NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. General

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. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 28 April 2004. Its ultimate holding company is Nam Tai Electronics, Inc. ("NTE Inc."), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on SEHK, the Company became the holding company of the Group, as more fully explained in "Further Information About the Company – Corporate Reorganisation" in Appendix V to the prospectus of the Company dated 16 April 2004 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group.

The principal activities of the Group are the manufacturing and marketing of consumer electronics and communications products. During the period from 1 January 2003 to 31 March 2003, the Group was also engaged in the trading and manufacturing of essential components and subassemblies for mobile phones.

Majority of the Group's transactions are denominated on United States dollar. Accordingly, the financial statements are presented in United States dollar.

2. Potential Impact Arising from Recently Issued Accounting Standards and Change in Accounting Policy

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRS") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in these financial statements.

In April 2004, the HKICPA issued HKFRS 2, "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of directors' and employees' share options of the Company. Currently, the Group does not expense the share options issued by the Company. The Group has commenced considering the potential impact of this new HKFRS but is not yet in a position to determine whether this new HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented.

In relation to other new HKFRSs, the Group does not expect that their issuance will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

During the year ended 31 December 2004, the Group changed from using the benchmark treatment of accounting for investments in securities to the alternative treatment, which are both in accordance with Statement of Standard Accounting Practice 24 "Accounting for investments in securities" issued by HKICPA. The change in accounting policy is an attempt to bring in line the Group's accounting policy with that of its ultimate holding company.

The policy has been applied retrospectively. The effect on the current year is to increase the investment revaluation reserve by US$8,732,000 (2003: Nil).

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies are set out below:

Basis of consolidation
The financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Turnover
Turnover represents the amounts received and receivable from sales of goods by the Group to outside customers less return and allowances during the year.

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 rate applicable.

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

Rental income from properties letting under operating leases is recognised on a straight-line basis over the term of the relevant lease.

3. Significant Accounting Policies *(Continued)*

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 expenditure

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.

3. Significant Accounting Policies *(Continued)*

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. Impairment loss is recognised as an expense immediately, unless the asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

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, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of impairment loss is treated as a revaluation increase under that accounting standard.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the 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.

3. Significant Accounting Policies *(Continued)*

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 or 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 amount 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences 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.

3. Significant Accounting Policies *(Continued)*

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 such currencies 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 consolidation, 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 income statement.

Operating leases

Rentals under operating leases are charged to the income statement on a straight-line basis.

Retirement benefit costs

Payments to state managed retirement benefit schemes and other retirement benefit schemes are charged as an expense as they fall due.

4. Turnover

	2004 US$'000	2003 US$'000
Continuing businesses		
Optical devices	**63,837**	4,650
Educational products	**35,307**	45,562
Home entertainment devices	**33,247**	29,178
Mobile phone accessories	**31,192**	49,255
Others	**1**	134
	163,584	128,779
Discontinued businesses		
Subassemblies and components	**–**	6,380
Others	**–**	734
	–	7,114
	163,584	135,893

5. Business and Geographical Segments

Business segments

The Group is engaged mainly in the manufacturing and marketing of consumer electronics and communications products (the "Continuing Businesses") for the years ended 31 December 2004 and 2003, and the trading and manufacturing of essential components and subassemblies for mobile phones (the "Discontinued Businesses") during the period from 1 January 2003 to 31 March 2003. It is on this basis that the Group reports its primary segment information.

Income statement

Year ended 31 December 2004

	Continuing Businesses US$'000	Discontinued Businesses US$'000	Consolidated US$'000
Turnover	163,584	–	163,584
Cost of sales	(130,048)	–	(130,048)
Gross profit	33,536	–	33,536
Other operating income	679	51	730
Selling and distribution costs	(2,950)	(182)	(3,132)
Administrative expenses	(6,179)	(122)	(6,301)
Research and development expenditures	(2,228)	–	(2,228)
Profit (loss) from operations	22,858	(253)	22,605
Bank interest income	137	–	137
Dividend income from investments in securities	926	–	926
Profit (loss) before taxation	23,921	(253)	23,668
Taxation	(545)	–	(545)
Net profit for the year	23,376	(253)	23,123

5. Business and Geographical Segments *(Continued)*

Income statement *(Continued)*

Year ended 31 December 2003

	Continuing Businesses US$'000	Discontinued Businesses US$'000	Consolidated US$'000
Turnover	128,779	7,114	135,893
Cost of sales	(98,854)	(6,641)	(105,495)
Gross profit	29,925	473	30,398
Other operating income	788	921	1,709
Selling and distribution costs	(2,014)	(309)	(2,323)
Administrative expenses	(6,326)	(418)	(6,744)
Research and development expenditures	(1,922)	(14)	(1,936)
Profit from operations	20,451	653	21,104
Bank interest income	4	–	4
Dividend income from investments in securities	1,696	–	1,696
Profit before taxation	22,151	653	22,804
Taxation	(11)	–	(11)
Net profit for the year	22,140	653	22,793

5. Business and Geographical Segments *(Continued)*

Balance sheet

As at 31 December 2004

	Continuing Businesses US$'000	Discontinued Businesses US$'000	Unallocated US$'000	Consolidated US$'000
ASSETS				
Segment assets	110,795	–	24,495	135,290
LIABILITIES				
Segment liabilities	23,372	–	–	23,372
OTHER INFORMATION				
Capital additions	21,060	–	–	21,060
Depreciation and amortisation of property, plant and equipment	4,200	–	–	4,200
Allowance for and write off of inventories	60	–	–	60

5. Business and Geographical Segments *(Continued)*

Balance sheet *(Continued)*

As at 31 December 2003

	Continuing Businesses US$'000	Discontinued Businesses US$'000	Unallocated US$'000	Consolidated US$'000
ASSETS				
Segment assets	118,057	6,664	16,093	140,814
LIABILITIES				
Segment liabilities	17,634	–	92,756	110,390
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

5. Business and Geographical Segments *(Continued)*

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 Pacific region.

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

	Sales revenue by destination	
	2004	2003
	US$'000	US$'000
Continuing Businesses:		
Asia Pacific region	**75,517**	30,488
Europe	**51,687**	52,414
North America	**35,923**	44,506
Others	**457**	1,371
	163,584	128,779
Discontinued Businesses:		
Asia Pacific region	**–**	4,384
Europe	**–**	2,487
North America	**–**	243
	–	7,114
	163,584	135,893

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.

6. Other Operating Income

	2004 US$'000	2003 US$'000
Commission income	52	1,064
Exchange gain	–	472
Rental income	678	–
Others	–	173
	730	1,709

7. Profit from Operations

	2004 US$'000	2003 US$'000
Profit from operations has been arrived at after charging (crediting):		
Allowance for and write off of inventories	60	893
Auditors' remuneration	134	17
Depreciation and amortisation of property, plant and equipment	4,200	4,111
Less: Depreciation and amortisation included in research and development expenses	(76)	(124)
	4,124	3,987
(Gain) loss on disposal of property, plant and equipment	(150)	73
Operating lease rentals in respect of rented premises	28	9
Staff costs, including directors' remunerations	7,237	6,534
Retirement benefit scheme contributions	362	245
Total staff costs	7,599	6,779
Less: Staff costs included in research and development expenses	(1,718)	(1,534)
	5,881	5,245

8. Discontinued Businesses

In March 2004, the Group has completely ceased the Discontinued Businesses, and the Discontinued Businesses have been taken up by Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron"), a fellow subsidiary. No significant gain or loss for the discontinuation of the Discontinued Businesses resulted.

The results of the Discontinued Businesses for the period up to discontinuation and for the year 2003 and the carrying amounts of the assets and liabilities of the Discontinued Businesses at 31 December 2004 and 2003 have been disclosed in note 5.

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) Company Limited ("NTTHK"), a fellow subsidiary of the Group, which would also settle the purchases and expenditure on behalf of the Discontinued Businesses.

9. Directors' and Employees' Emoluments

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2003: four) directors were as follows:

Year ended 31 December 2004

	Wong Kuen Ling, Karene US$'000	Guy Bindels US$'000	Thaddeus Thomas Beczak US$'000	Lee Wa Lun Warren US$'000	Wong Chi Chung US$'000	Chan Tit Hee, Charles US$'000	Koo Ming Kown US$'000	Tadao Murakami US$'000	Li Shi Yuen, Joseph US$'000	Total US$'000
Fee	–	–	24	24	19	5	–	–	–	72
Other emoluments										
Salaries and other benefits	61	251	–	–	–	–	–	–	–	312
Performance related incentive bonus	390	–	–	–	–	–	–	–	–	390
Retirement benefit scheme contributions	2	1	–	–	–	–	–	–	–	3
Total emoluments	453	252	24	24	19	5	–	–	–	777

Year ended 31 December 2003

	Wong Kuen Ling, Karene US$'000	Tadao Murakami US$'000	Li Shi Yuen, Joseph US$'000	Koo Ming Kown US$'000	Total US$'000
Fee	–	–	–	–	–
Other emoluments					
Salaries and other benefits	56	–	–	–	56
Performance related incentive bonus	799	78	–	–	877
Retirement benefit scheme contributions	1	–	–	–	1
Total emoluments	856	78	–	–	934

9. Directors' and Employees' Emoluments *(Continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals included two directors (2003: one director), details of whose emoluments are set out in (a) above. The emoluments of the remaining three (2003: four) highest paid individuals were as follows:

	2004 US$'000	2003 US$'000
Salaries and other benefits	417	580
Performance related incentive payments	41	170
Retirement benefits scheme contributions	1	6
	459	756

The emoluments of the employees were within the following bands:

	Number of employees 2004	2003
HK$1,000,000 to HK$1,500,000 (equivalent to US$128,205 to US$192,308)	3	3
HK$2,000,001 to HK$2,500,000 (equivalent to US$256,410 to US$320,513)	–	1
	3	4

During the years ended 31 December 2004 and 2003, 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 years.

10. Taxation

	2004 US$'000	2003 US$'000
Hong Kong Profits Tax	–	11
PRC enterprise income tax charge at applicable rates	545	–
	545	11

For the year ended 31 December 2004, no provision for Hong Kong Profits Tax has been made as the Group did not have any significant assessable profit arising in Hong Kong during the year.

For the year ended 31 December 2003, Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profit.

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 a Foreign Investment Enterprise ("FIE") exports 70% or more of the production value of its products ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For the year ended 31 December 2003, as NTSZ exported more than 70% of the production value of its products, it qualified as an Export Enterprise and was subject to a reduced tax rate of 10%. For the year ended 31 December 2004, NTSZ also exported more than 70% of the production value of its products and it 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 2004.

Furthermore, if a foreign investor directly reinvests by way of capital injection of its share of profits obtained from its FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years, a refund of the taxes already paid on those profits may be obtained by the Group. As the shareholder of NTSZ reinvested or intend to reinvest the profits for both years, the directors believes the Group 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 2004, income taxes recoverable under such reinvestment arrangements were US$3,730,000 (2003: US$3,216,000), which are included in taxation recoverable in the consolidated balance sheet. Tax that would otherwise have been payable without the above tax refund concession amounts to US$2,368,000 for the year ended 31 December 2004 (2003: US$2,005,000).

10. Taxation *(Continued)*

NTIC, a wholly owned subsidiary of the Company, 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 income statement as follows:

	2004	2003
	US$'000	US$'000
Profit before taxation	**23,668**	22,804
Tax at PRC enterprise income rate of 10%	**2,367**	2,280
Tax effect of expenses that are not deductible in determining taxable profit	**953**	15
Tax exempted revenues	**(550)**	(297)
PRC enterprise income tax refundable	**(1,823)**	(1,994)
Tax effect of profit not subject to tax	**(290)**	–
Effect of different tax rate in other jurisdiction	**–**	7
Others	**(112)**	–
Tax expense for the year	**545**	11

There was no significant unprovided deferred taxation for both years or at the balance sheet dates.

11. Dividends

During the year ended 31 December 2004 and prior to the Company being listed on SEHK, the Company declared a dividend of approximately US$35,915,000 out of the Company's share premium account after the capitalisation of approximately US$91,544,000 owed by the Company to NTE Inc., its ultimate holding company, details of which are disclosed in Appendix V to the Prospectus (the "Capitalisation Issue").

The following dividends represent the dividends declared after the Company was listed on SEHK on 28 April 2004:

	US$'000
Interim paid – 0.48 US cent per share	3,846

A final dividend of 1.00 US cent (2003: Nil) per share to the shareholders on the register of members on 15 April 2005, amounting to approximately US$8,000,000, has been proposed by the directors in respect of the results for the year ended 31 December 2004 and is subject to approval by the shareholders in the general meeting.

12. Earnings Per Share

The calculation of basic earnings per share for the year is based on the profit for the year of approximately US$23,123,000 (2003: approximately US$22,793,000) and 800,000,000 shares in issue for both years on the assumption that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2003.

During 2004, the outstanding share options have been excluded in calculating the diluted EPS as the share options were anti-dilutive. During 2003, there was no potential dilutive ordinary shares in issue.

13. Property, Plant and Equipment

	Land use rights and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
THE GROUP						
COST						
At 1 January 2004	29,740	7,423	17,152	2,221	1,249	57,785
Additions	–	92	3,773	61	17,134	21,060
Transfer	2,600	2,158	437	–	(5,195)	–
Disposals	–	–	(2,023)	(388)	–	(2,411)
At 31 December 2004	**32,340**	**9,673**	**19,339**	**1,894**	**13,188**	**76,434**
DEPRECIATION AND AMORTISATION						
At 1 January 2004	5,697	5,397	12,590	1,442	–	25,126
Provided for the year	1,129	952	1,943	176	–	4,200
Eliminated on disposals	–	–	(1,955)	(333)	–	(2,288)
At 31 December 2004	**6,826**	**6,349**	**12,578**	**1,285**	**–**	**27,038**
NET BOOK VALUES						
At 31 December 2004	**25,514**	**3,324**	**6,761**	**609**	**13,188**	**49,396**
At 31 December 2003	24,043	2,026	4,562	779	1,249	32,659

13. Property, Plant and Equipment *(Continued)*

	Land use rights and buildings US$'000	Leasehold improve-ments US$'000	Plant and machinery US$'000	Furniture, fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
THE COMPANY						
COST						
Additions during the year and at 31 December 2004	–	–	–	37	–	37
DEPRECIATION AND AMORTISATION						
Provided for the year at 31 December 2004	–	–	–	7	–	7
NET BOOK VALUES						
At 31 December 2004	**–**	**–**	**–**	**30**	**–**	**30**
At 31 December 2003	–	–	–	–	–	–

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.

14. Investments in Subsidiaries

	THE COMPANY	
	2004	2003
	US$'000	US$'000
Unlisted shares, at cost	**91,543**	90,000
Less: Pre-acquisition dividends	**(26,316)**	(8,912)
Add: Dividend reinvested into NTSZ by way of capital injection	**7,952**	7,952
	73,179	89,040

Details of the Company's principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	**Place of incorporation/ registration and operations**	**Registered/ quota capital issued and paid up**	**Proportion of issued registered/ quota capital held by the Company directly** %	**Principal activities**
NTSZ	PRC *(note)*	US$98,800,000	100	Manufacture and marketing of consumer electronics and communications products
NTIC	Macao	MOP100,000	100	Provision of consultancy services

Note: NTSZ is registered in the form of a wholly owned FIE.

15. Investments in Non-Trading Securities

	THE GROUP	
	2004	2003
	US$'000	US$'000
Unlisted equity shares, at fair value (2003: unlisted equity shares, at cost)	**20,700**	11,968

At 31 December 2003, the amount represented the Group's cost of investment in the 95.52 million promoter's shares of TCL Corporation. In January 2004, TCL Corporation listed its A-shares on the Shenzhen Stock Exchange. The Group's interest in TCL Corporation has then been diluted from 6% to 3.69%. According to Article 147 of the Company Law of the PRC, the Group is restricted from transferring its promoter's shares within three years from the date of conversion of TCL Corporation from a limited liability company to a company limited by shares, that is, until April 2005. The Group is, however, entitled to dividend and other rights similar to the holders of A-shares. Accordingly, the amount has been reclassified from non-current asset to current asset.

The equity shares were revalued at their open market value at 31 December 2004 by an independent financial advisor. This valuation gave rise to a revaluation increase of US$8,732,000 which has been credited to the investment revaluation reserve.

16. Inventories

	THE GROUP	
	2004	2003
	US$'000	US$'000
AT COST		
Raw materials	**7,428**	5,758
Work in progress	**549**	1,182
Finished goods	**788**	1,569
	8,765	8,509

17. Trade and Other Receivables

The Group allows its trade customers with credit period normally ranging from 30 days to 60 days (2003: 30 days to 60 days).

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

	THE GROUP	
	2004	2003
	US$'000	US$'000
Up to 30 days	**16,643**	9,991
31 – 60 days	**12,334**	7,404
Over 60 days	**702**	596
	29,679	17,991
Other receivables	**876**	2,683
	30,555	20,674

18. Amounts due from (to) Ultimate Holding Company and Fellow Subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

19. Amounts due to Subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

20. Trade and Other Payables

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

	THE GROUP	
	2004	2003
	US$'000	US$'000
Up to 30 days	**11,173**	10,408
31 to 60 days	**6,555**	3,199
Over 60 days	**647**	67
	18,375	13,674
Other payables	**4,884**	3,677
	23,259	17,351

21. Share Capital

	Number of shares		Share capital	
	2004	2003	**2004**	2003
			HK$'000	HK$'000
Shares of HK$0.01 each				
Authorised:				
At beginning of the year/ on incorporation	**10,000,000**	10,000,000	**100**	100
Increase in authorised share capital	**1,990,000,000**	–	**19,900**	–
At end of the year/period	**2,000,000,000**	10,000,000	**20,000**	100
Issued and fully paid:				
At beginning of the year/ on incorporation	**10**	–	**–**	–
Share issued on incorporation	**–**	1	**–**	–
Issue of shares	**–**	9	**–**	–
Capitalisation Issue	**799,999,990**	–	**8,000**	–
At end of the year/period	**800,000,000**	10	**8,000**	–
			US$'000	US$'000
Shown in the financial statements as			**1,026**	–

21. Share Capital *(Continued)*

The share capital at 31 December 2003 as shown on the consolidated balance sheet represented the share capital of the Company and quota capital of NTIC before the Group Reorganisation.

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 shares of HK$0.01 each for cash at par for a total consideration of HK$0.09 to the then existing shareholder.

Pursuant to 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; and

(ii) the capitalisation of approximately US$91,544,000 owed by the Company to NTE Inc., representing the consideration for the transfer of interest in NTSZ and NTIC, was approved and the directors were authorised to allot and issue 799,999,990 shares to NTE Inc.

22. Reserves

	Share premium	**Accumulated loss**	**Total**
	US$'000	US$'000	US$'000
THE COMPANY			
Loss for the period and at 31 December 2003 and 1 January 2004	–	(4)	(4)
Shares issued at premium	90,518	–	90,518
Net profit for the year	–	2,894	2,894
Dividends paid *(Note 11)*	(35,915)	(3,846)	(39,761)
At 31 December 2004	**54,603**	**(956)**	**53,647**

23. Contingent Liabilities

	THE GROUP	
	2004	2003
	US$'000	US$'000
Cross guarantee given to a bank in respect of credit facilities utilised by Zastron *(Note)*	**–**	158

Note: During the year ended 31 December 2004, the cross guarantee given to a bank in respect of credit facilities utilised by Zastron was released.

At 31 December 2004, the Company had issued a corporate guarantee amounting to US$6,000,000 (2003: Nil) to a bank in respect of banking facilities granted to a subsidiary. No significant amount was utilised by the subsidiary as at 31 December 2004.

24. Capital Commitments

	THE GROUP	
	2004	2003
	US$'000	US$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**3,531**	15,164
Authorised but not contracted for	**6,134**	3,668
	9,665	18,832

The Company had no significant capital commitments at the balance sheet dates.

25. Operating Lease Commitments

The Group and The Company

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

26. Retirement Benefit Schemes

The Group operates a mandatory provident fund scheme ("MPF Scheme") for all qualifying employees in Hong Kong and a retirement benefit scheme ("Macao Scheme") for all qualifying employees in Macao. The assets of the MPF Scheme and the Macao 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 Macao Scheme. The total contributions incurred in this connection for the year were approximately US$32,000 (2003: US$35,000).

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, PRC, to the retirement benefit schemes ("PRC Scheme") to fund the retirement benefits of their employees. The principal obligation of the Group with respect to the PRC Scheme is to make the required contributions under the scheme. The total contributions incurred in this connection for the year were approximately US$330,000 (2003: US$210,000).

The total cost charged to consolidated income statement represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

27. Share Option Schemes

(a) Share option scheme adopted by NTE Inc.

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 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.

27. Share Option Schemes *(Continued)*

(a) Share option scheme adopted by NTE Inc. *(Continued)*

In May 2001, the board of directors of NTE Inc. approved another stock option plan which would grant 15,000 options to each non-employee 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. There is no maximum entitlement for each of the key employee under this stock option plan. 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 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 subject to the discretion of the board of directors of NTE Inc. to prescribe the time or times which the option may be exercised, but cannot exceed ten years. The options are granted to non-employee directors based on past performance and/or expected contributions to NTE Inc. No consideration is payable on the grant of an option.

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. During 2004, NTE Inc. had decided to resume issuing options to employees in addition to giving cash bonuses.

27. Share Option Schemes *(Continued)*

(a) Share option scheme adopted by NTE Inc. *(Continued)*

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

Directors

Exercise price per share US$	4.625 *(Note)*	4.647 *(Note)*	4.833 *(Note)*	6.617 *(Note)*	19.400
Number of options:					
Outstanding as 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 as at 31 December 2003 and 1 January 2004	–	–	–	–	–
Granted during the year	–	–	–	–	390,000
Outstanding as at 31 December 2004	–	–	–	–	390,000

Employees

Exercise price per share US$	4.647 *(Note)*	6.617 *(Note)*	19.400
Number of options:			
Outstanding as at 1 January 2003	159,000	282,000	–
Exercised during the year	(159,000)	(273,318)	–
Effect of ten for one share dividend declared by NTE Inc.	–	868	–
Outstanding as at 31 December 2003 and 1 January 2004	–	9,550	–
Granted during the year	–	–	36,000
Outstanding as at 31 December 2004	–	9,550	36,000

27. Share Option Schemes *(Continued)*

(a) Share option scheme adopted by NTE Inc. *(Continued)*

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise price
		US$
1 February 2000	1 January 2001 to 31 January 2003	4.625 *(Note)*
16 March 2001	16 March 2001 to 16 March 2004	4.647 *(Note)*
22 June 2001	22 June 2001 to 22 June 2004	4.833 *(Note)*
30 April 2002	30 April 2002 to 30 April 2005	6.617 *(Note)*
30 July 2004	30 July 2004 to 30 July 2006	19.400

(*Note:* The exercise price of the share options has been adjusted to US$4.205, US$4.225, US$4.394, 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 which the share options were exercised ranged from approximately US$9.200 to US$40.720 for the year ended 31 December 2003.

(b) Share option scheme of the Company

The Company adopted a share option scheme (the "Scheme") on 8 April 2004 which became effective on 28 April 2004, the date on which the shares of the Company are listed on SEHK. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from that date.

The purpose of the Scheme is to grant options to eligible participants (as defined below) as an incentive or reward for the contributions to the Group and its Associated Companies (as defined below).

27. Share Option Schemes *(Continued)*

(b) Share option scheme of the Company *(Continued)*

Those who are eligible to participate in the Scheme include (i) employees; directors; business partners, agents, consultants or representatives; suppliers; and customers; research, development or other technological consultants of the Group, Associated Companies and any controlling shareholder; (ii) shareholders who, in the opinion of the directors, have contributed to the development of the business of the Group or Associated Companies or any controlling shareholder; (iii) secondees devoting at least 40% of his time to the business of the Group or an associated company (together the "Eligible Persons"); and (iv) a trust for the benefit of an Eligible Person or his immediate family members and a company controlled by the Eligible Person or his immediate family members (together with the Eligible Persons being "Eligible Participants"). "Associated Companies" refer to those companies in the equity share capital of which the Company, directly or indirectly, has a 20% or greater beneficial interest but excluding the Company's subsidiaries. "Controlling Shareholder" refers to (i) any person who is able to control the exercise of 30% (or such other percentage as may from time to time be specified in the Codes on Takeovers and Mergers and Share Repurchases as being the level for triggering a mandatory general offer) or more of the voting power at general meeting of the Company; (ii) any person who is in a position to control the composition of the Board; or (iii) any person who has the power to conduct the affairs of the Company according to his wishes by virtue of the constitutional documents or other agreements of the Company.

The exercise price of the share option is determinable by the Board, but shall not be less than the higher of : (i) the closing price of the Company's shares as stated in SEHK's daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing share price per Company's share as stated in SEHK for the five trading days immediately preceding the date of grant of that option, and (iii) the nominal value of the Company shares.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme) and any other scheme shall not exceed 80,000,000 being 10% of the ordinary share capital of the Company in issue at the date of adoption of the Scheme. As at 31 December 2004, the Company has not granted any options under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

27. Share Option Schemes *(Continued)*

(b) Share option scheme of the Company *(Continued)*

The offer of a grant of share options shall be deemed to have been accepted when the counterpart of the option agreement is duly signed by the grantee together with payment by the guarantee of a nominal consideration of the amount specified in the offer, as being the consideration for the grant of the option, is received by the Company at the place specified in the option agreement within 28 days from the date of the offer or such other period as the Board may specify in writing. An option may be exercised during the period (not more than 10 years from the date of grant of the option) specified in the terms of grant.

No options have been granted under the Scheme since its adoption.

(c) Pre-IPO Share Option Scheme of the Company

The Company adopted a Pre-IPO Share Option Scheme ("Pre-IPO Scheme"), the purpose of which is to recognise 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.

27. Share Option Schemes *(Continued)*

(c) Pre-IPO Share Option Scheme of the Company *(Continued)*

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 1 January 2004	Options granted during the year	Options outstanding as at 31 December 2004
Directors	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	note	–	8,200,000	8,200,000
Employees under continuous employment contract	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	note	–	11,800,000	11,800,000
					–	20,000,000	20,000,000

Note: 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.

During the year, 2 employees resigned and 300,000 share options and 60,000 share options under the Pre-IPO Scheme shall lapse on 11 June 2005 and 1 July 2005 respectively, being 12 months from the date they ceased to be employees of the Group.

No consideration had been received during the year from directors and employees for taking up the options granted.

28. Related Party Transactions

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

Name of fellow subsidiaries	Nature of transactions	Notes	2004 US$'000	2003 US$'000
Zastron	Sales of property, plant and equipment	(a)	59	107
	Rental income received	(b)	656	–
	Commission received	(d)	–	862
Nam Tai Group Management Limited	Business facilities fee paid	(b)	450	1,656
NTTHK	Sales of finished products of Discontinued Businesses	(c)	–	7,114
J.I.C. Enterprises (Hong Kong) Limited	Purchase of materials	(c)	563	390
Shenzhen Namtek Co. Ltd.	Commission received	(d)	52	202

Notes:

(a) Sales of property, plant and equipment represented the net book value of the property, plant and equipment calculated in accordance with accounting principles generally accepted in the PRC.

(b) Rental income received from and business facilities fee paid to related parties were charged based on fixed monthly rates.

(c) Sales of finished products and purchase of materials represented the cost of finished products or materials plus a percentage mark-up.

(d) Commission received represented a certain percentage on turnover of the related party.

In the opinion of the directors, the above transactions were carried out in the normal course of the Group's businesses.

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 41 and note 18.