the second quarter of 2004.
3. Others include spare parts and value-added tailor-made accessories.

Whilst turnover from new products including optical devices, home entertainment devices and mobile phone accessories contribute to a significant proportion of the turnover from our Continuing Businesses, we believe that we have a balanced product mix ranging from traditional products such as educational products which provide a stable and high volume source of business to us, to new technology products in the optical, home entertainment and mobile communications markets which offer significant potential for further growth.

Optical Devices

We manufacture CMOS image sensor modules which utilise light-sensing semiconductors that translate images into a digital signal. An image sensor is needed in all digital image capture devices. Each digital image capturing device generally contains either CMOS image sensor or CCD image sensor. CMOS image sensor modules offer lower picture quality but have a lower power consumption and are less expensive compared to CCD image sensors modules. CMOS

image sensor modules are designed into devices such as mobile phones, PDAs, digital still cameras, automobiles, personal computer cameras, security, surveillance, toys, biometric readers, bar code readers, medical devices and other products. We commenced the manufacturing of CMOS image sensor modules in 2003 for OmniVision and Appeal Telecom. Currently we manufacture over 10 models of CMOS image sensor modules which are designed into mobile phones. In addition, we have in February 2004 received a firm order from a new customer, being one of the leading global mobile phone brands, for the manufacturing of CMOS image sensor modules.

Home Entertainment Devices

We currently manufacture the EyeToy® USB Camera and the 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, and is the first gaming interface on a computer entertainment system. We commenced the manufacturing and delivery of the EyeToy® USB Camera in the second quarter of 2003.

The USB microphone and converter box are used for the PlayStation®2 singing game which allows players to sing along to a number of licensed pop, urban and classic music tracks, and will then provide them with feedback based on the pitch, tone, and rhythms of their performance. We commenced manufacturing of the USB microphone and converter box in February 2004.

Mobile Phone Accessories

We manufacture accessories for use with mobile phones. Such accessories include Bluetooth™ headsets, snap-on cameras and snap-on flash lights.

The headsets that we manufacture connect to mobile phones using Bluetooth™ technology. Bluetooth™ is a specification launched for development in May 1998 which utilises a short-range radio link for the exchange of digital information, enabling users to connect a wide range of devices easily and quickly, without the need for cables, thereby expanding communication capabilities for mobile phones, PDAs and other peripherals. We will commence the manufacturing of Bluetooth™ headsets in the second quarter of 2004. The Bluetooth™ headset accessory is a small and light headset which can be used with all Bluetooth™ enabled cellular phones.

Snap-on cameras can be attached to mobile phones with no built-in cameras to take photos which can then be stored or sent via MMS (multi-media messaging service), email, infra-red or Bluetooth™ technology. Snap-on flash lights can be attached to create better lighting when taking pictures using mobile phones with built-in cameras.

Educational Products

We manufacture a range of educational products including calculators and electronic dictionaries.

Calculators

We manufacture basic calculators as well as scientific calculators and graphic calculators. We currently manufacture 8 series of basic calculators for customers including Texas Instruments, Canon (C.E.B.M.) and others. We have over 20 years' experience in the manufacturing of basic calculators.

For scientific calculators, we currently manufacture over 20 series for customers including Texas Instruments, Canon (C.E.B.M.) and others. We have over 10 years' experience in the manufacturing of scientific calculators. Scientific calculators manufactured by us typically include features such as pre-programmed scientific and statistical functions, memory functions and battery power source with automatic power saving features. Scientific calculators are generally designed and manufactured to cater for scientific and mathematical calculations.

For graphic calculators, we currently manufacture over 4 series for customers including Texas Instruments and others. We have over 5 years' experience in the manufacturing of graphic calculators. Graphic calculators feature a larger screen and facility to draw graphs; and are used in mathematics calculations.

Electronic Dictionaries

We manufacture over 5 series of electronic dictionaries for customers including Canon (C.E.B.M.) and Seiko Instruments and others. We have over 10 years' experience in the manufacturing of electronic dictionaries.

Product Development

We believe that our future success and profitability rely not only on the growth in volume of our current products but also in the diversification into new products. We are currently developing or studying the development of the new products described below.

For optical devices, we are in the course of advancing our technology in both design and manufacturing with an aim to deliver CMOS image sensor modules with higher imaging resolution.

In anticipation of demand for Bluetooth™ products, and to diversify our portfolio of products, we have, since 2002, applied resources in the research and development of applications of Bluetooth™ technology and in the purchase of related equipment. Apart from Bluetooth™ headsets that we currently manufacture, we are actively developing for our customers other products utilising Bluetooth™ technology. We also have the capability to produce Li-ion battery packs and are actively approaching potential customers who may be interested in such products.

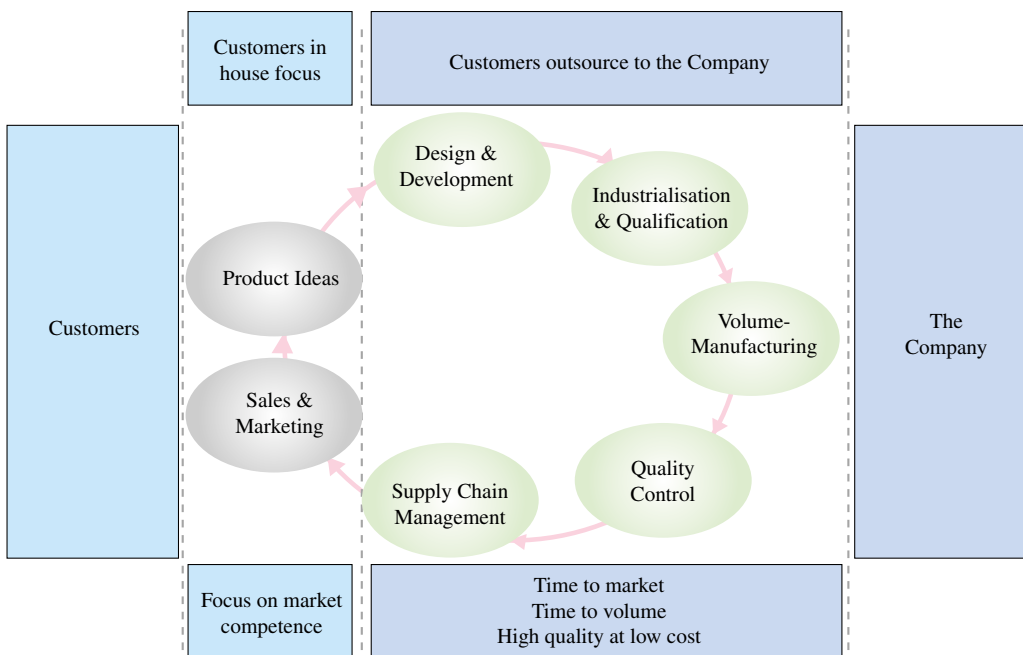
For educational products, we are studying the development of graphic calculators with wireless transmission capacity that can be linked to personal computers and to classroom teaching computer systems to facilitate mathematics learning.

We are also actively exploring opportunities in the automotive electronics sector and have pursued research and development in this sector such as GPS and CMOS image sensor modules for car parking system.

Vertically-Integrated Manufacturing Solutions

We provide vertically-integrated manufacturing solutions to our customers, ranging from design and development, industrialisation and qualification, volume-manufacturing, quality control to supply chain management.

The following diagram illustrates the vertically-integrated manufacturing solutions provided by us:



Design and development

We offer hardware and software design as well as mechanical parts development services to our customers. Our design team of engineers works with our customers in the early stages of product and module design and development and we design, develop and deliver products in accordance with our customers' specifications requirements. We adopt a cost-effective focus in our product and module design and development. We also collaborate with design houses to enhance our design capabilities. We offer product industrialisation services to our customers, assisting our customers in improving the product development cycle and the time-to-market and time-to-volume manufacturing of their products.

Industrialisation and qualification

Our industrialisation and qualification services ensure we achieve the optimal design for the products in terms of safety and reliability and identify the most reliable materials and components to be used. Our quality control team performs product safety and reliability testing to ensure designs and products meet or exceed required specifications. We also have extensive analysis capabilities concentrating on identifying long-term improvement actions. Our industrialisation and qualification capability is important in ensuring the high quality of our products. We also collaborate with external laboratories to enhance our product industrialisation and qualification capabilities.

Volume-Manufacturing

We have a system of production lines which allows us to rapidly ramp up operations to high volume production to meet customer needs and flexibly switch between production of different products. We use a wide-range of advanced manufacturing technologies in the manufacturing of our products. For further details, please refer to “— Manufacturing Capabilities — Production Technologies” and “— Manufacturing Capabilities — Production Lines”.

Quality Control

Throughout the production stage, we inspect and test work-in-progress at several points in the production process to ensure product quality. Before finished products are delivered to customers, we conduct function testing as well as inspection of finished products to ensure that they meet our customers' specifications and quality requirements.

Supply chain management

Our supply chain management services consist of the planning, sourcing, purchasing and warehousing of components and materials used in the manufacturing process. During the manufacturing process, we make continuous efforts to procure lower cost and better quality materials for our customers. We implement supply chain management processes to lower the cost of materials procurement. We also utilise a computerised supply chain management system to assist us in managing supplier quality and materials delivery as well as cost control.

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In addition, we provide logistics support to our customers and arrange with third party logistics providers to transport the end-products to our customers. We also deliver products directly into customers' distribution channels. Our favourable geographical location in Baoan, Shenzhen, in the PRC allows us ready access to a more convenient and lower cost transportation network and infrastructure and ensures timely delivery to our customers.

SALES AND MARKETING

Customers

Our customers include some of the world's reputable leading brand names in the optical, home entertainment, mobile communications and educational markets. Our largest customers include Sony Ericsson, Texas Instruments, Sony Computer Entertainment, Seiko Instruments, OmniVision, Appeal Telecom and Canon (C.E.B.M.). We maintain long term relationships with our customers and historically, we have had substantial recurring sales of both existing products and new products from customers who recognise our ability to produce high quality products at lower cost. For example, we have maintained over ten years of experience with Texas Instruments, Canon (C.E.B.M.) and Seiko Instruments, and over the years we have manufactured new series of products for them. The following table sets out particulars of our major customers:

Major customers

Customer Name	Product supplied to customers	Headquarter locations	Length of relationship with the Group
Texas Instruments	Educational Products	US	> 18 years
Canon (C.E.B.M.)	Educational Products	Japan	> 10 years
Seiko Instruments	Educational Products	Japan	> 10 years
Sony Ericsson	Mobile Phone Accessories	Sweden	< 2 years
Sony Computer Entertainment	Home Entertainment Devices	Japan	< 2 years
OmniVision	Optical Devices	US	< 2 years
Appeal Telecom	Optical Devices	South Korea	< 2 years

We commenced our business relationships with the above major customers either by approaching them through our internal marketing initiatives, through referrals from our suppliers or technological partners or by engaging external sales representatives.

For a lot of our existing customers, we also maintain strategic relationships with them and collaborate to improve existing products and the manufacturing process. We identify and analyse potential demand of existing products together with our customers. We also collaborate with them to identify changing customers' needs and market demand in order to develop new products.

Apart from a strategy to maintain long-term and strategic relationships with existing customers, we also have a focused effort to identify and develop relationships with new customers. In the three years ended 31 December 2003, we have attracted orders from new customers including Sony Ericsson, Sony Computer Entertainment, OmniVision and Appeal Telecom. In February 2004, we have received a firm order from another new customer, being one of the leading global mobile phone brands, for the manufacturing of CMOS image sensor modules. New customers are identified through our internal marketing efforts as well as through external sales representatives, agents and distributors both overseas and in the PRC. Through strategic partnerships with component suppliers, we are also able to diversify our end-customer base. An example of such strategic partnership is our manufacturing of CMOS image sensor modules using CMOS image sensors supplied by OmniVision which are then sold to the end-customers of OmniVision or to other customers such as Appeal Telecom.

Over the course of the years, we have received awards (which we view as a proof of our customers' satisfaction of our products and services) and other recognition (for volume) from customers including Texas Instruments, Seiko Instruments and Canon (C.E.B.M.). Recently, we have received an award from Appeal Telecom in respect of our dedicated efforts in supplying CMOS image sensor modules for their camera phones.

Our five largest customers accounted for 92%, 94% and 91% of the turnover of our Continuing Businesses for each of the three years ended 31 December 2003. Our single largest customer accounted for 45%, 42% and 36% of the turnover of our Continuing Businesses for each of the three years ended 31 December 2003.

None of the Directors, their respective associates or any shareholder of the Company has any interest in any of our top five customers for each of the three years ended 31 December 2003.

Marketing

We emphasize a customer-oriented principle to satisfy customer requirements. We have designated direct salespersons for different customers. Our senior management is also heavily involved in customer relations and devotes significant attention to marketing. We direct our sales resources and activities at several management and staff levels within our customers. Regular visits are made to key customers to maintain close contact and to keep abreast of the market trends and to explore further business opportunities. Our key customers are invited for factory visits to have a better understanding of progress of on-going projects and as part of our on-going customer service. In our provision of vertically-integrated manufacturing solutions to our customers, our sales team work closely with our engineers in project management so as to ensure that our products meet the specifications, quality requirements and delivery schedule of our customers.

We believe that our future success and profitability rely not only on growth of business from our existing customers, but also on diversification into a wider customer base. We therefore have a designated sales team that focuses solely on identifying and developing new customer relationships in the consumer electronics, communications and automotive electronics sectors.

BUSINESS

We target international and leading customers in the strong growth, high profit-margin and large volume segments of the consumer electronics, communications and automotive electronics sectors. We are selective in identifying customers that meet our profile, as our strategy is to establish long-term relationships with our customers.

Our salespersons are incentivised and remunerated by a sales commission system which rewards them according to the volume of sales revenue generated by them and hence our salespersons devote a lot of efforts to increase our sales.

In order to develop relationships with new customers, we also engage external sales representatives, agents and distributors to supplement our marketing efforts. Currently, we have entered into non-exclusive agency agreements with two external sales representatives. They are responsible for the worldwide promotion of the sales of our optical devices and home entertainment devices to new customers.

We regularly receive unsolicited inquiries from industry players including customers and suppliers. We evaluate these opportunities against our customer selection criteria and assign direct salesperson to each opportunity.

Pricing

The pricing policy differs from product to product and from customer to customer. In general, prices are based on our cost of sales, which consist primarily of raw materials, component parts, production and direct labour costs, plus an additional margin. The margin is calculated on the basis of arm's length negotiations with our customers, taking into account factors such as size of orders and the price of products offered in the market.

We review our pricing with our customers on an order-by-order basis and at regular intervals.

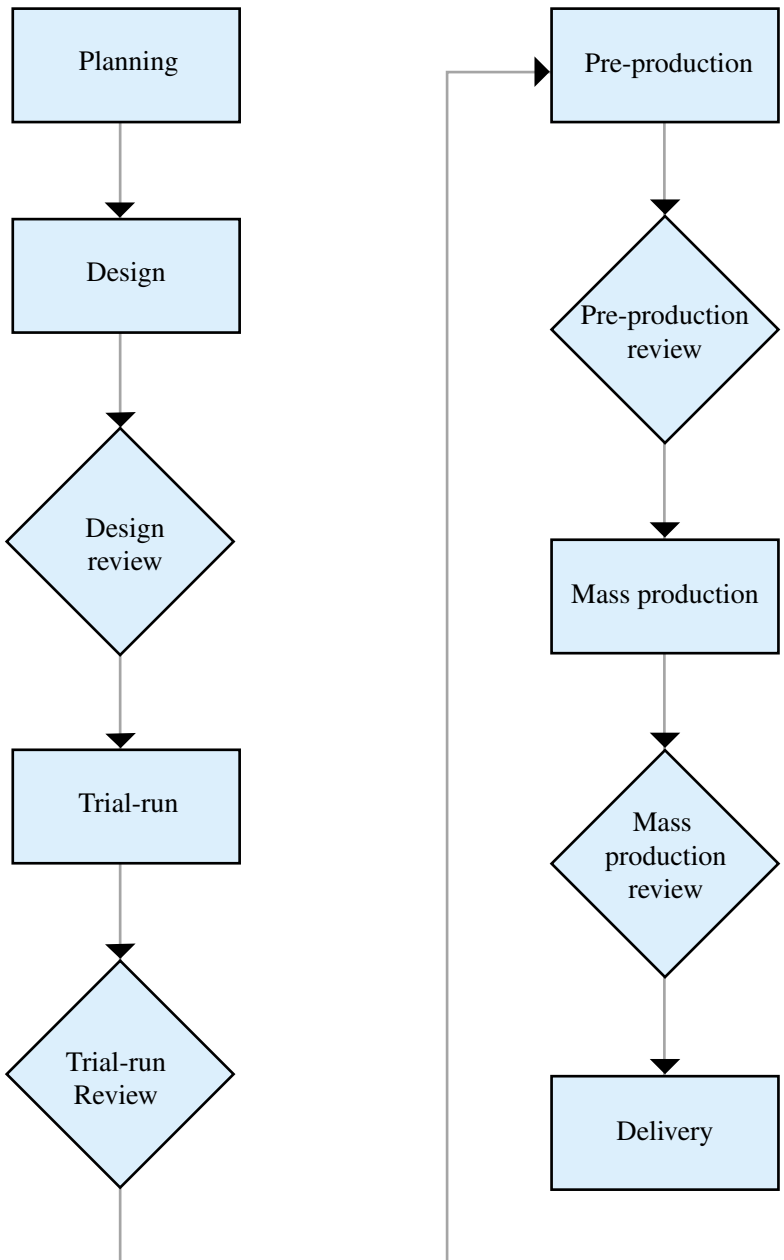
Payment Terms

Currently, all of our sales are denominated in US dollars. Sales of our products are generally made on letter of credit and on credit. For the year ended 31 December 2003, sales made on letters of credit accounted for approximately 31% of total turnover of our Continuing Businesses. The outstanding 69% were generally made on credit terms of 30 days. The credit terms offered depend on our assessment of the customer's credit rating. We divide our customers into different classes of credit rating upon first commencing business with them. The credit rating of each customer is reviewed periodically and is dependent on the creditworthiness of the customer, their prior business relationship with us and the profit margin. Generally, full provision is made for any debt which is more than 30 days overdue and will be written off as a bad debt when it is more than 90 days overdue and cannot be recovered. Should a provision be made for any debt, sales commission will be deducted from the responsible sales personnel until subsequent recovery of the debt is achieved. The financial controller of the Company monitors the recoverability of trade receivables on a regular basis.

For each of the three years ended 31 December 2003, there has been no write-off of bad debts. This is attributable to our stringent customer selection criteria, our good relationships with customers and our tight credit control policy, and this has enhanced our cash flow and hence our financial condition.

PRODUCTION PROCESS

The production process usually takes approximately six months from the planning stage to the delivery of products to our customers. The following flow chart illustrates the process involved in the development and production for a typical product:



Product development team

A product development team, which is led by a programme manager, will be set up to implement each product development and production process. The team consists of members from our sales and marketing, research and development, materials sourcing, production, quality control and logistics departments. Whilst a project manager is responsible for the technical aspect of the product development and production process, a sales manager, who also acts as programme manager, has overall project ownership including handling commercial issues.

Planning

The product development and production process typically begins with a project plan worked out between the project team and the customer. We define the product specifications based on the customers' requirements, the product implementation schedule, the development planning and the major components list with our customers.

Design

Our team of design engineers will then work on the hardware and software design specifications. During this process, our engineers provide product qualification services to ensure we achieve the optimal design for the products in terms of safety and reliability and identify the most reliable materials and components to be used. Our design team creates the product identification specification, the preliminary test specification, target yield rate and matrices, the detailed bill of materials and part list and component specification, the incoming materials quality specification, the electronic drawings and mechanic drawings. In some cases we engage external design houses to assist in the design process if customers have unique product requirements. We also engage third party providers to provide the moulding based on the mechanical design we provide.

Design Review

During the design review process, engineering test reports and design review reports will be produced. The materials and components identified in the design stage will be further analysed with subsequent corrective actions for improvements determined. Once the design passes the design review, a trial-run will be commenced.

Trial-run

During the trial-run stage, we conduct functional verification tests (to ensure product functions are in accordance with specifications) and reliability verification tests (such as dropping and humidity tests) on both the electronic components and mechanical components. We define detailed production line layout and create working instructions for each manufacturing step and production quality plan. We also continue to refine the list of components and materials and ensure test fixtures and tools are available.

Trial-run review

During the trial-run review, we analyse the results from the functional verification and reliability verification tests conducted during the trial-run and identify necessary corrective actions to ensure our production can meet the target yield rate and other test specifications. Once we are satisfied with the relevant test results, we will proceed to the pre-production stage.

Pre-production

Pre-production usually involves a quantity of 3,000 to 5,000 units of products. During this stage, we finalise the components and materials to be used. We conduct pre-production tests (such as functional verification and out-going reliability tests) and also final failure analysis to identify the root cause of any failures or defects.

Pre-production review

During the pre-production review, we analyse yield rate results. If the quality falls below expectations, we analyse the defect and set up any necessary improvement plans. Once the products pass our quality testing and preset target yield rate and matrix, mass production will be commenced.

Mass production

Mass production is carried out according to the customer's purchase order. During the stage of mass production, we continue to conduct functional verification and out-going reliability tests as well as carrying out in-process and out-going quality control tests. We utilise a statistical process control system to collect the relevant production data, monitor the mass production process and implement quality control. We also implement the "5S housekeeping" system to improve our efficiency. The "5S housekeeping" system is a Japanese management concept aimed to improve workplace efficiency by adopting "seiri (sort), seiton (set), seiso (shine), seiketsu (standardisation) and shitsuke (sustain)" principles.

Mass production review

During mass production review, we review the yield rate. In the case of sub-standard finished products, these are co-ordinated by the quality improvement team to identify the root cause of failures or defects and to take corrective and preventive actions.

Delivery

Once our end-products pass our quality control test, we arrange for delivery to our customers by third party logistics providers or directly into their distribution channels.

MANUFACTURING CAPABILITIES

Production Technologies

The use of advanced machinery, equipment and production technologies plays a significant role in maintaining efficiency of the manufacturing process. We believe that our commitment to efficiency and product quality is evidenced by our continued investment in new technology machinery and equipment.

Currently, we utilise the following production technologies:

- ***Chip On Board***

COB is a technology that utilises wire bonding to connect large-scale integrated circuits directly to printed circuit boards. We use COB in the assembly of consumer products such as calculators and dictionaries and have over ten year's experience in COB. As at 31 December 2003, we had 53 COB machines. These machines are fully automatic bonding machines and use ultrasonic mounting technology. The bonding time, pressure, power and each wire loop are under machine programmable control. These machines provide a high speed chip mounting time of per 2 millimetres wire per 0.25 second, a bond pad fine to 75 micrometers and a total production capacity of up to 2,700,000 components per month.

- ***Surface Mount Technology***

SMT is a process by which electronic components are mounted directly on both sides of a printed circuit board, increasing board capacity, facilitating product miniaturisation and enabling advanced automation of production. We use SMT for almost all of our products. At 31 December 2003, we had nine SMT productions lines. The production time per chip ranges from 0.1 second per chip to 0.8 second per chip and high precision ranging from +/-0.09 millimetre to +/-0.1 millimetre. The components size ranges from 0.6 millimetre (length) x 0.3 millimetre (width) to 55 millimetres (length) x 55 millimetres (width). BGA (Ball Grid Array) ball pitch is 0.5 millimetre and ball diameter is 0.2 millimetre. The total production capacity is up to 180,000,000 components per month.

- ***Outer Lead Bonding***

OLB is an advanced technology used to connect printed circuit boards and large-scale integrated circuits with a large number of connectors. We use this technology to manufacture complex miniaturised products, such as high-memory PDAs. As at 31 December 2003, we had three OLB machines. The machines include multi-pinned TCP LSIC (Tape Carrier Packaged Large Scale Integrated Circuit) bonding which is up to 280 pins, they also provide ultra thin assembly with module thickness to around one millimetre and high accuracy bonding with pin pitch 100 micrometres. The total production capacity is up to 118,000 components per month.

- ***Tape Automated Bonding with Anisotropic Conductive Film***

TAB with ACF is an advanced heat sealing technology that connects a liquid crystal display component with an integrated circuit in very small LCD modules, such as those used in pocket computers. As at 31 December 2003, we had one group of five TAB with ACF machines. The machines provide a process time of 25 seconds per component, a pin pitch fine to 200 micrometres and a total production capacity of up to 60,000 components per month.

- ***Fine Pitch Heat Seal Technology***

FPHS technology allows us to connect LCD displays to printed circuit boards produced by chip on board and outer lead bonding that enable very thin connections. This method is highly specialised and is used in the production of finished products such as PDAs. At 31 December 2003, we had eight machines utilising FPHS technology. The machines provide a pin pitch fine to 260 micrometres and a total production capacity of up to 268,000 units per month.

We have a class three thousand clean room capable for the production of our products which require such a strict manufacturing environment.

Our engineers are experienced in advanced production technologies including COB, SMT, OLB, TAB with ACF and FPHS. In particular, they boast over ten years' experience in the area of COB.

We have a continuous strategy to invest in design and production technology advancement. We are currently focused on the development of the following:

- optical, acoustic and RF technologies which will enhance our capabilities in both the design and manufacturing of products such as CMOS image sensor modules with higher resolutions, Bluetooth™ featured products and educational products with wireless transmission capability;
- technologies which will allow us to handle different package forms of components. For example, we are advancing our COB technology from aluminium wedge bonding to gold wire ball bonding so that we can handle CMOS image sensors in various package forms, allowing us to further reduce the risk of components shortage; and
- upgrading of our clean room from class three thousand level to class one thousand level and class one hundred level to allow us to handle optical devices of higher imaging resolutions and also to extend our ability to handle CMOS image sensors in various package forms.

Production Lines

At present, we have a total of 74 automated production lines employing different manufacturing technologies described in “— Manufacturing Capabilities — Production Technologies”. In addition, we also have 6 manual production lines engaged in lens assembly and focusing and 13 production lines engaged in final assembly. We have not engaged any sub-contractors for the production of our products and subassembly for the three years ended 31 December 2003.

Our production lines are designed to accommodate orders with different sizes and product structures as well as to accommodate our broad range of products. The flexibility of our manufacturing process allows us to cater for different requirements from different customers. In particular, our production lines allow a change-over between the production of different products to occur within 30 to 60 minutes.

We are also focused on driving efficiency throughout the manufacturing process. One of these initiatives is the installation of an updated material resource planning (MRPII) system in 2003 as part of our enterprise resource planning (ERP) system in order to maximise utilisation of our resources in raw materials and components, our people, manufacturing process, technologies and factory capacity. We believe the implementation of this system will assist us in increasing production efficiencies, resulting in a significant competitive advantage.

As at 17 March 2004, our production team had 755 workers. Our production workers are all full-time employees and who basically work 8 hours a day, and they are required to work overtime when necessary. We have not employed any part-time or temporary production workers for the three years ended 31 December 2003. We have a good relationship with our production workers and have not experienced any labour strikes, work stoppages or labour disputes which have affected our operations.

We place a heavy emphasis on the quality of our production workers and offer them training. The production workers are required to undergo re-training programmes to upgrade their skills and expertise on areas including production lines processes and efficiency, quality control, cost control, environmental protection, safety and management issues. New workers undergo orientation training and must pass an internal certification process before being officially allowed to work on the production lines.

Production Site

Our production site is located in Baoan, Shenzhen in the PRC and is approximately 26,313.3 square metres. We have been granted land use rights from the PRC government for 50 years commencing in 1993 for the production site. We currently have two factories, one office building, staff quarters, a cafeteria, a staff recreational centre, an electricity generating facility, warehouses and waste water and chemical waste treatment facilities. A portion of the manufacturing space and office space is currently occupied by Zastron pursuant to a lease arrangement as described in “— Connected Transactions — Continuing Connected Transactions Exempt from the Independent Shareholders’ Approval Requirements — Lease of factory complex and the provision of the use of ancillary facilities by NTSZ to Zastron”. The total gross floor area of the manufacturing space and office space currently used by us is approximately 11,945 square metres.

To further segregate our operations from those of Zastron’s and to cater for future expansion of production capacity, we are in the course of building a new office and a new factory of a total gross floor area of approximately 29,005.3 square metres on a piece of vacant land, having a site area of approximately 26,313.9 square metres, adjacent to our existing production site. We have been granted land use rights from the PRC government for this separate piece of land for 50 years commencing in 1999. Planning for the project began in January 2003 and we expect construction to be completed by the end of 2004. We have budgeted US\$20.0 million to cover the costs of construction, fixtures and equipment for the new office and new factory. The construction is financed by internal cash resources. Once the new factory is completed, we expect to relocate our existing production facilities to the new factory in the second quarter of 2005. After the relocation, manufacturing space and office space currently occupied by us will be occupied by Zastron pursuant to our lease arrangement with Zastron as described in “— Connected Transactions — Continuing Connected Transactions Exempt from the Independent Shareholders’ Approval Requirements — Lease of factory complex and the provision of the use of ancillary facilities by NTSZ to Zastron”.

In order to ensure that our production is not interrupted by electricity shortage and to lower production cost, we installed our own power generation system on our production site. There has been no major power failure which has interrupted our production in the past three years. After we relocate our production facilities to the new production site, we expect to use electricity supplied by the local government instead of continuing to use electricity generated by our own electricity generator. This is because government-supplied electricity has improved in stability in recent years and the use of government-supplied electricity will be more cost-effective for production in the long run.

RESEARCH AND DEVELOPMENT

Our focus on research and development is on the following areas:

- designing and developing new products, including collaboration with our major customers;
- product qualification capabilities through identifying and improving the testings and analysis utilised to ensure the meeting of customers' specifications;
- devising vertically-integrated manufacturing solutions for our customers; and
- designing and developing new manufacturing process to improve production efficiency and reduce cost.

As at 17 March 2004, we have 65 in-house engineers engaged in research and development and who on average has over six years' industry experience. Our in-house engineers are responsible for product and module design and product quality, improving the efficiency and flexibility of our manufacturing process, reducing our production costs and lead-times, improving the quality and reliability of products, and meeting quality and reliability standards as defined by our customers. 52% of our engineers engaged in research and development have master's degrees or university degrees and 48% of our engineers engaged in research and development graduated from technical colleges and training schools. Our engineers are experienced in technological areas including, among others, acoustic design, optics design, RF design and new product development.

Our industry is characterised by rapid changes caused by the frequent emergence of new technologies or assembly capabilities. In order to keep abreast of the latest technologies, we continue to invest in the latest and most advanced equipment and enhance our technological expertise through continued training of our engineers and further hiring of qualified engineers. We hold joint activities, such as short-term technical courses, with universities including Zhongshan University, the PRC, to enhance technical expertise and for continuing research in areas including optical, RF, telecommunications and other advanced technologies. In addition, we have invested substantial amounts to implement information technology systems, such as an advanced software and document management system, domino.dot@, in order to improve our data collection, record keeping and knowledge sharing capabilities. These investments are intended to improve our efficiency.

BUSINESS

Our engineers undertake research and development of new production technologies and products, either as initiated by the needs of our customers or to fulfil market opportunities as identified by our marketing personnel. In our efforts to develop leading edge manufacturing technologies, new components solutions and new products, we will also closely collaborate with our major customers.

For the three years ended 31 December 2003, we spent approximately US\$1,372,000, US\$1,199,000 and US\$1,922,000 respectively on research and development for our Continuing Businesses, representing approximately 37%, 15% and 9% of our net profit from the Continuing Businesses in each of the respective years.

QUALITY CONTROL AND ASSURANCE

We consider that our commitment to product quality and the high quality that has been consistently maintained in our product and module design, our production process and our end-products are one of our competitive strengths. Since our establishment, we have regarded the maintenance of and improvement in our product quality as one of our major business goals. We believe that one of the most important factors for maintaining a good business relationship with our customers is providing them with high quality products. As at the Latest Practicable Date, there is no material claim or complaint against the quality or safety standard of the Group's products.

Our commitment to quality is recognised by the accreditation of ISO 9001:2000 quality standards (the International Organisation for Standardisation's highest standards) for quality control.

We have a quality control department, which comprises 96 staff as at 17 March 2004, to maintain the daily operation of the quality control system. It works with different departments and sets out the targets, policies and plans for quality management which comply with the quality assurance model and the requirements specified by each customer.

Our industry defines quality by the defective rate measured in parts per million (ppm). The average out-going defective rate for our main products in the year ended 31 December 2003 was 101 ppm, compared to around 2,000 ppm which is the rate we believe is the average expectation of our major customers.

These results are attributable to us imposing strict quality control standards on each of the production stages:

- during the product and module design stage, we place heavy emphasis on product qualification to ensure we achieve the optimal design for the products in terms of safety and reliability and identify the most reliable materials and components to be used;

BUSINESS

- in the course of materials procurement, we maintain an “approved suppliers” list and source from such suppliers to ensure the quality and specification conformity of the raw materials and components supplied is maintained;
- our vendor quality control teams which are stationed at our suppliers and our in-coming quality control team tests the quality of raw materials and components. Those raw materials and components that fail the quality control process will be re-processed or returned to the relevant supplier;
- before production is commenced, we define comprehensive testing and control procedures required for the production stage;
- during the production stage, our quality control team conducts on-going safety reliability tests and tests the quality of work-in-progress at several points in the production process and those that fail to meet the quality standards will be repaired or disposed and subject to extensive failure analysis;
- we conduct extensive failure analysis to identify the root cause of failures and determine corrective actions; and
- after the assembly stage, we conduct function testing of finished products. Those products that fail to meet the quality standard will be subject to rework and those which meet the requisite standard will be subject to final inspection by our customers, if required.

Generally our failure analysis and product safety and reliability tests involve subjecting our products to various environmental extremes, including temperature, humidity, vibration, voltage, and tests such as the drop test or rate of use.

In December 2003, we engaged an external Singapore-based international consulting firm, QualiSys, to assist us in the implementation of a “Six Sigma” training and certification program to further upgrade our overall quality management, which is expected to be completed in August 2004. “Six Sigma” is a process, accepted by international companies, that focuses on eliminating defects in products and services through a process that “defines, measures, analyses, improves and controls” defects. Our target is to achieve an out-going defective rate of 3.4 ppm.

INSURANCE

We maintain insurance policies in respect of our production facilities. These policies cover losses or damages in respect of buildings, machineries, equipments and inventories. We also maintain business interruption policy, fidelity guarantee policy and where required by our customers, product liability insurances. We consider our insurance policies to be adequate and in line with industry norms.

ENVIRONMENTAL MATTERS

We have adopted an environmental protection policy including the installation of waste treatment facilities and the implementation of pollution treatment procedures in our production facilities to minimise and treat pollution discharged during the production process including noise, chemical waste, waste water and smoke emissions. In 2000 and 2003, we received the ISO 14001:1996 certificates for environmental management control.

Our production facilities discharge waste water and chemical waste. In view of this, we have our own facilities to collect and treat waste water and chemical waste in compliance with the relevant PRC environmental laws and regulations. We have passed regular environmental inspections by PRC government officials.

Some of our customers require us to satisfy certain environmental standards including certifying that we do not use certain environmentally hazardous materials as raw materials in our manufacturing process. We employ facilities to test hazardous materials.

OUR SUPPLIERS

We purchase thousands of different raw materials and component parts from numerous suppliers. The main raw materials and component parts we purchase for our current products include the following:

Products	Main raw materials and component parts
Optical devices	FPC, lens, CMOS image sensor (CSP)
Home entertainment devices	FPC, lens, CMOS image sensor (CSP), microphone set
Mobile phone accessories	PCB, FPC, lens, CMOS image sensor (CSP), plastics
Educational products	asics, PCB, plastic parts

BUSINESS

For the year ended 31 December 2003, the cost of raw materials and components accounted for approximately 93% of our total cost of sales of our Continuing Businesses.

Our suppliers include Japanese, US, European, Hong Kong and local PRC manufacturers.

We identify flexible suppliers who can meet changes in demand for materials and components with shorter lead times. We also identify reliable suppliers from whom we can obtain the raw materials and components required in the production process to ensure the quality and specification conformity of the raw materials and components supplied by such suppliers is maintained. We have a system on the continuous assessment of our suppliers and maintain an “approved suppliers” list. In some cases, our customers require us to obtain certain raw materials and components from suppliers designated by them.

We have business relationships with over 140 suppliers. We have not experienced any material difficulties in sourcing essential materials and components from our suppliers since 1 January 2001. Our five largest suppliers accounted for approximately 46%, 40%, and 43% of our total purchases for each of the three years ended 31 December 2003. Our single largest supplier accounted for 13%, 11% and 15% of our total purchases of our Continuing Businesses for each of the three years ended 31 December 2003. We have established business relationships with our five largest suppliers ranging from two to five years.

Save as disclosed on page V-14 in Appendix V to this prospectus, to the best of the Directors’ knowledge, none of the directors of the Group, their associates or any Shareholder has any interest in any of our five largest suppliers.

Our purchases from suppliers are generally made by way of letter of credit and on credit. For the year ended 31 December 2003, purchases made on letters of credit and on credit accounted for approximately 6% and 94% of total purchases respectively. Purchases made on credit terms range from 30 to 60 days. The exact credit terms are dependent on the nature of raw materials or components purchases and the supplier concerned.

For the year ended 31 December 2003, approximately 71% and 15% of our purchases were denominated in US dollars and Hong Kong dollars respectively.

We also have strategic partnerships with certain component suppliers that we work with. We position ourselves as their manufacturing partner to supply complete product or modules to their end-customers. One example of such is our manufacturing of CMOS image sensor modules using CMOS image sensors supplied by OmniVision which are then sold to the end-customers of OmniVision or to our other customers such as Appeal Telecom. We have entered into a strategic partnership agreement dated 13 July 2003 with OmniVision whereby both parties will introduce new customers to the other. We aim to further extend our strategic partnerships with more key component suppliers to cover a wider product range and a wider end-customer base.

INVENTORY CONTROL

We generally base raw materials and component orders on received purchase orders from our customers in an effort to minimise our inventory risk by ordering components and products only to the extent necessary. At the request of certain customers, we will occasionally purchase raw materials and components based on such customer's rolling forecasts. In such cases, we require our customers to contractually commit to repurchase or utilise such materials within a reasonable period, or to compensate us otherwise if such raw materials and components are not utilised.

For common raw materials and components which can be applied for the production of a range of products, we estimate minimum stock levels based on sales forecasts and production schedules and make new orders for such inventory from time to time when the minimum stock levels are reached. Inventory counts are carried out and usage of individual common raw materials and components are reviewed on a monthly basis.

Inventory of finished goods are maintained at minimal levels as we only manufacture according to customers' orders and we adopt a "just-in-time delivery" production schedule. Generally, provision will be made for finished goods over 30 days and raw material over 180 days.

COMPETITION

General competition in the production of consumer electronics and communications products is intense and characterised by price erosion, rapid technological change, and competition from major international companies. We believe that the principal competitive factors in our targeted markets are product quality, pricing, flexibility and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, technological sophistication and logistics support.

The services we provide are available from many independent sources as well as from current and potential customers with in-house manufacturing capabilities. We compete with different companies depending on the product type.

Optical Devices

Principal competitors in the manufacturing of optical devices include Lite-On Technology Corp. and Primax Electronics Ltd..

BUSINESS

Home Entertainment Devices

Principal competitors in the manufacturing of home entertainment devices include Logitech International S.A..

Mobile Phone Accessories

Principal competitors in the manufacturing of mobile phone accessories include Elcoteq Network Corp..

Educational Products

Principal competitors in the manufacturing of educational products include Inventec Co., Ltd. and Kinpo Electronics, Inc..

We believe that our principal advantage over our competitors is our capability to provide vertically-integrated manufacturing solutions and our ability to maintain strong relationships with existing customers and to diversify into new customers as a result of our flexible, efficient and cost effective manufacturing process and our wide-range of manufacturing technologies which enable us to produce high quality products for our customers.

INTELLECTUAL PROPERTY

Save for the trademarks that have been licensed to us by NTE Inc. (please refer to “— Connected Transactions — Exempt Continuing Connected Transaction — Grant of a licence for the use of certain trademarks by NTE Inc. to the Group”), we do not have any patents, licences or trademarks on which our business is substantially dependent.

PROPERTIES

We have been granted land use rights from the PRC government for two properties in Baoan, Shenzhen in the PRC. For further details, please refer to “— Manufacturing Capabilities — Production Site”.

NT Group Management provides certain office space to us in an office building in Hong Kong. For further details, please refer to “— Connected Transactions — Continuing Connected Transactions Exempt from the Independent Shareholders’ Approval Requirements — Provision of the use of office space, facilities, services and outgoings by NT Group Management to the Group”.

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued our property interests as at 29 February 2004 at US\$27,148,000. The text of the letter and the valuation certificate issued by LCH (Asia-Pacific) Surveyors Limited for this purpose are set out in Appendix III to this prospectus.

STRATEGIC INVESTMENT IN TCL CORPORATION

In January 2002, we acquired a 6% equity interest, representing 95.52 million promoter's shares, in TCL Corporation (formerly known as TCL Holdings Corporation Ltd.) for a total consideration of approximately US\$11,968,000. TCL Corporation is incorporated in the PRC and is principally engaged in the import and export of raw materials, the design, manufacturing and sale and marketing of telephones, VCD players, colour television sets, mobile phones and other consumer electronic products.

According to PRC Company Law, we are restricted in our ability to transfer the promoter's shares held in TCL Corporation 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.

In January 2004, TCL Corporation listed its A shares on the Shenzhen Stock Exchange. As a result, our shareholding was diluted to approximately 3.69%. Based on the closing price of A shares of TCL Corporation, which was RMB7.36 on the Latest Practicable Date, the 95.52 million promoter shares held in TCL Corporation carried a value of approximately RMB703.03 million (or approximately US\$85.03 million).

We consider our investment in TCL Corporation as a long term investment. In October 2003, TCL Corporation declared a cash dividend of US\$27.04 million and we received its cash dividend of approximately US\$1.69 million. With the listing of TCL Corporation, we will continue to enjoy any cash dividend declared by TCL Corporation in each year and Mr. Koo Ming Kown, chief financial officer of NTE Inc. and our non-executive Director, remains as a non-executive director on the board of TCL Corporation.

In 2003, we were approached by Mobile Soft-Tech, an independent sourcing intermediary, to sell mobile phone attachable cameras to them. We understand that TCL Corporation is the ultimate buyer of such mobile phone attachable cameras. We will continue to explore other business opportunities with TCL Corporation.

Other investors of TCL Corporation include Philips Electronics China B.V., Gold Peak Industries, Toshiba, and Sumitomo. We believe that the investment in TCL Corporation not only strengthens our relationship with TCL Corporation, it can also build stronger relationships with those investors of TCL Corporation. We believe we may leverage on these relationships to develop further business relationships with these partners and will explore any possible business opportunities thereof.

It is NTE Inc.'s strategy to invest in companies that would complement the products and services of NTE Inc., augment its market coverage and sales ability or enhance its technological capabilities. The Company follows the same strategy as NTE Inc.. We expect our investment in TCL Corporation to strengthen our relationship with TCL Corporation and to bring us new business opportunities so as to achieve our objective of capturing continuing growth opportunities as well as maximising shareholder value. Meanwhile, no strategic agreement has been signed nor are there any concrete plans in existence in relation to any possible business relationship or co-operation between TCL Corporation and the Company.

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The Company may realise its investment in TCL Corporation at an appropriate time to maximise the benefit to its shareholders.

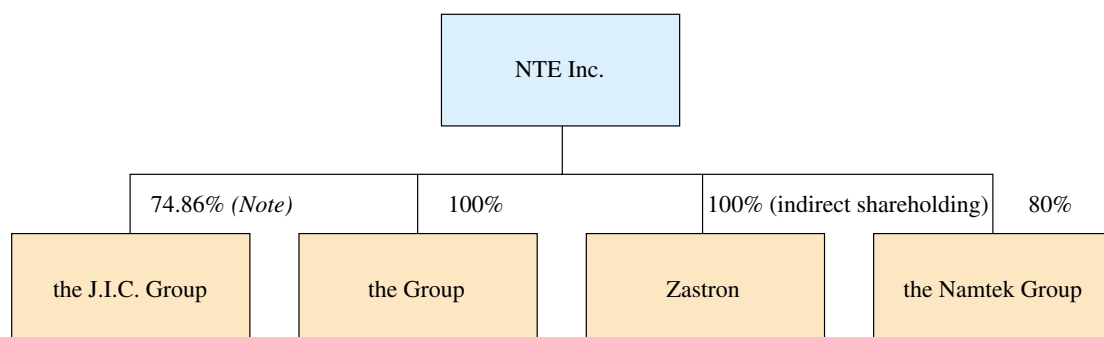
We will continue to selectively pursue investment opportunities that we believe will further our business objectives.

RELATIONSHIP WITH OTHER MEMBERS OF THE NTE GROUP

Following the Reorganisation and prior to the Global Offering, 800,000,000 Shares were held by NTE Inc., representing 100% of the issued share capital of the Company. Immediately after completion of the Global Offering and assuming that the Over-allotment Option is not exercised, NTE Inc. will own approximately 75% of the then issued share capital of the Company and will thus be a controlling shareholder of the Company. Accordingly, NTE Inc. will be able to exercise the rights of a controlling shareholder.

NTE Inc. is a company incorporated in the British Virgin Islands. NTE Inc. was quoted on NASDAQ in April 1988 and subsequently transferred its listing to the New York Stock Exchange in January 2003. Being the holding company of the NTE Group, NTE Inc. oversees the operations of the four profit centres of the NTE Group. NTE Group's business was founded in 1975 by Mr. Koo Ming Kown, one of our non-executive Directors, as an electronic products trading company based in Hong Kong and shifted its focus to the manufacturing of electronic products in 1978. NTE Group subsequently moved its manufacturing facilities to the PRC in the 1980's.

We are part of the NTE Group, which has three other profit centres. Each of the four profit centres of the NTE Group has its own separate management team at the operational level and there is clear delineation between their respective businesses. The following diagram illustrates the four profit centres of the NTE Group as at the date of this prospectus.



Note: Assuming full conversion of all of the issued preference shares of J.I.C. held by NTE Inc., the shareholding will be 88.39%.

The J.I.C. Group

NTE Inc. owns approximately 74.86% of the issued ordinary shares of J.I.C., a company listed on the Main Board of the Stock Exchange in June 2002. Assuming full conversion of all of the issued preference Shares in J.I.C. held by NTE Inc., NTE Inc. will own approximately 88.39% of the issued share capital of J.I.C.. Currently, the J.I.C. Group is essentially engaged in the business of manufacturing LCD panels. The chairman is Mr. Seitaro Furukawa who is supported by a management team separated from the other profit centres of the NTE Group. As at 17 March 2004, 1,629 full-time staff were employed by the J.I.C. Group. The facilities of the J.I.C. Group are situated in Shenzhen, the PRC.

The Namtek Group

NTE Inc. directly owns 80% of the issued shares of Namtek. Currently, the Namtek Group is essentially engaged in the business of software development which is not part of the Continuing Businesses, principally for usage in linguistic products such as electronic dictionaries. Whilst the Group manufactures electronic dictionaries, the Group manufactures the hardware of electronic dictionaries whereas the Namtek Group is engaged in the software development of electronic dictionaries. The managing director of Namtek is Mr. Kazuhiro Asano who is supported by a management team separated from the other profit centres of the NTE Group. As at 17 March 2004, 99 full-time staff were employed by the Namtek Group. The Namtek Group has offices in Shenzhen and Shanghai, the PRC, and Tokyo, Japan.

Zastron

NTE Inc. indirectly owns all of the equity interest in Zastron. Currently, Zastron is essentially engaged in the Discontinued Businesses previously undertaken by NTSZ, that is the business of trading and manufacturing of essential components and subassemblies for mobile phones, such as LCD modules, RF modules and FPC subassemblies. It does not engage in the manufacturing of mobile phone accessories nor optical devices (CMOS image sensor modules which can be used in mobile phones) which is undertaken by the Group through NTSZ. Zastron also produces mobile phones in SKD form. For further information on the transfer of the Discontinued Businesses to Zastron, please refer to “—Delineation of the Continuing Businesses and the Discontinued Businesses”. The chairperson and chief executive officer of Zastron is Ms. Lei Lai Fong who is supported by a management team separated from the other profit centres of the NTE Group. As at 17 March 2004, approximately 1,666 full-time staff were employed by Zastron. The facilities of Zastron are situated in Shenzhen, the PRC.

Delineation of the Continuing Businesses and the Discontinued Businesses

Historically, the Continuing Businesses and the Discontinued Businesses were carried on under NTSZ. Taking into account the differences in the nature of the Continuing Businesses and the Discontinued Businesses and the fact that each had its own group of core customers

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and management team at the operational level, NTE Inc. decided in 1997 that the Continuing Businesses and the Discontinued Businesses would be run as different responsibility centres for management purposes. A further step was taken in 2001 when the Continuing Businesses and the Discontinued Businesses became different profit centres, thereby effectively making them different divisions within NTSZ. The final step to completely segregate these businesses was taken when Zastron took over from NTSZ the Discontinued Businesses, which then allowed us to concentrate our effort and resources on the Continuing Businesses.

The business lines of the Continuing Businesses, including the mobile phone accessories line, undertaken by the Group through NTSZ and the Discontinued Businesses previously undertaken by the Group through NTSZ and now undertaken by Zastron are clearly delineated and do not compete with each other. In particular:

- *Product classification*

The Continuing Businesses currently consist of mainly the manufacturing of consumer electronics and communication products including optical devices, home entertainment devices, mobile phone accessories and educational products. The Discontinued Businesses mainly consist of the manufacturing of essential components and subassemblies for mobile phones, such as LCD modules, RF modules and FPC subassemblies. In general, the Continuing Businesses include the manufacturing of finished products and optical devices whilst the Discontinued Businesses include the manufacturing of essential components and subassemblies for mobile phones. There is no overlap in product classification under the Continuing Businesses and the Discontinued Businesses.

- *Mobile phone accessories and components*

In respect of mobile phone accessories and components, the mobile phone accessories we produce and the mobile phone components produced by Zastron are clearly delineated. The manufacturing of mobile phone accessories, which are stand alone products, such as headsets, snap-on cameras, snap-on flash lights and battery packs, is part of the Continuing Businesses we undertake. Zastron is not involved in the manufacturing of any mobile phone accessories. On the other hand, the manufacturing of mobile phone components, which are essential components forming part of a mobile phone, such as LCD module and RF module, is part of the Discontinued Businesses undertaken by Zastron. We are not involved in the manufacturing of such mobile phone components. The mobile phone accessories line of the Continuing Businesses and the mobile phone components line of the Discontinued Businesses are clearly delineated.

- *Optical devices*

In respect of optical devices including the CMOS image sensor modules, these are part of the Continuing Businesses we undertake and Zastron is not involved, and do not have the requisite optical technologies and expertise, in the manufacturing of optical devices. Although CMOS image sensor modules can be used in mobile phones, they are not essential components of mobile phones and hence do not fall within the classification of the Discontinuing Businesses. CMOS image sensor modules can also be designed into other devices such as PDAs, digital cameras, automobiles, personal computer cameras, security, surveillance, toys, biometric readers, bar code readers, medical devices and other products. As a result of its manufacturing of snap-on cameras, we developed the requisite optical technologies and expertise which can also be employed for the manufacturing of optical devices (including CMOS image sensor modules). It was on this basis that NTE Inc. decided that all optical devices including the CMOS image sensor modules are to be manufactured by us.

- *Location and production lines*

Although NTSZ and Zastron are located at the same production site in Baoan, Shenzhen, the PRC, they are currently situated in two different and distinct factory blocks (save for the lease of one floor of clean room by Zastron in the factory block occupied by NTSZ). We and Zastron employ separate production lines located in the respective factory blocks occupied. There is no sharing of manufacturing space or clean rooms between us and Zastron. The manufacturing of LCD modules by Zastron requires extensive use of clean room facilities. As there is insufficient clean room facilities in the factory block that Zastron currently occupies, Zastron also leases the clean room situated in one floor of the factory block occupied by us, which is not currently in use by us. Our operations will be relocated to a new factory currently under construction and expected to complete by the end of 2004, and the operations of Zastron will then occupy the two existing factory blocks each currently occupied by us and Zastron. For further information, please refer to “— Manufacturing Capabilities — Production Site”.

- *Equipment and machinery*

There is no sharing of equipment and machinery between us and Zastron and the equipment and machinery employed by us and Zastron are located in the respective factory block occupied.

- *Technologies*

The key production technologies we employ are COB, SMT and optical technologies and the key production technologies employed by Zastron are COG and COF. The key production technologies employed by us and Zastron are completely different in all essential respects.

- COB utilises wire bonding to connect large-scale integrated circuits directly to printed circuit boards. COB utilises aluminium wire or gold wire material as conductive materials.
- SMT is a mounting process that mounts electronic components directly on both sides of a printed circuit board. SMT utilises solder paste material as conductive materials.
- COG process connects integrated circuits directly to LCD panels without the need for wire bonding.
- COF is used for bonding integrated circuit chips and other components onto a flexible printed circuit.

These technologies, which require different machineries, are used to manufacture different products. The technologies, expertise and machineries that we and Zastron currently utilise are not practical to manufacture each other's products. The products we produce do not generally require COG and COF technologies. COG and COF which Zastron utilises are production technologies which are required for the production of smaller size components such as LCD modules as the manufacturing of such components require more advanced technologies with higher precision.

Whilst we currently do not produce any Li-ion battery packs, we have the capability to produce such products and are actively approaching potential customers who may be interested. The assembly of Li-ion battery packs utilises spot-welding technology that we possess. Zastron does not possess these technologies.

- *Management*

NTSZ and Zastron have separate management teams at both the executive and operational levels.

- *Staff*

There is a complete separation of staff between us and Zastron and there is no member of our staff that is under the payroll of Zastron and vice versa.

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- *Sales and marketing*

There is no overlap between the respective sales and marketing teams for the Group and Zastron.

- *Customers*

Our major customers are different from those of Zastron.

- *Suppliers*

The suppliers for the key raw materials and components for the respective products of the Group and Zastron are different. We and Zastron have separate sourcing teams.

- *Inventory*

Inventories of the Group and Zastron are stored in separate warehouses located on the ground floor of the respective factory blocks occupied.

- *Segregation of new product lines in the future*

In line with the current product classification between the Continuing Businesses and Discontinued Businesses, we will generally continue to engage in the manufacturing of finished goods and optical devices whilst Zastron will generally continue to engage in the manufacturing of essential components and subassemblies for mobile phone.

Due to the above, the Directors are of the view that the Continuing Businesses (including the mobile phone accessories line) and the Discontinued Businesses are clearly delineated, and that as each of the business of the Group and Zastron currently occupies a different specialised segment of the electronics industry, it does not compete nor is likely to compete, directly or indirectly, with each other.

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NTE Inc.

Although NTE Inc. will retain a controlling interest in the Company upon completion of the Global Offering, the business of the Group will be managed independently and on a stand alone basis by the Executive Directors and senior management of the Group. As a member of the NTE Group, the Group is expected to follow group policies and standards of the NTE Group. Being a significant part of the NTE Group, we enjoy certain intangible benefits such as:

- technological synergy;
- market intelligence;
- customer and business referral;
- resource sharing;
- economies of scale from common sourcing; and
- brand name and corporate identity.

NTE Inc.'s interest in the Company is represented by Mr. Li Shi Yuen, Joseph, Mr. Koo Ming Kown and Mr. Tadao Murakami, all being non-executive Directors and executive directors of NTE Inc.. These non-executive Directors act as advisers to the executive Directors and senior management of the Group and provide guidance on management issues and support to the Group's business on an as needed basis. Further details are set out in "Directors, Senior Management and Staff".

We have been informed by NTE Inc. that it was involved in a pending US litigation, in which the plaintiffs purport to represent a putative class of persons who purchased the common stock of NTE Inc. at the relevant times, alleging misrepresentation and/or omission on the part of NTE Inc. in preparing its financial statements. Mr. Koo Ming Kown, Mr. Li Shi Yuen, Joseph and Mr. Tadao Murakami were also named as parties to the consolidated actions. For details of the actions, please refer to "Other Information — Litigation" in Appendix V to this prospectus. As the actions are still at the early stages, the ultimate outcome cannot be presently determined. However, NTE Inc. believes that it has meritorious defences and intends to defend vigorously.

The Company has looked into the matter and is given to understand that it is unlikely that in the US, the plaintiffs could, even if they proceed to, obtain an interim order or any form of pre-judgment liens or attachment on the Shares enjoining the Global Offering from a well informed court. Nor is it likely that the plaintiffs could obtain any judgment liens or attachment on the Shares restricting any subsequent transfers by the buyers of the Shares. As the actions do not involve or directly relate to the Continuing Businesses or the Group, the Directors consider that the actions will not directly affect the Group's business or operations in any materially adverse manner.

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Certain members of the NTE Group have entered into agreements with the Company or its subsidiaries which, upon the listing of the Shares on the Stock Exchange, will constitute connected transactions under the Listing Rules. For details of such transactions, please refer to “— Connected Transactions”.

NTE Inc. has executed a Non-Competition Undertaking in favour of the Company pursuant to which NTE Inc. has undertaken to the Company, among other things, that it, and it shall procure that each of its subsidiaries, shall not, either on its own or together with any third party invest, participate or engage in any business which may compete with any core business currently conducted by the Group or any business proposed to be carried on by the Group as disclosed in this prospectus, or have any interest in such business.

We have been informed by NTE Inc. that it intends to maintain a majority ownership stake in the Company in the foreseeable future. Neither NTE Inc. nor the Group has any current intention for the Group to acquire any of the assets or business of the J.I.C. Group, the Namtek Group or Zastron.

As we are part of the NTE Group, our results will be consolidated into the results of NTE Inc.. NTE Inc. currently announces results on a quarterly basis. It is expected that NTE Inc. will announce its unaudited results for the first quarter ended 31 March 2004 on or around 30 April 2004, which will consolidate the unaudited results of the Group for the first quarter ended 31 March 2004. We will be publishing interim and annual results in accordance with the requirements of the Listing Rules. In addition, we will be publishing quarterly results commencing the period of nine months ended 30 September 2004. We will comply with the continuing disclosure requirement under Rule 13.09 of the Listing Rules and where necessary, disclose any price-sensitive information of the Company on a timely basis.

CONNECTED TRANSACTIONS

A. Continuing Connected Transactions Exempt from the Independent Shareholders' Approval Requirements

Set out below are the terms of the continuing connected transactions which are exempt from the independent shareholders' approval requirements but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules (“Relevant Continuing Connected Transactions”).

1. Lease of factory complex and the provision of the use of ancillary facilities by NTSZ to Zastron

Transaction nature:

NTSZ and Zastron have entered into a lease agreement dated 8 April 2004 (the “Lease Agreement”) pursuant to which it was agreed that:—

- (a) subject to paragraph (b) below, NTSZ shall lease to Zastron the existing factory complex with manufacturing and office space with a floor area of approximately 31,049 square metres and staff quarters with a floor area of

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approximately 12,257 square metres, standing on the production site located at Baoan, Shenzhen, the PRC owned by NTSZ;

- (b) prior to the relocation of the operations of NTSZ to the new factory complex referred to in “— Manufacturing Capabilities — Production Site”, NTSZ will retain the use of the manufacturing and office space with a floor area of approximately 11,945 square metres in the existing factory complex. Vacant possession of the same will be delivered to Zastron upon NTSZ giving Zastron one month’s notice of relocation. The rent payable by Zastron during such period of time will be decreased accordingly; and
- (c) in connection with the lease of the factory complex, NTSZ shall permit the use by Zastron of the ancillary facilities on the production site, including canteen, the facilities building and office facilities.

The Lease Agreement is for a term of 3 years commencing on 1 April 2004. Either party may terminate the Lease Agreement by giving not less than 3 months’ prior written notice to the other party.

Connected person:

Zastron

Fee:

(1) Rent

The monthly rent payable by Zastron in connection with the lease of staff quarters, and the manufacturing and office space complex after relocation of the operations of NTSZ to the new factory complex referred to in “— Manufacturing Capabilities — Production Site” will be RMB648,000. Prior to relocation, the monthly rent payable by Zastron to NTSZ will be RMB455,000.

(2) Facility service fee

The monthly facility service fee payable by Zastron in connection with the use of the ancillary facilities under the Lease Agreement will be RMB148,000.

Pricing basis:

The monthly rent payable by Zastron is based on the comparable market rental per square metre of the staff quarter, manufacturing and office space being leased. The facility service fee is calculated based on the actual cost incurred by NTSZ in providing Zastron with the use of the ancillary facilities.

Based on the above and on the assumption that the relocation takes place on 30 June 2005, the aggregate fee payable by Zastron to NTSZ for each of the three years ending 31 December 2006 will be approximately US\$656,000 (equivalent to approximately HK\$5,117,000), US\$1,015,000 (equivalent to approximately HK\$7,917,000) and US\$1,155,000 (equivalent to approximately HK\$9,009,000) respectively.

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has confirmed that the pricing basis under the Lease Agreement is comparable to the current market.

The Directors (including the independent non-executive Directors) have confirmed that the monthly fee agreed between NTSZ and Zastron for the lease of the factory complex and the provision of the use of the ancillary facilities is fair and reasonable, was negotiated on an arm's length basis and constitutes normal commercial terms.

Reason for the transaction:

At present, the existing factory complex is co-used by NTSZ and Zastron. To better segregate the production operations of NTSZ and Zastron and to allow room for future expansion in production capacity, NTSZ is in the course of building a new factory complex adjacent to the existing factory complex. The construction of the new factory complex is expected to be completed by the end of 2004. It is expected that the production operations of NTSZ will be relocated to the new factory complex in the second quarter of 2005 and vacant possession of the entire existing factory complex will be delivered to Zastron.

The entering of the Lease Agreement enabled NTSZ and Zastron to formalise the arrangement in relation to the use of the existing factory complex and the ancillary facilities.

Applicable rule:

Based on the annual aggregate fee payable by Zastron to NTSZ, the transaction under the Lease Agreement falls within the threshold in Rule 14A.34 of the Listing Rules. Hence, it is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

2. *Provision of the use of office space, facilities, services and outgoings by NT Group Management to the Group*

Transaction nature:

The Company and NT Group Management have entered into a business facilities agreement (the "Business Facilities Agreement") dated 8 April 2004 pursuant to which it was agreed that:—

- (a) NT Group Management will provide the Company with office space with a gross floor area of approximately 5,500 square feet, being a part of the property located at 15th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong with a gross floor area of approximately 24,200 square feet furnished with fittings, decorations, office equipment and furniture and use of the common areas of 15th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, including but not limited to the reception area and the conference rooms; and
- (b) NT Group Management shall provide or procure for the use by the Company of certain office equipment, office facilities, office services and outgoings such as office furniture, communication facilities, maintenance and support, reception area and meeting rooms.

The Business Facilities Agreement is for a term of 3 years commencing on 1 April 2004. Either party may terminate the Business Facilities Agreement by giving not less than 3 months' prior written notice to the other party.

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Connected person:

NT Group Management

Fee:

In consideration of NT Group Management providing the Company with the use of the said office space and the relevant office equipment, facilities, services and outgoings, the Company shall pay a monthly licence fee of HK\$390,000 to NT Group Management.

Pricing basis:

The monthly licence fee of HK\$390,000 payable to NT Group Management for the use of the office space and the relevant office equipment, facilities, services and outgoings is based on market rate on the licensing of comparable “business centres”.

Based on the above, the aggregate licence fee payable by the Company to NT Group Management for each of the three years ending 31 December 2006 will be US\$450,000 (equivalent to HK\$3,510,000), US\$600,000 (equivalent to HK\$4,680,000) and US\$600,000 (equivalent to HK\$4,680,000) respectively.

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has assessed the monthly licence fee under the Business Facilities Agreement based on the licensing of comparable “business centres” which comprise the use of office space with other office equipment and facilities and has confirmed that the pricing basis under the Business Facilities Agreement is comparable to the current market.

The Directors (including the independent non-executive Directors) have confirmed that the pricing arrangement agreed between the Company and NT Group Management for the provision of office space, equipment, facilities, services and outgoings is fair and reasonable, was negotiated on an arm’s length basis and constitutes normal commercial terms.

Reason for the transaction:

The arrangement under the Business Facilities Agreement gives the Company the benefit of having access to the resources and facilities of NT Group Management at a market rate as well as enhancing the Company’s operational efficiency.

Applicable rule:

Based on the annual aggregate licence fee payable by the Company to NT Group Management, the transaction under the Business Facilities Agreement falls within the threshold in Rule 14A.34 of the Listing Rules. Hence, it is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

3. *Purchases of LCD panels by NTSZ from J.I.C. Enterprises (Hong Kong) Limited ("J.I.C. Enterprises")*

Transaction nature:

NTSZ, a wholly owned subsidiary of the Company, and J.I.C. Enterprises have entered into a letter purchase agreement (the "Purchase Agreement") dated 8 April 2004 pursuant to which it was agreed that (1) J.I.C. Enterprises shall be included in NTSZ's list of designated suppliers of LCD panels; and (2) NTSZ may from time to time place purchase orders with J.I.C. Enterprises at a price no less favourable than that available to NTSZ from independent third parties in accordance with the standard terms of business of NTSZ.

The Purchase Agreement is for a term of 3 years commencing on 1 April 2004.

Connected person:

J.I.C. Enterprises, a wholly-owned subsidiary of J.I.C.

Pricing basis:

The purchase price shall be on terms no less favourable than that available to NTSZ from independent third parties.

For each of the three years ended 31 December 2003, the aggregate purchases of LCD panels from the J.I.C. Group amounted to nil, nil and approximately US\$13,330 (equivalent to approximately HK\$104,000) respectively.

Qualification testing on LCD panels, which takes a few months to complete, needs to be performed for each of the calculator models manufactured by the Group. The Company expects that a number of testings on LCD panels manufactured by J.I.C. Enterprises to be completed from 2004 onwards and due to the expected general increase in the sales of calculators, the amount of purchases of LCD panels from J.I.C. Enterprises is expected to increase for this year and the next two years. Based on the Group's forecasted production volume of calculators using J.I.C. Enterprises' LCD panels, the estimated aggregate purchases for each of the three years ending 31 December 2006 will be approximately US\$641,000 (equivalent to approximately HK\$5,000,000), US\$833,000 (equivalent to approximately HK\$6,500,000) and US\$1,090,000 (equivalent to approximately HK\$8,500,000) respectively.

Reason for the transaction:

The LCD panels are purchased by NTSZ for use in the production of calculators. The arrangement under the Purchase Agreement allows the Group to expand its supplier base to include J.I.C. Enterprises.

Applicable rule:

Based on the Group's forecasted production volume for calculators using J.I.C. Enterprises' LCD panels, the estimated annual purchases under the Purchase Agreement will fall within the threshold in Rule 14A.34 of the Listing Rules and only be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

In the event that the purchases shall exceed the threshold in Rule 14A.34 for any year, the Company will comply with the requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules, including obtaining independent shareholders' approval, if necessary.

B. Exempt Continuing Connected Transaction

Details of the continuing connected transaction of the Company which is exempt from the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules ("Exempt Continuing Connected Transaction") are set out below:

Grant of a licence for the use of certain trademarks by NTE Inc. to the Group

Transaction nature:

The Company and NTE Inc. have entered into a trademark licence agreement (the "Trademark Licence Agreement") dated 8 April 2004 pursuant to which it was agreed that:—

- (a) the Company shall be granted a sole and royalty-free licence, with a right to sub-license to its subsidiaries, to use certain "Namtai" trademarks for so long as NTE Inc. holds more than 50% of the issued share capital of the Company, save and except that the sole licence shall not prohibit any use of the trademarks by NTE Inc. for the purpose of conducting its investment holding business; and
- (b) the Company and other members of the Group shall use the licenced trademarks within the scope specified.

Connected person:

NTE Inc.

Pricing basis:

No fee is payable by the Group under the Trademark Licence Agreement.

Reason for the transaction:

The arrangement under the Trademark Licence Agreement allows the Group to enjoy brand name and corporate identity with NTE Inc..

Reason for the exemption:

The transaction under the Trademark Licence Agreement falls within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules.

The Exempt Continuing Connected Transaction is not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

C. Connected Transactions to be Discontinued upon Listing of the Shares on the Stock Exchange

Corporate guarantee provided by or to connected persons

The Group has received financial assistance in the form of corporate guarantee provided by NTE Inc. in relation to banking facilities granted to NTSZ.

The Group has obtained "in-principle" written consent from the relevant bank that the aforesaid corporate guarantee will be released upon the listing of the Shares on the Stock Exchange and, as appropriate, will be replaced by corporate guarantees provided by the Company.

D. Waiver from the Stock Exchange

The Relevant Continuing Connected Transactions constitute continuing connected transactions which are exempt from the independent shareholders' approval requirements but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules. Given their recurring nature and that the respective agreements for each of the Relevant Continuing Connected Transactions had been entered into prior to the date on which the Shares commence trading on the Stock Exchange, the Directors consider that strict compliance with the aforementioned announcement requirements for the Relevant Continuing Connected Transactions would be impractical.

The Company has applied for the Stock Exchange a waiver from strict compliance with the announcement requirements relating to continuing connected transactions set out in Chapter 14A of the Listing Rules for the Relevant Continuing Connected Transactions.

The Sponsor is of the opinion that the Relevant Continuing Connected Transactions are in the ordinary and usual course of business of the Group, on normal commercial terms, are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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The Company must comply with the provisions of Chapter 14A of the Listing Rules governing continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable at the date of this prospectus on transactions of the kind to which the transactions belong including, but not limited to, a requirement that such transactions be made conditional on approval by the independent shareholders of the Company, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable time.