

CHAIRMAN'S STATEMENT

Year 2005 has been a very challenging year for Nam Tai Electronic & Electrical Products Limited (the "Company") under the increasingly competitive market condition. Even with contribution from the newly acquired Namtek Software Development Company Limited ("Namtek Software") and its subsidiaries ("Namtek Group"), sales for the year ended 31 December 2005 was US\$167.3 million, almost flat as compared to sales of US\$163.6 million last year.

During the year, there was a decline in the sales of optical devices as the Company was not able to achieve the technical specification requirement of a major customer on time and thus was not successful in obtaining orders for new mega pixel CMOS camera modules from such customer. Sales in educational products also dropped as compared to last year. However, these were more or less compensated by the rather satisfactory increase in sales of home entertainment products and mobile phone accessories as the Company and its subsidiaries (the "Group", comprising the core business group ("NTEEP Group") and Namtek Group) successfully secured orders from existing as well as new customers for a number of new products in these product lines. The Namtek Group acquired in May 2005 also contributed to sales of the Group.

Profit from operation and net profit for 2005 dropped by 4.6% and 2.7% respectively when compared to the same period last year mainly due to the drop in gross profit as a result of the adoption of a competitive pricing policy in pursuing orders for new products from existing as well as new customers. Nevertheless, the Company still enjoyed a profitable year with a net profit of US\$22.1 million. Basic earnings per share for the 12 months ended 31 December 2005 were 2.60 US cents as compared to the earnings per share of the continuing businesses of 2.87 US cents for the same period last year.

Final Dividend

The Board (the "Board") of Directors (the "Directors") has resolved to declare a final dividend of 0.45 US cents, equivalent to 3.50 HK cents (2004: 1.00 US cent, equivalent to 7.80 HK cents) per share ("Share") of HK\$0.01 each of the Company as compared to interim dividend of 0.38 US cent, equivalent to 3.00 HK cents (2004: 0.48 US cent, equivalent to 3.75 HK cents) per Share. The total dividends declared for the year ended 31 December 2005 amounted to 0.83 US cent, equivalent to 6.50 HK cents (2004: 1.48 US cents, equivalent to 11.55 HK cents) per Share.

The final dividend will be paid on or around 20 April 2006 to shareholders whose names appear on the Register of Members of the Company on 13 April 2006. The dividend will be paid in Hong Kong Dollars.

Acquisition of Namtek Software

In order to enhance the Group's service scope and its profits, the Company had in May 2005 acquired the entire issued capital of Namtek Software which wholly owns Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen") and Namtek Japan Company Limited ("Namtek Japan"), 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.

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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 is able to enhance its profit margin and profit return via this new product line. Besides, in this age of shortage in software development talent, the Company is 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 NTEEP Group.

Proposed Privatisation of the Company

During the year, Nam Tai Electronics, Inc. ("NTE Inc."), the controlling shareholder of the Company, proposed to privatise the Company by way of general offer at an offer price of HK\$1.80 per Share (the "Offer"). The Offer was subject to the condition that NTE Inc. received acceptances and purchases totalling net less than 90% of the Shares other than those owned by NTE Inc. and parties acting in concert with it as at the date of the Offer (the "Affected Shares"). As at the date of the close of the Offer, NTE Inc. received only 69.81% of the Affected Shares and thus the privatisation was not successful.

Liquidity, Financial Resources and Financial Ratios

The Group continued to maintain a sound financial position during the year of 2005, with 5.0 US cents (2004: 2.8 US cents) of cash per Share and 16.2 US cents (2004: 14.0 US cents) of net asset per Share based on 881,670,588 (2004: 800,000,000) issued ordinary Shares. The Group had, as at 31 December 2005, a cash to current liabilities ratio of 1.51 (2004: 0.94), a current ratio of 3.05 (2004: 3.67), a total assets to total liabilities ratio of 5.85 (2004: 5.79), and approximately US\$44.5 million (2004: US\$22.1 million) of bank balances and cash.

At the year end, the Group had no external loans of any kind. The gearing ratio was nil. The Group recorded debtors turnover days of approximately 44 days for the 12 months ended 31 December 2005 (approximately 66 days for the year ended 31 December 2004) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days.

The Group recorded an inventory turnover days of approximately 25 days for the 12 months ended 31 December 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 365 days.

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 Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

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Investment in TCL Corporation

The Company has reclassified its investment in TCL Corporation ("TCL Corp.") as "available-for-sale investments", please refer to note 2 of the notes to the financial statements below for details of the change in accounting policy. In this respect, the Company has taken into account the recommendation of an independent financial adviser to value its promoter's shares in TCL Corp. at a 51.88% discount to the market price. Accordingly, based on the closing share price of TCL Corp. at the year end of RMB2.34 (US\$0.29), the value of the Company's investment in TCL Corp. was discounted and included in the Company's balance sheet at US\$13.33 million, compared to its cost of US\$11.97 million. There is no impact on the Company's income statement until the promoter's shares are sold or considered to be impaired.

On 28 November 2005, TCL Corp. announced the proposal of a Split Share Structure Reform ("SSR"). Under the proposed SSR, holders of TCL Corp.'s tradable A-shares will receive 2.5 shares for every 10 shares from the holders of non-tradable shares of TCL Corp., on a pro rata basis. The proposed SSR was approved by the holders of TCL Corp.'s A-shares during the shareholders' meeting held on 30 December 2005 and shall become effective upon approval by the Ministry of Commerce of PRC. Upon completion of the SSR, the Company's interest in TCL Corp. will be reduced from 95,516,112 non-tradable shares to 80,600,173 A-shares which will be tradable on the Shenzhen Stock Exchange 12 months from the first trading day after the SSR is formally in force. However, the financial impact on the Group's interest in TCL Corp. cannot be ascertained at the moment because of the unforeseeable impact of the SSR on TCL Corp. A-share price.

Product Information

The results and prospects of its various products are as follows:

Optical Devices

The Group manufactures CMOS image sensor modules which utilise light-sensing semiconductors to translate images into digital signals. The Group commenced the manufacturing of CMOS image sensor modules in 2003 with substantial increase in sales in year 2004. However, there was a decline in the sales of CMOS camera module in 2005 as the Company was not able to achieve the technical specification requirement of a major customer on time and thus was not successful in obtaining orders for new mega pixel CMOS camera modules from such customer. Sales of optical devices for the year ended 31 December 2005 was US\$42.4 million, representing a reduction of 33.7% as compared to the sales of optical devices for last year of US\$63.8 million.

In order to increase the market share, we have already improved substantially and will keep on improving our technical capability in the manufacture of CMOS camera modules. In this regard, we are currently test running the production of CMOS camera modules of up to 5 mega pixel and are pursuing new orders from new as well as existing customers. During the year 2005, the Company has started to apply its expertise in optical devices in the development of new products of its other product lines such as mini-scanner and digital pen and will keep on exploring similar business opportunities going forward.

Further, we believe that there is a growing demand for advanced CMOS image sensor modules and that we are better positioned to respond to the demand from the market and to capture more business opportunities arising in this area.

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Educational Products

This product line of the Group currently includes basic calculators, scientific calculators, graphic calculators, electronic dictionaries, mini-scanner and digital pen. During the year, there was discontinuation of certain old products and a delay in the introduction of new products. As a result, the sales of the Group's educational products during the year had been reduced by 31.0% as compared to year 2004 and the total sales achieved during the year were approximately US\$24.3 million as compared to US\$35.3 million in 2004.

During 2005 the Company has started to apply its expertise in optical devices in the development of new products of its other products segments such as mini-scanner and digital pen and will keep on exploring similar business opportunities going forward.

Home Entertainment Devices

In addition to the EyeToy® USB camera and SingStar® USB microphone and converter box which we started to manufacture for Sony Computer Entertainment's PlayStation before 2005, we have also started to manufacture a new version of EyeToy® USB camera and a totally new USB buzzers for a series of interactive quiz games on PlayStation®2.

During the year, sales of home entertainment devices reached approximately US\$52.9 million from approximately US\$33.2 million for the same period last year representing a growth of approximately 59.2%. Stimulated by the improving global economy sentiment and hence increasing demand for consumer electronic products, we believe that the sales of the home entertainment devices will continue to record year on year growth.

Mobile Phone Accessories

During the year, the Group manufactured accessories for mobile phones including Bluetooth™ headsets, snap-on flash lights and desk speaker stands. The Group recorded sales of mobile phone accessories of approximately US\$44.0 million in year 2005, representing a growth of 41.1% when compared to US\$31.2 million of last year as the Group has successfully secured sizeable orders from a new customer, GN Netcom A/S for Bluetooth™ related products.

The Group will continue to develop new products using its acoustics and optical techniques and we have already successfully developed PCB (printed circuit board) module which can generically apply to a vast variety of Bluetooth™ related products. We estimate that sales of mobile phone accessories will have significant growth in year 2006.

Software Development Services

Sales for the period under review amounted to approximately US\$3.7 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 line only represent sales for the period from 17 May 2005 to 31 December 2005.

Due to saturation of dictionary market in Japan, Namtek Group has been developing a car navigation system with a view to expand its scope of business and maintain the growth momentum. As enquiries with regard to the development of car navigation software have been received, we believe that Namtek Group overall will generate good return to the Group.

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Research and Development

NTEEP Group

In order to maintain its competitive position in the market, NTEEP Group will continue to place resources in its research and development. As at 31 December 2005, NTEEP Group has 232 engineers specializing in design and engineering functions and will continue to recruit appropriate staff members.

During the year, NTEEP Group achieved numerous technologies including the technology of manufacturing CMOS sensor modules of up to 5 mega pixels level; advanced Chip On Board ("COB") technology in the production of extremely small image sensors; and the technologies to manufacture complicated educational products such as digital pen equipped with Bluetooth™ capability, image sensor for character recognition, memory function as well as USB interface.

The Group also successfully developed a new version of the EyeToy® USB camera and a totally new USB buzzer quiz game accessory for Sony Computer Entertainment's PlayStation® 2.

We also developed flash light module and new Bluetooth™ enabled products for our existing and new clients for mobile phone accessories.

Looking forward, in pursuance of quality excellence and its desire to enter into the high growth automotive electronics market, the Company's wholly owned subsidiary in PRC, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ"), initiated activities towards TS16949-2002 certification in year 2005. TS16949-2002 is an industry level technical standard geared towards meeting the stringent requirements in manufacturing automotive electronics and related products. The first phase for the alignment of our processes has been completed and we are now developing a new product applying the methodology.

Namtek Group

During the year, Namtek Group successfully developed 28 software projects for dictionaries and 3D sensor & digital filter application products. Namtek Group also has been focusing in research and development for car navigation products with a view to expand its scope of business. The first stage prototype for car navigation products which can demonstrate the Namtek Group's software and hardware technology will be ready in the first quarter 2006.

To maintain its leadership in quality assurance, Namtek Group has decided to adopt 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 plans to apply this to its navigation projects in 2006.

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Enhancement of Production Capabilities

Manufacturing technology

To enable the Group to have the capabilities to support its business growth, in year 2005, we have invested in 3 new SMT production lines and have substantially increased our assembly capability which can cope with new product orders of up to 1 million pieces per month.

During the year, we received an award from Texas Instrument Incorporated for zero ppm which proves well our solid manufacturing capability.

Production space

We have also completed the relocation to our new office building and factory premises in 2005. The new office has a total area of approximately 4,400 square meters which is double our previous office space. The new factory premises has a total area of approximately 24,500 square meters which is more than double of our previous factory space. We believe that the new office and factory premises can cater for our expansion in the next 2 to 3 years. We have also completed the construction of new staff quarters and ancillary facilities at the end of 2005.

Quality Assurance

To maintain our leadership in quality assurance, we have started Six Sigma training and certification programs in April 2004 to upgrade our overall quality management. After being accredited by the China Association for Quality of the PRC Government in September 2004 for NTSZ's projects under the "Six Sigma" training and certification programs, we continued our good work in 2005.

To further ensure that the research and development function of the Group can provide a robust and efficient process, NTSZ has started a front end Six Sigma training program called Design for Six Sigma which aims to facilitate a quick and effective turnover cycle for products in the early development stage and is already applying such methodology to enhance research and development process. The Group has planned to deploy a Six Sigma variation program called Lean Six Sigma which concentrates on the control of mass production process variation and breakthrough efficiency improvement and training will start around mid 2006.

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

Environmental Friendly Measures

RoHS Directives

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

As a manufacturer of electrical and electronic products, NTSZ recognizes its responsibilities of contributing to the protection of human health and the environmentally sound disposal of waste electrical and electronic equipment. All our products are lead free and RoHS compliant since end of third quarter in 2005.

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Waste water treatment

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

Others

We are taking initiatives in meeting a number of our customers' stringent environmental friendly requirements in our production process. In 2005, we upgraded our management system to comply with ISO14000 – Version 2004 and passed the BVQI and SSCC audit. Those certifications are the evidence that our environment system follow international standards, and comply with China regulatory requirements in terms of environment.

Appreciation

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

Outlook

It is expected that the competitive market conditions faced by the Group in 2005 will repeat in 2006. Nonetheless, the management believes that there will be more business opportunities based on the global trend of outsourcing by owners of consumer electronics and communications products. Therefore, the Group will continue to expand its customer portfolio and develop a more diversified range of products.

Despite the tough market conditions, we are conservatively confident about the future prospect of the Group and believe that the Company will continue to maintain sales growth in future and should be able to generate fairly good return to its shareholders.

Wong Kuen Ling, Karene

Chairman

Hong Kong, 13 February 2006