NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 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 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. The immediate and 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. The address of the registered office and principal place of business of the Company are disclosed in the Corporate information section of the annual report.

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 (the "NTEEP 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"). 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 Software Development Company Limited and its subsidiaries (the "Namtek Group"). NTEEP Group and the Namtek Group together formed the Group.

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

The functional currency of the Company and its subsidiaries is the United States dollars.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. Except for the adoption of HKFRS 2 "Share-based Payment", HKAS 17 "Leases", HKAS 32 "Financial Instruments: Disclosure and Presentation", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKAS 40 "Investment Properties", the application 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.

2. Application of Hong Kong Financial Reporting Standards *(Continued)*

Share-based Payments

In the current year, the Group has applied HKFRS 2 which 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 shares options until they were exercised. In accordance with the transitional provisions, the Group retrospectively applied HKFRS 2 to share options granted after 7 November 2002 and vested after 1 January 2005. Comparative amounts for 2004 have been restated.

The application of HKFRS 2 has resulted in a decrease in retained 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 payment reserve, representing the effect of the change in policy on the results for the year ended 31 December 2004. The application has also resulted in an increase in administrative expenses and a decrease in the profit of approximately US$450,000 for the year ended 31 December 2005 (2004: US$373,000).

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land (land use rights) and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

Upon the adoption of HKAS 17, as at 31 December 2005, an amount of US$2,673,000 (2004: US$2,744,000) and an amount of US$71,000 (2004: US$71,000) have been reclassified from property, plant and equipment to prepaid lease payments as non-current and current asset, respectively.

Financial Instruments

In the current year, 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 the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

2. Application of Hong Kong Financial Reporting Standards *(Continued)*

Financial Instruments *(Continued)*

Available-for-sale financial assets

By 31 December 2004, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for that period. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

The application of HKAS 32 and 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, which is consistent with the treatment of available-for-sale financial assets.

Financial assets and financial liabilities other than available-for-sale financial assets

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material effect for the current or prior accounting periods.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40. The Group has elected to use the cost model to account for its investment properties, under which investment properties are carried at cost less accumulated depreciation and accumulated impairment losses (if any). In previous periods, investment properties under the predecessor standard were exempt from classifying as investment properties and were classified as property, plant and equipment, carried at cost less accumulated depreciation and accumulated impairment losses. The Group has resolved to apply the new accounting policy retrospectively. Comparative figures for 2004 have been restated.

2. Application of Hong Kong Financial Reporting Standards *(Continued)*

Investment properties *(Continued)*

Upon the adoption of HKAS 40, as at 31 December 2005, an amount of US$16,313,000 (2004: US$11,890,000) has been reclassified from property, plant and equipment to investment properties. The application of HKAS 40 has had no material effect for the prior accounting periods because the exempted investments properties classified as property, plant and equipment were also carried at cost less accumulated depreciation and accumulated impairment losses.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs will 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 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

3. Significant Accounting Policies *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income and commission income are recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is 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 of their estimated residual value, using the straight-line method.

Assets under construction are carried at cost, less any identified impairment losses. Depreciation of these assets commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasehold land held for owner-occupied purpose

The leasehold land component is classified as a prepaid lease payment and is amortised on a straight-line basis over the lease term.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is charged to profit or loss in the period in which it is incurred, unless it meets the recognition criteria of an intangible asset in which case it is capitalised.

3. Significant Accounting Policies *(Continued)*

Impairment losses (other than goodwill)

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. An impairment loss is recognised as an expense immediately.

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 immediately recognised as income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated 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 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.

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 is realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, 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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (i.e. United States dollar) of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly classified into loans and receivables or available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each of the categories of the Group's financial assets are set out below:

– Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

– Available-for-sale financial assets

  Available-for-sale financial assets include available-for-sale investments and are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods through profit or loss.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

– Financial liabilities
  Financial liabilities include trade and other payables and amount due to a fellow subsidiary and are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments
  Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Share-based payment transactions – Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (equity-settled share-based payment reserve).

At the time when the share options are exercised, the amount previously recognised in the equity-settled share-based payment reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in the equity-settled share-based payment reserve will continue to be held in the equity-settled share-based reserve.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is US$24,340,000. Details of the impairment testing on goodwill are disclosed in note 18.

Useful lives and impairment assessment of property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expense recorded. Property, plant, and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

Estimation on the recoverability of PRC tax paid

Pursuant to the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, as set out in more details in note 10, the Group is eligible for the refund of a certain portion of its income tax paid if NTSZ and Namtek Shenzhen exported more than 70% of the production value of its products. In addition, income taxes paid by NTSZ can be refunded if the shareholder of NTSZ reinvested or resolved to reinvest the profits in NTSZ. The taxes will be refunded upon the completion of the relevant application procedures. Management's estimation on the amount refundable for taxes upon completion of the application procedures will impact the amount of tax expenses to be recorded.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, and certain trade receivables and trade payables of the Group are denominated in Japanese Yen and Renminbi, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

5. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Price risk

The Group's available-for-sale financial assets are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk.

6. Revenue

Revenue represents the amounts received and receivable from sales of goods and provision of software development services by the Group to outside customers, less return and allowances, during the year. An analysis of the Group's revenue for the year is as follows:

	2005	2004
	US$'000	US$'000
Sales of goods:		
Home entertainment devices	**52,938**	33,247
Mobile phone accessories	**44,001**	31,192
Optical devices	**42,351**	63,837
Educational products	**24,347**	35,307
Others	**7**	1
	163,644	163,584
Software development services	**3,695**	–
	167,339	163,584

7. Segments

During the year ended 31 December 2005, the Group was 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 year ended 31 December 2004, the Group was also involved in the trading and manufacturing of essential components and subassemblies for mobile phones (the "Discontinued Operations"), but the Discontinued Operations completely ceased during the year ended 31 December 2004. After the cessation of the Discontinued Operations, the Group has only one business segment.

During the current year, the management has reassessed the primary source of the Group's risk and return and redesignated geographical segments as the Group's primary reportable segment. The comparative figures have been restated on the same basis of segmentation adopted in the current year.

Geographical segments

The Group's operations are principally located in the PRC. The Group's customers are mainly located in the Asia Pacific region, Europe and North America.

The following table provides an analysis of the Group's sales and results by geographical market based on the location of its customers:

Income statement

Year ended 31 December 2005

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Consolidated US$'000
External revenue	71,277	71,143	24,389	530	167,339
Segment results	7,363	9,189	2,366	45	18,963
Unallocated corporate income					2,490
Bank interest income					495
Dividend income from available-for-sale investments					579
Profit before taxation					22,527
Taxation					(389)
Profit for the year attributable to equity holders of the Company					22,138

7. Segments *(Continued)*

Geographical segments *(Continued)*

Balance sheet

At 31 December 2005

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Consolidated US$'000
Assets					
Segment assets	**33,381**	**16,003**	**4,473**	**1**	**53,858**
Unallocated corporate assets					**117,985**
Total assets					**171,843**
Liabilities					
Segment liabilities	**6,440**	**12,301**	**1,326**	**–**	**20,067**
Unallocated corporate liabilities					**9,331**
Total liabilities					**29,398**

Other information

Year ended 31 December 2005

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
Allowance for and write off of inventories	34	1	6	–	53	94
Capital additions	–	–	–	–	13,108	13,108
Impairment losses on trade and other receivables recognised in the income statement	–	3	–	–	–	3
Gain on disposal of property, plant and equipment	–	–	–	–	43	43

7. Segments *(Continued)*

Geographical segments *(Continued)*

Income statement

For the year ended 31 December 2004

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Combined US$'000
External revenue	75,517	51,687	35,923	457	163,584
Segment results	8,195	7,973	5,589	49	21,806
Unallocated corporate income					679
Bank interest income					137
Dividend income from investments in non-trading securities					926
Profit before taxation					23,548
Taxation					(545)
Profit for the year from continuing operation					23,003
Loss from discontinued operations					(253)
Profit for the year attributable to equity holders of the Company					22,750

7. Segments *(Continued)*

Geographical segments *(Continued)*

Balance sheet

At 31 December 2004

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Consolidated US$'000
Assets					
Segment assets	22,790	11,456	4,172	12	38,430
Unallocated corporate assets					96,860
Total assets					135,290
Liabilities					
Segment liabilities	5,630	8,088	1,778	5	15,501
Unallocated corporate liabilities					7,871
Total liabilities					23,372

Other information

Year ended 31 December 2004

	Asia Pacific region US$'000	Europe US$'000	North America US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
Allowance for and write off of inventories	–	–	–	–	60	60
Capital additions	–	–	–	–	21,060	21,060
Gain on disposal of property, plant and equipment	–	–	–	–	150	150

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.

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For the year ended 31 December 2005

8. Other Income

	2005 US$'000	2004 US$'000
Exchange gain	915	–
Rental income	1,091	679
Sundry	484	–
	2,490	679

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 (2004: nine) directors were as follows:

Year ended 31 December 2005

	Wong Kuen Ling, Karene US$'000	Guy Bindels US$'000	Kazuhiro Asano US$'000	Thaddeus Thomas Beczak US$'000	Lee Wa Lun, Warren 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	–	101	–	31	31	31	–	–	–	194
Other emoluments										
Salaries and other benefits	358	250	109	–	–	–	–	–	–	717
Performance related incentive bonus	263	149	33	–	–	–	–	–	–	445
Retirement benefit scheme contributions	2	2	3	–	–	–	–	–	–	7
Total emoluments	623	502	145	31	31	31	–	–	–	1,363

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

Note: The performance related incentive bonus is determined based on the performance of the Group.

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

(b) Employees' emoluments

During the year, the five highest paid individuals included two directors (2004: two directors), details of whose emoluments are set out in (a) above. The emoluments of the remaining three (2004: three) highest paid individuals were as follows:

	2005 US$'000	2004 US$'000
Salaries and other benefits	**471**	417
Performance related incentive payments	**146**	41
Retirement benefit scheme contributions	**1**	1
	618	459

The emoluments of the employees were within the following bands:

	Number of employees 2005	2004
HK$1,000,000 to HK$1,500,000 (equivalent to US$128,205 to US$192,308)	**2**	3
HK$2,000,001 to HK$2,500,000 (equivalent to US$256,410 to US$320,513)	**1**	–
	3	3

During the years ended 31 December 2005 and 2004, 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. Three (2004: none) of the directors waived their emoluments during the year.

10. Taxation

	2005 US$'000	2004 US$'000
PRC enterprise income tax charged at applicable rates	**389**	545

10. Taxation *(Continued)*

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, NTSZ and Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen"), wholly owned subsidiaries of the Company, are 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 2004, NTSZ and Namtek Shenzhen exported more than 70% of the production value of its products and were qualified as an Export Enterprise which were subject to a reduced tax rate of 10%. For the year ended 31 December 2005, NTSZ and Namtek Shenzhen also exported more than 70% of the production value of its products and they had applied to the relevant authority to be recognised as an Export Enterprise. The directors expect that NTSZ and Namtek Shenzhen will also qualify for a reduced tax rate of 10% for the year ended 31 December 2005.

Furthermore, if a foreign investor directly reinvests by way of capital injection of 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 has resolved to reinvest the profits for both years, the directors believe the Group is eligible for the refund of income taxes paid. As a result, the Group recorded tax expense of NTSZ net of the benefit related to the refunds.

At 31 December 2005, income taxes recoverable under such arrangements were US$1,838,000 (2004: US$3,730,000), which are included in taxation recoverable in the consolidated balance sheet. Tax that would otherwise have been payable without the tax refund concession amounted to US$1,672,000 for the year ended 31 December 2005 (2004: US$2,368,000).

The shareholder of Namtek Shenzhen currently has no intention to reinvest the profits of Namtek Shenzhen.

NTIC 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.

No tax is payable on the profit for the year arising in Japan since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both years.

10. Taxation *(Continued)*

The tax expense for the year can be reconciled to profit before taxation per the income statement as follows:

	2005 US$'000	2004 US$'000 (restated)
Profit before taxation	**22,527**	23,295
Tax at PRC enterprise income rate of 10%	**2,253**	2,330
Tax effect of expenses that are not deductible in determining taxable profit	**162**	953
Tax exempted revenues	**(291)**	(550)
PRC enterprise income tax refundable	**(1,283)**	(1,823)
Tax effect of profit not subject to tax	**(372)**	(253)
Others	**(80)**	(112)
Tax expense for the year	**389**	545

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

11. Discontinued Operations

In March 2004, the Group has completely ceased the Discontinued Operations, and the Discontinued Operations had been taken up by Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron"), a fellow subsidiary. There was no significant gain or loss on discontinuation.

The results of the Discounted Operations for the period from 1 January 2004 to 31 March 2004, which have been included in the consolidated income statement, were as follows:

	US$'000
Other income	51
Selling and distribution costs	(182)
Administrative expenses	(122)
Loss for the period from discontinued operations	(253)

The Discontinued Operations did not have any significant impact on the Group's cash flows as all of its expenditure were settled by Nam Tai Telecom (Hong Kong) Limited, a fellow subsidiary of the Group.

12. Profit for the Year Attributable to Equity Holders of the Company

	2005	2004
	US$'000	US$'000
		(restated)
Profit for the year attributable to equity holders of the Company has been arrived at after charging (crediting):		
Allowance for and write off of inventories	**94**	60
Auditors' remuneration	**154**	134
Cost of inventories recognised as expenses	**133,155**	130,048
Depreciation of property, plant and equipment	**3,956**	3,463
Depreciation of investment properties	**884**	666
Amortisation of prepaid lease payments	**71**	71
	4,911	4,200
Less: Depreciation and amortisation included in research and development expenditure	**(82)**	(76)
	4,829	4,124
Gain on disposal of property, plant and equipment	**(43)**	(150)
Staff costs, including directors' remunerations	**11,886**	7,237
Retirement benefit scheme contributions	**499**	362
Total staff costs	**12,385**	7,599
Less: Staff costs included in research and development expenditure	**(2,677)**	(1,718)
	9,708	5,881

13. 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., details of which are disclosed in Appendix V to the Prospectus (the "Capitalisation Issue").

The following dividend represents the dividend declared after the Company has been listed on the SEHK on 28 April 2004:

	2005	2004
	US$'000	US$'000
2004 final, paid – 1.00 US cent per share	**8,000**	–
2005 interim, paid – 0.38 US cent per share (2004: 0.48 US cent)	**3,391**	3,846
	11,391	3,846

A final dividend of 0.45 US cent (2004: 1.00 US cent) per share to the shareholders on the register of members on 13 April 2006, amounting to approximately US$3,968,000, has been proposed by the Directors in respect of the results for the year ended 31 December 2005 and is subject to approval by the shareholders in the general meeting.

14. Earnings (Loss) Per Share

From continuing and discontinued operations

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

	2005	2004
	US$'000	US$'000
		(restated)
Profit for the year attributable to equity holders of the Company	**22,138**	22,750
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (Notes a and b)	**851,240**	800,000

Notes:

(a) The 800,000,000 shares in issue for the year ended 31 December 2004 is based on the assumption that the Group Reorganisation and the Capitalisation Issue had become effective on 1 January 2004.

(b) During 2004 and 2005, no assumption of the exercise of the share options is considered in calculating the diluted earnings per share. Share options which were not dilutive may affect earnings per share in future periods.

14. Earnings (Loss) Per Share *(Continued)*

From continuing operations

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

	2005	2004
	US$'000	US$'000
		(restated)
Profit for the year attributable to equity holders of the Company	**22,138**	22,750
Adjustment to exclude loss from discontinued operations	**–**	253
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**22,138**	23,003

The denominators used are the same as those detailed above for the basic and diluted earnings per share for profit for the year 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 nil (2004: 0.03 US cent) based on the loss from discontinued operations of nil (2004: US$253,000) and the denominators detailed above for both basic and diluted earnings per share for profit for the year attributable to equity holders of the Company.

Impact of application of the new HKFRSs

The impact on both basic and diluted earnings per share as a result of the application of the new HKFRSs is summarised below:

	Impact on basic and diluted earnings per share for	
	2005	2004
	US cent	US cent
Recognition of share-based payments as expense	**(0.05)**	(0.05)

15. Property, Plant and Equipment

	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 GROUP						
COST						
At 1 January 2004						
– As previously reported	29,740	7,423	17,152	2,221	1,249	57,785
– Reclassified to prepaid lease payments	(3,538)	–	–	–	–	(3,538)
– As restated	26,202	7,423	17,152	2,221	1,249	54,247
Additions	–	92	3,773	61	17,134	21,060
Transfer to investment properties	(15,992)	–	–	–	–	(15,992)
Transfer	2,600	2,158	437	–	(5,195)	–
Disposals	–	–	(2,023)	(388)	–	(2,411)
At 31 December 2004 and 1 January 2005	12,810	9,673	19,339	1,894	13,188	56,904
Additions	–	294	1,977	84	10,753	13,108
Transfer to investment properties	(5,888)	–	–	–	–	(5,888)
Transfer	17,458	636	3,077	–	(21,171)	–
Acquired on acquisition of subsidiaries	–	93	109	38	–	240
Disposals	–	–	(172)	(103)	–	(275)
At 31 December 2005	**24,380**	**10,696**	**24,330**	**1,913**	**2,770**	**64,089**
DEPRECIATION AND AMORTISATION						
At 1 January 2004						
– As previously reported	5,697	5,397	12,590	1,442	–	25,126
– Reclassified to prepaid lease payments	(652)	–	–	–	–	(652)
– As restated	5,045	5,397	12,590	1,442	–	24,474
Provided for the year	392	952	1,943	176	–	3,463
Transfer to investment properties	(3,436)	–	–	–	–	(3,436)
Eliminated on disposals	–	–	(1,955)	(333)	–	(2,288)
At 31 December 2004 and 1 January 2005	2,001	6,349	12,578	1,285	–	22,213
Provided for the year	898	1,048	1,834	176	–	3,956
Transfer to investment properties	(581)	–	–	–	–	(581)
Eliminated on disposals	–	–	(171)	(103)	–	(274)
At 31 December 2005	**2,318**	**7,397**	**14,241**	**1,358**	**–**	**25,314**
NET BOOK VALUES						
At 31 December 2005	**22,062**	**3,299**	**10,089**	**555**	**2,770**	**38,775**
At 31 December 2004	10,809	3,324	6,761	609	13,188	34,691

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.

Property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of term of the land use rights, or 20 years
Leasehold improvements	Over the shorter of term of the lease or 5 years
Other assets	20% – 25%

16. Investment Properties

	Buildings US$'000
COST	
Transfer from property, plant and equipment and,	
at 31 December 2004 and 1 January 2005	
– as application of HKAS 40	15,992
Transfer from property, plant and equipment during the year	5,888
At 31 December 2005	**21,880**
DEPRECIATION	
Transfer from property, plant and equipment during the year	
– as application of HKAS 40	3,436
Provided for the year	666
At 31 December 2004 and 1 January 2005	4,102
Transfer from property, plant and equipment during the year	581
Provided for the year	884
At 31 December 2005	**5,567**
NET BOOK VALUE	
At 31 December 2005	**16,313**
At 31 December 2004 – restated	11,890

The fair value of the Group's investment properties at 31 December 2005 is US$17,198,000 (2004: US$12,244,000). The fair value has been arrived at based on a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent valuer not connected with the Group. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

The above investment properties are depreciated on a straight-line basis over the shorter of the term of the land use rights or 20 years.

All of the Group's investment properties are situated on land in the PRC which are held by the Group under medium-term land use rights.

17. Prepaid Lease Payments

The Group's prepaid lease payments represent payments for medium-term land use rights in the PRC.

	2005	2004
	US$'000	US$'000
Analysed for reporting purposes as:		
Current	**71**	71
Non-current	**2,673**	2,744
	2,744	2,815

18. Goodwill and Impairment Testing

The goodwill as at 31 December 2005 arose from the acquisition of Namtek Group (note 25). Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") – the Namtek Group which provides software development services – that is expected to benefit from that business combination.

During the year ended 31 December 2005, management of the Group determined that there was no impairment of the CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management at a discount rate of 14.4% per annum. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectation for the market development. Management believes that any reasonably possible change in any of these assumptions will not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

19. Inventories

	2005	2004
	US$'000	US$'000
Raw materials	**7,283**	7,428
Work in progress	**642**	549
Finished goods	**1,117**	788
	9,042	8,765

20. Trade and Other Receivables

	2005 US$'000	2004 US$'000
Trade receivables	**20,091**	29,679
Less: accumulated impairment losses	**(3)**	–
	20,088	29,679
Other receivables	**712**	701
Total trade and other receivables	**20,800**	30,380

The Group allows its trade customers with credit period normally ranging from 30 days to 60 days (2004: 30 days to 60 days).

The aged analysis of trade receivables (net of impairment losses) at the balance sheet dates is as follows:

	2005 US$'000	2004 US$'000
Up to 30 days	**13,724**	16,643
31 – 60 days	**6,323**	12,334
Over 60 days	**41**	702
	20,088	29,679

The fair value of the Group's trade and other receivables at 31 December 2005 approximated to the corresponding carrying amounts because of their short maturity period.

21. Available-for-sale Investments (formerly Classified as Investment in Non-Trading Securities)

The amount represents the Group's investment in the 95,516,112 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 is 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.

On 28 November 2005, TCL Corporation announced the proposal of a split share structure reform ("SSR"). Under the proposed SSR, holders of TCL Corporation tradable A-shares will receive 2.5 shares for every 10 shares from the holders of promoter's shares of TCL Corporation, on a pro rata basis. Upon completion of the SSR, the Company's interest in TCL Corporation will be reduced from 95,516,112 shares to 80,600,173 shares, representing a change from 3.69% to 3.12%.

21. Available-for-sale Investments (formerly Classified as Investment in Non-Trading Securities) *(Continued)*

The proposed SSR was approved by the holders of TCL Corporation's A-shares during the shareholders' meeting held on 30 December 2005, and shall become effective upon approval by the China Securities Regulatory Commission. As at 31 December 2005, such approval has not been obtained.

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 investments.

As at the balance sheet date, the available-for-sale investments were stated at fair value, which had been determined using the comparable companies analysis carried out by an independent financial advisor.

22. Trade and Other Payables

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

	2005	2004
	US$'000	US$'000
Up to 30 days	**10,710**	11,173
31 to 60 days	**8,362**	6,555
Over 60 days	**2,612**	647
	21,684	18,375
Other payables	**7,566**	4,884
	29,250	23,259

The fair value of the Group's trade and other payables at 31 December 2005 approximated to the corresponding carrying amounts because of their short maturity period.

23. Amount Due to a Fellow Subsidiary

The amount is unsecured, non-interest bearing and repayable on demand. The fair value of the amount due to a fellow subsidiary at 31 December 2005 approximated to its carrying amount because of its short maturity period.

24. Share Capital

	Number of shares		Amount	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of the year	**2,000,000,000**	10,000,000	**20,000**	100
Increase in ordinary shares during the year (note a)	**–**	1,990,000,000	**–**	19,900
At end of the year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the year	**800,000,000**	10	**8,000**	–
Issued in consideration for the acquisition of the Namtek Group (note b)	**81,670,588**	–	**817**	–
Capitalisation Issue (note a)	**–**	799,999,990	**–**	8,000
At end of the year	**881,670,588**	800,000,000	**8,817**	8,000
			US$'000	US$'000
Shown in the 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$91,544,000 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 ordinary shares of HK$0.01 each were issued at HK$2.55 per share as consideration for the acquisition of the Namtek Group, details of which are set out in note 25. The value of the ordinary shares of the Company was determined by applying the average published price available over the last ten trading days before the date of the sale and purchase agreement, with a discount of approximately 1.07%, and represented a total consideration of US$26,700,000. This consideration was determined with reference to the consolidated profits of the Namtek Group for the year ended 31 December 2004 and the price earnings multiple of the Company based on the closing price of its shares on 31 March 2005 of approximately 11.3 times. These shares rank pari passu in all respects with the then existing shares of the Company.

25. Acquisition of Subsidiaries

On 17 May 2005, the Group acquired 100% interest in the Namtek Group from NTE Inc. and management of the Namtek Group. This transaction has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was US$24,340,000. The carrying value of the assets and liabilities acquired approximated to their fair value at the date of acquisition.

	2005
	US$'000
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 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 cash inflow arising on acquisition of subsidiaries:

	2005
	US$'000
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, expertise in the automotive electronics sector and the experience and knowledge of the acquired subsidiaries staff.

25. Acquisition of Subsidiaries *(Continued)*

The subsidiaries acquired during the year ended 31 December 2005 contributed a revenue of approximately US$3,695,000 and a profit of approximately US$1,957,000 in the Group's revenue and profit respectively.

If the acquisition had been completed on 1 January 2005, total group turnover for the year would have been US$169,056,000, and profit for the year would have been US$22,916,000. The proforma information is for illustrative purposes only and is not necessarily an indicative indication of revenue 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.

26. Capital Commitments

	2005	2004
	US$'000	US$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**1,051**	3,531
Authorised but not contracted for	**1,867**	6,134
	2,918	9,665

27. Operating Leases

The Group as lessee

	2005	2004
	US$'000	US$'000
Minimum lease payment made under operating leases in respect of land and building during the year	**144**	28

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	US$'000	US$'000
Within one year	**189**	–
In the second to fifth year inclusive	**106**	–
	295	–

Operating lease payments represent payable by the Group for certain of its office properties. Leases are negotiated for an average term of 2 years.

27. Operating Leases *(Continued)*

The Group as lessor

Property rental income earned during the year was US$1,091,000 (2004: US$679,000). At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005	2004
	US$'000	US$'000
Within one year	**1,276**	1,091
In the second to fifth year inclusive	**5,140**	5,131
Over five years	**2,570**	3,855
	8,986	10,077

28. Retirement Benefit Schemes

According to the relevant laws and regulations in the PRC, NTSZ and Namtek Shenzhen are 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$477,000 (2004: US$330,000).

The Group operates a retirement benefit scheme ("Macao Scheme") for all qualifying employees in Macao and a mandatory provident fund scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the Macao Scheme and the MPF 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, which contribution is matched by employees. The total contributions incurred in this connection for the year were approximately US$16,000 (2004: US$32,000).

According to the relevant laws and regulations in Japan, Namtek Japan Company Limited ("Namtek Japan") is required to contribute approximately 7% of the relevant payroll costs to retirement benefit schemes in Japan. The total contributions incurred in this connection for the year were approximately US$6,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. Share-based Payment Transactions

Equity-settled share option scheme:

(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..

In May 2001, the board of directors of NTE Inc. approved another stock option plan ("2001 Scheme") 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.

The following tables disclose details of the share options granted to the directors and employees of the Group for services provided to NTE Inc. and movements in such holdings during the years:

Directors

		2001 Scheme	
Exercise price per share	US$19.400	US$20.840	US$21.620
Number of options:			
Outstanding at 1 January 2004	–	–	–
Granted during the year	390,000	–	–
Outstanding at 31 December 2004 and 1 January 2005	390,000	–	–
Granted during the year	–	750,000	30,000
Resigned as director during the year	(180,000)	(350,000)	(15,000)
Exercised during the year	(180,000)	(350,000)	(15,000)
	30,000	50,000	–

29. Share-based Payment Transactions *(Continued)*

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

Employees

		2001 Scheme	
Exercise price per share	US$6.015	US$19.400	US$20.840
Number of options:			
Outstanding at 1 January 2004	9,550	–	–
Granted during the year	–	36,000	–
Outstanding at 31 December 2004 and 1 January 2005	9,550	36,000	–
Transfer of an employee from a fellow subsidiary during the year	–	30,000	–
Granted during the year	–	–	60,000
Resigned as employee during the year	–	(30,000)	–
Exercised during the year	(9,550)	(10,000)	–
Outstanding at 31 December 2005	–	26,000	60,000

Details of specific categories of options are as follows:

Date of grant	**Exercise period**	**Exercise price** US$
30 April 2002	30 April 2002 to 30 April 2005	6.015
30 July 2004	30 July 2004 to 30 July 2006	19.400
2 February 2005	4 February 2005 to 4 February 2007	20.840
6 June 2005	6 June 2005 to 6 June 2008	21.620

The weighted average closing price of NTE Inc.'s shares on the dates in which the share options were exercised was approximately US$23.420 for the year ended 31 December 2005.

29. Share-based Payment Transactions *(Continued)*

(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 were listed on the 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).

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 the Stock Exchange'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 the Stock Exchange 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. 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.

29. Share-based Payment Transactions *(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.

Details of the share options which were granted under the Pre-IPO Scheme and remained outstanding as at 31 December 2005 are as follows:

	Date of grant	Exercise price per share	Exercisable period	Vesting period	Options outstanding as at 1 January 2005	Options lapsed during the year	Options outstanding as at 31 December 2005
Directors	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	Note a	8,200,000	–	8,200,000
Employees under continuous employment contract	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	Note a	11,800,000	2,360,000 Note b	9,440,000
					20,000,000	2,360,000	17,640,000

Notes:

(a) During the first 12 months from 28 April 2004, no options granted to the directors and/or employees shall be vested.

During the second 12 months from 28 April 2004, a cumulative maximum of 30% of the share options granted to the directors and/or employees shall be vested.

During the third 12 months from 28 April 2004, a cumulative maximum of 60% of the share options granted to the directors and/or employees shall be vested.

During the remaining option period, a cumulative maximum of 100% of the share options granted to the directors and/or employees shall be vested.

(b) During the year, 2,360,000 shares options lapsed due to the cessation of employment of 6 employees of NTSZ.

29. Share-based Payment Transactions *(Continued)*

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

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

The estimated fair value of the pre-IPO share option granted in 2004 is US$0.08 each. The fair value was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	HK$3.88
Exercise price	HK$3.88
Expected volatility	31.6%
Expected life	3 years
Risk free rate	1.72%
Expected dividend yield	3.97%

Expected volatility was determined by using the historical volatility of share prices of companies in the industry over the previous 8 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised a total expense of US$450,000 for the year ended 31 December 2005 (2004: US$373,000) in relation to share options granted by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. Related Party Transactions

During the year, the Group has the following significant transactions with related parties in addition to the acquisition of subsidiaries as set out in note 24 and the granting of share options by NTE Inc. as set out in note 28:

Name of related parties	Nature of transactions	2005 US$'000	2004 US$'000
Fellow subsidiaries:			
Zastron	Sales of property, plant and equipment	–	59
	Rental income received	1,091	656
Nam Tai Group Management Limited	Business facilities fee paid	286	450
J.I.C. Enterprises (Hong Kong) Limited	Purchase of materials	84	563
J.I.C. (Macao Commercial Offshore) Company Limited	Purchase of materials	436	–
Jetup Electronic (Shenzhen) Co. Ltd.	Purchase of materials	148	–
Nam Tai Trading Company Limited	Purchase of other assets	153	–
Former fellow subsidiary:			
Namtek Shenzhen	Commission received	–	51

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 29 and note 23.

Compensation to key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 US$'000	2004 US$'000
Short-term benefits	1,649	925
Post-employment benefits	–	–
Other long-term benefits	–	–
Share-based payments	229	168
	1,878	1,093

31. Particulars of Subsidiaries of the Company

Details of the Company's subsidiaries at 31 December 2005 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		Principal activities
			Directly %	Indirectly %	
NTSZ	PRC (note)	US$139,000,000	100	–	Manufacture and marketing of consumer electronics and communications products
NTIC	Macao	MOP100,000	100	–	Provision of consultancy services
Namtek Software Development Company Limited	Cayman Islands	HK$1	100	–	Investment holding
Namtek Japan	Japan	JPY10,000,000	–	100	Provision of consultancy services
Namtek Shenzhen	PRC (note)	US$800,000	–	100	Software development

Note: NTSZ and Namtek Shenzhen are registered in the form of wholly owned FIEs.