

CHAIRMAN'S STATEMENT

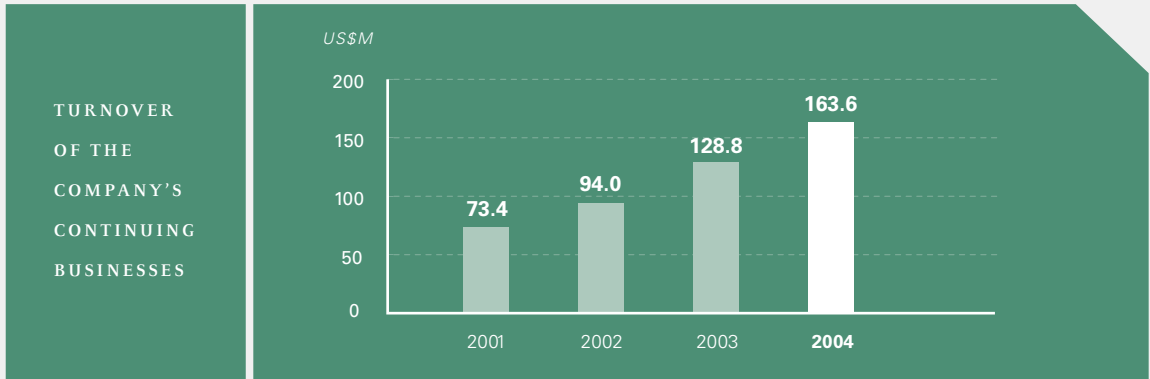
On behalf of the Board of Directors of Nam Tai Electronic & Electrical Products Limited (the "Company"), I am delighted to present the first annual report of the Company after the listing of its shares on The Stock Exchange of Hong Kong Limited on 28 April 2004.

► Successful Listing on the Hong Kong Stock Exchange

The successful listing of the Company on the Hong Kong Stock Exchange not only marked another milestone in the Company and its subsidiaries' (the "Group") history but also further raised the profile of the Company in the EMS industry. Moreover, the status of a listed company exemplifies the Company's commitment to good corporate governance, transparency, dedication to good business performance as well as continuous enhancement of corporate image.

► Record Breaking Sales

Year 2004 has been a very successful year for the Company as it achieved record breaking sales of US\$163.6 million for its continuing businesses for the year ended 31 December 2004, representing 27.0% growth when compared to last year. Sales in the second half year grew significantly by 51.1% from US\$58.8 million in year 2003 to US\$88.8 million in year 2004. Despite the pricing pressure on material costs due to increase in oil prices and the inflationary impact of the change in PRC tax regulations and practices which affected our profit margins, our gross profit surged 36.1% and 12.1% to US\$17.8 million and US\$33.5 million respectively for the second half and entire year of 2004. Net profit also increased by 8.8% and 4.4% to US\$11.8 million and US\$23.1 million and earnings per share rose to 1.48 US cents and 2.89 US cents respectively for the second half and entire year of 2004.



CHAIRMAN'S STATEMENT

The robust increase in sales and gross profit during the second half of year 2004 is attributable to the Group's successful diversification of its customer base and product mix and development of new products. As a result, the Company is able to generate good profits notwithstanding the impact on its profit margins. We embarked upon the optical devices market in the second quarter of year 2003 and have substantially increased the sales in such market from US\$4.6 million for year 2003 to US\$63.8 million representing 39.0% of the total sales of the Group in year 2004. We also commenced the production of Singstar® USB microphone and converter box as well as Bluetooth™ headsets in year 2004 and their sales contributed significantly to the sales of our Home Entertainment Devices segment and Mobile Phone Accessories segment which represented 20.3% and 19.1% of the total sales of year 2004 respectively.

To maintain the growth momentum, the Company is committed to monitor emerging trends in the market and proactively develop products using latest technology to capture growing business opportunities in the outsourcing trend of consumer electronics and communications sectors.

Whilst CMOS camera module will continue to be a driving force for the Company's growth in sales, the Company has also applied its expertise in optical devices in the development of new products of its other products segments. As a result, it is expected that a number of new products will be launched in year 2005.

► Dividends

The Board has resolved to declare a final dividend of 1.00 US cent (equivalent to 7.80 HK cents) per share as compared to interim dividend of 0.48 US cent (equivalent to 3.75 HK cents) representing a total of 1.48 US cents (equivalent to 11.55 HK cents) for year 2004. As the Company was only listed on 28 April 2004, the interim dividend represented the dividend for the second quarter only whilst the final dividend represents the dividend for the 6 months ended 31 December 2004.

► Research and Development

In order to maintain its competitive position in the market, the Group will place more resources in its research and development. As at 31 December 2004, the Group has 85 engineers specializing in design and engineering functions who have on average 6 years relevant experience. The Group will continue to recruit appropriate staff members to equip its research & development department.

During the year, the Group achieved numerous technologies including the technology of manufacturing CMOS sensor modules with mega pixels level; advanced Chip On Board ("COB") technology in the production process of CMOS image sensor modules; the technologies to manufacture optical devices with zoom functionality; and the technologies to add value-added functions, like MP3 and radio, to Bluetooth™ headsets.

The Group also successfully developed the SingStar® USB microphone and converter box for Sony Computer Entertainment's PlayStation®2 as well as Bluetooth™ headsets and desk speaker stand for one of our major clients. The desk speaker stand is a new office line of cellular phone accessory which enables hands free calls to be made from the user's cellular phone and can act as a loudspeaker for incoming calls. The built-in microphone and speaker of the desk speaker stand enables the user to hear the caller loud and clear in a room and can thus easily facilitate small phone meetings. In addition to being a speaker phone, the desk speaker stand can also act as a phone battery charger and can synchronize the user's phone and PC, even while the phone is in use.

Looking forward, in pursuance of quality excellence and its desire to enter into the high growth automotive electronics market, the Company's wholly owned subsidiary in PRC, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ"), will initiate activities towards TS16949-2002 certification in year 2005. TS16949-2002 is an industry level technical standard geared towards meeting the stringent requirements in manufacturing automotive electronics and related products. Training will start in the first quarter of 2005 and we target to complete qualification of certain process before the end of year 2005 whereupon we will be able to further expand our product segments and bring in new business opportunities.

NTSZ will also explore the development of stacked die technique which involves placing one die on top of another and interconnecting them electrically. Additional production equipment may be required to be procured depending on the result of the study. Upon successful development of the stacked die technique, NTSZ will have the edge of producing CMOS camera modules of extremely small size with competitive costs.

► Enhancement of Production Capabilities

Manufacturing technology

To enable the Group to have the capabilities to support its business growth, we have invested in gold wire bonding COB production equipment and related manufacturing facilities during the year to enable the Group to produce a wider variety of high precision electronic products. The upgraded COB technology not only enables us to manufacture CMOS image sensors modules with better image quality but also allows us to provide an alternative manufacturing technology to our customers. With the capability of handling CMOS image sensor modules in various package forms, the Company can further reduce the risk of component shortage and improve work efficiency.

As the electronics industry is abuzz with the talk of flip chip technologies, NTSZ is planning to expand its manufacturing capabilities in year 2005 by embarking on the flip chip microelectronic assembly which is a revolutionary new technique that enables chips to be connected to substrates without the use of wires. By literally placing the chip upside down and in direct contact with the substrate, flip chip technology is a highly efficient and increasingly popular alternative to traditional bonding techniques. As the flip chip connections are more reliable and avails higher speed of chip interconnections, the flip chip technology will enable us to benefit from its advantages in size, performance, flexibility, reliability, and cost over other packaging methods and we believe upon successful implementation of this technology we will be able to capture more business opportunities.

Power supply

To reduce power consumption costs, we have arranged for city supply electricity whilst reserving our own generators as backup so as to ensure that there are no interruptions to our production schedule due to power failure.

Production space

We have also completed the construction of our new office building and factory premises in 2004. The new office has a total area of approximately 4,500 square meters which is double our existing office space. The new factory premises has a total area of approximately 24,500 square meters which is more than double of our existing factory space. We believe that the new office and factory premises can cater for our expansion in the next 3 years. We have already relocated to our new office premises in October 2004 and have commenced operation there since then. The existing office premises have been handed over to our sister company, Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron"), accordingly. The new factory building was completed in line with schedule and the occupation permit was granted in mid December 2004. The factory premises are now under renovation and we expect that we will be completely relocated ahead of schedule to the new factory premises in the first quarter of 2005 and our existing factory premises will be fully handed over to Zastron thereafter. The construction of the new office premises and the new factory building including a class 100 clean room as well as the fixtures and equipment in relation to the same are financed by internal cash resources and are in line with budget. We are currently in the process of constructing new staff quarters and ancillary facilities which are expected to be completed by the end of year 2005.

► **Quality Assurance**

To maintain our leadership in quality assurance, we have started Six Sigma training and certification programs in April 2004 to upgrade our overall quality management. NTSZ has been accredited by the China Association for Quality of the PRC Government in September 2004 for its projects under the "Six Sigma" training and certification programs. Amongst the projects submitted by 28 PRC corporations for election, all 3 projects submitted by NTSZ including (i) quality improvement of scientific calculators; (ii) quality improvement of surface mounting process for CMOS sensor modules; and (iii) production efficiency improvement for CMOS sensor modules have been awarded "Excellent Award for National Six Sigma Projects". NTSZ is also one of the two companies amongst the 28 PRC corporations that have been awarded "National Advanced Enterprise for Successful Promotion of Six Sigma".

To further ensure that the research and development function of the Group can provide a robust and efficient process, NTSZ has started a front end Six Sigma training program called Design for Six Sigma which aims to facilitate a quick and effective turnover cycle for products in the early development stage. The Group has planned to deploy a Six Sigma variation program called Lean Six Sigma which concentrates on the control of mass production process variation and breakthrough efficiency improvement in year 2005.

CHAIRMAN'S STATEMENT

We are confident that the successful implementation of the Six Sigma training and certification programs will provide the Group with higher market competitiveness due to better quality management, higher production efficiency and flexibility as well as elimination of unnecessary inspection and rework.

► Environmental Friendly Measures

ROHS Directives

The directives of Restriction of Certain Hazardous Substances (ROHS) restrict the use of certain hazardous substances in electrical and electronic equipment and will be enforced throughout the European Community from 1 July 2006.

As a manufacturer of electrical and electronic products, NTSZ recognizes its responsibilities of contributing to the protection of human health and the environmentally sound disposal of waste electrical and electronic equipment. As European countries constitute an important area of our business, since the fourth quarter of 2004, we have started to embark on a program to meet strict compliance with the ROHS directives and to ensure that, ahead of the effective date, all our products produced do not contain the restricted substances. In fact, the SingStar® USB microphone and converter box which we developed for Sony Computer Entertainment's PlayStation®2 in year 2004 is already in full compliance with the ROHS directives.

Waste water treatment

To ensure that any waste water discharged from our factory does not contaminate the environment, we have installed a waste water treatment system in our new factory premises. The water treatment system will remove harmful pollutants from our liquid waste so that it is safe to return to the environment. We have already passed the environmental inspection by PRC government officials and have obtained the certificate in relation thereto.

► Appreciation

I would like to take this opportunity to extend my gratitude to the other Directors for their valuable contributions to the Group and would also like to thank our customers, suppliers and shareholders for their continuous support and our staff members for their dedication and hard work.

CHAIRMAN'S STATEMENT

Their support is not only a key to the success of the Company but also rendered me the honour to receive the Young Industrialist Awards of Hongkong 2004 from the Federation of Hong Kong Industries. The award signified the community's recognition of those people who have made outstanding achievements in the manufacturing sector and I am very proud to be one of the winners.

► Conclusion

Looking ahead, we believe that the growing mobile telecommunications market will continue to present vast opportunities for the sales of our mobile phone accessories segment and optical devices segment. To grasp opportunities in the mobile telecommunications market, we have also extended our business licence to include the manufacturing of desk top speaker phones, multi media microphones and mobile phone. Stimulated by the improving global economy sentiment, we believe that there will be increasing demand for consumer electronic products and will enhance the sales of our home entertainment devices segment and educational products segment.

Based on the global trend of outsourcing by owners of consumer electronics and communications products, we will continue to adopt our business model of providing one-stop resources to our customers, ranging from design and development, industrialization and qualification, volume-manufacturing, quality control to supply chain management and will continue to capitalize on our competitive advantages including flexible and efficient manufacturing process, effective cost structure, wide ranging manufacturing technologies and renowned quality assurance.

I am confident about the future prospect of the Company and believe that the Company will continue to maintain double digit growth in its sales and will be able to generate good profit return to its shareholders.

► Management Discussion and Analysis

The Company enjoyed a profitable year with profit before taxation of US\$23.7 million, an increase of 6.8% compared to profit before taxation of the continuing businesses of US\$22.2 million last year. Net profit was US\$23.1 million, an increase of 4.4% compared to net profit of the continuing businesses of US\$22.1 million for the same period last year. Basic earnings per share for the 12 months ended 31 December 2004 were 2.89 US cents as compared to the earnings per share of the continuing businesses of 2.77 US cents for the same period last year.

CHAIRMAN'S STATEMENT

The results and prospects of its various product segments are as follows:

Optical Devices

The Group manufactures CMOS image sensor modules which utilise light-sensing semiconductors to translate images into digital signals. The Group commenced the manufacturing of CMOS image sensor modules in 2003 with substantial increase in sales in year 2004. The sales of the Group's optical devices amounted to US\$63.8 million which contributed to approximately 39.0% of the total sales of the Group in year 2004.

To cope with its customers' strong demand for high resolution CMOS image sensor modules used in image capturing devices such as cellular phones with built in camera function, the Company has upgraded its COB production technology by investing in new gold wire bonding COB equipment and related facilities in year 2004. The new COB gold wire bonding has the advantages of a fast bonding process, high productivity and excellent performance. It can also offer a low-cost, lightweight, and low profile solution to the Group's customers, which is critical to their latest product needs for extremely small camera modules used in mobile phone market. With the completed installation of upgraded COB equipment and successful pilot production run of high resolution CMOS image sensor modules, the Company is now capable of handling CMOS image sensor modules in various package forms and further reduce the risk of component shortage and improve cost efficiency.

We believe that there is a growing demand for CMOS image sensor modules with high image quality and that we are well positioned to respond to the demand from the market and to capture more business opportunities arising in this area. It is expected that the sales in this product segment will continue to record high growth.

Educational Products

This product segment of the Group currently includes basic calculators, scientific calculators, graphic calculators and electronic dictionaries. During the year there is discontinuation of certain old products and a delay in the introduction of new products. As a result, the sales of the Group's educational products during the year had been reduced by 22.5% as compared to year 2003 and the total sales achieved during the year were approximately US\$35.3 million.

The Company is in the course of developing new products with its clients by applying its optical devices. This crossover of the Group's product segments can bring the educational products to a new era and it is envisaged that there will be growth in the sales of this product segment as a result thereof.

CHAIRMAN'S STATEMENT

Home Entertainment Devices

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

During the year, sales of home entertainment devices reached approximately US\$33.2 million from approximately US\$29.2 million for the same period last year representing a growth of approximately 13.9%.

Stimulated by the improving global economy sentiment and hence increasing demand for consumer electronic products, we believe that the sales of the home entertainment devices segment will continue to record year on year growth.

Mobile Phone Accessories

During the year, the Group manufactures accessories for mobile phones including Bluetooth™ headsets, snap-on cameras, snap-on flash lights and desk speaker stand.

The Group recorded sales of mobile phone accessories of approximately US\$31.2 million in year 2004, representing a decline of 36.7% when compared to last year. The decline in sales is attributable to the fact that shipment of the Group's Bluetooth™ headsets and desk speaker stands only commenced in May 2004 and September 2004 respectively and that the sales of snap-on cameras during the first quarter of 2003 was exceptionally high contrary to the Group's historical sales trend of relatively low sales for the first quarter. Besides, although the Group has developed a number of new products for its clients in year 2004, such products will only be launched in year 2005.

The Group will continue to develop new products using its acoustics and optical techniques and it is expected that such new products will also be launched in year 2005. It has also successfully developed PCB (printed circuit board) assembly which can generically apply to a vast variety of products and can greatly diversify the Group's product mix. We estimate that sales of the mobile phone accessories segment will have significant growth in year 2005.

► Liquidity, Financial Resources and Financial Ratios

The Group continued to maintain a sound financial position during the year of 2004, with 2.76 US cents (Dec 2003: 1.11 US cents) of cash per share and 13.99 US cents (Dec 2003: 3.80 US cents) of net asset per share based on 800,000,000 (December 2003: 800,000,000) issued ordinary shares. The Group had, as at 31 December 2004, a cash to current liabilities ratio of 0.94 (Dec 2003: 0.08), a current ratio of 3.67 (Dec 2003: 0.87), a total assets to total liabilities ratio of 5.79 (Dec 2003: 1.28), and approximately US\$22.1 million (Dec 2003: US\$8.9 million) of bank balances and cash.

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

The Group recorded a debtors turnover days of approximately 66 days for the 12 months ended 31 December 2004 (approximately 51 days for the year ended 31 December 2003) based on the amount of trade debtors as at the relevant period and divided by sales of the same period and multiplied by 365 days and the number of months in that period over 12.

The Group recorded an inventory turnover days of approximately 25 days for the 12 months ended 31 December 2004 (approximately 31 days for the year ended 31 December 2003) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days and the number of months in that period over 12.

► Foreign Exchange Exposures

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

► Investment In TCL Corporation

The Company has reclassified its investment in TCL Corporation ("TCL Corp.") from non-current asset to current asset. In this respect, the Company has taken into account the recommendation of an independent financial adviser to value its promoter's shares in TCL Corp. at a 50.1% discount to the market price. Accordingly, based on the closing share price at the year end of RMB3.61 (US\$0.44), the value of the Company's investment in TCL Corp. was discounted and included in the Company's balance sheet as US\$20.7 million, compared to its cost of US\$12.0 million. There is no impact on the Company's income statement until the promoter's shares are sold.

Wong Kuen Ling, Karene

Chairman

Hong Kong, 7 February 2005