

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants.

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16 April 2004

The Directors

Nam Tai Electronic & Electrical Products Limited**The Hongkong and Shanghai Banking Corporation Limited**

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding Nam Tai Electronic & Electrical Products Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2003 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 16 April 2004 (the “Prospectus”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 June 2003. Through a group reorganisation, as more fully explained in “Further Information About the Company — Corporate reorganisation” in Appendix V to this Prospectus (the “Corporate Reorganisation”), Nam Tai Electronic & Electrical Products Limited (“NTEEPHK”, which has recently changed its name to Nam Tai Trading Company Limited 南太商社有限公司), a company incorporated in Hong Kong and a wholly owned subsidiary of Nam Tai Electronics, Inc. (“NTE Inc.”), the ultimate holding company of the Company, transferred its entire equity interest in 南太電子(深圳)有限公司 Namtai Electronic (Shenzhen) Co. Ltd. (“NTSZ”) to the Company which became the holding company of the Group on 4 December 2003. On 7 April 2004, NTE Inc. transferred its entire equity interest in Nam Tai Investments Consultant (Macao Commercial Offshore) Company Limited (“NTIC”) to the Company.

NTSZ was established in the People’s Republic of China (the “PRC”) as a foreign investment enterprise (“FIE”) on 24 June 1989 and is principally engaged in the manufacturing of consumer electronics and communications products.

NTIC was incorporated in Macao on 25 August 2003 and is principally engaged in provision of consultancy services. Subsequent to NTIC becoming a subsidiary of the Company, NTIC ceased to carry out any consultancy services for companies other than NTSZ.

Prior to August 2003, NTEEPHK conducted the sales coordination and marketing activities of the consumer electronics and communications products manufactured by NTSZ, being certain clerical and administrative work such as arranging invoicing, handling of customer purchase orders and conducting marketing activities (the "Businesses") as well as acting as an investment holding company. With effect from August 2003, NTEEPHK transferred the Businesses to NTSZ and NTIC. The manufacturing, sales coordination and marketing of consumer electronics and communications products are hereinafter referred to as the Continuing Businesses. Details of the above-mentioned arrangements are set out in the Corporate Reorganisation.

Details of the Company's two wholly owned subsidiaries as at the date of this report are as follows:

Name of the Company	Place and date of incorporation	Issued and fully paid share capital/registered and paid-up capital	Principal Activities
NTSZ	PRC 24 June 1989	Registered and paid-up capital - US\$90,000,000	Manufacturing of consumer electronics and communications products
NTIC	Macao 25 August 2003	Issued and fully paid Quota capital (<i>Note</i>) - MOP100,000	Provision of consultancy services

Note: Quota capital represents the Portuguese equivalence of registered capital of NTIC as Portuguese is the official language of Macao.

We have acted as auditors of the Company for the period from 9 June 2003 (date of incorporation) to 31 December 2003. We have also acted as auditors of NTIC for the period from 25 August 2003 (date of incorporation) to 31 December 2003.

The statutory financial statements of NTSZ for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 深圳市永明會計師事務所有限公司 Yongming Certified Public Accountants Shenzhen, certified public accountants registered in the PRC. For the purpose of this report, we have, however, audited in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, the financial statements of NTSZ, which are incorporated with the financial information of the Businesses, prepared under accounting principles generally accepted in Hong Kong for the Relevant Periods.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the audited financial statements (the “Underlying Financial Statements”) of the companies now comprising the Group and of the Businesses, on the basis set out in note 1 of Section I, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

We have examined the Underlying Financial Statements for the Relevant Periods or since the date of incorporation to 31 December 2003, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Section I below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001, 2002, and 2003 and of the combined results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statements

	<i>Notes</i>	Year ended 31 December		
		2001 <i>US\$'000</i>	2002 <i>US\$'000</i>	2003 <i>US\$'000</i>
Turnover	3&4	167,619	183,784	135,893
Cost of sales		<u>(151,522)</u>	<u>(162,202)</u>	<u>(105,495)</u>
Gross profit		16,097	21,582	30,398
Other operating income	4	706	2,827	3,409
Selling and distribution costs		(2,191)	(2,231)	(2,323)
Administrative expenses		(7,509)	(8,710)	(6,744)
Research and development expenditures		<u>(2,399)</u>	<u>(1,999)</u>	<u>(1,936)</u>
Profit from operations	5	4,704	11,469	22,804
Finance costs	6	(70)	(2)	—
Share of result of an associate		397	75	—
Loss on disposal of an associate		—	(65)	—
Profit before taxation		5,031	11,477	22,804
Taxation	8	<u>(54)</u>	<u>(30)</u>	<u>(11)</u>
Net profit for the year		<u>4,977</u>	<u>11,447</u>	<u>22,793</u>
Dividends	9	<u>—</u>	<u>14,747</u>	<u>—</u>
Earnings per share — basic	10	<u>US0.62 cent</u>	<u>US1.43 cents</u>	<u>US2.85 cents</u>

Combined balance sheets

	Notes	As at 31 December		
		2001 US\$'000	2002 US\$'000	2003 US\$'000
Non-current assets				
Property, plant and equipment	12	42,366	31,689	32,659
Interests in associates	14	700	—	—
Investment securities	15	—	11,968	11,968
Other asset		65	65	65
		<u>43,131</u>	<u>43,722</u>	<u>44,692</u>
Current assets				
Inventories	16	11,690	15,589	8,509
Trade and other receivables	17	16,097	24,422	20,674
Amounts due from fellow subsidiaries	18	46,857	51,330	54,006
Dividend receivable		—	—	844
Taxation recoverable		853	768	3,216
Bank balances and cash	19	871	759	8,873
		<u>76,368</u>	<u>92,868</u>	<u>96,122</u>
Current liabilities				
Trade and other payables	20	26,640	35,645	17,351
Amount due to ultimate holding company	21	—	—	90,000
Amounts due to fellow subsidiaries	21	10,036	3,297	2,998
Amount due to an associate	21	2,517	—	—
Amount due to a related party	22	1,024	—	—
Taxation payable		—	30	41
Trust receipt loans		338	—	—
Dividend payable		1,332	—	—
		<u>41,887</u>	<u>38,972</u>	<u>110,390</u>
Net current assets (liabilities)		<u>34,481</u>	<u>53,896</u>	<u>(14,268)</u>
Total assets less current liabilities		<u><u>77,612</u></u>	<u><u>97,618</u></u>	<u><u>30,424</u></u>
Capital and reserves				
Share capital	23	65,439	90,000	13
Reserves		12,173	7,618	30,411
Shareholder's equity		<u><u>77,612</u></u>	<u><u>97,618</u></u>	<u><u>30,424</u></u>

Balance sheet of the Company as at 31 December 2003

	<i>Notes</i>	<i>US\$'000</i>
Non-current asset		
Investment in a subsidiary	<i>13</i>	<u>89,040</u>
Current assets		
Other receivables		66
Amount due from a fellow subsidiary	<i>18</i>	49,839
Dividend receivable		<u>960</u>
		50,865
Current liabilities		
Amount due to ultimate holding company	<i>21</i>	90,000
Amount due to a subsidiary	<i>21</i>	49,800
Amount due to a fellow subsidiary	<i>21</i>	<u>109</u>
		139,909
Net current liabilities		<u>(89,044)</u>
Total assets less current liabilities		<u><u>(4)</u></u>
Capital and reserve		
Share capital	<i>23</i>	—
Reserve	<i>24</i>	<u>(4)</u>
Shareholder's equity		<u><u>(4)</u></u>

Combined statements of changes in equity

	Share capital <i>US\$'000</i>	Capital reserve <i>US\$'000</i> <i>(note a)</i>	Special reserve <i>US\$'000</i> <i>(note b)</i>	Statutory reserve <i>US\$'000</i> <i>(note c)</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2001	65,439	—	(4,134)	—	11,330	72,635
Profit for the year	—	—	—	—	4,977	4,977
At 31 December 2001 and 1 January 2002	65,439	—	(4,134)	—	16,307	77,612
Profit for the year	—	—	—	—	11,447	11,447
Appropriation of NTSZ prior years' profits	—	—	—	1,555	(1,555)	—
Capital contribution by way of profit reinvestment	17,046	—	265	(1,520)	(14,747)	1,044
Capital contribution by way of cash	7,515	—	—	—	—	7,515
At 31 December 2002 and 1 January 2003	90,000	—	(3,869)	35	11,452	97,618
Profit for the year	—	—	—	—	22,793	22,793
Appropriation of NTSZ 2002's profits	—	—	—	980	(980)	—
Arising on Corporate Reorganisation	(90,000)	(3,869)	3,869	—	—	(90,000)
Capital contribution by way of profit reinvestment	—	8,829	—	(877)	(7,952)	—
Issue of quota capital	13	—	—	—	—	13
At 31 December 2003	<u>13</u>	<u>4,960</u>	<u>—</u>	<u>138</u>	<u>25,313</u>	<u>30,424</u>

Notes:

- (a) The capital reserve represents the pre-acquisition dividend declared by NTSZ and reinvested by the Company into NTSZ, offset by the differences between the translation of NTSZ's registered paid-up capital based on historical exchange rates and amount shown in the capital verification reports issued by the PRC certified public accountants.
- (b) The special reserve represents the differences between the translation of NTSZ's registered paid-up capital based on historical exchange rates and amount shown in the capital verification reports issued by the PRC certified public accountants.
- (c) The statutory reserve is not distributable but can be capitalised as share capital of NTSZ subject to approvals by the relevant authorities. Appropriations to this reserve are made out of NTSZ's net profit after taxation, and shall not be less than 10% of net profit after taxation.

Combined cash flow statements

	Year ended 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
OPERATING ACTIVITIES			
Profit from operations	4,704	11,469	22,804
Adjustments for:			
Depreciation and amortisation	7,036	7,302	4,111
Dividend income	—	(803)	(1,696)
Interest income	(81)	(7)	(4)
Loss (gain) on disposal of property, plant and equipment	231	(1,187)	73
Operating cash flows before movements in working capital	11,890	16,774	25,288
Decrease (increase) in inventories	10,365	(3,899)	7,080
Decrease (increase) in trade and other receivables	3,648	(8,325)	3,748
(Increase) decrease in amounts due from fellow subsidiaries	(27,235)	5,682	(2,676)
Increase (decrease) in trade and other payables	(3,365)	9,005	(18,294)
Increase (decrease) in amounts due to fellow subsidiaries	4,457	(8,929)	228
Increase (decrease) in amount due to a related party	1,024	(1,024)	—
Cash generated from operations	784	9,284	15,374
Hong Kong Profits Tax paid	(86)	—	—
Hong Kong Profits Tax refunded	—	81	—
PRC enterprise income tax paid	(139)	(1,008)	(3,015)
PRC enterprise income tax refunded	964	1,012	567
Interest paid	(70)	(2)	—
NET CASH FROM OPERATING ACTIVITIES	1,453	9,367	12,926
INVESTING ACTIVITIES			
Dividend received	—	803	852
Interest received	81	7	4
Proceeds on disposal of an associate	—	710	—
Proceeds on disposal of property, plant and equipment	427	46	103
Purchases of investment securities	—	(11,968)	—
Purchase of property, plant and equipment	(12,998)	(5,646)	(5,257)
Repayments from fellow subsidiaries	142	7	—
NET CASH USED IN INVESTING ACTIVITIES	(12,348)	(16,041)	(4,298)

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
FINANCING ACTIVITIES			
Advances from (repayments to) an associate	1,367	(2,517)	—
Advances from (repayments to) fellow subsidiaries	1,052	2,190	(527)
Capital contribution by the former immediate holding company	—	7,515	—
Dividend paid to former immediate holding company	—	(288)	—
Increase (decrease) in trust receipt loans	338	(338)	—
Issue of quota capital	—	—	13
	<u> </u>	<u> </u>	<u> </u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>2,757</u>	<u>6,562</u>	<u>(514)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,138)	(112)	8,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>9,009</u>	<u>871</u>	<u>759</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	<u><u>871</u></u>	<u><u>759</u></u>	<u><u>8,873</u></u>

Notes to the financial information

1. Basis of presentation of financial information

The combined income statements and combined cash flow statements include the results and cash flows of the companies comprising the Group (including the Discontinued Businesses (as defined in note 3(a)) up to the date of discontinuance and NTIC) and the Businesses for the Relevant Periods as if the current group structure had been in existence throughout the Relevant Periods, or since their dates of incorporation where this is a shorter period.

The combined balance sheets of the Group as at 31 December 2001, 2002 and 2003 have been prepared to present the assets and liabilities of the companies comprising the Group (including the Discontinued Businesses up to the date of discontinuance and NTIC) and the Businesses as if the current group structure had been in existence at those dates.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

2. Significant accounting policies

The financial information set out in this report is presented in United States dollar, the currency in which the majority of the Group's transactions are denominated.

The financial information has been prepared under the historical cost convention, and in accordance with principal accounting policies set out below which conform with accounting principles generally accepted in Hong Kong.

Turnover

Turnover represents the net amount received and receivable from sales of goods by the Group to outside customers.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Commission income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to the construction. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment. Construction in progress is not depreciated or amortised until completion of construction.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land use rights	Over the term of the rights
Buildings	Over the shorter of term of the land use rights, or 20 years
Leasehold improvements	20%
Other assets	20% — 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The combined income statement includes the Group's share of the post-acquisition results of its associates for the year. In the combined balance sheet, interests in associates are stated at the Group's share of net assets of the associates.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in currencies other than United States dollar are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollar are re-translated at the approximate rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On combination, the financial information of NTSZ is translated using the temporal method as the operations of this subsidiary are more dependent on the economic circumstances of United States dollar than its own reporting currency. All assets, liabilities, revenue and expenses in currencies other than United States dollar are translated at the exchange rate ruling at the date on which the amounts are recorded. Monetary assets and liabilities are re-translated at the approximate rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the combined income statement.

Rentals

Rentals are charged to the combined income statement on a straight line basis.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the mandatory provident fund scheme are charged as an expense as they fall due.

3. Segment information*(a) Business segments*

The Group is engaged mainly in the trading and manufacturing of the Continuing Businesses during the Relevant Periods, and the trading and manufacturing of essential components and subassemblies for mobile phones (the "Discontinued Businesses") during the period from 1 January 2001 to 31 March 2003. It is on this basis that the Group reports its primary segment information.

Year ended 31 December 2001

	Continuing Businesses	Discontinued Businesses	Combined
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	73,430	94,189	167,619
Cost of sales	(62,169)	(89,353)	(151,522)
Gross profit	11,261	4,836	16,097
Other operating income	444	262	706
Selling and distribution costs	(1,853)	(338)	(2,191)
Administrative expenses	(5,079)	(2,430)	(7,509)
Research and development expenditures	(1,372)	(1,027)	(2,399)
Profit from operations	3,401	1,303	4,704
Finance costs	(70)	—	(70)
Share of result of an associate	397	—	397
Profit before taxation	3,728	1,303	5,031
Taxation	(39)	(15)	(54)
Net profit for the year	<u>3,689</u>	<u>1,288</u>	<u>4,977</u>

Year ended 31 December 2002

	Continuing Businesses <i>US\$'000</i>	Discontinued Businesses <i>US\$'000</i>	Combined <i>US\$'000</i>
Turnover	94,032	89,752	183,784
Cost of sales	<u>(77,617)</u>	<u>(84,585)</u>	<u>(162,202)</u>
Gross profit	16,415	5,167	21,582
Other operating income	1,411	1,416	2,827
Selling and distribution costs	(1,929)	(302)	(2,231)
Administrative expenses	(6,633)	(2,077)	(8,710)
Research and development expenditures	<u>(1,199)</u>	<u>(800)</u>	<u>(1,999)</u>
Profit from operations	8,065	3,404	11,469
Finance costs	(1)	(1)	(2)
Share of result of an associate	75	—	75
Loss on disposal of an associate	<u>(65)</u>	<u>—</u>	<u>(65)</u>
Profit before taxation	8,074	3,403	11,477
Taxation	<u>(30)</u>	<u>—</u>	<u>(30)</u>
Net profit for the year	<u><u>8,044</u></u>	<u><u>3,403</u></u>	<u><u>11,447</u></u>

Year ended 31 December 2003

	Continuing Businesses <i>US\$'000</i>	Discontinued Businesses <i>US\$'000</i>	Combined <i>US\$'000</i>
Turnover	128,779	7,114	135,893
Cost of sales	<u>(98,854)</u>	<u>(6,641)</u>	<u>(105,495)</u>
Gross profit	29,925	473	30,398
Other operating income	2,488	921	3,409
Selling and distribution costs	(2,014)	(309)	(2,323)
Administrative expenses	(6,326)	(418)	(6,744)
Research and development expenditures	<u>(1,922)</u>	<u>(14)</u>	<u>(1,936)</u>
Profit before taxation	22,151	653	22,804
Taxation	<u>(11)</u>	<u>—</u>	<u>(11)</u>
Net profit for the year	<u><u>22,140</u></u>	<u><u>653</u></u>	<u><u>22,793</u></u>

*(b) Combined balance sheet**As at 31 December 2001*

	Continuing Businesses	Discontinued Businesses	Unallocated	Combined
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS				
Segment assets	<u>55,687</u>	<u>62,187</u>	<u>1,625</u>	<u>119,499</u>
LIABILITIES				
Segment liabilities	<u>21,374</u>	<u>15,612</u>	<u>4,901</u>	<u>41,887</u>
OTHER INFORMATION				
Capital addition	6,626	6,372	—	12,998
Depreciation and amortisation of property, plant and equipment	2,809	4,227	—	7,036
Allowance for and write off of inventories	1,375	700	—	2,075
Allowance for trade receivables	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

As at 31 December 2002

	Continuing Businesses	Discontinued Businesses	Unallocated	Combined
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS				
Segment assets	<u>91,057</u>	<u>32,732</u>	<u>12,801</u>	<u>136,590</u>
LIABILITIES				
Segment liabilities	<u>19,956</u>	<u>15,744</u>	<u>3,272</u>	<u>38,972</u>
OTHER INFORMATION				
Capital addition	4,597	1,049	11,968	17,614
Depreciation and amortisation of property, plant and equipment	2,967	4,335	—	7,302
Allowance for and write off of inventories	43	537	—	580
Allowance for trade receivables	<u>18</u>	<u>—</u>	<u>—</u>	<u>18</u>

As at 31 December 2003

	Continuing Businesses US\$'000	Discontinued Businesses US\$'000	Unallocated US\$'000	Combined US\$'000
ASSETS				
Segment assets	<u>118,057</u>	<u>6,664</u>	<u>16,093</u>	<u>140,814</u>
LIABILITIES				
Segment liabilities	<u>17,634</u>	<u>—</u>	<u>92,756</u>	<u>110,390</u>
OTHER INFORMATION				
Capital additions	5,257	—	—	5,257
Depreciation and amortisation of property, plant and equipment	4,111	—	—	4,111
Allowance for and write off of inventories	893	—	—	893
Allowance for trade receivables	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(c) **Geographical segments**

The Group's operations are located in the PRC, including Hong Kong and Macao. The Group's customers are mainly located in Europe, North America and Asia.

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

	Sales revenue by destination		
	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Continuing Businesses:			
Europe	10,480	36,645	52,414
North America	24,914	28,546	44,506
Asia Pacific region, other than Japan	32,175	13,463	23,232
Japan	5,462	15,002	7,256
Others	399	376	1,371
	<u>73,430</u>	<u>94,032</u>	<u>128,779</u>
Discontinued Businesses:			
Europe	1,290	1	2,487
North America	—	—	243
Asia Pacific region, other than Japan	79,251	84,385	2,488
Japan	13,648	5,366	1,896
	<u>94,189</u>	<u>89,752</u>	<u>7,114</u>
	<u>167,619</u>	<u>183,784</u>	<u>135,893</u>

Since the products sold to various geographic markets were manufactured from the same production facilities located in the PRC, an analysis of assets and liabilities by geographical market had not been presented.

4. Turnover and other operating income

	Year ended 31 December		
	2001 <i>US\$'000</i>	2002 <i>US\$'000</i>	2003 <i>US\$'000</i>
Turnover			
Continuing Businesses			
Optical devices	—	—	4,650
Home entertainment devices	—	—	29,178
Mobile phone accessories	3,157	39,753	49,255
Educational products	69,810	53,574	45,562
Others	463	705	134
	<u>73,430</u>	<u>94,032</u>	<u>128,779</u>
Discontinued Businesses			
Subassemblies and components	89,590	86,364	6,380
Others	4,599	3,388	734
	<u>94,189</u>	<u>89,752</u>	<u>7,114</u>
	<u>167,619</u>	<u>183,784</u>	<u>135,893</u>
Other operating income			
Bank interest income	81	7	4
Commission income	135	152	1,064
Dividend income from investment securities	—	803	1,696
Exchange gain	295	427	472
Gain on disposal of plant and equipment	—	1,187	—
Others	195	251	173
	<u>706</u>	<u>2,827</u>	<u>3,409</u>
Total revenue	<u><u>168,325</u></u>	<u><u>186,611</u></u>	<u><u>139,302</u></u>

5. Profit from operations

	Year ended 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit from operations has been arrived at after charging:			
Allowance for and write off of inventories	2,075	580	893
Allowance for trade receivables	—	18	—
Auditors' remuneration	32	13	17
Depreciation and amortisation of property, plant and equipment	7,036	7,302	4,111
Less: Depreciation and amortisation included in research and development expenditures	<u>(198)</u>	<u>(189)</u>	<u>(124)</u>
	6,838	7,113	3,987
Rental expenses	265	20	9
Staff costs	7,155	5,553	6,779
Less: Staff costs included in research and development expenditures	<u>(1,757)</u>	<u>(1,494)</u>	<u>(1,534)</u>
	<u><u>5,398</u></u>	<u><u>4,059</u></u>	<u><u>5,245</u></u>

6. Finance costs

	Year ended 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bank borrowings wholly repayable within five years	<u>70</u>	<u>2</u>	<u>—</u>

7. Discontinued Businesses

The results of the Discontinued Businesses for the Relevant Periods and the carrying amounts of the assets and liabilities of the Discontinued Businesses at 31 December 2001, 2002 and 2003 have been disclosed in note 3.

The Discontinued Businesses did not have any significant impact on the Group's cash flows as all of its sales were made to Nam Tai Telecom (Hong Kong) Limited ("NTTHK"), a fellow subsidiary of the Group, which would also settle the purchases and expenditure on behalf of the Discontinued Businesses.

In December 2002, the Group disposed of the property, plant and equipment relating to the Discontinued Businesses to a fellow subsidiary at the then carrying amounts calculated in accordance with accounting principles generally accepted in the PRC, resulting in a gain on disposal of approximately US\$1,294,000. No significant tax impact as a result of such disposal is noted.

8. Taxation

	Year ended 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Hong Kong Profits Tax	4	30	11
PRC enterprise income tax charge at applicable rates	50	—	—
	<u>54</u>	<u>30</u>	<u>11</u>

Hong Kong Profits Tax is calculated at 16%, 16% and 17.5%, respectively, for the Relevant Periods.

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, NTSZ is subject to a tax rate of 15% on the assessable profit for the year. In addition, 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%. In 1999, NTSZ was recognised as a high and new technology enterprise and was granted a preferential tax rate of 7.5% for five years. However, in 2002, 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 1 January 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. For the year ended 31 December 2002, 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. The Directors expect that NTSZ will also qualify for a reduced tax rate of 10% for the year ended 31 December 2003.

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 or intend to reinvest the profits for the Relevant Periods, the management of the Group believes NTSZ is eligible for the refund of income taxes paid. As a result, the Group recorded tax expense net of the benefit related to the refunds. At 31 December 2001, 2002 and 2003, income taxes recoverable under such reinvestment arrangements were US\$772,000, US\$768,000 and US\$3,216,000, respectively, which are included in taxation recoverable. Tax that would otherwise have been payable without the above tax refund concession amounts to US\$345,000, US\$1,103,000 and US\$2,005,000, respectively, for the Relevant periods.

NTIC is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

The charge for the year can be reconciled to the profit shown on the combined income statement as follows:

	Year ended 31 December					
	2001		2002		2003	
	US\$'000	%	US\$'000	%	US\$'000	%
Profit before taxation	<u>5,031</u>		<u>11,477</u>		<u>22,804</u>	
Tax at PRC enterprise income rate of 7.5% for 2001 and 10% for 2002 and 2003	377	7.5	1,148	10.0	2,280	10.0
Tax effect of expenses that are not deductible in determining taxable profit	41	0.8	17	0.1	15	0.1
Tax exempted revenues	(75)	(1.5)	(80)	(0.6)	(297)	(1.3)
Tax effect of utilisation of tax losses not previously recognised	—	—	(6)	0.0	—	—
PRC enterprise income tax refundable	(291)	(5.7)	(1,073)	(9.4)	(1,994)	(8.7)
Effect of different tax rate in other jurisdiction	<u>2</u>	<u>0.0</u>	<u>24</u>	<u>0.2</u>	<u>7</u>	<u>0.0</u>
Tax expense and effective tax rate for the year	<u>54</u>	<u>1.1</u>	<u>30</u>	<u>0.3</u>	<u>11</u>	<u>0.1</u>

There was no significant unprovided deferred taxation for the Relevant Periods or at the respective balance sheet dates.

9. 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.

No other dividends have been paid or declared by NTSZ during the Relevant Periods.

No dividends have been paid or declared by NTIC since its incorporation.

10. Earnings per share

The calculation of the basic earnings per share for the Relevant Periods is based on the profit for the Relevant Periods and assuming 800,000,000 shares in issue and issuable, comprising 10 shares in issue as at 31 December 2003 and 799,999,990 shares to be issued pursuant to the capitalisation issue as set out in Appendix V to the Prospectus.

11. Directors' and employees' remuneration*Directors' emoluments*

	Year ended 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
Fees	—	—	—
Other emoluments:			
Salaries and other benefits	217	74	56
Performance related incentive payments	—	239	877
Retirement benefits scheme contributions	2	2	1
	<u>219</u>	<u>315</u>	<u>934</u>
Total emoluments	<u>219</u>	<u>315</u>	<u>934</u>

Their emoluments during the Relevant Periods were within the following bands:

	Year ended 31 December		
	2001 Number	2002 Number	2003 Number
HK\$1,000,000 (equivalent to US\$128,205) or below	7	7	7
HK\$1,000,000 to HK\$1,500,000 (equivalent to US\$128,205 to US\$192,308)	1	—	—
HK\$2,000,001 to HK\$2,500,000 (equivalent to US\$256,410 to US\$320,513)	—	1	—
HK\$6,500,001 to HK\$7,000,000 (equivalent to US\$833,333 to US\$897,436)	—	—	1
	<u>8</u>	<u>8</u>	<u>8</u>

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two directors, one director and one director of the Company for each of the Relevant Periods whose emoluments are included in the disclosure set out above. The emoluments of the remaining three, four and four individuals for each of the Relevant Periods were as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Salaries and allowances	243	107	580
Performance related incentive payments	—	154	170
Retirement benefits scheme contributions	5	6	6
	<u>248</u>	<u>267</u>	<u>756</u>

Their emoluments during the Relevant Periods were within the following bands:

	Year ended 31 December		
	2001	2002	2003
	Number	Number	Number
HK\$1,000,000 (equivalent to US\$128,205) or below	2	4	—
HK\$1,000,000 to HK\$1,500,000 (equivalent to US\$128,205 to US\$192,308)	1	—	3
HK\$2,000,001 to HK\$2,500,001 equivalent to US\$256,410 to US\$320,513)	—	—	1
	<u>3</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and non-director employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

12. Property, plant and equipment

	Land use rights and buildings <i>US\$'000</i>	Leasehold improvements <i>US\$'000</i>	Plant and machinery <i>US\$'000</i>	Furniture, fixtures and equipment <i>US\$'000</i>	Construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
The Group						
COST						
At 1 January 2001	22,170	7,899	28,116	2,010	133	60,328
Additions	—	278	1,743	320	10,657	12,998
Transfer	—	62	5,407	—	(5,469)	—
Disposals	(944)	—	(139)	(74)	—	(1,157)
At 31 December 2001	21,226	8,239	35,127	2,256	5,321	72,169
Additions	—	89	1,235	—	4,322	5,646
Transfer	—	62	109	—	(171)	—
Disposals	—	(2,584)	(21,473)	(475)	—	(24,532)
At 31 December 2002	21,226	5,806	14,998	1,781	9,472	53,283
Additions	328	127	1,439	116	3,247	5,257
Transfer	8,186	1,490	1,420	374	(11,470)	—
Disposals	—	—	(705)	(50)	—	(755)
At 31 December 2003	29,740	7,423	17,152	2,221	1,249	57,785
DEPRECIATION AND AMORTISATION						
At 1 January 2001	3,669	4,773	13,549	1,275	—	23,266
Provided for the year	700	1,171	4,920	245	—	7,036
Eliminated on disposals	(347)	—	(110)	(42)	—	(499)
At 31 December 2001	4,022	5,944	18,359	1,478	—	29,803
Provided for the year	670	1,031	5,351	250	—	7,302
Eliminated on disposals	—	(2,584)	(12,490)	(437)	—	(15,511)
At 31 December 2002	4,692	4,391	11,220	1,291	—	21,594
Provided for the year	1,005	1,006	1,903	197	—	4,111
Eliminated on disposals	—	—	(533)	(46)	—	(579)
At 31 December 2003	5,697	5,397	12,590	1,442	—	25,126
NET BOOK VALUES						
At 31 December 2001	<u>17,204</u>	<u>2,295</u>	<u>16,768</u>	<u>778</u>	<u>5,321</u>	<u>42,366</u>
At 31 December 2002	<u>16,534</u>	<u>1,415</u>	<u>3,778</u>	<u>490</u>	<u>9,472</u>	<u>31,689</u>
At 31 December 2003	<u>24,043</u>	<u>2,026</u>	<u>4,562</u>	<u>779</u>	<u>1,249</u>	<u>32,659</u>

All the Group's buildings, including construction in progress, are situated on land in the PRC which are held by the Group under medium-term land use rights. As at the date of this report, the Group has obtained formal ownership documents for all these properties.

13. Investment in a subsidiary

	<i>US\$'000</i>
Unlisted investment in the entire capital of NTSZ, at cost	90,000
Less: Pre-acquisition dividends	(8,912)
Add: Dividend reinvested into NTSZ by way of capital injection	7,952
	<u>89,040</u>

14. Interests in associates

	As at 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>The Group</i>			
Share of net assets	<u>700</u>	<u>—</u>	<u>—</u>

The Group established, jointly with a fellow subsidiary, a sino-foreign equity joint venture, 深圳南迪電子技術有限公司 Shenzhen Namtek Company Limited ("SZNC"), and owned a 25% equity interest therein before it was disposed of to a fellow subsidiary during the year ended 31 December 2002. SZNC is principally engaged in the development of software.

Note: The Group has a 42.5% interest in Shanghai Q&T Tech. Co., Ltd. ("Shanghai Q&T", formerly known as Red Net Technology Co., Ltd.), a company registered in the PRC, for US\$207,000. The Group's interest in Shanghai Q&T was reduced to zero since 2000 as Shanghai Q&T had incurred losses and had net liabilities. The Group does not have any further financial commitment in this company.

15. Investment securities

	As at 31 December		
	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<i>The Group</i>			
Unlisted shares, at cost	<u>—</u>	<u>11,968</u>	<u>11,968</u>

The unlisted shares represent a 6% equity interest in TCL Holdings Corporation Ltd., now known as TCL Corporation, which is an enterprise established in the PRC and is principally engaged in the import and export of raw materials, the design, manufacturing and sales and marketing of telephones, VCD players, colour television sets, mobile phones and other consumer electronic products. TCL Corporation changed from a limited liability company to a company limited by shares in April 2002 (the "Establishment Date").

In January 2004, TCL Corporation listed its A-shares on the Shenzhen Stock Exchange at RMB4.26 (equivalent to US\$0.52) per A-share. The Group's interest in TCL Corporation has then been diluted to approximately 3.69% and represents 95.52 million promotor's shares of TCL Corporation after its initial public offering. According to Article 147 of the Company Law of the PRC, the Group is restricted to transfer its promotor's shares within three years from the Establishment Date. The Group is, however, entitled to dividend and other rights similar to the holders of A-shares.

The Group may from time-to-time re-consider its investment strategy.

16. Inventories

	As at 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
<i>The Group</i>			
Raw materials	9,871	12,965	5,758
Work in progress	1,533	1,450	1,182
Finished goods	286	1,174	1,569
	<u>11,690</u>	<u>15,589</u>	<u>8,509</u>

Allowance for inventories amounted to US\$1,962,000, US\$294,000 and US\$249,000, respectively, was made representing 100% of the relevant inventories costs during the Relevant Periods.

17. Trade and other receivables

The Group

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

The aged analysis of trade receivables at the respective balance sheet dates is as follows:

	As at 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
Up to 30 days	11,183	13,096	9,991
31 — 60 days	2,287	6,255	7,404
Over 60 days	1,788	3,213	596
	<u>15,258</u>	<u>22,564</u>	<u>17,991</u>
Other receivables	839	1,858	2,683
	<u>16,097</u>	<u>24,422</u>	<u>20,674</u>

18. Amounts due from fellow subsidiaries

Name of fellow subsidiary	Balance at 31 December			Maximum amount outstanding during year ended 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000	2001 US\$'000	2002 US\$'000	2003 US\$'000
<i>The Group</i>						
J.I.C. Enterprises (Hong Kong) Limited ("J.I.C.")	7	—	—	7	7	—
Nam Tai Group Management Limited ("NTGM")	—	—	491	—	—	491
NTTHK	46,850	27,850	—	52,092	31,326	31,393
NTEEPHK	—	17,097	46,851	—	22,797	46,851
Zastron Electronic (Shenzhen) Co. Ltd. (formerly known as Zastron Plastic & Metal Products (Shenzhen) Ltd. "Zastron")	—	6,383	6,664	—	6,383	6,664
	<u>46,857</u>	<u>51,330</u>	<u>54,006</u>			

The Company

NTEEPHK	—	—	49,839	—	—	49,839
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The amounts arose from ordinary operating activities and are unsecured, interest free and repayable on demand. Subsequent to 31 December 2003, except for the amount due from Zastron, the amounts due from fellow subsidiaries were fully settled through intercompany assignment of debts to NTE Inc., of which the net balance was offset by the dividend of approximately US\$35,915,000 to be declared and the remaining balance settled in cash. Had interest been charged on the outstanding balance during the Relevant Periods based on the then prevailing market borrowing rates of approximately 5.6%, 5.0% and 5.0% per annum, the Group would have received interest of approximately US\$1,914,000, US\$2,013,000 and US\$2,878,000, respectively.

19. Bank balances and cash

Included in the bank balances and cash as at 31 December 2001, 2002 and 2003 were amounts of US\$871,000, US\$292,000 and US\$8,440,000, respectively, maintained by NTSZ which were subject to foreign exchange control imposed by the relevant PRC authorities. But the usage of these balances are not subject to any restriction.

20. Trade and other payables

The Group

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
Up to 30 days	14,574	20,869	10,408
31 — 60 days	9,548	12,908	3,199
Over 60 days	547	22	67
	<u>24,669</u>	<u>33,799</u>	<u>13,674</u>
Other payables	<u>1,971</u>	<u>1,846</u>	<u>3,677</u>
	<u>26,640</u>	<u>35,645</u>	<u>17,351</u>

21. Amounts due to ultimate holding company, a subsidiary, fellow subsidiaries and an associate

Name of company	The Group Balance at 31 December			The Company Balance at 31 December
	2001 US\$'000	2002 US\$'000	2003 US\$'000	2003 US\$'000
<i>Ultimate holding company</i>				
NTE Inc.	<u>—</u>	<u>—</u>	<u>90,000</u>	<u>90,000</u>
<i>Subsidiary</i>				
NTSZ	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,800</u>
<i>Fellow subsidiaries</i>				
東太匹霸電池組件 (深圳)有限公司 BPC (Shenzhen) Co. Ltd**	1,052	—	—	—
J.I.C.*	—	55	14	—
NTEEPHK*	4,964	—	—	—
NTGM	—	—	—	109
SZNC**	—	3,242	2,715	—
Zastron*	4,020	—	269	—
	<u>10,036</u>	<u>3,297</u>	<u>2,998</u>	<u>109</u>
<i>Associate</i>				
SZNC	<u>2,517</u>	<u>—</u>	<u>—</u>	<u>—</u>

* Amounts arose from ordinary operating activities.

** Amounts arose from intercompany fund transfer and are financing in nature.

The amounts due to ultimate holding company, a subsidiary, fellow subsidiaries and an associate are unsecured, interest-free and are repayable on demand. The 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. Details of this capitalisation are more fully explained in the Corporate Reorganisation. Subsequent to 31 December 2003, the balances with fellow subsidiaries were fully settled.

Had interest been charged on the outstanding balances during the Relevant Periods based on the then prevailing market borrowing rates of approximately 5.6%, 5.0% and 5.0% per annum, the Group would have paid interest of approximately US\$1,103,000, US\$154,000 and US\$702,000, respectively.

22. Amount due to a related party

The Group

As at 31 December 2001, the amount due to a related party represented an amount due to Toshiba Battery Co., Ltd. ("TBCL"), a minority shareholder of a then fellow subsidiary of NTSZ. The amount arose from trading transactions in the ordinary course of business of the Group and was fully repaid in 2002.

23. Share capital

	Number of shares	Amount HK\$
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each on incorporation and at 31 December 2003	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 on incorporation	1	—
Issue of shares	<u>9</u>	<u>—</u>
Ordinary shares of HK\$0.01 each as at 31 December 2003	<u>10</u>	<u>—</u>

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

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

The share capital at 31 December 2001 and 2002 as shown on the combined balance sheets represented the registered paid-up capital of NTSZ before the Corporate Reorganisation.

The share capital at 31 December 2003 as shown on the combined balance sheets represented the share capital of the Company and quota capital of NTIC before the Corporate Reorganisation.

24. Reserve

Deficit
US\$'000

The Company

Loss for the period and at 31 December 2003

4

The Company had no reserve available for distribution to shareholders as at 31 December 2003.

25. Major non-cash transactions

During the year ended 31 December 2002, the Group entered into the following significant non-cash transactions:

- (a) The Group disposed of certain of its property, plant and equipment to a fellow subsidiary at a consideration of US\$10,162,000, which was settled through the current account with this fellow subsidiary.
- (b) NTSZ 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.
- (c) Out of the dividend payable of US\$1,332,000 as at 31 December 2001, US\$1,044,000 was reinvested by the former immediate holding company into NTSZ by way of capital injection in 2002.

During the year ended 31 December 2003, the Group entered into the following significant non-cash transactions:

- (a) The entire equity interest in NTSZ was transferred to the Company from NTEEPHK at a consideration of US\$90,000,000, which was originally recorded in the current account with NTEEPHK. The balance was then assigned to NTE Inc. and was subsequently capitalised as share capital. Please refer to Appendix V to the Prospectus for details.
- (b) Out of the US\$8,912,000 dividends declared by NTSZ, the Company reinvested US\$7,952,000 into NTSZ by way of capital injection.

26. Contingent liabilities**As at 31 December**

	2001	2002	2003
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>

The Group

Cross guarantee given to a bank in respect
of credit facilities utilised by Zastron

	<u>—</u>	<u>—</u>	<u>158</u>
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As at the date of this report, the cross guarantee given to a bank in respect of credit facilities utilised by Zastron has been released.

The Company had no significant contingent liabilities as at 31 December 2003.

27. Capital commitments

	As at 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
<i>The Group</i>			
Capital expenditure in respect of the acquisition of property, plant and equipment:			
— contracted for but not provided in the financial statements	6,141	4,747	15,164
— authorised but not contracted for	125	—	3,668
	6,266	4,747	18,832

As at 31 December 2003, approximately US\$14,323,000 of the capital commitments is related to the construction of new premises.

The Company had no significant capital commitments as at 31 December 2003.

28. Operating lease commitments*The Group*

The Group had no significant operating lease commitments at the respective balance sheet dates.

The Company

The Company had no significant operating lease commitments as at 31 December 2003.

29. Employee benefits*Retirement benefits plans*

The Group operates a mandatory provident fund scheme ("MPF Scheme") for all qualifying employees in Hong Kong and a retirement benefit scheme ("RB Scheme") for all qualifying employees in Macao. The assets of the MPF Scheme and the RB Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK\$1,000 (equivalent to US\$128) or 5% of the relevant payroll costs to the MPF Scheme and the RB Scheme. The total contributions incurred in this connection for the Relevant Periods were approximately US\$24,000, US\$14,000 and US\$35,000, respectively.

According to the relevant laws and regulations in the PRC, NTSZ is required to contribute 8% to 9% of the stipulated salary set by the local government of Shenzhen, the PRC, to the retirement benefit schemes to fund the retirement benefits of their employees. The principal obligation of the Group with respect to these retirement benefit schemes is to make the required contributions under the scheme. The total contributions incurred in this connection for the Relevant Periods were approximately US\$220,000, US\$251,000 and US\$210,000, respectively. No forfeited contributions may be used by the employer to reduce the existing level of contributions.

There is no other retirement benefits plan for the Relevant Periods.

Share option schemes

In August 1993, the board of directors of NTE Inc. approved a stock option plan which authorised the issuance of 900,000 vested options to key employees, consultants or advisors of NTE Inc. or any of its subsidiaries for the primary purpose of providing them incentives. After the amendment of the option plan in April 1999, the maximum number of shares to be issued pursuant to the exercise of options granted was increased to 4,275,000. The option price granted to the eligible participants shall not normally be less than the market value of the common shares of NTE Inc. at the date of grant. The options granted under this plan vest immediately and generally have a term of three years, but cannot exceed ten years. The options are granted to employees based on past performance and/or expected contribution to NTE Inc..

In May 2001, the board of directors of NTE Inc. approved another stock option plan which would grant 15,000 options to each independent director of NTE Inc. elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of NTE Inc. or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan. The maximum number of shares to be issued pursuant to the exercise of options granted was 3,000,000 shares. The option price granted to directors shall be equal to 100% of the market value of the common shares of NTE Inc. on the date of grant. The option price granted to other eligible participants other than directors shall not normally be less than the market value of the common shares of NTE Inc. on the date of grant. The options granted under this plan vest immediately and generally have a term of three years, but cannot exceed ten years. The options are granted to independent directors based on past performance and/or expected contribution to NTE Inc..

Effective 1 January 2003, NTE Inc. has suspended issuing options to management and employees except for the independent directors. Rather, the board of directors of NTE Inc. approved an incentive bonus program to reward management and employees with a cash bonus in lieu of stock options.

The following tables disclose details of the share options granted to the directors and employees of the Group and movements in such holdings during the Relevant Periods:

Directors

Exercise price per share	US\$	4.625	4.647	4.833	2.333	6.617
Number of option:						
Outstanding at 1 January 2001		360,000	—	—	—	—
Granted during the year		—	195,000	120,000	75,000	—
Outstanding at 1 January 2002		360,000	195,000	120,000	75,000	—
Granted during the year		—	—	—	—	282,000
Exercised during the year		(300,000)	(27,000)	—	(75,000)	—
Outstanding at 1 January 2003		60,000	168,000	120,000	—	282,000
Exercised during the year		(60,000)	(168,000)	(120,000)	—	(282,000)
Outstanding at 31 December 2003		—	—	—	—	—

Employees

Exercise price per share	US\$	4.625	4.647	2.333	6.617
Number of option:					
Outstanding at 1 January 2001		420,000	—	—	—
Transfer of employees from fellow subsidiaries during the year		15,000	24,000	—	—
Granted during the year		—	393,000	75,000	—
Cancelled during the year		(15,000)	—	—	—
Eliminated on transfer of employees to fellow subsidiaries during the year		(9,000)	(9,000)	—	—
Outstanding at 1 January 2002		411,000	408,000	75,000	—
Transfer of employees from fellow subsidiaries during the year		—	36,000	45,000	—
Granted during the year		—	—	—	342,000
Exercised during the year		(321,000)	(126,000)	(120,000)	—
Eliminated on transfer of employees to fellow subsidiaries during the year		(90,000)	(159,000)	—	—
Outstanding at 1 January 2003		—	159,000	—	342,000
Granted during the year		—	—	—	46,000
Exercised during the year		—	(150,000)	—	(307,318)
Eliminated on transfer of employees to fellow subsidiaries during the year		—	—	—	(42,000)
Effect of ten for one share dividend declared by NTE Inc.		—	900	—	3,868
Outstanding at 31 December 2003		—	9,900	—	42,550

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise price US\$ (Note)
1 February 2000	1 January 2001 to 31 January 2003	4.625
16 March 2001	16 March 2001 to 16 March 2004	4.647
22 June 2001	22 June 2001 to 22 June 2004	4.833
27 June 2001	27 June 2001 to 22 June 2002	2.333
30 April 2002	30 April 2002 to 30 April 2005	6.617

(Note: The exercise price of the share options has been adjusted to US\$4.205, US\$4.225, US\$4.394, US\$2.121 and US\$6.015, respectively, subsequent to the ten for one share dividend declared by NTE Inc. in November 2003)

The weighted average closing prices of NTE Inc.'s shares on the dates in which the share options were exercised range from approximately US\$5.953 to US\$8.739 in the year ended 31 December 2002 and US\$9.200 to US\$40.720 in the year ended 31 December 2003.

30. Related party transactions

During the Relevant Periods, the Group has the following significant transactions with related parties:

Name of related parties	Nature of transactions	Notes	For the year ended 31 December		
			2001 US\$'000	2002 US\$'000	2003 US\$'000
Zastron	Sales of property, plant and equipment	(a)	—	10,162	107
	Purchase of materials	(b)	1,129	1,029	—
	Commission received	(c)	—	—	862
NTGM	Management fee paid	(d)	1,972	4,110	1,656
NTE Inc	Management fee paid	(d)	559	—	—
NTTHK	Sales of finished products of Discontinued Businesses	(b)	94,189	89,752	7,114
	Management fee received	(d)	154	—	—
	Consultancy fee paid	(d)	—	1,200	—
J.I.C.	Purchase of materials	(b)	—	—	390
SZNC	Commission received	(c)	135	152	202
TBCL	Purchase of materials	(b)	<u>6,123</u>	<u>2,676</u>	<u>N/A</u>

Notes:

- (a) Sales of property, plant and equipment presented the net book value of the property, plant and equipment calculated in accordance with accounting principles generally accepted in the PRC.
- (b) Purchases of materials and sales of finished products represented the cost of materials or finished products plus a percentage mark-up.
- (c) Commission received represented a certain percentage of turnover of the related parties.
- (d) Management fee and consultancy fee were charged on an actual cost basis.

In the opinion of the Directors, the above transactions were carried out in the normal course of the Group's businesses. Except for the purchase of materials from J.I.C. which is expected to continue, and the payment of a service fee to NTGM pursuant to a new business facilities agreement to be entered into between the Company and NTGM prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Listing"), the other related party transactions will cease after the Listing.

NTE Inc. has given a corporate guarantee to a bank in respect of credit facilities granted to the Group amounting to US\$6,000,000 as at 31 December 2002 and 2003. No facilities were utilised by the Group as at 31 December 2002 and 2003. The Group has obtained in principle written consent from the bank that the corporate guarantee provided by NTE Inc. will be released upon the Listing and, as appropriate, will be replaced by corporate guarantee provided by the Company.

Details of a cross guarantee given to a fellow subsidiary are set out in note 26.

Details of balances with related parties as at the respective balance sheet dates are set out in the combined balance sheets and in notes 18, 21 and 22.

II. ULTIMATE HOLDING COMPANY

As at 31 December 2003, the ultimate holding company of the Company is NTE Inc., a limited company incorporated in the British Virgin Islands with its shares listed on New York Stock Exchange.

III. DIRECTORS' REMUNERATION

Save as disclosed in note 11, no remuneration was paid or is payable by the Company or its subsidiaries to the Company's directors in respect of the Relevant Periods.

Details of the aggregate remuneration of the Company's directors for the year ending 31 December 2004 under the arrangement presently in force are set out in "Further Information About Directors, Management and Staff — Directors — Directors' remuneration" in Appendix V to the Prospectus.

IV. SUBSEQUENT EVENTS

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

- (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$20,000,000 by the creation of an additional 1,990,000,000 shares;
- (ii) the capitalisation of approximately US\$91,544,000 owed by the Company to NTE Inc., was approved and the Directors were authorised to allot and issue 799,999,990 shares of HK\$0.01 each to NTE Inc., resulting in a share premium of approximately US\$90,518,000; and
- (iii) the declaration of a dividend of approximately US\$35,915,000 out of the Company's share premium account after the capitalisation in (ii) above which will be settled through the current account with NTE Inc..

On 8 April 2004, the Company adopted a share option scheme and a pre-IPO share option scheme, details of which are set out in “Other Information” in Appendix V to the Prospectus.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or its subsidiaries have been prepared in respect of any period subsequent to 31 December 2003.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong