Interim Report 2005

Nam Tai Electronic & Electrical Products Limited

(Incorporated in the Cayman Islands with limited liability)

KEY HIGHLIGHTS

Comparing the results of 2005 to 2004

- Q2 sales down 16% due to deferred shipment but 1H sales up 9%
- Q2 net profit down 20% due to decrease in sales

Interim dividend of 3 HK cents per Share

SUMMARIZED STATEMENT OF INCOMES

(In thousands of US Dollars, except as otherwise stated)

	Quarterly Results			Half-Year Results		
	2Q2005	2Q2004	YoY(%)	**1H2005**	1H2004	YoY(%)
Sales (Turnover)	**39,668**	47,316	(16.2)	**81,696**	74,794	9.2
Profit from Operations	**5,777**	7,060	(18.2)	**10,821**	10,538	2.7
Net Profit	**6,357**	7,964	(20.2)	**11,444**	11,200	2.2
% of sales	***16.0%***	*16.8%*		***14.0%***	*15.0%*	
Basic EPS (US cents)	**0.76**	1.00	(24.0)	**1.40**	1.40	Nil
Weighted average number of Shares						
Basic (Note 1 and 2)	**840,386,555**	800,000,000		**820,304,842**	800,000,000	

Note:

(1) Assuming that the Group Re-organisation and the Capitalisation Issue (details of which are disclosed in Appendix V to the Prospectus (as defined in note 1)) had become effective on 1 January 2004.

(2) The Company issued 81,670,588 shares of HK$0.01 each of the Company ("Shares") for the acquisition of Namtek Software Development Company Limited ("Namtek Cayman") and its subsidiaries (together the "Namtek Group") on 17 May 2005.

QUARTERLY SALES BREAKDOWN

(In thousands of US Dollars, except percentages)

Quarter	**2005**	2004	YoY(%) (Quarterly)	YoY(%) (Quarterly accumulated)
1st Quarter	**42,028**	27,478	53.0%	53.0%
2nd Quarter	**39,668**	47,316	(16.2%)	9.2%
3rd Quarter	**N/A**	46,601		
4th Quarter	**N/A**	42,189		
Total	**81,696**	163,584		

KEY HIGHLIGHT OF FINANCIAL POSITION

(In thousands of US Dollars, except percentages)

	As at 30 June 2005	As at 30 June 2004	As at 31 December 2004
Cash on Hand	**26,792**	14,702	22,079
Cash/Current Liabilities	**1.07**	0.62	0.94
Current Ratio	**3.18**	2.88	3.66
Total Asset/Total Liabilities	**6.30**	4.98	5.79
Debtors turnover days (Note 1)	**56**	87	66
Inventory turnover days (Note 2)	**28**	41	25
Creditors turnover days (Note 3)	**49**	56	52

Notes:

(1) The calculation of debtors turnover days is based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 181 days for the six months ended 30 June 2005 and 30 June 2004, and 365 days for the year ended 31 December 2004.

(2) The calculation of inventory turnover days is based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2005 and 30 June 2004, and 365 days for the year ended 31 December 2004.

(3) The calculation of creditors turnover days is based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2005 and 30 June 2004, and 365 days for the year ended 31 December 2004.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors ("Directors") of Nam Tai Electronic & Electrical Products Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

Condensed Consolidated Income Statement

		Three months ended 30 June		Six months ended 30 June	
	NOTES	**2005 US$'000 (unaudited)**	2004 US$'000 (unaudited) and restated)	**2005 US$'000 (unaudited)**	2004 US$'000 (unaudited and restated)
Turnover	3 & 4	**39,668**	47,316	**81,696**	74,794
Cost of sales		**(30,850)**	(37,387)	**(64,550)**	(59,008)
Gross profit		**8,818**	9,929	**17,146**	15,786
Other operating income		**251**	315	**478**	315
Selling and distribution costs		**(423)**	(872)	**(1,011)**	(1,419)
Administrative expenses		**(2,096)**	(1,755)	**(4,404)**	(3,108)
Research and development expenditure		**(773)**	(557)	**(1,388)**	(1,036)
Profit from operations	5	**5,777**	7,060	**10,821**	10,538
Bank interest income		**103**	25	**198**	36
Dividend income from available -for-sale financial assets		**579**	926	**579**	926
Loss from discontinued operations		**-**	–	**-**	(253)
Profit before taxation		**6,459**	8,011	**11,598**	11,247
Taxation	6	**(102)**	(47)	**(154)**	(47)
Net profit for the period attributable to equity holders of the Company		**6,357**	7,964	**11,444**	11,200
Earnings per Share for net profit for the period attributable to equity holders of the Company – basic and diluted	8	**0.76 US cent**	1.00 US cent	**1.40 US cents**	1.40 US cents
Earnings per Share for net profit from continuing operations attributable to equity holders of the Company – basic and diluted	8	**0.76 US cent**	1.00 US cent	**1.40 US cents**	1.43 US cents
Losses per Share for loss from discontinued operations attributable to equity holders of the Company – basic and diluted	8	**-**	–	**-**	(0.03) US cent

Consolidated Balance Sheet

	NOTES	At 30 June 2005 US$'000 (Unaudited)	At 31 December 2004 US$'000 (Audited and restated)
Non-current assets			
Property, plant and equipment	9	**53,918**	49,396
Goodwill		**24,340**	–
Deposits paid for the acquisition of property, plant and equipment		**60**	175
Other asset		**65**	65
		78,383	49,636
Current assets			
Inventories		**10,099**	8,765
Trade and other receivables	10	**25,686**	30,380
Dividend receivable		**579**	–
Taxation recoverable		**5,165**	3,730
Available-for-sale financial assets	11	**11,700**	–
Investment in non-trading securities	11	**–**	20,700
Bank balances and cash		**26,792**	22,079
		80,021	85,654
Current liabilities			
Trade and other payables	12	**22,534**	23,259
Amount due to a shareholder		**472**	–
Amount due to ultimate holding company		**1,890**	–
Amount due to a fellow subsidiary		**240**	113
		25,136	23,372
Net current assets		**54,885**	62,282
Total assets less current liabilities		**133,268**	111,918
Capital and reserves			
Share capital	13	**1,131**	1,026
Reserves		**132,137**	110,892
		133,268	111,918

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Equity-settled share-based payment reserve US$'000	Statutory reserve US$'000	Investment revaluation reserve US$'000	Accumulated profits US$'000	Total US$'000
At 1 January 2004 – as previously reported	13	–	4,960	–	138	–	25,313	30,424
Arising on Group Reorganisation (Note 1)	1,013	90,518	(2,131)	–	–	–	–	89,400
Dividend paid after Capitalisation Issue (Note 7)	–	(35,915)	–	–	–	–	–	(35,915)
Net profit for the period – as restated	–	–	–	–	–	–	11,200	11,200
Expensing of fair value of share options – on application of HKFRS 2 (Note 2)	–	–	–	93	–	–	–	93
At 30 June 2004 – as restated	1,026	54,603	2,829	93	138	–	36,513	95,202
Increase in fair value of non-trading securities not recognized in the income statement	–	–	–	–	–	8,732	–	8,732
Net profit for the period – as restated	–	–	–	–	–	–	11,550	11,550
Dividends paid (Note 7)	–	–	–	–	–	–	(3,846)	(3,846)
Appropriation of NTSZ (as defined in note 6) 2003's profits	–	–	–	–	4,230	–	(4,230)	–
Expensing of fair value of share options – on application of HKFRS 2 (Note 2)	–	–	–	280	–	–	–	280
At 31 December 2004 – as restated	1,026	54,603	2,829	373	4,368	8,732	39,987	111,918
Issue of share capital	105	26,595	–	–	–	–	–	26,700
Dividends paid (Note 7)	–	–	–	–	–	–	(8,000)	(8,000)
Appropriation of NTSZ 2003's profits	–	–	–	–	7	–	(7)	–
Expensing of fair value of share options	–	–	–	206	–	–	–	206
Decrease in fair value of available-for-sale financial assets	–	–	–	–	–	(9,000)	–	(9,000)
Net profit for the period	–	–	–	–	–	–	11,444	11,444
At 30 June 2005	**1,131**	**81,198**	**2,829**	**579**	**4,375**	**(268)**	**43,424**	**133,268**

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2005	2004
	US$'000	US$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**15,106**	5,836
Net cash (used in) investing activities	**(2,454)**	(7,292)
Net cash (used in) from financing activities	**(7,939)**	7,285
Net increase in cash and cash equivalents	**4,713**	5,829
Cash and cash equivalents at beginning of the period	**22,079**	8,873
Cash and cash equivalents at end of the period represented by bank balances and cash	**26,792**	14,702

Notes to the Condensed Consolidated Financial Statements

For the Six Months ended 30 June 2005

1. Basis of Presentation

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 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 Shares on SEHK, the Company became the holding company of the group (the "NTEEP Group") as at the date thereof, 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"). NTEEP Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the financial statements of NTEEP Group have been prepared on the basis as if the Company had always been the holding company of NTEEP Group. On 17 May 2005, the Company completed the acquisition of Namtek Group. NTEEP Group and Namtek Group together formed the Group.

The principal activities of the Group are manufacturing and marketing of consumer electronics and communication products and software development specialising in digital dictionaries and car navigation systems.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK ("Listing Rules") and the Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial information is presented in United States dollars, the currency of the primary economic environment in which the Group operates.

2. Principal Accounting Policies

The condensed consolidated financial information has been prepared under the historical cost basis except for certain available-for-sale financial assets, which are measured at fair value or re-valued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2004, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005.

Except for the adoption of HKFRS 2 "Share-based Payments", HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", the adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

- *Share-based Payment*

  HKFRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for Shares or rights over Shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of Directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they are exercised. Pursuant to the transitional provisions of HKFRS 2, in relation to share options granted after 7 November 2002 and vested on or after 1 January 2005, the expense related to such share options should be accounted for retrospectively. Comparative amounts for 2004 have been restated accordingly.

  The adoption of HKFRS 2 has resulted in a decrease in the balance of accumulated profits as at 31 December 2004 of approximately US$373,000 (1 January 2004: Nil), with a corresponding adjustment to the equity-settled share-based payments reserve, representing the cumulative effect of the change in policy on the results for periods prior to 31 December 2004. The adoption has also resulted in an increase in administrative expenses and a decrease in the profit of approximately US$206,000 for the six months ended 30 June 2005 (for the six months ended 30 June 2004: US$93,000).

- *Financial Instruments*

  In the current interim period, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

  Financial assets

  Financial assets included trade and other receivables, dividend receivable and bank balances and cash. Trade and other receivables and dividend receivable are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

  Financial liabilities

  Other financial liabilities included trade and other payables, amount due to a shareholder, amount due to ultimate holding company and amount due to a fellow subsidiary, which are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

  Available-for-sale Financial Assets

  HKAS 39 requires financial assets be classified as available-for-sale financial assets, financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Upon the adoption of HKAS 39 on 1 January 2005, the Group's investments in non-trading securities have been reclassified to available-for-sale financial assets, which are carried at fair value with fair value movements recognised in equity. The adoption of HKAS 39 has had no material effect for the prior accounting periods because non-trading securities were also carried at fair value with fair value movements recognised in equity.

In addition to the application of these new HKFRSs, the Group has also applied the accounting policies described below to deal with the acquisition of subsidiaries during the period.

- *Business combinations*

  The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

  Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

- *Goodwill*

  Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

  For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

  On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. Segment Information

During the period ended 30 June 2005, the Group is wholly engaged in the manufacturing and marketing of consumer electronics and communications products and software development specialising in digital dictionaries and car navigation systems. During the period ended 30 June 2004, the Group was also involved in the trading and manufacturing of essential components and subassemblies for mobile phones (the "Discontinued Businesses") but the Discontinued Businesses were completely ceased during the period ended 30 June 2004.

During the current interim period, the management has reassessed the primary source of the Group's risk and return and redesignated geographical segments as the Group's primary reporting format.

Six months ended 30 June 2005 (unaudited)

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Combined US$'000
External turnover	34,114	33,008	14,048	526	81,696
Segment results	3,433	4,953	1,904	53	10,343
Unallocated corporate income					478
Profit from operations					10,821
Bank interest income					198
Dividend income from available-for-sale financial assets					579
Profit before taxation					11,598
Taxation					(154)
Net profit for the period attributable to equity holders of the Company					11,444

Six months ended 30 June 2004 (unaudited and restated)

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Combined US$'000
External turnover	29,090	22,395	23,280	29	74,794
Segment results	3,386	3,199	3,635	3	10,223
Unallocated corporate income					315
Profit from operations					10,538
Bank interest income					36
Dividend income from available-for-sale financial assets					926
Loss from discontinued operations					(253)
Profit before taxation					11,247
Taxation					(47)
Net profit for the period attributable to equity holders of the Company					11,200

Three months ended 30 June 2005 (unaudited)

	Asia Pacific region US$'000	**Europe US$'000**	**North America US$'000**	**Others US$'000**	**Combined US$'000**
External turnover	**15,030**	**14,192**	**9,924**	**522**	**39,668**
Segment results	**1,935**	**2,157**	**1,384**	**50**	**5,526**
Unallocated corporate Income					**251**
Profit from operations					**5,777**
Bank interest income					**103**
Dividend income from available-for-sale financial assets					**579**
Profit before taxation					**6,459**
Taxation					**(102)**
Net profit for the period attributable to equity holders of the Company					**6,357**

Three months ended 30 June 2004 (unaudited and restated)

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Combined US$'000
External turnover	17,958	16,827	12,528	3	47,316
Segment results	2,142	2,489	2,113	1	6,745
Unallocated corporate Income					315
Profit from operations					7,060
Bank interest income					25
Dividend income from available-for-sale financial assets					926
Profit before taxation					8,011
Taxation					(47)
Net profit for the period attributable to equity holders of the Company					7,964

4. Turnover

	Three months ended 30 June		**Six months ended 30 June**	
	2005 US$'000 (unaudited)	2004 US$'000 (unaudited)	**2005 US$'000 (unaudited)**	2004 US$'000 (unaudited)
Optical devices	**11,984**	14,928	**29,228**	20,894
Educational products	**10,262**	12,812	**15,871**	20,220
Home entertainment devices	**9,641**	8,103	**22,199**	18,641
Mobile phone accessories	**6,921**	11,473	**13,538**	15,039
Software development	**858**	–	**858**	–
Others	**2**	–	**2**	–
	39,668	47,316	**81,696**	74,794

5. Profit from Operations

	Three months ended 30 June		Six months ended 30 June	
	2005 US$'000 (unaudited)	2004 US$'000 (unaudited)	**2005 US$'000 (unaudited)**	2004 US$'000 (unaudited)
Profit from operations has been arrived at after charging:				
Depreciation and amortisation	**1,365**	1,628	**2,511**	2,758
Less: Depreciation and amortisation included in research and development expenditure	**(20)**	(21)	**(37)**	(39)
	1,345	1,607	**2,474**	2,719
Staff costs	**2,584**	2,070	**5,326**	3,645
Less: Staff costs included in research and development expenditure	**(652)**	(408)	**(1,193)**	(775)
	1,932	1,662	**4,133**	2,870
and after crediting:				
Commission income	**–**	–	**–**	52

6. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2005 US$'000 (unaudited)	2004 US$'000 (unaudited)	**2005 US$'000 (unaudited)**	2004 US$'000 (unaudited)
PRC enterprise income tax charge	**102**	47	**154**	47

Taxation represents enterprise income tax charge in the People's Republic of China (the "PRC").

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ") and Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen"), two wholly owned subsidiaries of the Company, are subject to a tax rate of 15% on the assessable profits for each of the periods. 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 2004, NTSZ and Namtek Shenzhen exported more than 70% of the production value of its products and were qualified as Export Enterprises which were subject to a reduced tax rate of 10%. The Directors expect that NTSZ and Namtek Shenzhen will also qualify for a reduced tax rate of 10% for the year 2005.

Furthermore, if a foreign investor directly reinvests by way of capital injection its share of profits obtained from an 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 intends to reinvest the profits of NTSZ for each of the periods, the Directors believe the Group is eligible for the refund of the income taxes paid. As a result, the Group recorded tax expense net of the benefit related to the refunds. However, the shareholder of Namtek Shenzhen currently has no intention to make use of such arrangement for Namtek Shenzhen.

As at 30 June 2005, income tax recoverable under such arrangements was approximately US$5.16 million (31 December 2004: approximately US$3.73 million). Tax for the six months ended 30 June 2005 that would otherwise have been payable without the tax refund concession amounted to approximately US$0.97 million (six months ended 30 June 2004: approximately US$0.96 million).

Nam Tai Investments Consultant (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 18/99/M, Chapter 2, Article 12, dated 18 October 1999.

7. Dividends

During the six months ended 30 June 2004 and prior to the Company being listed on SEHK, the Company declared a dividend of approximately US$35.92 million out of the Company's share premium account after the capitalisation of approximately US$91.54 million owed by the Company to NTE Inc., details of which are disclosed in Appendix V to the Prospectus (the "Capitalisation Issue").

The following dividends represent the dividends paid during the period after the Company was listed on SEHK on 28 April 2004:

	Six months ended 30 June	
	2005 US$'000	2004 US$'000
Final paid – 1.00 US cent per Share	**8,000**	–

The Directors have determined that an interim dividend of 3 HK cents, equivalent to 0.38 US cent (2004: 3.75 HK cents, equivalent to 0.48 US cent) per Share be payable to the shareholders of the Company whose name appear in the register of members on 17 August 2005.

8. Earnings (Loss) Per Share

From continuing and discontinued operations

The calculation of basic and diluted earnings per share for the profit for the period attributable to equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2005 US$'000 (unaudited)	2004 US$'000 (unaudited and restated)
Net profit for the period attributable to equity holders of the Company	**11,444**	11,200
	'000	'000
Weighted average number of Shares for the purpose of basic and diluted earnings per Share (Notes 1 and 2)	**820,305**	800,000

Note:

1. The 800,000,000 shares in issue for the period ended 30 June 2004 is based on the assumption that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2004.

2. During 2004 and 2005, no assumption of the exercise of the share options is considered in calculating the diluted earnings per Share.

From continuing operations

The calculation of basic and diluted earnings per share for net profit from continuing operations attributable to equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2005	2004
	US$'000	US$'000
	(unaudited)	(unaudited and restated)
Net profit for the period attributable to equity holders of the Company	**11,444**	11,200
Adjustment to exclude loss from discontinued operations	**–**	253
Earnings for the purpose of basic and diluted earnings per Share from continuing operations	**11,444**	11,453

The denominators used are the same as those detailed above for the basic and diluted earnings per Share for net profit for the period attributable to equity holders of the Company.

From discontinued operations

Loss per share for loss from discontinued operations attributable to equity holders of the Company is based on the loss from discontinued operations and the same denominators detailed above for basic and diluted earnings per share for net profit for the period attributable to equity holders of the Company.

Impact of changes in accounting policy

Changes in the Group's accounting policies during the period are described in note 2. To the extent that these changes have had an impact on results reported for the six months ended 30 June 2004 and 2005, they have had an impact on the amounts reported for earnings per Share. The impact on both basic and diluted earnings per Share is summarised below:

	Impact on basic and diluted earnings per share for the six months ended 30 June	
	2005	2004
	US cent	US cent
	(unaudited)	(unaudited)
Recognition of share-based payments as expenses	**(0.03)**	(0.01)

9. Movements in Property, Plant and Equipment

During the six months ended 30 June 2005, the Group spent approximately US$5.14 million (for the six months ended 30 June 2004: approximately US$4.15 million) on the construction of its new office and factory located in the PRC, and approximately US$1.38 million (for the six months ended 30 June 2004: approximately US$4.07 million) on the acquisition of plant and equipment, in order to the increase and upgrade the Group's manufacturing capabilities.

During the six months ended 30 June 2005 and 2004, there was no material disposal of property, plant and equipment for the Group.

10. Trade and Other Receivables

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

The following is an aged analysis of trade receivables at the balance sheet dates:

	The Group	
	30 June 2005 US$'000 (unaudited)	31 December 2004 US$'000 (audited)
Trade receivables:		
Up to 30 days	**14,730**	16,643
31 – 60 days	**9,234**	12,334
Over 60 days	**1,187**	702
	25,151	29,679
Other receivables	**535**	701
	25,686	30,380

11. Available-for-sale Financial Assets (formerly classified as Investment in Non-Trading Securities)

The amount represents the Group's 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 to transfer 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.

Upon the adoption of HKAS 39 on 1 January 2005, the Group's investments in non-trading securities have been reclassified to available-for-sale financial assets.

The equity shares were revalued at their open market value at 30 June 2005 by an independent financial advisor. This valuation gave rise to a revaluation decrease of US$9.00 million which has been charged to the investment revaluation reserve.

12. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet dates:

	The Group	
	30 June 2005 US$'000 (unaudited)	31 December 2004 US$'000 (audited)
Trade payables:		
Up to 30 days	**10,593**	11,173
31 to 60 days	**6,055**	6,555
Over 60 days	**864**	647
	17,512	18,375
Other payables	**5,022**	4,884
	22,534	23,259

13. Share Capital

	Number of Shares		Share capital	
	30 June 2005 (unaudited)	31 December 2004 (audited)	**30 June 2005 HK$'000 (unaudited)**	31 December 2004 HK$'000 (audited)
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of the period/year	**2,000,000,000**	10,000,000	**20,000**	100
Increase in ordinary shares during the period (note a)	**–**	1,990,000,000	**–**	19,900
At end of the period/year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the period/year	**800,000,000**	10	**8,000**	–
Issued in consideration for the acquisition of subsidiaries (note b)	**81,670,588**	–	**817**	–
Capitalisation Issue (note a)	**–**	799,999,990	**–**	8,000
At end of the period/year	**881,670,588**	800,000,000	**8,817**	8,000
			US$'000	US$'000
Shown in the condensed consolidated financial statements as			**1,131**	1,026

Notes:

(a) 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$91.54 million owed by the Company to NTE Inc. was approved and the Directors were authorised to allot and issue 799,999,990 Shares to NTE Inc.

(b) On 17 May 2005, 81,670,588 Shares were issued at HK$2.55 per Share as consideration for the acquisition of subsidiaries, details of which are set out in note 15. These Shares rank pari passu in all respects with the then existing Shares.

14. Capital Commitments

	30 June 2005 US$'000 (unaudited)	31 December 2004 US$'000 (audited)
Capital expenditures in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**2,132**	3,531
Authorised but not contracted for	**5,442**	6,134
	7,574	9,665

15. Acquisition of Subsidiaries

On 17 May 2005, the Group acquired 100% interest in Namtek Group from NTE Inc. and management of Namtek Group. This transaction has been accounted for by purchase method of accounting. Carrying value of the assets and liabilities acquired approximate their fair value:

	Six months ended 30 June 2005 US$'000 (Unaudited)
Net assets acquired:	
Plant and equipment	240
Deposits paid for acquisition of plant and equipment	5
Trade and other receivables	514
Taxation recoverable	156
Bank balances and cash	4,036
Trade and other payables	(109)
Amount due to a shareholder	(472)
Amount due to ultimate holding company	(1,890)
Amount due to a fellow subsidiary	(66)
	2,414
Goodwill arising on acquisition	24,340
Total consideration	26,754
Satisfied by:	
Issue of shares	26,700
Cash paid for expenses incurred in relation to the acquisition	54
	26,754

Net inflow arising on acquisition of subsidiaries:

	Six months ended 30 June 2005 US$'000 (Unaudited)
Cash paid for expenses incurred in relation to the acquisition	(54)
Bank balances and cash acquired	4,036
	3,982

The goodwill arising on the acquisition of Namtek Group is attributable to the anticipated augmentation of the Group's profitability.

The subsidiaries acquired during the period ended 30 June 2005 accounted for a turnover of approximately US$0.86 million and a profit of approximately US$0.53 million in the Group's turnover and profit respectively.

If the acquisition had been completed on 1 January 2005, total turnover for the period would have been US$83.41 million and profit for the period would have been US$12.22 million. The proforma information is for illustrative purpose only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

16. Related Party Transactions

		Three months ended 30 June		**Six months ended 30 June**	
Name of related parties	**Nature of transactions**	**2005 US$'000 (Unaudited)**	2004 US$'000 (Unaudited)	**2005 US$'000 (Unaudited)**	2004 US$'000 (Unaudited)
Fellow subsidiaries:					
Zastron Electronic (Shenzhen) Co. Ltd.	Rental income received	**286**	219	**513**	219
Nam Tai Group Management Limited	Business facilities fee paid	**93**	150	**185**	150
J.I.C. Technology Company Limited	Purchase of materials	**239**	139	**425**	245
Former fellow subsidiary:					
Namtek Shenzhen	Commission received	**–**	–	**–**	52
Directors	Remuneration	**224**	241	**425**	321

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

During the six months ended 30 June 2005, the Company acquired 80% interest in Namtek Group from NTE Inc. for a consideration of US$21.36 million and the remaining 20% interest in Namtek Group from its management for a consideration of US$5.34 million.

17. Comparative Figures

Comparative figures in other operating income have been reclassified to conform to the current period's presentation. These reclassifications had no effect on the net income or financial position for any period presented.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 3.00 HK cents per Share (2004: 3.75 HK cents) for the six months ended 30 June 2005 to be payable to shareholders whose names appear on the Register of Members of the Company on 17 August 2005.

The interim dividend will be paid in Hong Kong dollars on or around 30 August 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 August 2005 to 17 August 2005, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the aforementioned interim dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 15 August 2005.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

The sales of the Group in the second quarter 2005 dropped 16.2% as compared to the same period last year due to deferred shipment but sales for the interim period of year 2005 grew by 9.2% as a result of the significant growth in sales in the first quarter 2005. Benefiting from the contribution of its newly acquired software business, the gross profit margin increased in the second quarter 2005.

Due to the decrease in sales as a result of deferred shipment and the increase in staff cost for on-going business development purpose, net profit for the second quarter 2005 dropped 20.2% as compared to the same period last year.

During the interim period of year 2005, the Group developed a number of new products in its mobile phone accessories segment and educational products segment and was successful in winning new orders from its existing and new customers for mass production in the second half of 2005. To further enhance its profit, the Group acquired Namtek Cayman in May 2005 to complement its business model of providing its customers of international brands of electronics and communications products with one stop resources.

To cope with the forthcoming new orders and to maintain the Group's competitiveness in the EMS market, the Group invested a total amount of US$0.84 million in additional acoustic test equipment, Chip On Board ("COB") equipment, Surface Mount Technology equipment as well as soldering equipment for lead-free compliance for its manufacturing business and invested a total amount of US$0.03 million for its software development business.

Acquisition of Namtek Software Development Company Limited

As stated above, in order to enhance the Group's service scope and its profits, the Company has, during the interim period, acquired the entire issued capital of Namtek Cayman which wholly owns Namtek Shenzhen and Namtek Japan Company Limited, a representative office of Namtek Group in Japan. Namtek Group is a total solution provider offering a wide range of services on software development, data processing & compression and electronic hardware design & development specializing in digital dictionaries and car navigation system.

Namtek Shenzhen has excellent customer network and exclusive experience in the Japanese electronics industry. Following almost 10 years experience in software development, data processing and compression and hardware (electronic) design and development, Namtek Shenzhen has become a leading total solution provider for digital dictionary software development in the Japanese market. Namtek Shenzhen currently provides its software development services, on project basis, to the major manufacturers of Japanese based digital dictionaries including Seiko Instruments Inc., Canon Electronic Business Machines (H.K.) Co. Ltd. and Sony Engineering Corporation.

In light that Namtek Group has been profit making and has high profit margin for its software development for digital dictionaries, the Company will be able to enhance its profit margin and profit return via this new product segment.

Besides, in this age of shortage in software development talent, the Company will be able to leverage on the experience and knowledge of the staff team of Namtek Group to integrate their relevant know-how to new and existing products of the Group.

Relocation to new factory premises
NTSZ successfully moved into its new factory premises in April 2005 which is ahead of schedule. Currently, it is in the process of building its new staff quarters and ancillary facilities which are expected to be completed in end 2005.

Product Segments
An analysis of the Group's various product segments is as follows:

Optical Devices
During the six months ended 30 June 2005, the Group's optical devices business recorded turnover of approximately US$29.23 million representing an increase of approximately 39.9% as compared to the turnover of approximately US$20.89 million for the same period last year. This growth in sales is attributable to the high market demand of CMOS image sensor modules.

To enhance its competitiveness in the market, the Group is in the course of making continuous investment in its COB production equipment such that its production capabilities in this area can be further upgraded.

Educational Products
During the period under review, the Group's educational product business achieved sales of approximately US$15.87 million, representing a decrease of approximately 21.5% when compared to the same period last year. The decline is mainly attributable to the slow down in sales of traditional calculators. However, the Group has been successful in developing two new products namely mini-scanner and digital pen during the period under review and these new products have been introduced to the market in the second quarter of 2005. Besides, the Group is in the course of developing new products applying its optical devices.

Home Entertainment Products
During the period under review, sales of home entertainment devices reached approximately US$22.20 million from approximately US$18.64 million for the same period last year representing a growth of approximately 19.1%.

The turnover of home entertainment devices is attributable to the manufacturing of SingStar® USB microphone and converter box and EyeToy® USB camera for Sony Computer Entertainment's Playstation®2. During the period under review, the Group has won a new order from Sony Computer Entertainment Europe to build a new silver EyeToy™ Mini USB Camera model for the new Satin Silver PlayStation®2 computer entertainment system. The Group is also in the course of developing another new product which is anticipated to be mass produced in the second half of 2005. It is therefore anticipated that there will be satisfactory growth in the sales of home entertainment devices.

Mobile Phone Accessories

During the period under review, the Group recorded sales of approximately US$13.54 million for its mobile phone accessories representing a decrease of approximately 10.0% when compared to the same period last year which is mainly attributable to the ramp up of sales of Bluetooth™ headsets in the first half of 2004. However, the Group is successful in obtaining new orders for the forthcoming quarters from its existing customer on the development of Bluetooth™ headset module and camera flash. The Group is also successful in obtaining orders from a new customer, GN Netcom A/B, for the development and manufacturing of peripherals for new game devices for mobile phone accessories to be mass produced in the second half of 2005.

As a result we believe that the sales of this product segment will be able to record remarkable growth during the second half year.

Software Development

Sales for the period under review amounted to approximately US$0.86 million which comprised mainly the sales of the dictionary business. As the Company only acquired Namtek Software in May 2005, the sales of this product segment only represent sales for the period from 17 May 2005 to 30 June 2005.

As Namtek Group has already received firm orders for its dictionary business for the second half of 2005 and that enquiries with regard to the development of car navigation system have been received, we believe that this product segment will generate good return to the Group.

Progress and Achievements in Research and Development

NTEEP Group

NTEEP Group has achieved the implementation of the Restriction of Certain Hazardous Substances (RoHS) compliance process which concerns the management from raw material to finished product. Notwithstanding the requirement applies to all product to be put on the European market after 1 July 2006, NTEEP Group has already shipped compliant products to some of its customers.

NTEEP Group is also preparing itself to manufacture products using Global Positioning System ("GPS") technology and will be using existing Bluetooth™ RF know-how to enhance the specific area of GPS. NTEEP Group will collaborate with Namtek Group on the development of GPS as and when appropriate.

NTEEP Group has also successfully applied COB technology to produce prototypes of 2 mega pixel camera module with auto focus lens.

Namtek Group

In order to maintain its competitive position in the market, Namtek Group will place more resources in research and development. During the interim period, Namtek Group successfully developed 15 software projects for dictionaries and 3D sensor/digital filter application products for its customers and also focused on software and hardware development for car navigation products.

To maintain its leadership in quality assurance, Namtek Group has decided to adapt Motor Industry Software Reliability Association ("MISRA") rule on its software development. MISRA is an industry level technical standard geared towards meeting the stringent requirements in developing software for automotive electronics and related products. Training has started in June 2005 and Namtek Group will initially apply it for a few development projects before the end of year 2005 whereupon Namtek Group will be able to further expand this to more software development.

Future Outlook

We envisage that the growing mobile telecommunications market and continuously improving economy sentiment will present vast opportunities for the Group's box built products. The Group therefore aims to elevate the sales of its box-built products such that the Group's product mix is more well-balanced and its profit can be further augmented in the second half of 2005. In this respect, the Group is successful in obtaining new orders from its existing and new clients for the production of new products for its home entertainment devices segment and mobile phone accessories segment for the second half of 2005.

On the other hand, based on firm orders on hand and forthcoming orders of Namtek Group, the dictionary business will continue to contribute towards enhancing the profits of the Group. Namtek Shenzhen is also in the course of jointly developing a car navigation system with Datawest Inc. which has been in car navigation map business for over 15 years. The joint development will provide total solution for the car navigation system for South Asia, PRC, Europe and US markets. Namtek Shenzhen also has the technology to control and combine GPS module and GSM module with SMS for opening vast business opportunities. As a result, the Company will be able to provide innovative and one stop solution for the car navigation system from map formatting, software and hardware development to PCB assembly and hence provide vast business opportunities for the Company.

As a result, due to the deferred shipment from the second quarter 2005 and other reasons stated above, the Group should be able to maintain steady growth in sales for the second half of 2005.

We are aware of the uncertainties in the market such as skilled labour shortage in the PRC, the recent 2% appreciation of Renminbi on 21 July 2005, power supply shortage and high oil and material prices. However, the Group reviews these issues on a regular basis and has taken appropriate steps to safeguard itself and to mitigate their impact on our performance. Our effective remuneration policy enables us to maintain a relatively low labour turnover rate. As at 30 June 2005, since the Group has over 80% cash in hand in Renminbi which is expected to be more than enough to cover daily operating expenses payable in Renminbi for a period of not less than 12 months, currently we do not see any impact of Renminbi appreciation on the Group. Moreover, we are likely to benefit from the 2% appreciation of our Renminbi cash reserve and assets in the coming quarter. Any disruption to electricity supply can be eliminated by our own generators to back up city supply electricity. Also, our good relationship with our suppliers and sourcing strategy are able to alleviate increasing material prices.

Investment in TCL Corporation

The Company has reclassified its investment in TCL Corporation ("TCL Corp.") as "available-for-sale financial assets" pursuant to the adoption of HKSA 39. The value of the Company's investment in TCL Corp. is carried at fair value based on the recommendation of an independent financial adviser to value its promoter's shares in TCL Corp. at a 50.8% discount to the market price. Accordingly, based on the closing share price at 30 June 2005 of RMB2.14 (US$0.26), the value of the Company's investment in TCL Corp. was discounted and included in the Company's balance sheet as US$11.70 million, compared to its cost of US$12.00 million. There is no impact on the Company's income statement until the promoter's shares are sold.

Capital Expenditure

During the six months ended 30 June 2005, an amount of approximately US$6.52 million had been incurred for the purchase of new equipment and manufacturing facilities. Such investments are financed by internal cash resources.

Liquidity, Financial Resources and Financial Ratios

With approximately US$15.11 million of net cash generated from operating activities in the first half of 2005, the Group continued to maintain a strong liquidity position even after payment of US$8.00 million 2004 final dividends in the interim period 2005. As at 30 June 2005, the Group had 3.04 US cents (31 December 2004: 2.76 US cents) of cash per Share and 15.12 US cents (31 December 2004: 13.99 US cents) of net asset per share based on 881,670,588 Shares (31 December 2004: 800,000,000 Shares assuming that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2004). The Group had, as at 30 June 2005, a cash to current liabilities ratio of 1.07 (31 December 2004: 0.94), a current ratio of 3.18 (31 December 2004: 3.66). A total assets to total liabilities ratio of 6.30 (31 December 2004: 5.79), and approximately US$26.79 million (31 December 2004: US$22.08 million) of bank balances and cash.

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

The Group recorded debtors turnover days and creditors turnover days of approximately 56 days and 49 days respectively for the six months ended 30 June 2005 (approximately 66 days and 52 days respectively for the year ended 31 December 2004) based on the amount of trade debtors/creditors as at the relevant period end divided by sales/cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2005 (365 days for the year ended 31 December 2004).

The Group recorded inventories turnover days of approximately 28 days for the six months ended 30 June 2005 (approximately 25 days for the year ended 31 December 2004) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2005 (365 days for the year ended 31 December 2004).

Based on the above, the Group's financial ratios continued to remain healthy during the interim period 2005.

Taxes

The tax charge during the six months ended 30 June 2005 was approximately US$0.15 million.

In accordance with the applicable enterprise income tax law and regulations of the PRC and the relevant rules promulgated by the Shenzhen Municipal Government, NTSZ and Namtek Shenzhen, the main operational arms of the Company, are subject to a tax rate of 15% on its assessable profits. Nonetheless, as both export 70% or more of the production value of their products, they were able to enjoy a reduced tax rate of 10% for the year ended 31 December 2004. The Directors expect that they will continue to qualify for a reduced tax rate of 10% for the year 2005.

Furthermore, as the Company directly reinvests NTSZ' profits in expanding its business, the Group was able to enjoy tax refunds on profits that were reinvested. Currently, there is no profit reinvestment plan for Namtek Shenzhen.

As at 30 June 2005, income tax recoverable under the above arrangements was approximately US$5.16 million (31 December 2004: approximately US$3.73 million). For details, please refer to note 6 of the unaudited Condensed Consolidated Income Statement.

However, the tax benefit enjoyed by the Group may be affected should there be any changes in respect of the current taxation policies of the PRC tax authorities, the rates of taxation or methods of taxation which are unfavourable to NTSZ and Namtek Shenzhen.

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.

Employee and Remuneration Policy

Up to 30 June 2005, the Group had a total of 1,875 dynamic and talented employees, among which NTEEP Group had a total of 1,768 staff including 26 marketing staff and 121 research and development staff and Namtek Group had a total of 107 staff including 2 marketing staff and 96 research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff cost for the period was approximately US$5.33 million. The Group will continue to recruit appropriate staff members to strengthen its research and development capabilities.

Remuneration policy is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff. 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 Company's share option scheme adopted on 22 March 2004 ("Pre-IPO Share Option Scheme"). Save for 700,000 share options which lapsed during the interim period as a result of the cessation of employment of 4 staff members, the share options granted to Directors and employees under the Pre-IPO Share Option Scheme remained outstanding at the period end.

DIRECTORATE AND SENIOR MANAGEMENT

Executive Directors

Ms. WONG Kuen Ling, Karene *(Chairman)*
Mr. Guy BINDELS *(Chief Executive Officer)*
Mr. Kazuhiro ASANO

Non-Executive Directors

Mr. KOO Ming Kown
Mr. Tadao MURAKAMI (resigned effective 5 July 2005)
Mr. LI Shi Yuen, Joseph

Independent Non-executive Directors

Mr. Thaddeus Thomas BECZAK
Mr. CHAN Tit Hee, Charles
Mr. LEE Wa Lun, Warren

Senior Management

Mr. HSU Kar Hing, Joseph *(Chief Financial Officer)*
Mr. HU Shu Zhou *(Managing Director of NTSZ)*

ISSUE OF SHARES

During the six months ended 30 June 2005, the Company issued and allotted as consideration a total of 81,670,588 Shares comprising 65,336,470 Shares and 16,334,118 Shares to NTE Inc., the controlling shareholder of the Company and Asano Company Ltd. respectively for the acquisition of Namtek Cayman.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, 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 of the Company

Shareholdings in the Company

Name of Director	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Mr. Guy BINDELS	Personal	Beneficial Owner	50,000	0.00567%
Mr. Kazuhiro ASANO	Corporate (Note 1)	Beneficial Owner	16,334,118	1.85%

Share Options under the Pre-IPO Share Option 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

(II) Long position of shares in associated corporations

Shareholdings in NTE Inc.

Name of Director	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Ms. WONG Kuen Ling, Karene	Personal	Beneficial Owner	39,100	0.091%
Mr. Guy BINDELS	Personal	Beneficial Owner	1,000	0.0023%
Mr. KOO Ming Kown	Personal (Note 2)	Beneficial Owner	6,445,786	15.08%
Mr. LI Shi Yuen, Joseph	Personal and Corporate (Note 3)	Beneficial Owner	3,013,957	7.05%
Mr. Tadao MURAKAMI	Personal	Beneficial Owner	1,849,225	4.33%

Share Options granted by NTE Inc.

Name of Director	Capacity	Number of options held	Number of underlying shares
Mr. KOO Ming Kown	Beneficial Owner	545,000	545,000
Mr. LI Shi Yuen, Joseph	Beneficial Owner	80,000	80,000
Mr. Tadao MURAKAMI (Note 4)	Beneficial Owner	545,000	545,000

Note:

(1) The shares are held by Asano Company Ltd., a company beneficially owned as to 49.9999% by Mr. ASANO and his wife.

(2) Includes 5,445,786 common shares registered in the names of Mr. KOO Ming Kown and his wife, Ms. SUI Sin Cho.

(3) 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.

(4) Mr. Tadao MURAKAMI ceased to be Director with effect from 5 July 2005.

Save as disclosed above, no Directors or 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 sections "Directors' Interests and Short Position in Shares, Underlying Shares and Debentures" above and "Share Options" below, at no time during the six months ended 30 June 2005 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 30 June 2005, 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 Shares

Name of substantial shareholder	Number of Shares beneficially held	Percentage of the issued share capital of the Company
NTE Inc.	635,336,470	72.06%
J P Morgan Chase & Co. (Note 1)	46,274,000	5.25%

Note:

(1) As at the date of this report, the number of Shares held by J P Morgan Chase & Co. reduced to 43,547,000 representing 4.94% of the issued 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.

SHARE OPTIONS

(I) Pre- IPO Share Option Scheme

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

Details of the share options which were granted under the Pre-IPO Share Option Scheme and remained outstanding as at 30 June 2005 are as follows:

Directors	Date of grant	Subscription price per share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 1 January 2005	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options outstanding as at 30 June 2005
Ms. WONG Kuen Ling, Karene	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	Note (1)	7,000,000	–	–	–	7,000,000
Mr. Guy BINDELS	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	Note (1)	1,200,000	–	–	–	1,200,000
Employees Under Continuous Employment Contract	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	Note (1)	11,800,00	–	–	700,000 Note (2)	11,100,000
					20,000,000	–	–	700,000	19,300,000

Notes:

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

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 of the Group.

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 of the Group.

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

(2) 700,000 share options lapsed during the interim period due to the cessation of employment of 4 employees of NTSZ.

(3) Subsequent to the interim period, 60,000 and 1,600,000 share options lapsed on 1 July 2005 and 11 July 2005 respectively.

(II) Share Option Scheme

On 8 April 2004, the Company adopted a share option scheme ("Share Option Scheme"). During the six months ended 30 June 2005, no options under the Share Option Scheme have been granted.

CORPORATE GOVERNANCE

The Group continues to achieve 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.

Subsequent to the period end, Mr. Tadao MURAKAMI resigned as Director due to health reasons. Despite Mr. MURAKAMI's resignation, the remaining Non-executive Directors continue to constitute the majority of the Board to ensure objectivity and impartiality in the management of the Group. The Board is responsible for the overall management of the Group's business but the day-to-day management is delegated to the three Executive Directors, Ms. WONG Kuen Ling, Karene, Mr. Guy BINDELS and Mr. Kazuhiro ASANO. Ms. WONG as Chairman heads the Board and also takes charge of the marketing functions of the Group other than Namtek Group which remains in the hands of Mr. ASANO. Mr. BINDELS as Chief Executive Officer is responsible for the overall operations of the Group whilst Mr. ASANO continues to be responsible for the management of Namtek Group. Their roles are clearly segregated.

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules and the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules (effective prior to 1 January 2005) at the time the Shares are listed on SEHK. Upon the coming into force of the Code on Corporate Governance Practices (the "Corporate Governance Code") on 1 January 2005, the Company has further enhanced its corporate governance. In this respect, as a subsidiary of NTE Inc., a New York Stock Exchange listed company, the Company shall comply with the stringent requirements under the Sarbanes-Oxley Act (the "Act"). The Act focuses mainly on the effectiveness of internal control and essentially requires the management 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 a company's internal controls and procedures for financial reporting, followed by an attestation of management's assertions by its external auditors. To this end, the Company has set up a task force which follows the methodology and time schedule of NTE Inc. to ensure that the internal control requirements under the Act can be fully complied with accordingly. Besides, the Company has decided to engage its external auditors to review its financial statements on a quarterly basis in year 2005.

None of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not in compliance with the Model Code or the Code for any part of the period ended 30 June 2005. In the opinion of the Board, the Company has also fully complied with the code provisions of the Corporate Governance Code during the interim period.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

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 Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Code and the Corporate Governance Code. The Group's unaudited financial statements for the six months ended 30 June 2005 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standards 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 Remuneration Committee are Independent Non-executive Directors namely Mr. Thaddeus Thomas BECZAK and Mr. LEE Wa Lun, Warren. The Remuneration Committee has adopted terms of reference which are in line with the Corporate Governance Code.

By Order of the Board
WONG Kuen Ling, Karene
Chairman

Hong Kong, 1 August 2005