You should read the following discussion in conjunction with our audited financial information as at and for the years ended 31 December 2001, 2002 and 2003, and, in each case, the notes thereto, which are included in the Accountant's Report set out in Appendix I to this prospectus and prepared in accordance with HK GAAP. For the purposes of the following discussion, unless the context requires otherwise, references to "Fiscal Year 2001", "Fiscal Year 2002" and "Fiscal Year 2003" are to the financial year ended 31 December of the relevant year.

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. All of our production facilities are in the PRC. Our largest customers include Sony Ericsson, Texas Instruments, Sony Computer Entertainment, Seiko Instruments, OmniVision, Appeal Telecom and Canon (C.E.B.M.). 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 began production of mobile phone accessories in 2001; and optical devices and home entertainment devices in 2003. As part of our vertically-integrated manufacturing services, we offer design and development, industrialisation and qualification, volume-manufacturing, quality control and supply chain management. We are seeking to diversify into the automotive electronics sector and to capture the continuing growth opportunities in the outsourcing trend of the consumer electronics and communications products industry.

Our Reorganisation

Prior to March 2003, NTSZ was engaged in the manufacturing of consumer electronics and communications products and essential components and subassemblies for mobile phones. The manufacturing of consumer electronics and communications products was conducted as a separate business from the manufacturing of essential components and subassemblies for mobile phones. Each business was regarded as an independent profit centre within NTSZ with separate customer bases, work forces, machinery and sales channels. All sales coordination and marketing activities in relation to our consumer electronics and communications products were conducted by NTEEPHK. In order to segregate the businesses of Zastron and NTSZ which were and are considered as two separate profit centres of NTE Inc. and to allow NTSZ to further concentrate its effort and resources on consumer electronics and communications products, NTE Inc. determined to separate our consumer electronics and communications businesses, our "Continuing Businesses" from our essential components and subassemblies for mobile phone business, our "Discontinued Businesses". In December 2002, NTSZ as the vendor and Zastron, a fellow subsidiary, as the purchaser entered into a sale and purchase agreement in respect of the sale and purchase of certain equipment and machinery in respect of the manufacturing of essential components and subassemblies for mobile phones, such as LCD modules and RF modules, to Zastron. We, however, continued to manufacture and deliver essential components and subassemblies for mobile phones into Fiscal Year 2003 for customer orders received in Fiscal Year 2002 through an arrangement with Zastron. We completely ceased this operation in March 2003.

Prior to the Reorganisation, NTEEPHK was responsible for the sales coordination and marketing of our consumer electronics and communications products, being certain clerical and administrative work such as arranging invoicing, handling of customers' purchase orders and conducting marketing activities. As part of the Reorganisation, NTSZ assumed from NTEEPHK sales coordination and marketing activities as a result of which all customers' contracts were transferred to NTSZ by way of novation or NTSZ entering into new contracts with customers. 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, which had re-engaged those employees previously under the employment of NTEEPHK for the provision of management and administration support. In April 2004, NTE Inc. transferred its entire equity interest in NTIC to the Company.

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.

For more information on our Reorganisation, please refer to "Further Information About the Company — Corporate reorganisation" in Appendix V to this prospectus.

The sales coordination and marketing activities carried out by NTEEPHK for the period from 1 January 2001 to 31 July 2003 are included in our audited financial information for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003. In our audited financial information for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003 included in the Accountant's Report set out in Appendix I of this prospectus, our business relating to the trading and manufacturing of essential components and subassemblies for mobile phones is reflected as "Discontinued Businesses". As such, our historical financial information is not indicative of our future performance. For more information, please refer to the additional financial information for the Continuing Businesses set out in note 3(a) the Accountants' Report in Appendix I to this prospectus.

Taxation

Under the applicable enterprise income tax law of the PRC and the relevant rules promulgated by Shenzhen municipal government, an FIE whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum of five years may obtain a refund of the taxes already paid on those profits. We have historically reinvested our profits and applied for a refund which has significantly lowered our effective tax rate in the PRC. The determination as to whether we should reinvest our profits is made on a yearly basis taking into account the business needs we have and the impact of such reinvestment on our effective tax rate and on our shareholders. In the event that we do not reinvest our profits in future years, our effective tax rate in the PRC would increase significantly. NTSZ was recognised as a high and new technology enterprise since 1999, and was granted a preferential tax rate of 7.5% for five years, that is, for 1999 to 2003. However, subsequently, the relevant tax bureau declared that the preferential tax rate of 7.5% should only be granted for a period of 3 years rather than 5 years. Hence, starting from 2002, NTSZ no longer qualified for a tax rate of 7.5% even though it is still recognised as a high and new technology enterprise. Furthermore, NTSZ, which is subject to a value-added tax rate of 17%, was, prior to 1 January 2004, entitled to a value-added tax refund rate of 17%, but pursuant to recent changes to relevant PRC tax regulations, is entitled to a reduced value-added tax refund rate of 13% commencing from 1 January 2004. Should there be any changes in respect of the current taxation policies of the PRC tax authorities, the rates or methods of taxation, which are unfavourable to us, our performance and profitability may be adversely affected. As such, our historical financial information may not be indicative of our future performance. For more information, please refer to "— Taxes" and "Risk Factors — Risks Related to the PRC — Changes to the PRC tax laws could subject us to increased taxes".

Investment in TCL Corporation

Currently we hold 95.52 million promoter's shares, representing approximately 3.69% of the outstanding shares of TCL Corporation, a PRC incorporated company that is principally engaged in the import and export of raw materials, the design, manufacture and sales and marketing of telephones, VCD players, colour televisions, mobile phones and other consumer electronics products. The A Shares of TCL Corporation are listed on the Shenzhen Stock Exchange. We classify our investment in TCL Corporation as investment securities carried at cost in our financial information. We are subject to a restriction on transfer of the promoter's shares we hold in TCL Corporation pursuant to PRC Company Law. Such restriction on transfer expires in April 2005. We may from time-to-time re-consider our investment strategy.

Management Fees

Prior to this offering, we were a wholly owned subsidiary of NTE Inc.. NTE Inc. wholly owns NT Group Management which provides management services to group companies. Until November 2003, NT Group Management provided management and administrative services including company secretarial services, in-house legal advice, human resources management and consultancy, public relation services, intellectual technology consultancy, internal auditing services and accounting services to us through NTEEPHK. The management fees paid by the Group to NT Group Management for each of the three years ended 31 December 2003 are approximately US$1,972,000, US$4,110,000 and US$1,656,000 respectively. The increase in management fees from Fiscal Year 2001 to Fiscal Year 2002 resulted primarily from increased management fees incurred in the relocation of the office of the NTE Group in Hong Kong, which our office forms part thereof, in Fiscal Year 2002. The calculation of such management fees paid to NT Group Management were computed based on the annual budget prepared by NT Group Management at the beginning of each financial year setting out the estimated costs of NT Group Management in providing the management and administrative services to the Group during that financial year, subject to adjustments made at the end of each financial year by reference to the actual costs incurred by NT Group Management. The same basis of calculation also applied to the management fees payable by other members of the NTE Group to which NT Group Management provides management and administrative services. The management fees payable are settled by cash. From November 2003, the arrangement with NT Group Management regarding settlement of management fees through intra-group balance ceased.

Trend in Outsourcing

In recent years consumer electronics and communications 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 remain competitive. According to TFI, worldwide electronics manufacturing outsourcing penetration rate is expected to increase from around 17% in Fiscal Year 2003 to nearly 25% in 2007.

We believe that this global trend to outsource will continue and that we are in a position to further benefit from this global trend. 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 advantage and enable us to secure and increase orders from existing customers and our ability to attract new customers.

Our Customers

For Fiscal Year 2003, our largest customer for mobile phone accessories, educational products and home entertainment devices accounted for approximately 36.0%, 26.0% and 23.0% of the total turnover of our Continuing Businesses, respectively.

The market for consumer electronics and communications products is generally characterised by declining unit prices and short product life cycles. Sales to our customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments from our customers. We recognise sales, net product returns and warranty costs, typically at the time of product shipment or, in some cases, as services are rendered. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

Evolution of our Product Mix

We currently focus on the manufacturing of consumer electronics and communications products business after discontinuing our business for the manufacturing of essential components and subassemblies for mobile phones in March 2003. Our current products are optical devices, home entertainment devices, mobile phone accessories and educational products. We began production of mobile phone accessories in 2001 and optical devices and home entertainment devices in 2003. We adapt our product mix to reflect the changing needs of our customers and the market demand. We develop products both with our own research and development efforts and together with our customers. Our research and development efforts are focused primarily on product and module design and development and product qualification as well as improving the manufacturing processes for our products. Once developed, the manufacturing of a new product segment or product line may require investment in plant and equipment, all of which we historically have experienced. New product lines may also have different cost components which may impact our margins. As our product mix evolves, our historical gross margins and results of operations may not be indicative of our future performance.

Production Facilities in the PRC

All of our production facilities are in the PRC. We enjoy certain tax and other concessions from the PRC government. We expect to continue to locate our production facilities in the PRC. There are significant political, economic, legal, regulatory and other uncertainties with doing business in the PRC including uncertainties relating to repatriation of profits, taxation and land use rights. Changes in policies by the PRC government resulting in changes in laws, regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion or imports and sources of supply could materially and adversely affect our business and operating results. For further details, please refer to "Risk Factors — Risks Related to the PRC".

Cyclicality and Seasonality of Turnover

Our turnover is affected by cyclical and seasonal variations in market conditions. Historically, the prices of certain of our products have been cyclical in nature with periods of price stability with the launch of a new product or new model followed by periods of price decline until the launch of the next model. Accordingly, with respect to our snap-on cameras the turnover cycle for a particular model largely mirrors that for the associated mobile phone. In addition, our sales generally vary from quarter to quarter. We generally experience seasonal peaks for our calculators in the second quarter primarily as a result of increased demand in connection with the back-to-school season sales in the United States. We also generally experience decreased turnover in the first quarter as production declines in the first quarter with the closure of production facilities in the PRC during the Chinese New Year holidays. However, in the first quarter of 2003 we did not experience decreased turnover primarily due to the launch and delivery of a significant order of a new model of snap-on camera.

Contributions to Profit

Contributions to profit from the operations of the Continuing Businesses historically have been higher than those of the Discontinued Businesses. The Continuing Businesses and the Discontinued Businesses are operated under different business models where the Continued Businesses offer customers vertically-integrated manufacturing solutions which have a relatively higher profit margin while the Discontinued Businesses operate on a model where profit is generated through economies of scale derived through high volume of production. The expenses between the Continuing Businesses and the Discontinued Businesses historically were allocated on an actual basis to the extent appropriate. When actual allocation was not appropriate, the expenses were allocated according to other factors, such as proportion of head count involved in the relevant businesses.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by our management and are based upon management's then-current judgment. Note 2, "Principal accounting policies", of our audited consolidated financial information which is included in the Accountant's Report set out in Appendix I to this prospectus includes a summary of the principal accounting policies used in the preparation of such financial information. Critical accounting policies are those that are both most important to the portrayal of our financial conditions and results of operations and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from management's current judgement. Our management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of our financial information.

Inventory Valuation

Our inventories are stated at the lower of cost (on a first-in, first-our basis) or net realisable value. Our industry is characterised by rapid technological change, short-term customer commitments and rapid changes in demand. We make allowances for estimated excess and obsolete inventory based on our regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. If actual market conditions or our customers' product demands are less favourable than those projected, additional allowances may be required. In addition, unanticipated changes in liquidity or financial position of our customers and/or changes in economic conditions may require additional allowances for inventories due to our customers' inability to fulfil their contractual obligations with regard to inventory being held on their behalf.

Allowances for Doubtful Accounts

We perform ongoing credit evaluations of our customers' financial condition and make allowances for doubtful accounts based on the outcome of our credit valuations. We evaluate the collectibility of our accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and the age of past due receivables. Unanticipated changes in the liquidity or financial position of our customers may require additional allowances for doubtful accounts.

Research and Development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over its useful life to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Turnover is our revenue from the sale of goods. For Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003, we derived our sales revenue primarily from the sale of optical devices, home entertainment devices, mobile phone accessories and educational products as well as products manufactured by our Discontinued Businesses. Such revenues are affected by the selling price, volume of products sold and the type of products sold.

Cost of Sales

Our cost of sales consists primarily of:

- raw materials and component parts from numerous suppliers;
- production and direct labour costs; and
- depreciation of plant and equipment.

We undertake continuous efforts to further enhance our lower cost competitiveness by sourcing materials and components from qualified suppliers offering favourable prices and terms.

Other Operating Income

Other operating income includes gains from the sale of plant and equipment, dividend income, foreign exchange gains, bank interest and equipment and handling charges on products sold to our customers.

Selling and Distribution Costs

Selling and distribution costs primarily comprise the following:

- compensation to sales and marketing staff; and
- sales commissions.

Administrative Expenses

Administrative expenses consist primarily of management fees, employee compensation and depreciation of our property.

Research and Development Expenditures

Our research and development expenditures mainly include compensation for research and development, staff and costs associated with the development of electronic products and other designs and technologies.

SELECTED AUDITED FINANCIAL INFORMATION

The following tables set forth our selected audited financial information for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003 which has been extracted from our audited financial information for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003 included in the Accountants' Report set out in Appendix I to this prospectus.

	Fiscal Year 2001		For Fiscal Year 2002		Fiscal Year 2003	
	US$'000	*% of turnover*	*US$'000*	*% of turnover*	*US$'000*	*% of turnover*
Profit and Loss Account Data:						
Turnover *(Note 1)*	167,619	100.00	183,784	100.00	135,893	100.00
Cost of sales	(151,522)	(90.40)	(162,202)	(88.26)	(105,495)	(77.63)
Gross profit	16,097	9.60	21,582	11.74	30,398	22.37
Other operating income	706	0.42	2,827	1.54	3,409	2.51
Selling and distribution costs	(2,191)	(1.31)	(2,231)	(1.21)	(2,323)	(1.71)
Administrative expenses	(7,509)	(4.48)	(8,710)	(4.74)	(6,744)	(4.96)
Research and development expenditures	(2,399)	(1.43)	(1,999)	(1.09)	(1,936)	(1.43)
Profit from operations	4,704	2.80	11,469	6.24	22,804	16.78
Finance costs	(70)	(0.04)	(2)	(0.001)	—	—
Share of result of an associate	397	0.24	75	0.04	—	—
Loss on disposal of an associate	—	—	(65)	(0.04)	—	—
Profit before taxation	5,031	3.00	11,477	6.24	22,804	16.78
Taxation	(54)	(0.03)	(30)	(0.02)	(11)	(0.01)
Net profit for the year	4,977	2.97	11,447	6.22	22,793	16.77
Dividends	—		14,747		—	
Earnings per Share — basic *(Note 2)*	US0.62 cent		US1.43 cents		US2.85 cents	

Note 1:

Turnover comprises:						
Continuing Businesses						
Optical devices	—	—	—	—	4,650	3.42
Home entertainment devices	—	—	—	—	29,178	21.47
Mobile phone accessories	3,157	1.88	39,753	21.63	49,255	36.24
Educational products	69,810	41.65	53,574	29.15	45,562	33.53
Others	463	0.28	705	0.38	134	0.10
Discontinued Businesses	94,189	56.19	89,752	48.84	7,114	5.24
Total	167,619	100.00	183,784	100.00	135,893	100.00

Note 2: The calculation of the basic earnings per Share for the three years ended 31 December 2003 is based on the profit for the three years ended 31 December 2003 and 800,000,000 Shares in issue as at the date of this prospectus.

	As of		
	Fiscal Year 2001	**Fiscal Year 2002**	**Fiscal Year 2003**
	US$'000	*US$'000*	*US$'000*
Selected Balance Sheet Data:			
Non-current assets			
Property, plant and equipment	42,366	31,689	32,659
Investment securities	—	11,968	11,968
Current assets			
Inventories	11,690	15,589	8,509
Trade and other receivables	16,097	24,422	20,674
Amounts due from fellow subsidiaries	46,857	51,330	54,006
Dividend receivable	—	—	844
Taxation recoverable	853	768	3,216
Bank balances and cash	871	759	8,873
Current liabilities			
Trade and other payables	26,640	35,645	17,351
Amount due to ultimate holding company	—	—	90,000 *(Note)*
Amounts due to fellow subsidiaries	10,036	3,297	2,998
Taxation payable	—	30	41
Trust receipt loans	338	—	—
Net current assets (liabilities)	34,481	53,896	(14,268)
Other Financial Data:			
Net cash from operating activities	1,453	9,367	12,926
Net cash used in investing activities	(12,348)	(16,041)	(4,298)
Net cash from (used in) financing activities	2,757	6,562	(514)

Note: Amount due to ultimate holding company of US$90,000,000 represents the consideration payable for the transfer of the entire 100% equity interest in NTSZ assigned by NTEEPHK. Subsequent to 31 December 2003, this amount has been capitalised as issued and fully paid capital of the Company.

RESULTS OF OPERATIONS

Fiscal Year 2003 Compared with Fiscal Year 2002

Turnover

Turnover decreased by approximately US$47.9 million, or 26.1%, from approximately US$183.8 million in Fiscal Year 2002 to approximately US$135.9 million in Fiscal Year 2003. The decrease was primarily due to a decrease in turnover of our Discontinued Businesses reflecting the cessation of such businesses which outweighed an increase of 37.0% in turnover of our Continuing Businesses. In particular, turnover of our Continuing Businesses increased primarily due to the launch of our first optical devices and home entertainment devices in Fiscal Year 2003 which contributed a total of approximately US$33.8 million to our turnover and also due to a 23.9% increase in turnover to approximately US$49.3 million in Fiscal Year 2003 for our mobile phone accessories. The increase in turnover of our mobile phone accessories was due to an increase in sales volume of our mobile phone accessory products as a whole and the introduction of a new product, the snap-on flash light, and a new model of snap-on camera, all of which outweighed a decrease in the average sales price of our mobile phone accessory products. Turnover of our educational products declined 15.0% in Fiscal Year 2003 primarily because of a decrease in turnover of our electronic dictionaries which outweighed an increase in turnover of calculators. Optical devices, home entertainment devices, mobile phone accessories and educational products contributed 3.4%, 21.5%, 36.2% and 33.5%, respectively, to our turnover in Fiscal Year 2003 and nil, nil, 21.6% and 29.2%, respectively, to our turnover in Fiscal Year 2002.

Cost of Sales

Cost of sales decreased by approximately US$56.7 million, or 35.0%, from approximately US$162.2 million in Fiscal Year 2002 to approximately US$105.5 million in Fiscal Year 2003. The decrease was due to a decrease in the cost of sales of our Discontinued Businesses which outweighed an increase in the cost of sales of our Continuing Businesses. The increase in the cost of sales of our Continuing Businesses was primarily due to the increase in turnover. Our cost of sales for consumer electronics and communication products increased due to a change in product mix. However, this increase was at a slower rate than the increase in turnover for the same products as we realised cost savings in Fiscal Year 2003 through our continuing efforts to improve production efficiency and reduce cost through, amongst other things, economies of scale.

Gross Profit

Gross profit increased 40.8% from approximately US$21.6 million in Fiscal Year 2002 to approximately US$30.4 million in Fiscal Year 2003 because of increased sales in high-end calculators and the introduction of new products, including the EyeToy® USB camera, snap-on flash lights and a new model of snap-on camera. This led to an increase in overall sales volume which improved overall production efficiency and reduced cost through economies of scale.

Other Operating Income

We had other operating income of approximately US$3.4 million in Fiscal Year 2003 compared to approximately US$2.8 million in Fiscal Year 2002. In Fiscal Year 2003, other operating income was comprised primarily of dividend income of approximately US$1.7 million from our investment in TCL Corporation. In Fiscal Year 2002, other operating income was comprised primarily of a gain of approximately US$1.2 million on the disposal of plant and equipment used for the Discontinued Businesses and dividend income of approximately US$0.8 million from our investment in TCL Corporation.

Selling and Distribution Costs

Selling and distribution costs increased by approximately US$0.1 million, or 4.1%, from approximately US$2.2 million in Fiscal Year 2002 to approximately US$2.3 million in Fiscal Year 2003 despite the decrease in turnover of 26.1% as the decrease in sales of products did not require a proportional change in selling efforts.

Administrative Expenses

Administrative expenses decreased by approximately US$2.0 million, or 22.6%, from approximately US$8.7 million in Fiscal Year 2002 to approximately US$6.7 million in Fiscal Year 2003. The decrease was primarily due to the cessation of operations of the Discontinued Businesses and also due to a reduction in management fees we paid to NT Group Management in Fiscal Year 2003, as the proportional contribution to management fees paid to NT Group Management made by other members of the NTE Group increased.

Research and Development Expenditures

Research and development expenditures decreased by 3.2%, from approximately US$2.0 million in Fiscal Year 2002 to approximately US$1.9 million in Fiscal Year 2003. The decrease was primarily due to a decrease in research and development expenditures for the Discontinued Businesses which outweighed increased expenditures associated with increased research efforts in Bluetooth™ technology and also due to increases in the number of research and development employees and their salaries. Compensation of research and development personnel accounted for approximately 79.2% of total research and development expenditures in Fiscal Year 2003.

Profit from Operations

Profit from operations increased by approximately US$11.3 million, or 98.8%, from approximately US$11.5 million in Fiscal Year 2002 to approximately US$22.8 million in Fiscal Year 2003. Profit from operations from our sale of consumer electronics and communications products increased by approximately US$14.1 million, or 174.7%, from approximately US$8.1 million in Fiscal Year 2002 to approximately US$22.2 million in Fiscal Year 2003. The contribution to profit from operations as a percentage of the relevant sales revenue in respect of the Continuing Businesses and the Discontinued Businesses increased from 8.6% and 3.8% respectively in Fiscal Year 2002 to 17.2% and 9.2% respectively in Fiscal Year 2003. The increase was due to a significant increase in gross profit in Fiscal Year 2003 and a decrease in the relevant costs and expenditures.

Profit Before Taxation

Profit before taxation increased by approximately US$11.3 million, or 98.7%, from approximately US$11.5 million in Fiscal Year 2002 to approximately US$22.8 million in Fiscal Year 2003.

Taxation

We recorded negligible taxation in Fiscal Year 2003 and Fiscal Year 2002 because our PRC tax expense payable for each of those years was offset by the PRC enterprise income tax refund we received. See "— Taxes".

Net Profit for the Year

Net profit for the year increased by approximately US$11.3 million, or 99.1%, from approximately US$11.4 million in Fiscal Year 2002 to approximately US$22.8 million in Fiscal Year 2003.

Dividends

No dividends have been paid or declared by the Company since its incorporation. In 2002 NTSZ had declared dividends of US$14,747,000 to its former immediate holding company which reinvested the same amount into NTSZ by way of capital injection. Subsequent to the Company's acquisition of the entire interest in NTSZ, NTSZ had declared dividends of US$8,912,000 to the Company which reinvested US$7,952,000 into NTSZ by way of capital injection. The Company intends to reinvest into NTSZ the remaining balance of US$960,000 in the next round of capital injection. See "— Taxes".

Fiscal Year 2002 Compared with Fiscal Year 2001

Turnover

Turnover increased by approximately US$16.2 million, or 9.6%, from approximately US$167.6 million in Fiscal Year 2001 to approximately US$183.8 million in Fiscal Year 2002. The increase was due to an increase in turnover of our Continuing Businesses which outweighed a decrease in turnover of our Discontinued Businesses. Turnover of our Continuing Businesses increased 28.1% in Fiscal Year 2002 primarily because turnover of our mobile phone accessories business increased by approximately US$36.6 million, or 1,159.2%, from approximately US$3.2 million in Fiscal Year 2001 to approximately US$39.8 million in Fiscal Year 2002. This increase was attributable to an increase in sales of our mobile phone accessories during Fiscal Year 2002 following the introduction of our first mobile phone accessory in the fourth quarter of Fiscal Year 2001 and further introduction of new mobile phone accessories during Fiscal Year 2002. This increase in turnover of our mobile phone accessories resulted primarily from the increase in unit sales as our average selling prices of such mobile phone accessories decreased over the period. Turnover of our educational products decreased 23.3% to approximately US$53.6 million in Fiscal Year 2002 as turnover of electronic dictionaries decreased. Optical devices, home entertainment devices, mobile phone accessories and educational products contributed nil, nil, 21.6% and 29.2%, respectively, to our turnover in Fiscal Year 2002 and nil, nil, 1.9% and 41.7%, respectively, in Fiscal Year 2001.

Cost of Sales

Cost of sales increased by approximately US$10.7 million, or 7.0%, from approximately US$151.5 million in Fiscal Year 2001 to approximately US$162.2 million in Fiscal Year 2002. The increase was due to a change in product mix in our Continuing Businesses. However, this increase was at a slower rate than the increase in turnover for the same products through our efforts to improve production efficiency and reduce cost through, amongst other things, economies of scale. The increase in the cost of sales of our Continuing Businesses outweighed a decrease in the cost of sales of our Discontinued Businesses.

Gross Profit

Gross profit increased 34.1% from approximately US$16.1 million in Fiscal Year 2002 to approximately US$21.6 million in Fiscal Year 2003.

Other Operating Income

We had other operating income of approximately US$2.8 million in Fiscal Year 2002 compared to approximately US$0.7 million in Fiscal Year 2001. The increase was mainly due to a gain on disposal of plant and equipment related to our Discontinued Businesses and dividend income from our investment in TCL Corporation in Fiscal Year 2002.

Selling and Distribution Costs

Selling and distribution costs increased by 1.8%, from below approximately US$2.2 million in Fiscal Year 2001 to above approximately US$2.2 million in Fiscal Year 2002 despite the increase in turnover of 9.6% as the increase in sales of products did not require a proportional increase in selling efforts.

Administrative Expenses

Administrative expenses increased by approximately US$1.2 million, or 16.0%, from approximately US$7.5 million in Fiscal Year 2001 to approximately US$8.7 million in Fiscal Year 2002. The increase resulted primarily from increased management fees incurred in the relocation of the office of the NTE Group in Hong Kong, which our office forms part thereof, in Fiscal Year 2002.

Research and Development Expenditures

Research and development expenditures decreased by approximately US$0.4 million, or 16.7%, from approximately US$2.4 million in Fiscal Year 2001 to approximately US$2.0 million in Fiscal Year 2002. The decrease was primarily due to a salary reduction of our research and development staff in Fiscal Year 2002.

Profit from Operations

Profit from operations increased by approximately US$6.8 million, or 143.8%, from approximately US$4.7 million in Fiscal Year 2001 to approximately US$11.5 million in Fiscal Year 2002. Profit from operations from our Continuing Businesses increased approximately US$4.7 million, or 137.1%, from approximately US$3.4 million in Fiscal Year 2001 to approximately US$8.1 million in Fiscal Year 2002. The contribution to profit from operations as a percentage of the relevant sales revenue in respect of the Continuing Businesses and the Discontinued Businesses increased from 4.6% and 1.4% respectively in Fiscal Year 2001 to 8.6% and 3.8% respectively in Fiscal Year 2002. The increase was due to a significant increase in gross profit in Fiscal Year 2002.

Profit Before Taxation

Profit before taxation increased by approximately US$6.4 million, or 128.1%, from approximately US$5.0 million in Fiscal Year 2001 to approximately US$11.5 million in Fiscal Year 2002.

Taxation

We recorded negligible taxation in Fiscal Year 2002 and Fiscal Year 2001 because our PRC tax expense payable for each of those years was offset by the PRC enterprise income tax refund we received.

Net Profit for the year

Net profit for the year increased by approximately US$6.5 million, or 130.0%, from approximately US$5.0 million in Fiscal Year 2001 to approximately US$11.4 million in Fiscal Year 2002.

FINANCIAL RATIOS

The Company's debtor's turnover days, creditor's turnover days, inventory turnover days and gearing ratio during the three years ended 31 December 2003 are set forth below:

	31 December		
	2001	**2002**	**2003**
Debtor's turnover days *(Note 1)*	33.2	44.8	48.3
Creditor's turnover days *(Note 2)*	68.4	78.9	54.5
Inventory turnover days *(Note 3)*	28.2	35.1	29.4
Gearing ratio *(Note 4)*	0.3%	—	63.9%

Notes:

1. The calculation of debtor's turnover days is based on the amount of trade debtors divided by sales and multiplied by 365 days.

2. The calculation of creditor's turnover days is based on the amount of trade creditors divided by purchases and multiplied by 365 days.

3. The calculation of inventory turnover days is based on the amount of inventories divided by the cost of sales and multiplied by 365 days.

4. The calculation of the gearing ratio is based on the amount of total debts divided by total assets.

Fiscal Year 2003 Compared with Fiscal Year 2002

Debtors' turnover days

Debtors' turnover days increased by 3.5 days from 44.8 days in Fiscal Year 2002 to 48.3 days in Fiscal Year 2003. This is primarily attributable to the cessation of Discontinued Businesses, resulting in the drop in sales which consequently increased the turnover days.

Creditors' turnover days

Creditors' turnover days decreased by 24.4 days from 78.9 days in Fiscal Year 2002 to 54.5 days in Fiscal Year 2003. The decrease is attributable to the transfer of the Discontinued Businesses to a fellow subsidiary, resulting in a drop in the trade creditor balance in Fiscal Year 2003, quicker settlement of trade payables and also attributable to a lower level of purchase of material in the last quarter of Fiscal Year 2003 of approximately US$27.9 million as compared to approximately US$56.8 million in the last quarter of Fiscal Year 2002 as sales were expected to be flat in early 2004.

Inventory turnover days

Inventory turnover days decreased by 5.7 days from 35.1 days in Fiscal Year 2002 to 29.4 days in Fiscal Year 2003. The decrease is mainly a result of the transfer of the Discontinued Businesses to a fellow subsidiary, resulting in a drop in the inventory balance in Fiscal Year 2003.

Gearing ratio

The gearing ratio increased from nil in Fiscal Year 2002 to 63.9% in Fiscal Year 2003. The increase is attributed to an amount of US$90,000,000 owed to NTE Inc. as a result of the outstanding consideration to be settled for the transfer of NTSZ to the Company. Excluding this balance, which has been capitalised as equity pursuant to written resolutions of the sole shareholder of the Company passed on 8 April 2004, the ratio would have been nil.

Fiscal Year 2002 Compared with Fiscal Year 2001

Debtors' turnover days

Debtors' turnover days increased by 11.6 days from 33.2 days in Fiscal Year 2001 to 44.8 days in Fiscal Year 2002. This is primarily a result of the increase in sales from approximately US$49.4 million in the last quarter of Fiscal Year 2001 to approximately US$66.0 million in the last quarter of Fiscal Year 2002.

Creditors' turnover days

Creditors' turnover days increased by 10.5 days from 68.4 days in Fiscal Year 2001 to 78.9 days in Fiscal Year 2002. The increase is due to the increase in the purchase of material from approximately US$34.4 million in the last quarter of Fiscal Year 2001 to approximately US$56.8 million in the last quarter of Fiscal Year 2002 to cope with the expected increase in customer demand.

Inventory turnover days

Inventory turnover days increased by 6.9 days from 28.2 days in Fiscal Year 2001 to 35.1 days in Fiscal Year 2002. This is due to the increase in the purchase of material from approximately US$34.4 million in the last quarter of Fiscal Year 2001 to approximately US$56.8 million in the last quarter of Fiscal Year 2002 to cope with the expected increase in customer demand.

Gearing ratio

The gearing ratio dropped from 0.3% in Fiscal Year 2001 to nil in Fiscal Year 2002, as the Group did not have any significant borrowings at 31 December 2002.

SELECTED FINANCIAL INFORMATION FOR THE CONTINUING BUSINESSES

The following table sets forth our financial information for the Continuing Businesses for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003 which has been extracted from note 3(a) to the Accountants' Report set out in Appendix I to this prospectus.

	For					
	Fiscal Year 2001		Fiscal Year 2002		Fiscal Year 2003	
	US$'000	*% of turnover*	*US$'000*	*% of turnover*	*US$'000*	*% of turnover*
Profit and Loss Account Data:						
Turnover *(Note)*	73,430	100.00	94,032	100.00	128,779	100.00
Cost of sales	(62,169)	(84.66)	(77,617)	(82.54)	(98,854)	(76.76)
Gross profit	11,261	15.34	16,415	17.46	29,925	23.24
Other operating income	444	0.60	1,411	1.50	2,488	1.93
Selling and distribution costs	(1,853)	(2.52)	(1,929)	(2.05)	(2,014)	(1.56)
Administrative expenses	(5,079)	(6.92)	(6,633)	(7.05)	(6,326)	(4.91)
Research and development expenditures	(1,372)	(1.87)	(1,199)	(1.28)	(1,922)	(1.49)
Profit from operations	3,401	4.63	8,065	8.58	22,151	17.21
Finance costs	(70)	(0.10)	(1)	(0.001)	—	—
Share of result of an associate	397	0.54	75	0.08	—	—
Loss on disposal of an associate	—	—	(65)	(0.07)	—	—
Profit before taxation	3,728	5.07	8,074	8.59	22,151	17.21
Taxation	(39)	(0.05)	(30)	(0.03)	(11)	(0.01)
Net profit for the year	3,689	5.02	8,044	8.56	22,140	17.20

Note:

Turnover comprises:

Optical devices	—	—	—	—	4,650	3.61
Home entertainment devices	—	—	—	—	29,178	22.66
Mobile phone accessories	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	463	0.63	705	0.75	134	0.10
Total	73,430	100.00	94,032	100.00	128,779	100.00

RESULTS OF OPERATIONS — CONTINUING BUSINESSES

Fiscal Year 2003 Compared with Fiscal Year 2002

Turnover of the Continuing Businesses increased 37.0% from approximately US$94.0 million in Fiscal Year 2002 to approximately US$128.8 million in Fiscal Year 2003 primarily due to the launch of our first optical devices and home entertainment devices in Fiscal Year 2003 and the growth in sales of our mobile phone accessories in Fiscal Year 2003. Turnover of educational products, however, decreased as turnover of electronic dictionaries declined which outweighed an increase in turnover of calculators.

Cost of sales of the Continuing Businesses increased 27.4% from approximately US$77.6 million in Fiscal Year 2002 to approximately US$98.9 million in Fiscal Year 2003 primarily due to the increase in turnover of the Continuing Businesses. In Fiscal Year 2003, raw materials and component parts, depreciation of plant and equipment, and production and direct labour costs made up 93.0%, 3.0% and 1.9% respectively of cost of goods sold of the Continuing Businesses. In Fiscal Year 2002, raw materials and component parts, depreciation of plant and equipment, and production and direct labour costs made up 93.9%, 2.8% and 1.5% respectively of cost of goods sold of the Continuing Businesses.

Gross profit margin of the Continuing Businesses increased from 17.5% in Fiscal Year 2002 to 23.2% in Fiscal Year 2003. The improvement of the gross profit margin of the Continuing Businesses was primarily due to cost savings in Fiscal Year 2003 through the Group's continuing efforts to improve production efficiency and reduce cost through, amongst others, economies of scale, as well as change in product mix in the Continuing Businesses. In particular, there were increased sales in high-end calculators, and new products such as EyeToy® USB camera, snap-on flash lights and a new model of snap-on camera were introduced in Fiscal Year 2003.

Despite the increase in turnover of the Continuing Businesses of 37.0% between Fiscal Year 2002 and Fiscal Year 2003, selling and distribution costs of the Continuing Businesses increased 4.4% as the increase in sales of products did not require a proportional increase in selling efforts. In Fiscal Year 2003, selling and distribution costs of the Continuing Businesses were 1.6% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 2.1% of turnover of the Continuing Businesses.

Administrative expenses of the Continuing Businesses decreased 4.6% between Fiscal Year 2002 and Fiscal Year 2003 reflecting a reduction in management fees we paid to NT Group Management in Fiscal Year 2003 as the proportional contribution to management fees paid to NT Group Management made by other members of the NTE Group increased. In Fiscal Year 2003, administrative expenses of the Continuing Businesses were 4.9% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 7.1% of turnover of the Continuing Businesses.

Research and development expenditures of the Continuing Businesses increased 60.3% between Fiscal Year 2002 and Fiscal Year 2003 primarily because of increased research efforts in Bluetooth™ technology and also because of an increase in the number of research and development employees and their salaries. In Fiscal Year 2003, research and development expenditures of the Continuing Businesses were 1.5% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 1.3% of turnover of the Continuing Businesses.

Net profit of the Continuing Businesses for the year increased by approximately US$14.1 million, or 175.2%, from approximately US$8.0 million in Fiscal Year 2002 to approximately US$22.1 million in Fiscal Year 2003.

Fiscal Year 2002 Compared with Fiscal Year 2001

Turnover of the Continuing Businesses increased 28.1% from approximately US$73.4 million in Fiscal Year 2001 to approximately US$94.0 million in Fiscal Year 2002 primarily due to growth in sales of our mobile phone accessories which were launched in the fourth quarter of Fiscal Year 2001. Turnover of educational products, however, decreased as turnover of electronic dictionaries declined.

Cost of sales of the Continuing Businesses increased 24.8% from approximately US$62.2 million in Fiscal Year 2001 to approximately US$77.6 million in Fiscal Year 2002 primarily due to the increase in turnover of the Continuing Businesses. In Fiscal Year 2002, raw materials and component parts, depreciation of plant and equipment, and production and direct labour costs made up 93.9%, 2.8% and 1.5% respectively of cost of goods sold of the Continuing Businesses. In Fiscal Year 2001, raw materials and component parts, depreciation of plant and equipment, and production and direct labour costs made up 89.7%, 3.5% and 2.2% respectively of cost of goods sold of the Continuing Businesses. The increase in raw materials as a percentage to cost of sales in Fiscal Year 2002 was due to the change in product mix. Such change required raw materials for manufacturing mobile phone accessories which costs were higher than those for educational products.

Gross profit margin of the Continuing Businesses increased from 15.3% in Fiscal Year 2001 to 17.5% in Fiscal Year 2002 primarily as a result of a change in product mix and continuing efforts to improve production efficiency and reduce cost through, amongst others, economies of scale.

Despite the increase in turnover of the Continuing Businesses of 28.1% between Fiscal Year 2001 and Fiscal Year 2002, selling and distribution costs of the Continuing Businesses increased 4.1% as the increase in sales of products did not require a proportional increase in selling efforts. In Fiscal Year 2001, selling and distribution costs of the Continuing Businesses were 2.5% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 2.1% of turnover of the Continuing Businesses.

Administrative expenses of the Continuing Businesses increased 30.6% between Fiscal Year 2001 and Fiscal Year 2002. The increase in administrative expenses was unrelated to the turnover of our products as the increase was primarily due to increased management fees incurred in connection with the relocation of our Hong Kong office in Fiscal Year 2002. In Fiscal Year 2001, administrative expenses of the Continuing Businesses were 6.9% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 7.1% of turnover of the Continuing Businesses.

Research and development expenditures of the Continuing Businesses decreased 12.6% between Fiscal Year 2001 and Fiscal Year 2002 primarily because of a decrease in salary expenses for our research and development staff in Fiscal Year 2002. The decrease in salary expenses was due to a decrease in head count resulting from natural attrition. In Fiscal Year 2001, research and development expenditures of the Continuing Businesses were 1.9% of turnover of the Continuing Businesses while in Fiscal Year 2002 they were 1.3% of turnover of the Continuing Businesses.

Net profit of the Continuing Businesses for the year increased by approximately US$4.4 million, or 118.1%, from approximately US$3.7 million in Fiscal Year 2001 to approximately US$8.0 million in Fiscal Year 2002.

FINANCIAL RATIOS — CONTINUING BUSINESSES

The Company's debtor's turnover days, creditor's turnover days, inventory turnover days and gearing ratio during the three years ended 31 December 2003 are set forth below:

		31 December	
	2001	**2002**	**2003**
Debtor's turnover days *(Note 1)*	75.8	87.6	51.0
Creditor's turnover days *(Note 2)*	79.7	88.5	55.4
Inventory turnover days *(Note 3)*	47.3	50.4	31.4
Gearing ratio *(Note 4)*	0.6%	—	76.2%

Notes:

1. The calculation of debtor's turnover days is based on the amount of trade debtors divided by sales and multiplied by 365 days.

2. The calculation of creditor's turnover days is based on the amount of trade creditors divided by purchases and multiplied by 365 days.

3. The calculation of inventory turnover days is based on the amount of inventories divided by cost of sales and multiplied by 365 days.

4. The calculation of gearing ratio is based on the amount of total debts divided by total assets.

Fiscal Year 2003 Compared with Fiscal Year 2002

Debtors' turnover days

Debtors' turnover days decreased by 36.6 days from 87.6 days in Fiscal Year 2002 to 51.0 days in Fiscal Year 2003. This is primarily due to continuous efforts to tighten debt collection and adoption of more stringent credit control policy.

Creditors' turnover days

Creditors' turnover days decreased by 33.1 days from 88.5 days in Fiscal Year 2002 to 55.4 days in Fiscal Year 2003. The decrease is attributable to quicker settlement of trade payables and also attributable to a lower level of purchase of material in the last quarter of Fiscal Year 2003 of approximately US$27.8 million as compared to approximately US$29.4 million in the last quarter of Fiscal Year 2002 as sales were expected to be flat in early 2004.

Inventory turnover days

Inventory turnover days decreased by 19 days from 50.4 days in Fiscal Year 2002 to 31.4 days in Fiscal Year 2003. The decrease is mainly a result of the decrease in purchase of material from approximately US$29.4 million in the last quarter of 2002 to approximately US$27.8 million in the last quarter of 2003 as discussed above.

Gearing ratio

Gearing ratio increased from nil in Fiscal Year 2002 to 76.2% in Fiscal Year 2003. The increase is attributed to an amount of US$90,000,000 due to NTE Inc. as a result of the consideration to be settled for the transfer of NTSZ to the Company. Excluding this balance, which has been capitalised as equity pursuant to written resolutions of the sole shareholder of the Company passed on 8 April 2004, the ratio would have been nil.

Fiscal Year 2002 Compared with Fiscal Year 2001

Debtors' turnover days

Debtors' turnover days increased by 11.8 days from 75.8 days in Fiscal Year 2001 to 87.6 days in Fiscal Year 2002. This is primarily a result of the increase in sales from approximately US$20.1 million in the last quarter of Fiscal Year 2001 to approximately US$34.3 million in the last quarter of Fiscal Year 2002.

Creditors' turnover days

Creditors' turnover days increased by 8.8 days from 79.7 days in Fiscal Year 2001 to 88.5 days in Fiscal Year 2002. The increase is due to increase in purchase of material from approximately US$11.3 million in the last quarter of Fiscal Year 2001 to approximately US$29.4 million in the last quarter of Fiscal Year 2002 to cope with the expected increase in customer demand.

Inventory turnover days

Inventory turnover days increased by 3.1 days from 47.3 days in Fiscal Year 2001 to 50.4 days in Fiscal Year 2002. This is due to the increase in purchase of material from approximately US$11.3 million in the last quarter in Fiscal Year 2001 to approximately US$29.4 million in the last quarter of Fiscal Year 2002 to cope with the expected increase in customer demands.

Gearing ratio

Gearing ratio dropped from 0.6% in Fiscal Year 2001 to nil in Fiscal Year 2002, as the Group did not have any significant borrowings at 31 December 2002.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We fund our capital requirements primarily through cash from operations. We also call upon amounts due to us from fellow subsidiaries as needed. This source of funding and our ability to fund our capital expenditure needs could be adversely affected by downturns in demand for customers that use our products, which would result in a decrease in demand for our products.

Operating Activities

Net cash from our operating activities in Fiscal Year 2003 amounted to approximately US$12.9 million compared to net cash from our operating activities of approximately US$9.4 million in Fiscal Year 2002. Net cash inflow generated by our operating activities in Fiscal Year 2001 amounted to approximately US$1.5 million. The increase in net cash from our operating activities in Fiscal Year 2003 compared to Fiscal Year 2002 was primarily due to an increase in turnover of the Continuing Businesses and a decrease in purchases due to the cessation of our Discontinued Businesses. The increase in net cash from our operating activities from Fiscal Year 2001 to Fiscal Year 2002 was primarily due to an increase in turnover.

Investing Activities

Net cash used in investing activities amounted to approximately US$4.3 million, US$16.0 million and US$12.3 million in Fiscal Year 2003, Fiscal Year 2002 and Fiscal Year 2001, respectively, representing a decrease of approximately US$11.7 million, or 73.2%, in Fiscal Year 2003 compared to Fiscal Year 2002 and an increase of approximately US$3.7 million, or

29.9%, in Fiscal Year 2002 compared to Fiscal Year 2001. In each year other than Fiscal Year 2002, almost all of our investing activities comprised of purchases of property, plant and equipment. In Fiscal Year 2002, we also made an investment in TCL Corporation.

Financing Activities

Net cash used in financing activities in Fiscal Year 2003 was approximately US$0.5 million. Net cash from financing activities amounted to approximately US$6.6 million and US$2.8 million in Fiscal Year 2002 and Fiscal Year 2001, respectively. In Fiscal Year 2002, there was a cash contribution of approximately US$7.5 million by NTEEPHK in the form of a capital injection.

Capital Expenditure

We have capital expenditure in respect of the acquisition of property, plant and equipment. Capital expenditure contracted for but not provided in the financial statements was approximately US$15.2 million, US$4.7 million, US$6.1 million in Fiscal Year 2003, Fiscal Year 2002 and Fiscal Year 2001, respectively, representing an increase of approximately US$10.4 million, or 219.4%, in Fiscal Year 2003 compared to Fiscal Year 2002 and a decrease of approximately US$1.4 million, or 22.7%, in Fiscal Year 2002 compared to Fiscal Year 2001. Capital expenditure authorised but not contracted for in Fiscal Year 2003 and Fiscal Year 2001 was approximately US$3.7 million and US$0.1 million, respectively. In Fiscal Year 2002, we did not have capital expenditure authorised but not contracted for.

We have budgeted US$20.0 million to cover the costs of construction and equipment for, a new office and a new factory which are expected to be completed by the end of 2004.

Based on our past experience in strong cashflow generated from our operating activities and growth, our existing cash reserves and lack of gearing, the Directors are of the opinion that the working capital available to the Group is sufficient for our present requirements and for at least 12 months from the date of this prospectus.

Net Current Assets

The Directors believe that there has been no material adverse changes in the net current assets of the Group since 31 December 2003.

INDEBTEDNESS

Borrowings

At the close of business on 29 February 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bills payable of approximately US$9,000. In addition, as at 29 February 2004, the Group also had an amount due to NTE Inc. of US$90,000,000, which was capitalised as part of the capitalisation issue on 8 April 2004 as referred to in "Further Information About the Company — Changes in share capital" in Appendix V to this prospectus, pursuant to which 799,999,990 Shares were issued to NTE Inc..

As at 29 February 2004, the Group had available credit facilities of approximately US$10,013,000.

Contingent Liabilities

As at 29 February 2004, we do not have any material contingent liabilities.

Disclaimer

Save as disclosed in "— Borrowings" above, and apart from any intra-group liabilities, we did not, as at 29 February 2004, have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 29 February 2004.

MARKET RISKS

Interest Rate Risk

We do not believe we are exposed to any interest rate risk as we have negligible outstanding indebtedness.

Exchange Rate Risk

Currently, all of our sales revenue and substantially all of our cost of sales are denominated in US dollars, to which the Hong Kong dollar is pegged. As we expect our operations to be undertaken on a global basis, in which we expect the primary currency will be US dollars, we expect that a significant portion of our foreign currency exposure will be naturally hedged.

TAXES

We were subject to Hong Kong profits tax and PRC enterprise income tax for the three financial years ended 31 December 2003.

The statutory Hong Kong profits tax rate was 16%, 16% and 17.5%, respectively, for Fiscal Year 2001, Fiscal Year 2002 and Fiscal Year 2003.

In the PRC, NTSZ is subject to a tax rate of 15% on the assessable profit for the year. If an FIE exports 70% or more of the production value of its products ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For Fiscal Year 2001, NTSZ was recognised as a new technology enterprise and as such enjoyed a preferential tax rate of 7.5%. For Fiscal Year 2002 and Fiscal Year 2003, NTSZ qualified as an Export Enterprise and was subject to a reduced tax rate of 10%. For the year ended 31 December 2003, NTSZ also exported more than 70% of the production value of its products and has applied to the relevant authority to be recognised as an Export Enterprise. Furthermore, an FIE whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of the taxes already paid on those profits. As the shareholder of NTSZ reinvested the profits for Fiscal Year 2001 and Fiscal Year 2002, the Directors believe that NTSZ is eligible for the refund of relevant taxes. As a result, we recorded a tax expense net of the benefit related to the refunds.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets is based on the audited consolidated net tangible assets of the Group as at 31 December 2003, as shown in the Accountants' Report set out in Appendix I to this prospectus, adjusted for the issue of Shares referred in Note 1 below. It has been compiled for illustration purposes only and because of its nature, may not give an indicative net tangible assets of the Group.

	Historical	**Adjustment**	*Note*	**Adjusted**
	US$'000	*US$'000*		*US$'000*
Net tangible assets	30,424	90,000	*1*	120,424
Net tangible assets value per Share *(Note 2)*	US3.80 cents			US15.05 cents

Notes:

1. Represents the consideration payable to NTE Inc. for the transfer of the entire 100% equity interest in NTSZ assigned by NTEEPHK, and capitalised as part of the capitalisation issue on 8 April 2004 as refered to in "Further Information About the Company — Changes in share capital" in Appendix V to this prospectus, pursuant to which 799,999,990 Shares were issued to NTE Inc..

2. The calculation of the net tangible assets value per Share is based on the historical net tangible assets of US$30,424,000 and the adjusted net tangible assets of US$120,424,000 and 800,000,000 Shares in issue as at the date of this prospectus.

3. **The adjusted net tangible assets value and the adjusted net tangible assets value per Share as shown in the above table do not take into account the payment of a dividend of approximately US$35,915,000 to NTE Inc. approved by the sole shareholder of the Company on 8 April 2004 and referred to in "Further Information About the Company — Changes in share capital" in Appendix V to this prospectus. After solely taking into account the payment of the dividend to NTE Inc., the adjusted net tangible assets of the Group and the adjusted net tangible assets value per Share would have been decreased.**

4. The Group's property interests as at 29 February 2004 have been valued by LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III - Property Valuation. The above adjustment does not take into account the surplus arising from the revaluation of the Group's property interests. The revaluation surplus will not be incorporated in the Group's financial statements for the year ending 31 December 2004. If the revaluation surplus was recorded in the Group's financial statements, the depreciation expense of the Group for the year ending 31 December 2004 would be increased by approximately US$129,000.

DIVIDEND POLICY

Dividend Policy

We intend to make final dividend payments in or around April of each year and interim payments in or around September of each year. It is the present intention of the Directors that, for each year, the total dividend will represent approximately one-third to two-thirds of the Company's net profit attributable to shareholders, and will be limited to the distributable profits available. The distribution of a dividend payment will be dependent upon the Company's earnings, financial condition, cash requirements and availability, the applicable law and regulations and other factors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of a dividend payment or the timing of such payment. No dividend in respect of the year ended 31 December 2003 will be paid in 2004 to shareholders of the Company after the listing of the Company on the Stock Exchange.

Distributable Reserves

As at the Latest Practicable Date, we had reserves of approximately US$50,470,000, which mainly comprised of share premium, available for distribution to our shareholders.

The Group derives a majority of its profit from a subsidiary established in the PRC. The profit available for distribution for a company established in the PRC is determined in accordance with generally accepted accounting principles in the PRC, which may differ from that arrived at by adopting generally accepted accounting principles in Hong Kong.

DISCLOSURE OF CERTAIN ADVANCES AND FINANCIAL ASSISTANCE RELATED MATTERS

Our Directors have confirmed that they are not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2003.

Our Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2003 and there is no event since 31 December 2003 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.