

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and marketing of consumer electronics and communications products and software development. Details of the principal activities of the subsidiaries are set out in note 29 to the accompanying consolidated financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by geographical segments for the year ended 31 December 2006 is set out in note 6 to the accompanying consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 31 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the five largest customers of the Group accounted for approximately 90.1% of the Group's total turnover while the largest customer of the Group accounted for approximately 37.4% of the Group's total turnover. In addition, for the year ended 31 December 2006, the five largest suppliers of the Group accounted for approximately 36.7% of the Group's total purchases while the largest supplier of the Group accounted for approximately 14.4% of the Group's total purchases. None of the Directors, any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year and details of the Group's property, plant and equipment are set out in note 13 to the accompanying consolidated financial statements.

SHARE CAPITAL AND ISSUE OF SHARES

Details of the Company's share capital are set out in note 22 to the accompanying consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 33. As at 31 December 2006, approximately US\$82.9 million of the Company's reserves were available for distribution to its shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which will oblige the Company to offer new Shares on a pro rata basis to its existing shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed Shares during the year ended 31 December 2006.

CHARITABLE DONATIONS

During the year, the Group made no charitable donation.

BANK BORROWINGS

The Group continued to maintain a strong liquidity position throughout the year and had no external borrowings as at 31 December 2006.

CAPITALIZATION OF INTEREST

No interest was capitalized by the Group during the year.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group entered into the following transactions with subsidiaries of NTE Inc. The transactions are defined by the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK") as "continuing connected transactions" and are exempt from the independent shareholders' approval requirements. The transactions are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

(I) **NTSZ and Zastron Electronic (Shenzhen) Co. Ltd. (“Zastron”)**

On 8 April 2004, NTSZ, a wholly owned subsidiary of the Company, entered into a lease agreement (“Lease Agreement”) with Zastron, a wholly owned subsidiary of NTE Inc. for a term of three years commencing on 1 April 2004. The pricing basis under the Lease Agreement had been confirmed by an independent property valuer to be comparable to market. Details of the Lease Agreement had been set out in the prospectus (“Prospectus”) of the Company dated 16 April 2004.

Pursuant to the Lease Agreement, NTSZ leased to Zastron manufacturing and office space as well as staff quarters in the building complex previously occupied by NTSZ (the “Old Complex”). Certain ancillary facilities had also been provided by NTSZ to Zastron under the Lease Agreement. During the term of the Lease Agreement, NTSZ constructed its new factory and office building at a land adjacent to the Old Complex (the “New Complex”). After the construction at the New Complex was completed in March 2005, NTSZ relocated to the New Complex in April 2005 which was ahead of the estimated relocation date of 30 June 2005 as set out in the Prospectus (the “Early Handover”). The rental payable by Zastron under the Lease Agreement before and after its relocation was RMB603,000 and RMB796,000 per month respectively.

In December 2005, NTSZ completed the construction of its new staff quarters at the New Complex and relocated some of its workers and staff members to the new staff quarters at the New Complex subsequent to the year end of 2005, making available some staff quarters at the Old Complex which were then leased to Zastron at the same unit rate under the Lease Agreement. The rental payable by Zastron after the taking up of the additional staff quarters was HK\$830,000 per month commencing 1 February 2006. The Company therefore reported in its 2005 Annual Report that the annual rental for years 2006 and 2007 (i.e. up to 31 March 2007) were accordingly be revised to approximately HK\$9,895,080 and HK\$2,490,000 respectively.

During the year 2006, the aggregate value of the transactions under the Lease Agreement was approximately HK\$9,892,000 as compared to approximately HK\$8,512,000 for the year 2005.

On 24 March 2006, NTSZ and Zastron signed a new lease agreement for the continuous lease of factory complex and provision of the use of ancillary facilities by NTSZ to Zastron, with an increased monthly rental of HK\$830,000 effective for a period of five years from 1 April 2007 to 31 March 2012, i.e. upon expiry of the Lease Agreement.

(II) **NTSZ and Jetup Electronic (Shenzhen) Co., Ltd. (“Jetup”)**

On 8 April 2004, NTSZ and J.I.C. Enterprises (Hong Kong) Limited (“JIC Enterprises”), an indirect subsidiary of NTE Inc., entered into a letter purchase agreement for a term of three years commencing on 1 April 2004. The purpose of the agreement is to allow NTSZ to expand its supplier base. Pursuant to the agreement, it was agreed that JIC Enterprises would be included in NTSZ’s list of designated suppliers of LCD panels and NTSZ may from time to time place purchase orders with JIC Enterprises at a price no less favourable than that available to NTSZ from independent third parties in accordance with the standard business terms of NTSZ. During 2005, JIC Enterprises ceased to carry on business and nominated its group companies, J.I.C. (Macao Commercial Offshore) Company Limited (“JIC Macao”) and Jetup to provide service to NTSZ under the agreement. In 2006, only Jetup provided service to NTSZ under the agreement.

The total amount of purchases from JIC Enterprises, JIC Macau and Jetup to NTSZ during year 2005 was approximately US\$669,000. The total amount of purchases from Jetup to NTSZ during year 2006 was approximately US\$415,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors (comprising Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Beczak and Mr. Roger Simon Pyrke as at 31 December 2006) have reviewed the continuing transactions and the report of the auditors and confirmed that the transactions were entered into in the ordinary and usual course of business of the Company and on terms no less favourable than terms available to/from independent third parties. The independent non-executive Directors further confirmed that the transactions were entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTRACTS OF SIGNIFICANCE

There are no contracts of significance (as defined in the Listing Rules) subsisting during or at the end of the year which any Director is materially interested, either directly or indirectly, nor has the Company entered into any contracts of significance with subsidiaries of NTE Inc. (other than the connected transactions as set out in the paragraph above).

MANAGEMENT CONTRACTS

During the year, the Company had not entered into any contracts concerning the management and administration for the whole or any substantial part of the business of the Company.

DIRECTORS & SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2006 and up to the date of this annual report were:

Executive Directors

Kazuhiro Asano (<i>Chairman</i>)	(appointed on 17 May 2005)
Wong Kuen Ling, Karene (<i>Chief Executive Officer</i>)	(appointed on 13 June 2003)
Guy Bindels (<i>formerly Chief Executive Officer</i>)	(appointed on 22 March 2004 and resigned on 7 July 2006)

Pursuant to the Director's service contract of Mr. Asano, the term of his directorship as an executive Director is 3 years commencing from 17 May 2005 and of Ms. Wong, the term of her directorship as an executive Director is 3 years commencing from 28 April 2004, the day the Shares are listed on the SEHK.

Non-executive Directors

Koo Ming Kown	(appointed on 13 June 2003)
Li Shi Yuen, Joseph	(appointed on 13 June 2003 and resigned on 1 March 2006)
Lee Wa Lun, Warren	(appointed as an Independent non-executive Director on 22 March 2004 and re-designated as a non-executive Director on 13 February 2006)

Pursuant to the Director's service contract of Mr. Koo, the term of his directorship as a non-executive Director is one year commencing from 28 April 2004, the day the Shares are listed on the SEHK. The term will continue for successive periods of one year unless terminated by either party giving one month's notice to the other party. The term of directorship of Mr. Lee is one year commencing from 13 February 2006. His term will continue for successive periods of one year unless terminated by either party giving one month's notice to the other party.

Independent Non-executive Directors

Chan Tit Hee, Charles	(appointed on 1 November 2004)
Thaddeus Thomas Beczak	(appointed on 22 March 2004)
Roger Simon Pyrke	(appointed on 13 February 2006)

The term of directorship of Mr. Beczak, Mr. Chan and Mr. Pyrke under their Directors' service contracts is one year commencing from 28 April 2004, 1 November 2004 and 13 February 2006 respectively. All their respective terms will continue for successive periods of one year unless terminated by either party giving one month's notice to the other party.

All the independent non-executive Directors (comprising Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Bezak and Mr. Roger Simon Pyrke as at 31 December 2006) have confirmed their independence pursuant to Rule 3.13 of the Listing Rules and based on such confirmation, the Company is of the opinion that the independent status of the independent non-executive Directors remains intact as at 31 December 2006.

In accordance with Articles 86(3), 87(1) and 87(2) of the Company's articles of association, Mr. Koo Ming Kown, Mr. Chan Tit Hee, Charles and Mr. Roger Simon Pyrke will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors has a service contract or proposed service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Related Party Transactions" in note 28 to the accompanying consolidated financial statements, no Director (including past Directors) had a material interest, whether directly or indirectly, in any contract which is significant to the business of the Group to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party at the balance sheet date or during the year.

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

As at 31 December 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 the 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 the SEHK pursuant to the Listing Rules, were as follows:

(I) Long position in Shares

(a) Share Options under the Pre-IPO share option scheme ("Pre-IPO Scheme")

Name of Directors	Capacity	Number of options held	Number of underlying Shares
Ms. Wong Kuen Ling, Karene	Beneficial Owner	7,000,000	7,000,000

(b) Ordinary shares of HK\$0.01 each in the Company

Name of Directors	Type of Interest	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Mr. Kazuhiro Asano	Corporate (Note 1)	Beneficial Owner	16,334,118	1.85%
Mr. Thaddeus Thomas Beczak	Family (Note 2)	Beneficial Owner	500,000	0.06%
Mr. Chan Tit Hee, Charles	Personal	Beneficial Owner	350,000	0.04%
Mr. Roger Simon Pyrke	Personal	Beneficial Owner	50,000	0.006%

Notes:

- (1) The Shares are held by Asano Company Ltd., a company beneficially owned as to 49.9999% by Mr. Asano and his spouse.
- (2) The Shares are held by Value Scale Investments Limited of which Ms. Rosalind G.D. Beczak, the spouse of Mr. Beczak, is the ultimate beneficial owner.

(II) Long position in shares of associated corporation

(a) Common shares of US\$0.01 each 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. Koo Ming Kown	Personal (Note)	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

Note: The common shares are held jointly by Mr. Koo Ming Kown and his spouse, Ms. Cho Sui Sin.

Save as disclosed above, no Directors nor 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 the 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 the SEHK pursuant to the Listing Rules.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Capital and Issue of Shares" above and the section "Share Option Schemes" below, at no time during the 12 months ended 31 December 2006 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of Shares in or debenture of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31 December 2006, shareholders who had interests or short positions in the Shares or underlying Shares which would have to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long position of substantial shareholders in Shares

Name of substantial shareholder	Number of ordinary shares beneficially held
NTE Inc.	619,914,470 (Note 1)

Note:

(1) The number of Shares held by NTE Inc. represents 70.31% of the share capital of the Company.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would have to be disclosed to the Company and the 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 OPTION SCHEMES

The Company operates a Pre-IPO Scheme and a share option scheme (the "Scheme"). No option has been granted by the Company under the Pre-IPO Scheme during the year 2006.

(I) Pre-IPO Scheme

The Pre-IPO Scheme is to recognize the contribution of certain Directors and employees 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.

REPORT OF THE DIRECTORS

Details of the share options which were granted under the Pre-IPO Scheme and remained outstanding as at 31 December 2006 are as follows:–

	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 out-standing as at 31 December 2006	
(1) Directors											
	Ms. Wong Kuen Ling, Karene	6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note b	7,000,000	–	–	–	–	7,000,000
	Mr. Guy Bindels (Note a)	6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note b	1,200,000	–	–	1,200,000	–	–
(2) Employees Under Continuous Employment Contract											
		6 April 2004	HK\$3.88	28 April 2004 to 27 April 2014	Note b	9,440,000	–	–	1,720,000 (Note c)	–	7,720,000
						17,640,000	–	–	2,920,000	–	14,720,000

Notes:

- (a) Mr. Guy Bindels resigned on 7 July 2006.
- (b) 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.
- (c) During the year, 1,720,000 and 1,200,000 share options lapsed due to the cessation of employment of 6 employees and resignation of 1 Director respectively.

(II) Scheme

On 8 April 2004, the Company adopted the Scheme to enable the Company to grant share options as an incentive or reward to eligible participants for their contributions to the Group and Associated Companies. Associated Companies refer to those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding the Company's subsidiaries.

Particulars of the Scheme are set out in note 27 to the accompanying consolidated financial statements. No options have been granted under the Scheme during the year 2006.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

(I) Directors

Details of the emoluments of the Directors on a named basis during the year are set out in note 8 to the accompanying consolidated financial statements.

(II) Employees

Amongst the five highest paid individuals of the Group, two of them are Directors.

EMPLOYEE & EMOLUMENT POLICY

Up to 31 December 2006, the Group had a total of 2,067 dynamic and talented employees, among which 38 were marketing staff and 309 were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff cost for the year ended 31 December 2006 was approximately US\$12.8 million.

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are reviewed by the Remuneration Committee, the composition and responsibilities of which are detailed in "Report of Corporate Governance Practices" below.

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 Pre-IPO Scheme of which 14,720,000 share options remained outstanding at the period end.

The Company operates a mandatory provident fund scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all their employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme administered by independent trustees and pursuant to which the Company and its employees have to each contribute 5% of the relevant income of the employees to the MPF Scheme subject to the minimum and maximum levels of income of HK\$5,000 and HK\$20,000 respectively with a statutory cap of HK\$1,000 per month. The Company's contributions are 100% vested in the employees' accounts once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

With regard to the Group's employees under Macao employment, the Group operates a retirement benefit scheme ("Macao Scheme") which is also a defined contribution scheme administered by independent trustees. Although the Macao Scheme is not a mandatory scheme, the Group has adopted terms identical to the MPF Scheme in terms of contributory amount, operation of the scheme and retirement age for the Macao Scheme. The Group's PRC local employees under PRC employment are covered under a local statutory retirement insurance policy operated by local government ("PRC Scheme"). Both the Group and the employees are required to contribute a designated percentage of the employees' monthly salary to the PRC Scheme.

For the Group's employees in Japan office, they are subject to the mandatory social insurance scheme ("Social Insurance Scheme") for medical and retirement coverage and the mandatory labour insurance scheme ("Labour Insurance Scheme") to cover accidents incurred during work and unemployment. For the Social Insurance Scheme, the Company and each employee have to each contribute about 12.0% of the relevant monthly income subject to a maximum payment of JPY91,597 per month. The rate and maximum payment will be revised every half year. Whilst for the Labour Insurance Scheme, the Company has to contribute about 1.3% and each employee has to contribute about 0.9% of the relevant monthly income. The retirement scheme under the Social Insurance Scheme is a defined contribution scheme.

Details of the Group's cost with respect to the MPF Scheme, Macao Scheme and PRC Scheme and the retirement scheme under the Social Insurance Scheme, charged to its income statement are set out in note 26 to the accompanying consolidated financial statements.

AUDITORS

The Board proposed to re-appoint Messrs. Deloitte Touche Tohmatsu ("DTT") as auditors of the Company during the forthcoming annual general meeting of the Company.

SUFFICIENT PUBLIC FLOAT

To the knowledge of the Directors based on publicly available information, the Company has sufficient public float as at the date of this Report.

On behalf of the Board

Kazuhiro Asano

Chairman

Hong Kong, 12 February 2007