

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have the pleasure of presenting their annual report together with the audited financial statements of Nam Tai Electronic & Electrical Products Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004.

► Principal Activities

The Company is an investment holding company. The Group is principally engaged in providing vertically-integrated manufacturing solutions for some of the world's most reputable leading brand owners of consumer electronics and communications products. Details of the principal activities of the subsidiaries are set out in note 14 to the accompanying financial statements.

► Segmental Information

An analysis of the Group's turnover and contribution to results by business segments and the Group's turnover by geographical area of operations for the year ended 31 December 2004 is set out in note 5 to the accompanying financial statements.

► Results and Appropriations

Details of the Group's results for the year ended 31 December 2004 are set out in the consolidated income statement on page 40 of this annual report.

In addition to the interim dividend of 0.48 US cent (equivalent to 3.75 HK cents) per share (2003: nil) paid on 31 August 2004, the Board of Directors (the "Board") recommended the payment of a final dividend of 1.00 US cent (equivalent to 7.80 HK cents) per share (2003: nil). The total dividends declared for the year ended 31 December 2004 amounted to 1.48 US cents (equivalent to 11.55 HK cents). The final dividend will be payable on or around 22 April 2005 to shareholders whose names appear on the register of members of the Company at the close of business on 15 April 2005.

The register of members of the Company will be closed from 13 April 2005 to 15 April 2005, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4.00 pm on 12 April 2005.

► Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 84 of this annual report.

► Major Customers and Suppliers

For the year ended 31 December 2004, the five largest customers of the Group accounted for approximately 97.1% of the Group's total turnover while the largest customer of the Group accounted for approximately 33.4% of the Group's total turnover. In addition, for the year ended 31 December 2004, the five largest suppliers of the Group accounted for approximately 54.5% of the Group's total purchases while the largest supplier of the Group accounted for approximately 32.9% of the Group's total purchases.

None of the Directors, any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers save and except that Ms. Wong Kuen Ling, Karene held 4,000 shares in one of the Group's five largest suppliers representing a very insignificant shareholding of approximately 0.007% of the supplier company.

► Property, Plant and Equipment

During the year, the Group paid out approximately US\$17.1 million on the construction of its new office, factory and other ancillary facility buildings in the PRC. Approximately US\$3.8 million were also spent on plant and equipment for the upgrading of its manufacturing capabilities. Details of these and the other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the accompanying financial statements.

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In the prospectus of the Company dated 16 April 2004, the Company included a valuation of its properties at approximately US\$27.1 million as at 29 February 2004, which valuation has not been incorporated in the financial statements for the year ended 31 December 2004. These properties have been included in the balance sheet at 31 December 2004 at US\$25.5 million, being their historical cost less accumulated depreciation. Had the properties been stated at their revalued amount in the financial statements, additional depreciation of US\$0.11 million would have been charged against the income statement.

► Share Capital and Issue of Shares

Details of the Company's share capital are set out in note 21 to the accompanying financial statements.

During the year ended 31 December 2004, the Company issued and allotted a total of 799,999,990 shares of HK\$0.01 each of the Company ("Shares") to Nam Tai Electronics, Inc. ("NTE Inc."), the controlling shareholder of the Company pursuant to the capitalization of approximately US\$91.54 million owed by the Company to NTE Inc. The issue and allotment of Shares were completed prior to the Company's listing of its Shares on The Stock Exchange of Hong Kong Limited ("SEHK").

► Reserves

Details of movements in the reserves of the Group and the Company during the year are set out on page 74 and in note 22 to the accompanying financial statements.

As at 31 December 2004, approximately US\$53.6 million of the Group's reserves were available for distribution to its shareholders.

► Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro rata basis to its existing shareholders.

► Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed Shares during the year ended 31 December 2004.

► Charitable Donations

During the year, the Group made charitable donations amounting to approximately US\$129,000.

► Bank Borrowings

The Group continued to maintain a strong liquidity position throughout the year and has no external borrowings as at 31 December 2004.

► Capitalization of Interest

No interest was capitalized by the Group during the year.

► Connected Transactions

During the year ended 31 December 2004, the Group has entered into the following transactions with subsidiaries of NTE Inc. The transactions are defined by the Rules Governing the Listing of Securities on SEHK ("Listing Rules") as "continuing connected transactions" and are exempt from the independent shareholders' approval requirements. The transactions are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules but SEHK has granted to the Company a waiver from strict compliance with the announcement requirement at the time of application for listing of the Shares on SEHK.

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(I) Namtai Electronic (Shenzhen) Co., Ltd. (“NTSZ”) and Zastron Electronic (Shenzhen) Co. Ltd. (“Zastron”)

On 8 April 2004, NTSZ, a wholly owned subsidiary of the Company, entered into a lease agreement (“Lease Agreement”) with Zastron, a wholly owned subsidiary of NTE Inc. for a term of 3 years commencing on 1 April 2004. The purpose of the Lease Agreement is to formalize the segregation of production operations of NTSZ and Zastron and the pricing basis under the Lease Agreement has been confirmed by an independent property valuer to be comparable to market.

Pursuant to the Lease Agreement, NTSZ will lease to Zastron manufacturing and office space of approximately 31,049 square meters as well as staff quarters of approximately 12,257 square meters within its existing building complex. Certain ancillary facilities will also be provided by NTSZ to Zastron under the Lease Agreement. The rental payable by Zastron for the said spaces and facilities will be RMB796,000 per month subject to such adjustments as necessary based on the agreed unit rates in the Lease Agreement.

Under the Lease Agreement, NTSZ will retain the use of certain manufacturing and office space within its existing building complex prior to its relocation to the new building complex. Vacant possession of the relevant spaces will be delivered to Zastron upon NTSZ giving Zastron one month’s notice of relocation. Based on the agreed unit rate, the rental payable by Zastron prior to NTSZ’s relocation is RMB603,000 per month based on the retained area of 11,945 square meters.

Details of the Lease Agreement have been set out in the prospectus of the Company dated 16 April 2004. During the year, the aggregate value of the transaction under the Agreement was approximately US\$656,000.

(II) The Company and Nam Tai Group Management Limited (“NTGM”)

On 8 April 2004, the Company and NTGM, a wholly owned subsidiary of NTE Inc. entered into a Business Facilities Agreement pursuant to which office space of approximately 5,500 square feet furnished with fittings, decorations, office equipment and furniture and use of common area and certain common office facilities, office services and outgoings, office equipment and utilities are provided by NTGM to the Company. The purpose of the agreement is to provide office space and facilities for the Company’s Hong Kong office at market rate (as confirmed by an independent property valuer) and to enhance the operational efficiency of the Company through access to the resources and facilities of NTGM. The agreement is for a term of 3 years commencing from 1 April 2004 but the agreement may be terminated by either party giving not less than 3 months’ written notice to the other party.

The service fee payable to NTGM by the Company during the term of the agreement is HK\$390,000 per month. The total service fees paid to NTGM by the Company during the year was US\$450,000.

Subsequent to the year end, the Company received a notice from NTGM advising the Company that the monthly service fee will be reduced from HK\$390,000 per month to HK\$240,000 per month with effect from 1 January 2005 whilst all other terms and conditions of the Business Facilities Agreement remain unchanged. The annual cap based on the new service fee will be reduced to approximately US\$370,000.

(III) NTSZ and J.I.C. Enterprises (Hong Kong) Limited ("JIC")

On 8 April 2004, NTSZ and JIC, an indirect subsidiary of NTE Inc., entered into a letter purchase agreement for a term of 3 years commencing on 1 April 2004. The purpose of the agreement is to allow NTSZ to expand its supplier base. Pursuant to the agreement, it was agreed that JIC would be included in NTSZ's list of designated suppliers of LCD (liquid crystal display) panels and NTSZ may from time to time place purchase orders with JIC at a price no less favourable than that available to NTSZ from independent third parties in accordance with the standard business terms of NTSZ.

The total amount of purchases from JIC during the year was US\$563,225.

The Independent Non-executive Directors have reviewed the above transactions and confirmed that the transactions were entered into in the ordinary and usual course of business of the Company and are either on normal commercial terms or on terms no less favourable to the Company than terms available to/from independent third parties. The Independent Non-executive Directors further confirmed that the transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

► Contracts of Significance

There are no contract of significance (as defined in the Listing Rules) subsisting during or at the end of the year which any Director is materially interested, either directly or indirectly, nor has the Company entered into any contracts of significance with subsidiaries of NTE Inc. (other than the connected transactions as set out in the paragraph above).

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► Management Contracts

During the year, the Company has not entered into any contracts concerning the management and administration for the whole or any substantial part of the business of the Company.

► Directors & Service Contracts

The Directors who held office during the year ended 31 December 2004 and up to the date of this annual report were:

Executive Directors:

WONG Kuen Ling, Karene (Chairman)	(appointed on 13 June 2003)
Guy BINDELS (Chief Executive Officer)	(appointed on 22 March 2004)

Pursuant to the directors' service contracts of Ms. Wong and Mr. Bindels, the term of their directorship as Executive Directors is 3 years commencing from 28 April 2004, the day the Shares are listed on SEHK.

Non-executive Directors

KOO Ming Kown	(appointed on 13 June 2003)
Tadao MURAKAMI	(appointed on 13 June 2003)
LI Shi Yuen, Joseph	(appointed on 13 June 2003)

Pursuant to the directors' service contracts of Mr. Koo, Mr. Murakami and Mr. Li, the term of their directorship as Non-executive Directors is one year commencing from 28 April 2004, the day the Shares are listed on SEHK. The term will continue for successive periods of one year unless terminated by either party giving one month's notice to the other party.

Independent Non-executive Directors

CHAN Tit Hee, Charles	(appointed on 1 November 2004)
Thaddeus Thomas BECZAK	(appointed on 22 March 2004)
LEE Wa Lun, Warren	(appointed on 22 March 2004)
WONG Chi Chung	(appointed on 22 March 2004 and resigned on 1 November 2004)

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The term of directorship of Mr. Beczak and Mr. Lee under their directors' service contracts as Independent Non-executive Directors is one year commencing from 28 April 2004 whilst the term of service of Mr. Chan under his director's service contract is one year commencing from 1 November 2004. The respective terms will continue for successive periods of one year unless terminated by either party giving one month's notice to the other party.

During the year, the Board resolved to appoint Mr. Chan Tit Hee, Charles, to replace Mr. Wong Chi Chung as Independent Non-executive Director due to Mr. Wong's appointment as Chief Financial Officer of NTE Inc.

All the Independent Non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules and based on such confirmation, the Company is of the opinion that the independent status of the Independent Non-executive Directors remains intact as at 31 December 2004.

In accordance with Articles 86(3), 87(1) and 87(2) of the Company's articles of association, Mr. Koo Ming Kown, Mr. Li Shi Yuen, Joseph and Mr. Chan Tit Hee, Charles will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors has a service contract or proposed service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

► **Directors' Interests in Contracts**

Save as disclosed under the heading "Related Party Transactions" in note 28 to the accompanying financial statements, no Director (including past Director) had a material interest, whether directly or indirectly, in any contract which is significant to the business of the Group to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party at the balance sheet date or during the year.

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► Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests or short positions of the Directors and chief executives in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules, were as follows:

(I) Long position in Shares

Share Options under the Pre-IPO Scheme

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

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(II) Long position in shares of associated corporation

(a) Common shares of US\$0.01 each in NTE Inc.

Name of Director	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the associated corporation
Ms. WONG Kuen Ling, Karene	Personal	Beneficial Owner	39,100	0.092%
Mr. Guy BINDELS	Personal	Beneficial Owner	1,000	0.0023%
Mr. KOO Ming Kown	Personal (Note 1)	Beneficial Owner	6,445,786	15.11%
Mr. LI Shi Yuen, Joseph	Personal and Corporate (Note 2)	Beneficial Owner	3,013,957	7.06%
Mr. Tadao MURAKAMI	Personal	Beneficial Owner	1,849,225	4.33%

(b) Share options granted by NTE Inc.

Name of Director	Capacity	Number of options held	Number of underlying shares
Mr. KOO Ming Kown (Note 3)	Beneficial Owner	180,000	180,000
Mr. LI Shi Yuen, Joseph (Note 3)	Beneficial Owner	30,000	30,000
Mr. Tadao MURAKAMI (Note 3)	Beneficial Owner	180,000	180,000

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Note:

- (1) Includes 5,445,786 common shares registered in the names of Mr. Koo Ming Kown and his wife, Ms. CHO Sui Sin.
- (2) Includes 2,935,087 common shares held by Li & Chui Holdings (B.V.I.) Limited in which Mr. LI Shi Yuen, Joseph has 50% interest.
- (3) Subsequent to the year end, Mr. KOO Ming Kown, Mr. LI Shi Yuen, Joseph and Mr. Tadao MURAKAMI have been granted 350,000, 50,000 and 350,000 share options of NTE Inc. respectively.

Save as disclosed above, no Directors nor chief executive have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules.

► Directors' Benefits From Rights to Acquire Shares or Debentures

Save as disclosed under the section "Share Option Schemes" below, at no time during the 12 months ended 31 December 2004 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

► **Interests and Short Positions of Shareholders Discloseable Under the SFO**

So far as is known to any Director or chief executive of the Company, as at 31 December 2004, shareholders who had interests or short positions in the Shares or underlying Shares which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long position of substantial shareholders in the shares of the Company

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

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

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

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► Share Option Schemes

The Company operates a Pre-IPO share option scheme (the “Pre-IPO Scheme”) and a share option scheme (the “Scheme”). As at 31 December 2004, the Company has granted 20,000,000 share options under the Pre-IPO Scheme whilst no options have been granted under the Scheme. Details of the Pre-IPO Scheme and the Scheme are set out below:

(I) Pre- IPO Share Option Scheme

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

Details of the share options which were granted under the Pre-IPO Scheme and remained outstanding as at 31 December 2004 are as follows:

	Date of grant	Exercise price per Share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 1st January 2004	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options outstanding as at 31st December 2004
⁽¹⁾ Directors										
Ms. WONG Kuen Ling, Karene	6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note a	-	7,000,000	-	-	-	7,000,000
Mr. Guy BINDELS	6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note a	-	1,200,000	-	-	-	1,200,000
⁽²⁾ Employees Under Continuous Employment Contract	6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note a	-	11,800,000	-	Notes b	-	11,800,000
					-	20,000,000	-	-	-	20,000,000

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Note:

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

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

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

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

- (b) During the year, 2 employees resigned and 300,000 share options and 60,000 share options shall lapse on 11 June 2005 and 1 July 2005 respectively being 12 months from the date they ceased to be employees of NTSZ.

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

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

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(II) Scheme

On 8 April 2004, the Company adopted the Scheme to enable the Company to grant share options as an incentive or reward to eligible participants for their contributions to the Group and Associated Companies. Associated Companies refer to those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding Company's subsidiaries.

Particulars of the Scheme are set out in note 27 to the accompanying financial statements. No options have been granted under the Scheme as at 31 December 2004.

► Emoluments of Directors and Five Highest Paid Directors/Employees

(I) Directors

Details of the emoluments of the Directors on a named basis during the year are set out in note 9 to the accompanying financial statements.

(II) Employees

Amongst the five highest paid individuals of the Group, two of them are Directors.

► Employee & Emolument Policy

Up to 31 December 2004, the Group had a total of 1,501 dynamic and talented employees, among which 20 were marketing staff and 106 were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff cost for the year ended 31 December 2004 was approximately US\$7.6 million.

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff. The remuneration policy and remuneration packages of the Executive Directors and members of the senior management are reviewed by the Remuneration Committee, the composition and responsibilities of which are detailed below in the paragraph headed "Corporate Governance".

In order to align the interests of staff with those of shareholders, 20,000,000 share options were granted to Directors and employees under the Pre-IPO Scheme which remained outstanding at the period end.

The Company operates a mandatory profit fund scheme (“MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all their employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme administered by independent trustees and pursuant to which the Company and its employees have to each contribute 5% of the relevant income of the employees to the MPF Scheme subject to the minimum and maximum levels of income of HK\$5,000 and HK\$20,000 respectively with a statutory cap of HK\$1,000 per month. The Company’s contributions are 100% vested in the employees’ accounts once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

With regard to the Group’s employees under Macao employment, the Group operates a retirement benefit scheme (“Macao Scheme”) which is also a defined contribution scheme administered by independent trustees. Although the Macao Scheme is not a mandatory scheme, the Group has adopted terms identical to the MPF Scheme in terms of contributory amount, operation of the scheme and retirement age for the Macao Scheme.

The Group’s PRC local employees under PRC employment are covered under a local statutory retirement insurance policy operated by local government (“PRC Scheme”). Both the Group and the employees are required to contribute a designated percentage of the employees’ monthly salary to the PRC Scheme.

Details of the Group’s cost with respect to the MPF Scheme, Macao Scheme and PRC Scheme charged to its income statement are set out in note 26 to the accompanying financial statements.

► Corporate Governance

The Group is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and to safeguard the interests of the Company’s shareholders.

To ensure objectivity and impartiality in the management of the Group, majority of the Board comprises Non-executive Directors. The Board is responsible for the overall management of the Group’s business but the day-to-day management is delegated to the two Executive Directors, Ms. Wong Kuen Ling, Karene and Mr. Guy Bindels. Ms. Wong as Chairman heads the Board and also takes charge of the marketing functions of the Group whilst Mr. Bindels as Chief Executive Officer is responsible for the operations of the Group. Their roles are clearly segregated.

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The Board held 4 meetings during the year and all Directors attended all meetings.

The Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the recommendations on matters relating to the nomination and appointment of Directors to be the Board's collective effort and thus does not intend to set up a Nomination Committee.

The Board has also adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the "Model Code") and the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code") at the time the Shares are listed on SEHK.

In the opinion of the Board, the Company has complied with the Code and is not aware of any non-compliance with the Model Code throughout the accounting year ended 31 December 2004.

Audit Committee

The Audit Committee comprises of three Independent Non-executive Directors, Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Beczak and Mr. Lee Wa Lun, Warren. Mr. Chan is the chairman of the Committee. The Committee has adopted terms of reference which are in line with the Code and the Code on Corporate Governance Practices issued by SEHK. As the Company was only listed on SEHK on 28 April 2004, the Committee met 2 times during the year with full attendance to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the Committee, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

Remuneration Committee

The Remuneration Committee is headed by Mr. Koo Ming Kown, a Non-executive Director. The other members of the Committee are Independent Non-executive Directors namely Mr. Thaddeus Thomas Beczak and Mr. Lee Wa Lun, Warren. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices issued by SEHK. The Committee met once at the end of the year with full attendance to review the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

Sarbanes-Oxley Act

The Company's holding company, NTE Inc., is a New York Stock Exchange listed company. In this respect, NTE Inc. will have to comply with the stringent requirements under the Sarbanes-Oxley Act (the "Act"). The Act mainly, among other things, focuses on the effectiveness of internal control and essentially requires the management of NTE Inc. to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting; and to conduct an assessment of the effectiveness of NTE Inc.'s internal controls and procedures for financial reporting, followed by an attestation of management's assertions by external auditors of NTE Inc.

In order for the management of NTE Inc. to comply with the Act, each of its subsidiary companies will have to comply with the same stringent requirements under the Act. To this end, the Company will set up a task force and will follow the methodology and time schedule of NTE Inc. to ensure that the internal control requirements under Act can be fully complied with in year 2005.

We believe that upon full implementation of the internal control procedures under the Act, the Company's corporate governance and business practices will be even better enhanced.

Quarterly Review by Auditors

Currently, the Company engaged external auditors to review its interim results prior to publication. For better corporate governance in relation to financial reporting, the Company will engage its external auditors to review its quarterly financial statements in year 2005.

► **Audit Fees**

During the year, the Group incurred a total fee of approximately US\$101,000 in relation to the audit services provided by Messrs. Deloitte Touche Tohmatsu ("DTT") which was approved by the Audit Committee and the Board. The Group also paid DTT approximately US\$14,000 for reviewing the Group's interim financial statements.

► **Auditors**

The Board proposed to re-appoint DTT as auditors of the Company during the forthcoming annual general meeting of the Company.

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► Sufficient Public Float

To the knowledge of the Directors based on publicly available information, the Company has sufficient public float as at the date of this Report.

On behalf of the Board

Wong Kuen Ling, Karene

Chairman

Hong Kong

7 February 2005