

BUSINESS REVIEW

During the quarter ended 31 December 2006, Nam Tai Electronic & Electrical Products Limited (the "Company") and its subsidiaries (the "Group") recorded sales of US\$48.9 million, representing an increase of 20.1%, which was mainly due to the increase in sales of mobile phone accessories. As a result of the Group's competitive pricing policy and external factors such as increasing costs of raw materials and labour costs, gross profit margin dropped by 1.0% to 14.9% as compared with the same period last year. The decrease in gross profit margin was compensated by an increase in sales and as a result, net profit increased by 35.7% to approximately US\$4.7 million in the fourth quarter of 2006 as compared with the same period last year.

For the year ended 31 December 2006, the sales of the Group only increased by 6.6% from approximately US\$167.3 million to US\$178.3 million when compared with the same period last year. Gross profit margin dropped by 3.5% to 16.9% as compared with the same period last year, a decrease of approximately US\$4.1 million. Operating income and net profit of the Group for the twelve months ended 31 December 2006 also dropped 17.2% and 21.7% to US\$17.8 million and US\$17.3 million 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\$60.5 million with no external debt as at the period under review.

OUTLOOK

The Group believes that the overall market conditions faced by the Group will remain to be challenging. Mobile phone accessories and home entertainment devices will be the core focus of the Group in 2007. The Group will continue to expand business opportunities in terms of customer portfolio and product range, and to control costs and expenses as well so as to achieve better financial results.

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

APPRECIATION

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

Kazuhiro Asano

Chairman

Hong Kong, 12 February 2007