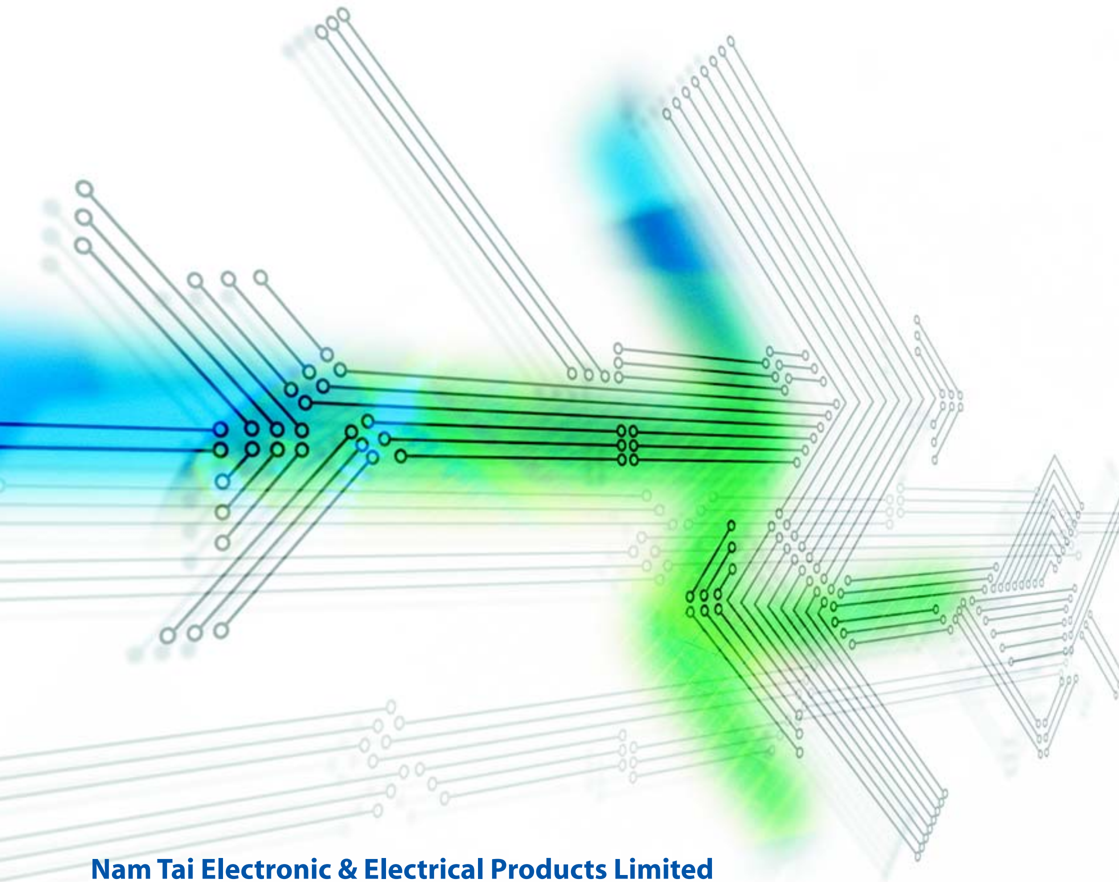
Namtai

Interim Report 2006



Nam Tai Electronic & Electrical Products Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2633

KEY HIGHLIGHTS

- **Comparing the results of 2006 to 2005**
  - Q2 sales up 9.7% and net profit down 65.8%; and
  - 1H sales down 3.7% and net profit down 45.8%.
- **No interim dividends will be declared for the six months ended 30 June 2006.**

SUMMARIZED STATEMENT OF INCOME

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

	Quarterly Results			Half-Year Results		
	2Q2006	2Q2005	YoY (%)	**1H2006**	1H2005	YoY (%)
Sales (Revenue)	**43,521**	39,668	9.7	**78,691**	81,696	(3.7)
Operating Income	**3,795**	5,777	(34.3)	**7,609**	10,821	(29.7)
Net Profit (Note 1)	**2,176**	6,357	(65.8)	**6,203**	11,444	(45.8)
% of sales	***5.0***	*16.0*		***7.9***	*14.0*	
Basic earnings per share (US cent(s))	**0.25**	0.76	(67.1)	**0.70**	1.40	(50.0)
Weighted average number of shares						
Basic (Notes 2 and 3)	**881,670,588**	840,386,555		**881,670,588**	820,304,842	

Notes:

(1) Included a loss of US$1.87 million in 2Q 2006 on available-for-sale investments arising from the Split Share Structure Reform ("SSR") of TCL Corporation ("TCL Corp."), details of which are set out in the later part of this Report under "Investment in TCL Corporation".

(2) The Company issued 81,670,588 shares for the acquisition of Namtek Group comprising Namtek Japan Company Limited and Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen") on 17 May 2005 and its results was included as from that day.

(3) Excluded outstanding share options of 16,820,000 which had not been exercised as at 30 June 2006 (as at 30 June 2005: 19,300,000).

QUARTERLY SALES BREAKDOWN

(In thousands of US Dollars, except percentages)

Quarter	**2006**	2005	YoY (%) (Quarterly)	YoY (%) (Quarterly accumulated)
1st Quarter	**35,170**	42,028	(16.3)	(16.3)
2nd Quarter	**43,521**	39,668	9.7	(3.7)
3rd Quarter	**N/A**	44,912	–	–
4th Quarter	**N/A**	40,731	–	–
Total	**78,691**	167,339		

KEY HIGHLIGHTS OF FINANCIAL POSITION

(In thousands of US Dollars, except ratio and percentage)

	As at 30 June 2006	As at 30 June 2005	As at 31 December 2005
Cash on Hand	**46,163**	26,792	44,466
Cash/Current Liabilities	**1.40**	1.07	1.51
Current Ratio	**3.36**	3.18	3.05
Total Assets/Total Liabilities	**5.80**	6.30	5.85
Return on Equity (%)	**8**	19	16
Total Liabilities/Equity	**0.21**	0.19	0.21
Debtors Turnover Day (Note 1)	**58**	56	44
Inventory Turnover Day (Note 2)	**32**	28	25
Creditors Turnover Day (Note 3)	**78**	49	59

Notes:

(1) The calculation of debtors turnover day is based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 181 days for the six months ended 30 June 2006 and 30 June 2005, and 365 days for the year ended 31 December 2005.

(2) The calculation of inventory turnover day is based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2006 and 30 June 2005, and 365 days for the year ended 31 December 2005.

(3) The calculation of creditors turnover day is based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2006 and 30 June 2005, and 365 days for the year ended 31 December 2005.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Nam Tai Electronic & Electrical Products Limited (the "Company") announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2006.

Unaudited Condensed Consolidated Income Statement

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Revenue	3 & 4	**43,521**	39,668	**78,691**	81,696
Cost of sales		**(36,487)**	(30,675)	**(64,827)**	(64,273)
Gross profit		**7,034**	8,993	**13,864**	17,423
Bank interest income		**309**	103	**585**	198
Dividend income from available-for-sale investments		**–**	579	**–**	579
Other income	17	**463**	277	**945**	504
Other expenses		**(307)**	(278)	**(605)**	(472)
Loss on available-for-sale investments arising from split share structure reform	11	**(1,869)**	–	**(1,869)**	–
Selling and distribution costs		**(404)**	(423)	**(812)**	(1,011)
Administrative expenses		**(2,071)**	(2,019)	**(4,028)**	(4,235)
Research and development expenditure		**(920)**	(773)	**(1,755)**	(1,388)
Profit before taxation	5	**2,235**	6,459	**6,325**	11,598
Taxation	6	**(59)**	(102)	**(122)**	(154)
Profit for the period attributable to equity holders of the Company		**2,176**	6,357	**6,203**	11,444
Dividend	7	**3,982**	8,000	**3,982**	8,000
Earnings per share for profit for the period attributable to equity holders of the Company – basic and diluted	8	**0.25 US cent**	0.76 US cent	**0.70 US cent**	1.40 US cents

Condensed Consolidated Balance Sheet

	Notes	At 30 June 2006 US$'000 (unaudited)	At 31 December 2005 US$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**35,668**	38,775
Investment properties		**17,492**	16,313
Prepaid lease payments		**2,637**	2,673
Goodwill		**24,340**	24,340
Deposits paid for the acquisition of equipment		**71**	56
Other assets		**139**	139
		80,347	82,296
Current assets			
Inventories		**11,479**	9,042
Trade and other receivables	10	**25,679**	20,800
Prepaid lease payments		**71**	71
Taxation recoverable		**2,519**	1,838
Available-for-sale investments	11	**24,798**	13,330
Bank balances and cash		**46,163**	44,466
		110,709	89,547
Current liabilities			
Trade and other payables	12	**32,828**	29,250
Amount due to a fellow subsidiary		**137**	148
		32,965	29,398
Net current assets		**77,744**	60,149
Total assets less current liabilities		**158,091**	142,445
Capital and reserves			
Share capital	13	**1,131**	1,131
Reserves		**156,960**	141,314
Equity attributable to equity holders of the Company		**158,091**	142,445

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Equity-settled share-based payment reserve US$'000	Statutory reserve US$'000	Investment revaluation reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2005	1,026	54,603	2,829	373	4,368	8,732	39,987	111,918
Decrease in fair value of available-for-sale investments recognised directly in equity	–	–	–	–	–	(9,000)	–	(9,000)
Profit for the period	–	–	–	–	–	–	11,444	11,444
Total recognised income and expense for the period	–	–	–	–	–	(9,000)	11,444	2,444
Issue of share capital	105	26,595	–	–	–	–	–	26,700
Dividends paid	–	–	–	–	–	–	(8,000)	(8,000)
Transfer	–	–	–	–	7	–	(7)	–
Share options expense	–	–	–	206	–	–	–	206
At 30 June 2005	1,131	81,198	2,829	579	4,375	(268)	43,424	133,268
Increase in fair value of available-for-sale investments recognised directly in equity	–	–	–	–	–	1,630	–	1,630
Profit for the period	–	–	–	–	–	–	10,694	10,694
Total recognised income for the period	–	–	–	–	–	1,630	10,694	12,324
Dividends paid	–	–	–	–	–	–	(3,391)	(3,391)
Transfer	–	–	–	–	6	–	(6)	–
Share options expense	–	–	–	244	–	–	–	244
At 31 December 2005 and 1 January 2006	1,131	81,198	2,829	823	4,381	1,362	50,721	142,445
Increase in fair value of available-for-sale investments recognised directly in equity	–	–	–	–	–	13,550	–	13,550
Profit for the period	–	–	–	–	–	–	6,203	6,203
Total recognised income for the period	–	–	–	–	–	13,550	6,203	19,753
Released upon split share structure reform	–	–	–	–	–	(213)	–	(213)
Dividends paid	–	–	–	–	–	–	(3,982)	(3,982)
Share options expense	–	–	–	88	–	–	–	88
At 30 June 2006	**1,131**	**81,198**	**2,829**	**911**	**4,381**	**14,699**	**52,942**	**158,091**

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	US$'000	US$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**6,194**	15,106
Net cash used in investing activities	**(515)**	(2,454)
Net cash used in financing activities	**(3,982)**	(7,939)
Net increase in cash and cash equivalents	**1,697**	4,713
Cash and cash equivalents at beginning of the period	**44,466**	22,079
Cash and cash equivalents at end of the period, representing bank balances and cash	**46,163**	26,792

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

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. Its ultimate holding company is Nam Tai Electronics, Inc. ("NTE Inc."), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange.

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The functional currency of the Group is the United States dollars.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost basis except for available-for-sale investments which are measured at fair value.

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except as described below:

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. 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.

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The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs. The management anticipates the application of these new HKFRSs will have no material impact on how its results of operations and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.

3. Segment Information

Geographical Segment

The Group's primary format for reporting segment information is geographical segment.

Six months ended 30 June 2006 (unaudited)

	North America US$'000	Europe US$'000	Asia Pacific region US$'000	Others US$'000	Combined US$'000
Revenue	**32,933**	**24,399**	**21,358**	**1**	**78,691**
Segment results	**1,961**	**3,192**	**2,115**	**1**	**7,269**
Unallocated corporate income					**945**
Unallocated corporate expenses					**(605)**
Loss on available-for-sale investments arising from split share structure reform					**(1,869)**
Bank interest income					**585**
Profit before taxation					**6,325**
Taxation					**(122)**
Profit for the period attributable to equity holders of the Company					**6,203**

Six months ended 30 June 2005 (unaudited)

	North America US$'000	Europe US$'000	Asia Pacific region US$'000	Others US$'000	Combined US$'000
Revenue	14,048	33,008	34,114	526	81,696
Segment results	1,982	5,140	3,611	56	10,789
Unallocated corporate income					504
Unallocated corporate expenses					(472)
Bank interest income					198
Dividend income from available-for-sale investments					579
Profit before taxation					11,598
Taxation					(154)
Profit for the period attributable to equity holders of the Company					11,444

Three months ended 30 June 2006 (unaudited)

	North America US$'000	**Europe US$'000**	**Asia Pacific region US$'000**	**Others US$'000**	**Combined US$'000**
Revenue	**20,547**	**11,568**	**11,406**	**–**	**43,521**
Segment results	**1,192**	**1,410**	**1,037**	**–**	**3,639**
Unallocated corporate income					**463**
Unallocated corporate expenses					**(307)**
Loss on available-for-sale investments arising from split share structure reform					**(1,869)**
Bank interest income					**309**
Profit before taxation					**2,235**
Taxation					**(59)**
Profit for the period attributable to equity holders of the Company					**2,176**

Three months ended 30 June 2005 (unaudited)

	North America US$'000	Europe US$'000	Asia Pacific region US$'000	Others US$'000	Combined US$'000
Revenue	9,924	14,192	15,030	522	39,668
Segment results	1,448	2,251	2,027	52	5,778
Unallocated corporate income					277
Unallocated corporate expenses					(278)
Bank interest income					103
Dividend income from available-for-sale investments					579
Profit before taxation					6,459
Taxation					(102)
Profit for the period attributable to equity holders of the Company					6,357

4. Revenue

	Three months ended 30 June		Six months ended 30 June	
	2006 US$'000 (unaudited)	2005 US$'000 (unaudited)	**2006 US$'000 (unaudited)**	2005 US$'000 (unaudited)
Sales of mobile phone accessories	**28,194**	6,921	**45,112**	13,538
Sales of educational products	**8,923**	10,262	**16,546**	15,871
Sales of home entertainment devices	**5,240**	9,641	**14,488**	22,199
Software development services	**895**	858	**1,880**	858
Sales of optical devices	**269**	11,984	**665**	29,228
Others	**–**	2	**–**	2
	43,521	39,668	**78,691**	81,696

5. Profit before Taxation

	Three months ended 30 June		Six months ended 30 June	
	2006 US$'000 (unaudited)	2005 US$'000 (unaudited)	**2006 US$'000 (unaudited)**	2005 US$'000 (unaudited)
Profit before taxation has been arrived at after charging:				
Depreciation of property, plant and equipment	**1,328**	1,126	**2,654**	2,106
Depreciation of investment properties	**242**	221	**477**	369
Amortisation of prepaid lease payments	**18**	18	**36**	36
	1,588	1,365	**3,167**	2,511
Less: Depreciation and amortisation included in research and development expenditure	**(29)**	(20)	**(58)**	(37)
	1,559	1,345	**3,109**	2,474
Staff costs	**2,958**	2,584	**6,025**	5,326
Less: Staff costs included in research and development expenditure	**(679)**	(652)	**(1,359)**	(1,193)
	2,279	1,932	**4,666**	4,133

6 . Taxation

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

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ") and Namtek Shenzhen, two wholly owned subsidiaries of the Company, are subject to a tax rate of 15% on the assessable profits for the period. In addition, if a foreign investment enterprise ("FIE") exports 70% or more of the production value of its product ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For the year ended 31 December 2005, NTSZ and Namtek Shenzhen exported more than 70% of the production value of its products and were qualified as Export Enterprises and were subject to a reduced tax rate of 10%. The Directors expect that NTSZ and Namtek Shenzhen will also qualify for a reduced tax rate of 10% for the year 2006.

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 Company reinvested or intends to reinvest the profits of NTSZ for the period, the Directors believe the Group is eligible for the refund of income taxes paid. As a result, the Group records tax expense of NTSZ net of the benefit related to the refunds. However, the shareholder currently has no intention to make use of such arrangement for Namtek Shenzhen.

As at 30 June 2006, income taxes recoverable under the above reinvestment arrangements was approximately US$2.52 million (31 December 2005: approximately US$1.84 million). Tax for the six months ended 30 June 2006 that would otherwise have been payable without the tax refund concession amounted to approximately US$0.54 million (six months ended 30 June 2005: approximately US$0.97 million).

Nam Tai Investments Consultant (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

7. Dividends

	Six months ended 30 June	
	2006	2005
	US$'000	US$'000
Final paid – 0.45 US cent per share (1.00 US cent)	**3,982**	8,000

No dividend will be declared for the six months ended 30 June 2006. During the six months ended 30 June 2005, an interim dividend of 0.38 US cent per share was declared.

8. Earnings per share

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

	Six months ended 30 June	
	2006	2005
	US$'000	US$'000
	(unaudited)	(unaudited)
Profit for the period attributable to equity holders of the Company	**6,203**	11,444
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (Note)	**881,671**	820,305

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

9. Movements in Property, Plant and Equipment

During the six months ended 30 June 2006, the Group spent approximately US$0.91 million (for the six months ended 30 June 2005: approximately US$5.14 million) on the construction of its new office and factory located in the PRC, and approximately US$0.31 million (for the six months ended 30 June 2005: approximately US$1.38 million) on the acquisition of plant and equipment, in order to increase and upgrade the Group's manufacturing capabilities.

During the six months ended 30 June 2006, approximately US$1.66 million (six months ended 30 June 2005: US$5.31 million) of buildings were transferred to investment properties.

During the six months ended 30 June 2006 and 2005, there was no material disposal of property, plant and equipment for the Group.

10. Trade and Other Receivables

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

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

	30 June 2006	31 December 2005
	US$'000	US$'000
	(unaudited)	(audited)
Trade receivables:		
Up to 30 days	**17,835**	13,724
31 – 60 days	**6,465**	6,323
Over 60 days	**760**	41
	25,060	20,088
Other receivables	**619**	712
	25,679	20,800

11. Available-for-sale Investments

At 31 December 2005, the amount represented the Group's investment in the 95.52 million promoter's shares of TCL Corp.. In January 2004, TCL Corp. listed its A-shares on the Shenzhen Stock Exchange. The Group's interest in TCL Corp. was 3.69%. According to Article 147 of the Company Law of the PRC, the Group was restricted to transfer its promoter's shares within three years from the date of conversion of TCL Corp. from a limited liability company to a company limited by shares, that was, until April 2005. The Group was, however, entitled to dividend and other rights similar to the holders of A-shares.

On 28 November 2005, TCL Corp. announced the proposal of the SSR. Under the SSR, holders of TCL Corp's. tradable A-shares would receive 2.5 shares for every 10 shares from the holders of promoter's shares of TCL Corp., on a pro rata basis. On 6 April 2006, upon approval of the SSR by the China Securities Regulatory Commission, the Company's interest in TCL Corp. was reduced from 95,516,112 shares to 80,600,173 shares, representing a change from 3.69% to 3.12%. As a result of the SSR, a loss of approximately US$1,869,000 was recognised in the consolidated income statement.

At 31 December 2005, 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.

At 30 June 2006, the available-for-sale investments were stated at fair value by reference to bid price quoted in the active stock exchange.

12. Trade and Other Payables

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

	30 June 2006 US$'000 (unaudited)	31 December 2005 US$'000 (audited)
Trade payables:		
Up to 30 days	**16,625**	10,710
31 to 60 days	**8,838**	8,362
Over 60 days	**2,568**	2,612
	28,031	21,684
Other payables	**4,797**	7,566
	32,828	29,250

13. Share Capital

	Number of shares		Share capital	
	30 June 2006	31 December 2005	**30 June 2006 HK$'000**	31 December 2005 HK$'000
	(unaudited)	(audited)	**(unaudited)**	(audited)
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and end of the period/year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the period/year	**881,670,588**	800,000,000	**8,817**	8,000
Issued in consideration for the acquisition of subsidiaries (Note)	**–**	81,670,588	**–**	817
At end of the period/year	**881,670,588**	881,670,588	**8,817**	8,817
			US$'000	US$'000
Shown in the condensed consolidated financial statements as			**1,131**	1,131

Note: 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 subsidiaries, details of which are set out in note 15. These shares rank pari passu in all respects with the then existing shares of the Company.

14. Capital Commitments

	30 June 2006 US$'000 (unaudited)	31 December 2005 US$'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**510**	1,051
Authorised but not contracted for	**717**	1,867
	1,227	2,918

15. Acquisition of Subsidiaries

On 17 May 2005, the Group acquired 100% interest in Namtek Group from NTE Inc. and management of Namtek Group. This transaction has been accounted for by purchase method of accounting. The amount of goodwill arising as a result of the acquisition was US$24.34 million. The carrying value of the assets and liabilities acquired approximated to their fair value at the date of acquisition.

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

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

If the acquisition had been completed on 1 January 2005, total group turnover for the period ended 30 June 2005 would have been US$83.41 million, and profit for the period ended 30 June 2005 would have been US$12.22 million. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group for the period ended 30 June 2005 that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

16. Related Party Transactions

During the period, the Group has the following significant transactions with related parties in addition to the acquisition of subsidiaries as set out in note 15:

		Three months ended 30 June		**Six months ended 30 June**	
Related parties	**Nature of transactions**	**2006 US$'000 (unaudited)**	2005 US$'000 (unaudited)	**2006 US$'000 (unaudited)**	2005 US$'000 (unaudited)
Fellow subsidiaries	Rental income received	**322**	286	**633**	513
	Business facilities fee paid	**–**	93	**–**	185
	Purchase of materials	**137**	239	**296**	425
Directors	Remuneration	**250**	224	**494**	425

17. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

In view of disappointing financial results for the six months ended 30 June 2006 and having considered a need to retain the Company's cash for working capital and capital expenditure in the coming quarters, the Board decided not to declare any interim dividend for the six months ended 30 June 2006.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review
The management of the Group was disappointed with its results for the second quarter of 2006 because although the sales of the Group increased by approximately 9.7% from US$39.67 million to US$43.52 million, the gross profit margin dropped by approximately 6.5% to 16.2% as compared with the same period last year. The decrease in the gross profit margin was as a result of the Company's competitive pricing policy and external factors such as rising oil prices, costs of raw materials and labour costs, while the increase in sales was due to the increase in sales of mobile phone accessories, compensating the significant decrease in sales of optical devices and home entertainment products in the second quarter of 2006.

Similarly, the management of the Group was not satisfied with its results for the six months ended 30 June 2006 in that the sales of the Group dropped by approximately 3.7% from US$81.70 million to US$78.70 million when compared with the same period last year. For the same reasons as stated above, the gross profit margin dropped by 3.7% to approximately 17.6% as compared with the same period last year. Operating income and net profit of the Group for the interim period of year 2006 also dropped approximately 29.7% and 45.8% respectively as compared to the same period last year.

Despite the challenging market conditions faced by the Group, the Group had a healthy cash position of approximately US$46.2 million with no external debt as at the end of the period under review.

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

Optical Devices
Sales of optical devices during the period under review dropped to approximately US$0.67 million, representing a reduction of approximately 97.7% as compared to the sales of optical devices for the same period last year of approximately US$29.23 million.

Educational Products
During the six months ended 30 June 2006, the Group's educational product business achieved sales of approximately US$16.55 million, representing a slight increase of approximately 4.3% as compared to the sales of approximately US$15.87 million for the same period last year. The growth was mainly due to the increased sales of digital pens.

Home Entertainment Devices
During the period under review, sales of home entertainment devices were approximately US$14.49 million, representing a decrease of approximately 34.7% from approximately US$22.20 million for the same period last year.

Mobile Phone Accessories
During the period under review, the Group recorded sales of mobile phone accessories of approximately US$45.11 million, representing 57.3% of the Group's turnover and a significant growth of approximately 233.2% when compared to US$13.54 million for the same period last year as a result of the robust growth in sales of Bluetooth™ related products.

Software Development Services
Sales for the period under review amounted to approximately US$1.88 million which comprised mainly the sales of dictionary software development.

Future Outlook
The Group believes that the overall market conditions faced by the Group will remain to be challenging. It is expected that sales from the mobile phone accessories remain strong and will continue to account for a larger share of the Group's turnover in the coming quarters. However, the Group understands the need to balance the contribution from each product segment. To this end, the software development segment will focus on research and development of navigation products with a view to diversifying its business scope and the Group will also endeavour to expand its customer portfolio and product range, and to enhance its technological capability in order to increase contribution from other product segments. Besides, the Group would like to improve its financial results by taking effective measures to control selling and distribution costs, administrative expenses and research and development expenditure, and will strive to reduce debtors turnover days and inventory turnover days in order to have a more healthy financial position.

Investment in TCL Corporation

Pursuant to the SSR of TCL Corp., the Group's interest in TCL Corp. has been changed from 95,516,112 promoter's shares to 80,600,173 A-shares. As a result of the reduction in the number of shares in TCL Corp., the Group recorded a loss of US$1.87 million. The A-shares will be tradable on the Shenzhen Stock Exchange after the expiration of 12 months from 20 April 2006, which was the first trading day after the SSR was formally implemented. In addition to the impact of the SSR on TCL Corp.'s A-share price which is unforeseeable at the moment, TCL Corp.'s two Hong Kong listed subsidiaries previously announced that they recorded substantial losses for the year ended 31 December 2005 due to tough operating environment. Furthermore, a subsidiary of TCL Corp. recently announced a warning that its financial results for the six months ended 30 June 2006 would be much worse than expected and might record substantial losses. In this regard, based on available information, the Group believes that there is a risk that the Group may suffer losses at the time of disposal of its interest in TCL Corp. The Group therefore believes it would be prudent to make an impairment on this investment. However, according to the applicable accounting standards, the investment is to be recorded at fair value. As the fair value of the Group's investment in TCL Corp. exceeded the original investment cost at 30 June 2006, no impairment loss is required. The Group will however continue to monitor the situation and may consider making an impairment should it become appropriate under applicable accounting principles.

Capital Expenditure

During the six months ended 30 June 2006, an amount of approximately US$1.22 million had been incurred for the purchase of new equipment and manufacturing facilities. Such investments are financed by internal cash resources.

Liquidity, Financial Resources and Financial Ratios

With US$6.19 million of net cash generated from operating activities in the first half of 2006, the Group continued to maintain a strong liquidity position even after payment of US$3.98 million 2005 final dividends in the interim period 2006. As at 30 June 2006, the Group had 5.24 US cents (31 December 2005: 5.04 US cents) of cash per share and 17.93 US cents (31 December 2005: 16.16 US cents) of net asset per share based on 881,670,588 shares (31 December 2005: 881,670,588 shares). The Group had, as at 30 June 2006, a cash to current liabilities ratio of 1.40 (31 December 2005: 1.51), a current ratio of 3.36 (31 December 2005: 3.05). A total assets to total liabilities ratio of 5.80 (31 December 2005: 5.85), and approximately US$46.16 million (31 December 2005: US$44.47 million) of bank balances and cash.

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

The Group recorded debtors turnover day and creditors turnover day of approximately 58 days and 78 days respectively for the six months ended 30 June 2006 (approximately 44 days and 59 days respectively for the year ended 31 December 2005) based on the amount of trade debtors/creditors as at the relevant period end divided by sales/cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2006 (365 days for the year ended 31 December 2005).

The Group recorded inventory turnover day of approximately 32 days for the six months ended 30 June 2006 (approximately 25 days for the year ended 31 December 2005) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 181 days for the six months ended 30 June 2006 (365 days for the year ended 31 December 2005).

Based on the above, the Group's financial ratios continued to remain healthy during the interim period 2006.

Foreign Exchange Exposure

Since most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi, the use of financial instruments for hedging purposes is not considered to be necessary.

Employees and Remuneration Policy

Up to 30 June 2006, the Group had a total of 1,839 dynamic and talented employees, among which 37 were marketing staff and 272 were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of the Group's operations. Total staff cost for the period was approximately US$6.03 million.

Remuneration policy is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff. In order to align the interests of staff with those of shareholders, 20,000,000 share options were granted to Directors and employees under the Company's share option scheme adopted on 22 March 2004 ("Pre-IPO Share Option Scheme"). As at 1 January 2006, 17,640,000 share options were outstanding. As 820,000 share options lapsed during the interim period as a result of the cessation of employment of 2 staff members, 16,820,000 share options remained outstanding as at 30 June 2006.

DIRECTORATE AND SENIOR MANAGEMENT

Executive Directors
Ms. WONG Kuen Ling, Karene *(Chairman)*
Mr. Guy BINDELS *(Chief Executive Officer)* (resigned as a Director and Chief Executive Officer with effect from 7 July 2006 and 1 October 2006 respectively)
Mr. Kazuhiro ASANO

Non-executive Directors
Mr. KOO Ming Kown
Mr. LEE Wa Lun, Warren

Independent Non-executive Directors
Mr. CHAN Tit Hee, Charles
Mr. Thaddeus Thomas BECZAK
Mr. Roger Simon PYRKE

Senior Management
Mr. MAK Tak Cheong, Edmund *(Chief Financial Officer)*

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2006, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules, were as follows:

(I) Long position in shares of the Company

(a) Shareholdings in the Company

Name of Director	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Mr. Guy BINDELS	Personal (Note 1)	Beneficial Owner	200,000	0.02%
Mr. Kazuhiro ASANO	Corporate (Note 2)	Beneficial Owner	16,334,118	1.85%
Mr. CHAN Tit Hee, Charles	Personal (Note 3)	Beneficial Owner	200,000	0.02%
Mr. Thaddeus Thomas BECZAK	Family (Note 4)	Beneficial Owner	500,000	0.06%

(b) Share options under the Pre-IPO Share Option Scheme

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

(II) Long position in shares of associated corporation

(a) Shareholdings in NTE Inc.

Name of Director	Type of Interest	Capacity	Number of shares held	Percentage of the issued share capital of the associated corporation
Ms. WONG Kuen Ling, Karene	Personal	Beneficial Owner	37,100	0.08%
Mr. Guy BINDELS	Personal	Beneficial Owner	1,000	0.0023%
Mr. KOO Ming Kown	Personal (Note 5)	Beneficial Owner	5,690,786	13.00%

(b) Share options granted by NTE Inc.

Name of Director	Capacity	Number of options held	Number of underlying shares
Mr. KOO Ming Kown	Beneficial Owner	15,000	15,000

Notes:

(1) Mr. Guy BINDELS resigned as a Director and Chief Executive Officer of the Company with effect from 7 July 2006 and 1 October 2006 respectively. Pursuant to the Pre-IPO Share Options Scheme, his 1,200,000 share options shall lapse with effect from 1 October 2006.

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

(3) Subsequent to the interim period, the number of shares held by Mr. CHAN Tit Hee, Charles increased to 350,000 representing 0.04% of the issued share capital of the Company.

(4) The shares are held by Value Scale Investments Limited of which Ms. Rosalind G. D. BECZAK, the spouse of Mr. Thaddens Thomas BECZAK, is the ultimate beneficial owner.

(5) Include 4,690,786 common shares registered in the names of Mr. KOO Ming Kown and his spouse, Ms. CHO Sui Sin.

Save as disclosed above, no Directors or chief executive have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections "Directors' Interests and Short Position in Shares, Underlying Shares and Debentures" above and "Share Options" below, at no time during the six months ended 30 June 2006 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors of the Company (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 30 June 2006, shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long position of substantial shareholders in the shares of the Company

Name of substantial shareholder	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
NTE Inc. (Note 1)	612,762,470	69.50%

Note:

(1) Subsequent to the interim period, the number of shares held by NTE Inc. increased to 619,242,470 representing 70.24% of the issued share capital of the Company.

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

SHARE OPTIONS

(I) Pre- IPO Share Option Scheme

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

Details of the share options which were granted under the Pre-IPO Share Option Scheme and remained outstanding as at 30 June 2006 are as follows:

Name of Director	Date of grant	Exercise price per share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 1 January 2006	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options outstanding as at 30 June 2006
(1) Directors										
Ms. WONG Kuen Ling, Karene	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	(Note 1)	7,000,000	–	–	–	–	7,000,000
Mr. Guy BINDELS	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	(Note 1)	1,200,000 (Note 2)	–	–	–	–	1,200,000
(2) Employees Under Continuous Employment Contract	6 April 2004	HK$3.88	28 April 2004 to 27 April 2014	(Note 1)	9,440,000	–	–	820,000 (Note 3)	–	8,620,000
					17,640,000	–	–	820,000	–	16,820,000

Notes:

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

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

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

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

(2) Mr. Guy BINDELS resigned as a Director and Chief Executive Officer of the Company with effect from 7 July 2006 and 1 October 2006 respectively. Pursuant to the Pre-IPO Share Options Scheme, his 1,200,000 share options shall lapse with effect from 1 October 2006.

(3) 820,000 share options lapsed during the interim period due to the cessation of employment of 2 employees.

(4) Subsequent to the interim period, 200,000, 400,000 and 1,200,000 share options lapsed or will lapse on 1 July 2006, 1 August 2006 and 1 October 2006 respectively.

(II) Share Option Scheme

On 8 April 2004, the Company adopted a share option scheme ("Share Option Scheme"). During the six months ended 30 June 2006, no options under the Share Option Scheme have been granted.

CORPORATE GOVERNANCE

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of the Group and to safeguard the interests of the Company's shareholders.

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules and the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules (effective prior to 1 January 2005) at the time the shares of the Company were listed on SEHK. None of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not in compliance with the Code and upon specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code for any part of the period ended 30 June 2006.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably practicable the recommended best practices of the Code on Corporate Governance Practices (the "Corporate Governance Code") which came into effect on 1 January 2005. In the opinion of the Board, the Company has also fully complied with the code provisions and a majority of the recommended best practices of the Corporate Governance Code throughout the accounting period ended 30 June 2006.

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

To further enhance its corporate governance and as a subsidiary of NTE Inc., a New York Stock Exchange listed company, the Group shall comply with the stringent requirements under the Sarbanes-Oxley Act (the "Act"), certification of which will be completed by the end of 2006. The Act focuses mainly on the effectiveness of internal control and essentially requires the management to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting; and to conduct an assessment of the effectiveness of a company's internal controls and procedures for financial reporting, followed by an attestation of management's assertions by its external auditors. To this end, the Group has set up a task force which follows the methodology and time schedule of NTE Inc. to ensure that the internal control requirements under the Act can be fully complied with accordingly. Besides, the Group has engaged its external auditors to review its financial statements on a quarterly basis in year 2006.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, Mr. CHAN Tit Hee, Charles, Mr. Thaddeus Thomas BECZAK and Mr. Roger Simon PYRKE. Mr. CHAN is the chairman of the Committee. The Committee has adopted terms of reference which are in line with the Code and the Corporate Governance Code. The Group's unaudited financial statements for the six months ended 30 June 2006 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Remuneration Committee is headed by Mr. Thaddeus Thomas BECZAK, an Independent Non-executive Director. The other members of the Committee are Mr. KOO Ming Kown, a Non-executive Director and Mr. Roger Simon PYRKE, an Independent Non-executive Director. The Committee has adopted terms of reference which are in line with the Corporate Governance Code.

By Order of the Board
WONG Kuen Ling, Karene
Chairman

Hong Kong, 31 July 2006