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.

The consolidated financial statements are presented in United States dollars, which is also the functional currency of the Company and its subsidiaries (hereinafter collectively referred to as the "Group").

The principal activities of the Group are the manufacturing and marketing of consumer electronics and communications products and software development.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKAS, HKFRS, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKAS, HKFRS, amendment and interpretations will have no material impact on the results and the financial position of the Group.

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]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[6]

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
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007

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 Hong Kong Financial Reporting Standards 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended 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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 substantively 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. United States dollar, 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 when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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, amount due from a fellow subsidiary 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 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 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 or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 paid or payable 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 each balance sheet date, the Group revises its estimate of the number of options that are expected to ultimately vest. The effect of any change in estimate of the number of options that the Group expects will eventually vest is recognised in profit or loss.

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. FINANCIAL INSTRUMENTS

4a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, bank balances 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

Several 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.

Interest Rate Risk

The Group is exposed to fair value and cash flow interest rate risk through the impact of rate changes on interest bearing bank balances. The interest rates of bank balances of the Group are disclosed in note 20. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arises.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counter parties or debtors is arising from the carrying amount of the respective recognised financial 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.

The credit risk relating to bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has its credit risk concentrated in a few customers. The Group will continue to diversify and expand its customer base to mitigate this risk.

Price risk

The Group is exposed to equity security price risk. The Group currently does not have a hedging policy and will consider hedging significant equity security price change should the need arise.

4. FINANCIAL INSTRUMENTS *(Continued)*

4b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets held and financial liabilities issued with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The Group's available-for-sale investments are measured at fair value as detailed in the Note 19. The directors consider that the carrying amounts of all other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

5. 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:

	2006	2005
	US$'000	*US$'000*
Sales of goods:		
Mobile phone accessories	**103,470**	44,001
Home entertainment devices	**36,474**	52,938
Educational products	**25,556**	24,347
Optical devices	**9,826**	42,351
Others	**–**	7
	175,326	163,644
Software development services	**2,996**	3,695
	178,322	167,339

6. SEGMENTS

As the Group was wholly engaged in the manufacturing and marketing of consumer electronics and communications products and software development, the Group has only one business segment and the Group's primary reporting segment is geographical segment.

Geographical segments

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

The following tables provide 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 2006

	North America US$'000	Asia Pacific region US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
External revenue	67,546	55,469	54,725	582	178,322
Segment results	4,705	4,509	7,549	49	16,812
Unallocated corporate income					2,232
Unallocated corporate expenses					(1,278)
Bank interest income					1,638
Loss on available-for-sale investments arising from split share structure reform					(1,869)
Profit before tax					17,535
Income tax expense					(214)
Profit for the year					17,321

6. SEGMENTS *(Continued)*

Geographical segments *(Continued)*

Balance sheet

At 31 December 2006

	North America US$'000	Asia Pacific region US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
Assets					
Segment assets	2,214	32,835	28,278	527	63,854
Unallocated corporate assets					141,405
Total assets					205,259
Liabilities					
Segment liabilities	1,233	6,207	19,187	145	26,772
Unallocated corporate liabilities					9,521
Total liabilities					36,293

Other information

Year ended 31 December 2006

	North America US$'000	Asia Pacific region US$'000	Europe US$'000	Others US$'000	Unallocated US$'000	Consolidated US$'000
Capital additions	–	4	–	–	1,770	1,774
Depreciation and amortisation	–	95	–	–	6,356	6,451
Gain on disposal of property, plant and equipment	–	–	–	–	190	190

6. SEGMENTS *(Continued)*

Geographical segments *(Continued)*

Income statement

For the year ended 31 December 2005

	North America US$'000	Asia Pacific region US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
External revenue	24,389	71,277	71,143	530	167,339
Segment results	2,510	7,758	9,620	49	19,937
Unallocated corporate income					2,545
Unallocated corporate expenses					(1,029)
Bank interest income					495
Dividend income from available-for-sale investments					579
Profit before tax					22,527
Income tax expense					(389)
Profit for the year					22,138

Balance sheet

At 31 December 2005

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

6. SEGMENTS *(Continued)*

Geographical segments *(Continued)*

Other information

Year ended 31 December 2005

	North America *US$'000*	Asia Pacific region *US$'000*	Europe *US$'000*	Others *US$'000*	Unallocated *US$'000*	Consolidated *US$'000*
Capital additions	–	–	–	–	13,108	13,108
Depreciation and amortisation	–	59	–	–	4,852	4,911
Gain on disposal of property, plant and equipment	–	–	–	–	43	43

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.

7. OTHER INCOME

	2006 ***US$'000***	2005 *US$'000*
Exchange gain	**745**	915
Rental income *(note)*	**1,276**	1,091
Sundry	**211**	539
	2,232	2,545

Note: Direct operating expenses from investment properties that generated rental income during the year amounted to US$1,278,000 (2005: US$1,029,000).

8. 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 (2005: nine) directors were as follows:

Year ended 31 December 2006

	Wong Kuen Ling, Karene	Guy Jean Francois Bindels *(note 1)*	Kazuhiro Asano	Thaddeus Thomas Beczak	Lee Wa Lun, Warren	Chan Tit Hee, Charles	Koo Ming Kown	Roger Simon Pyrke *(note 2)*	Li Shi Yuen, Joseph *(note 4)*	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Fee	–	57	–	31	28	31	–	27	–	174
Other emoluments										
Salaries and other benefits	361	125	160	–	–	–	–	–	–	646
Performance related incentive bonus *(note 5)*	397	44	20	–	–	–	–	–	–	461
Retirement benefit scheme contributions	2	1	5	–	–	–	–	–	–	8
Share-based payments *(note 6)*	196	(56)	–	–	–	–	–	–	–	140
Total emoluments	956	171	185	31	28	31	–	27	–	1,429

Year ended 31 December 2005

	Wong Kuen Ling, Karene	Guy Jean Francois Bindels *(note 1)*	Kazuhiro Asano	Thaddeus Thomas Beczak	Lee Wa Lun, Warren	Chan Tit Hee, Charles	Koo Ming Kown	Tadao Murakami *(note 3)*	Li Shi Yuen, Joseph *(note 4)*	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Fee	–	101	–	31	31	31	–	–	–	194
Other emoluments										
Salaries and other benefits	358	250	109	–	–	–	–	–	–	717
Performance related incentive bonus *(note 5)*	263	149	33	–	–	–	–	–	–	445
Retirement benefit scheme contributions	2	2	3	–	–	–	–	–	–	7
Share-based payments *(note 6)*	196	34	–	–	–	–	–	–	–	230
Total emoluments	819	536	145	31	31	31	–	–	–	1,593

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

1. Resigned on 7 July 2006.
2. Appointed on 13 February 2006.
3. Resigned on 5 July 2005.
4. Resigned on 1 March 2006.
5. The performance related incentive bonus is determined based on the performance of the Group.
6. Share-based payments represent fair value at grant date of share options issued under a Pre-IPO Share Option Scheme (as defined in note 27(c)) amortised to the consolidated income statement during the year.

(b) Employees' emoluments

During the year, the five highest paid individuals included two directors (2005: two directors), details of whose emoluments are set out in (a) above. The emoluments of the remaining three (2005: three) highest paid individuals were as follows:

	2006	2005
	US$'000	*US$'000*
Salaries and other benefits	**373**	471
Performance related incentive payments	**333**	146
Retirement benefit scheme contributions	**2**	1
Share-based payments *(Note)*	**33**	53
	741	671

Note: Share-based payments represent fair value at grant date of share options issued under a Pre-IPO Share Option Scheme (as defined in note 27(c)) amortised to the consolidated income statement during the year.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments *(Continued)*

The emoluments of the employees were within the following bands:

	Number of employees	
	2006	2005
HK$1,000,000 to HK$1,500,000 (equivalent to US$128,205 to US$192,308)	**–**	2
HK$1,500,001 to HK$2,000,000 (equivalent to US$192,308 to US$256,410)	**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 2006 and 2005, 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. Two (2005: three) of the directors waived their emoluments during the year.

9. TAXATION

	2006	2005
	US$'000	*US$'000*
PRC enterprise income tax charged at applicable rates	**214**	389

In accordance with the applicable enterprise income tax laws of the PRC and the relevant rules promulgated by the Shenzhen municipal government, NTSZ and Namtek Shenzhen 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 2005, NTSZ and Namtek Shenzhen exported more than 70% of the production value of their products and were qualified as an Export Enterprise and enjoyed a reduced tax rate of 10%. For the year ended 31 December 2006, NTSZ and Namtek Shenzhen also exported more than 70% of the production value of their 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 2006.

9. TAXATION *(Continued)*

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 substantial amount of the taxes already paid on those profits may be obtained by the foreign investor, i.e. the Group.

At 31 December 2006, income taxes recoverable under such arrangements were US$2,579,000 (2005: US$1,838,000), which are included in taxation recoverable in the consolidated balance sheet.

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.

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

	2006 ***US$'000***	2005 *US$'000*
Profit before tax	**17,535**	22,527
Tax at PRC enterprise income rate of 10%	**1,754**	2,253
Tax effect of expenses that are not deductible in determining taxable profit	**270**	162
Tax exempted revenues	**(374)**	(291)
PRC enterprise income tax refundable	**(923)**	(1,283)
Tax effect of profit not subject to tax	**(420)**	(372)
Others	**(93)**	(80)
Tax expense for the year	**214**	389

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

10. PROFIT FOR THE YEAR

	2006 **US$'000**	2005 US$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**189**	154
Cost of inventories recognised as expense	**147,463**	132,527
Depreciation of property, plant and equipment	**5,419**	3,956
Depreciation of investment properties	**961**	884
Amortisation of prepaid lease payments	**71**	71
	6,451	4,911
Less: Depreciation and amortisation included in research and development expenditure	**(119)**	(82)
	6,332	4,829
Gain on disposal of property, plant and equipment	**(190)**	(43)
Staff costs, including directors' remunerations	**12,430**	11,886
Retirement benefit scheme contributions	**418**	499
Total staff costs	**12,848**	12,385
Less: Staff costs included in research and development expenditure	**(2,647)**	(2,677)
	10,201	9,708

11. DIVIDENDS

	2006 **US$'000**	2005 *US$'000*
Final paid – 0.45 US cent per share (2005: 1.00 US cent)	**3,982**	8,000
Interim paid – Nil US cent per share (2005: 0.38 US cent)	**–**	3,391
	3,982	11,391

A final dividend of 0.45 US cent per share to the shareholders, amounted to approximately US$3,982,000, was approved by the directors in respect of the results for the year ended 31 December 2005 and approved by the shareholders in the general meeting.

12. EARNINGS PER SHARE

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:

	2006 **US$'000**	2005 *US$'000*
Profit for the year attributable to equity holders of the Company	**17,329**	22,138

	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share *(Note)*	**881,671**	851,240

Note: During 2005 and 2006, the exercise of the share options is not considered in calculating the diluted earnings per share because they will not result in a decrease in earnings per share. Share options which were not dilutive in 2005 and 2006 may affect earnings per share in future periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Construction in progress	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
COST						
At 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 and 1 January 2006	24,380	10,696	24,330	1,913	2,770	64,089
Additions	–	96	172	186	1,320	1,774
Transfer to investment properties	(2,164)	–	–	–	–	(2,164)
Transfer	3,621	158	178	–	(3,957)	–
Disposals	–	(3)	(598)	(730)	–	(1,331)
At 31 December 2006	**25,837**	**10,947**	**24,082**	**1,369**	**133**	**62,368**
DEPRECIATION AND AMORTISATION						
At 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 and 1 January 2006	2,318	7,397	14,241	1,358	–	25,314
Provided for the year	1,242	1,076	2,908	193	–	5,419
Transfer to investment properties	(509)	–	–	–	–	(509)
Eliminated on disposals	–	(1)	(552)	(722)	–	(1,275)
At 31 December 2006	**3,051**	**8,472**	**16,597**	**829**	**–**	**28,949**
NET BOOK VALUES						
At 31 December 2006	**22,786**	**2,475**	**7,485**	**540**	**133**	**33,419**
At 31 December 2005	22,062	3,299	10,089	555	2,770	38,775

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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%

14. INVESTMENT PROPERTIES

	Buildings *US$'000*
COST	
At 1 January 2005	15,992
Transfer from property, plant and equipment during the year	5,888
At 31 December 2005 and 1 January 2006	21,880
Transfer from property, plant and equipment during the year	2,164
At 31 December 2006	**24,044**
DEPRECIATION	
At 1 January 2005	4,102
Transfer from property, plant and equipment during the year	581
Provided for the year	884
At 31 December 2005 and 1 January 2006	5,567
Transfer from property, plant and equipment during the year	509
Provided for the year	961
At 31 December 2006	**7,037**
NET BOOK VALUE	
At 31 December 2006	**17,007**
At 31 December 2005	16,313

14. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2006 is US$18,982,000 (2005: US$17,198,000). The fair value has been arrived at based on a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, independent valuers 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.

15. PREPAID LEASE PAYMENTS

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

	2006 ***US$'000***	2005 *US$'000*
Analysed for reporting purposes as:		
Current	**71**	71
Non-current	**2,602**	2,673
	2,673	2,744

16. GOODWILL AND IMPAIRMENT TESTING

The goodwill at balance sheet date arose from the acquisition of the software development businesses (the "Namtek Group") (note 23). Goodwill acquired in a business combination was allocated, at acquisition, to the cash generating unit ("CGU") – the Namtek Group – that is expected to benefit from that business combination.

During the years ended 31 December 2006 and 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 covering a five-year period at a discount rate of 6.51% per annum. The CGU's cash flows beyond the five-year period are extrapolated using a steady -1% to 1% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows and outflows which include budgeted sales and 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.

17. INVENTORIES

	2006 ***US$'000***	2005 *US$'000*
Raw materials	**7,793**	7,283
Work in progress	**1,216**	642
Finished goods	**765**	1,117
	9,774	9,042

18. TRADE AND OTHER RECEIVABLES

	2006 **US$'000**	2005 *US$'000*
Trade receivables	**29,680**	20,091
Less: accumulated impairment	**(28)**	(3)
	29,652	20,088
Other receivables	**848**	712
Total trade and other receivables	**30,500**	20,800

The Group allows its trade customers with credit period normally ranging from 30 days to 60 days (2005: 30 days to 60 days).

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

	2006 **US$'000**	2005 *US$'000*
Up to 30 days	**19,170**	13,724
31 – 60 days	**9,836**	6,323
Over 60 days	**646**	41
	29,652	20,088

19. AVAILABLE-FOR-SALE INVESTMENTS

The amount at 31 December 2005 represented the Group's investment in the 95,516,112 promoter's shares of TCL Corporation, being 3.69% of its equity interest. 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 Corporation 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. TCL Corporation's A-shares are listed on the Shenzhen Stock Exchange.

19. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

On 28 November 2005, TCL Corporation announced the proposal of a split share structure reform ("SSR"). Under the SSR, holders of TCL Corporation's tradable A-shares would receive 2.5 shares for every 10 shares from the holders of promoter's shares of TCL Corporation, on a pro rata basis. The remaining shares held by the promoters would be converted into A-shares, subject to a lock-up period of one year. On 6 April 2006, upon approval of the SSR by the China Securities Regulatory Commission, the Company's interest in TCL Corporation 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 31 December 2006, the available-for-sale investments were stated at fair value by reference to bid price quoted in the Shenzhen Stock Exchange.

20. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.72% to 5.24% (2005: 0.15% to 4.10%).

21. TRADE AND OTHER PAYABLES

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

	2006	2005
	US$'000	*US$'000*
Up to 30 days	**15,923**	10,710
31 to 60 days	**13,174**	8,362
Over 60 days	**1,770**	2,612
	30,867	21,684
Other payables	**5,356**	7,566
	36,223	29,250

22. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	**2006**	2005
			HK$'000	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and end of the year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning of the year	**881,670,588**	800,000,000	**8,817**	8,000
Issued in consideration for the acquisition of the Namtek Group *(Note)*	**–**	81,670,588	**–**	817
At end of the year	**881,670,588**	881,670,588	**8,817**	8,817
			US$'000	*US$'000*
Shown in the 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 the Namtek Group, details of which are set out in note 23.

23. 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:	
Cash paid for expenses incurred in relation to the acquisition	(54)
Bank balances and cash acquired	4,036
	3,982

23. ACQUISITION OF SUBSIDIARIES *(Continued)*

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 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 revenue for the year ended 31 December 2005 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.

24. CAPITAL COMMITMENTS

	2006 ***US$'000***	2005 *US$'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**540**	1,051
Authorised but not contracted for	**184**	1,867
	724	2,918

25. OPERATING LEASES

The Group as lessee

	2006 US$'000	2005 US$'000
Minimum lease payment made under operating leases in respect of land and building during the year	**185**	144

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

	2006 US$'000	2005 US$'000
Within one year	**93**	189
In the second to fifth year inclusive	**–**	106
	93	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.

The Group as lessor

Property rental income earned during the year was US$1,276,000 (2005: US$1,091,000). The property are expected to generate rental yields of 7.5% on a ongoing basis. The property held has a committed tenant for next 6 years. At the balance sheet date, the Group had contracted with a tenant for the following future minimum lease payments:

	2006 US$'000	2005 US$'000
Within one year	**1,285**	1,276
In the second to fifth year inclusive	**5,140**	321
Over five years	**321**	–
	6,746	1,597

26. RETIREMENT BENEFIT SCHEMES

According to the relevant laws and regulations in the PRC, NTSZ and Namtek Shenzhen are required to contribute 8% to 11% 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$397,000 (2005: US$477,000).

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$10,000 (2005: US$16,000).

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$11,000 (2005: US$6,000).

27. 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.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

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 3,300,000 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.

In February 2006, the board of directors of NTE Inc. approved another stock option plan with basically the same terms and conditions of the 2001 Scheme. The maximum number of shares to be issued pursuant to the exercise of options granted was 2,000,000 shares.

The following table 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 of the Company

	2001 Scheme			
Exercise price per share	**US$19.400**	**US$20.840**	**US$21.620**	**US$22.250**
Number of options:				
Outstanding at 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)	–
Outstanding at 31 December 2005 and 1 January 2006	30,000	50,000	–	–
Granted during the year	–	–	–	15,000
Resigned as director during the year *(Note)*	(30,000)	(50,000)	–	–
Outstanding at 31 December 2006	–	–	–	15,000

Note: The director concerned exercised the options subsequent to his resignation.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

Employees of the Group

		2001 Scheme	
Exercise price per share	**US$6.015**	**US$19.400**	**US$20.840**
Number of options:			
Outstanding at 1 January 2005	9,550	36,000	–
Transferred 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 and 1 January 2006	–	26,000	60,000
Exercised during the year	–	(26,000)	–
Outstanding at 31 December 2006	–	–	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 5 June 2008	21.620
9 June 2006	9 June 2006 to 8 June 2009	22.250

The weighted average closing prices of NTE Inc.'s shares on the dates in which the share options were exercised was approximately US$22.884 for the year ended 31 December 2006.

27. 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.

27. 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 2006 are as follows:

	Date of grant	Exercise price per share	Exercisable period	Vesting period	Options outstanding as at 1 January 2006	Options lapsed during the year *(Note b)*	Options outstanding as at 31 December 2006
Directors	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	*Note a*	8,200,000	(1,200,000)	7,000,000
Employees under continuous employment contract	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	*Note a*	9,440,000	(1,720,000)	7,720,000
					17,640,000	(2,920,000)	14,720,000

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

Notes:

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

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 vest.

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 vest.

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

(b) During the year, 1,720,000 and 1,200,000 shares options lapsed due to the cessation of employment of 6 employees and resignation of 1 director respectively.

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

The Group recognised a total expense of approximately US$275,000 for the year ended 31 December 2006 (2005: US$450,000) in relation to share options granted by the Company.

28. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related parties in addition to the acquisition of subsidiaries as set out in note 23 and the granting of share options by NTE Inc. as set out in note 27:

Name of related parties	Nature of transactions	2006 US$'000	2005 US$'000
Fellow subsidiaries:			
Zastron Electronic (Shenzhen) Co. Ltd.	Rental income received	**1,276**	1,091
Nam Tai Group Management Limited	Business facilities fee paid	**–**	286
J.I.C. Enterprises (Hong Kong) Limited	Purchase of materials	**–**	84
J.I.C. (Macao Commercial Offshore) Company Limited	Purchase of materials	**–**	436
Jetup Electronic (Shenzhen) Co. Ltd.	Purchase of materials	**415**	148
Nam Tai Trading Company Limited	Purchase of other assets	**–**	153

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 32.

Compensation to key management personnel

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

	2006 US$'000	2005 US$'000
Short-term benefits	**1,543**	1,649
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
Share-based payments	**104**	252
	1,647	1,901

The remuneration of directors and other members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

29. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2006 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 directly held by the Company %	Principal activities
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 Japan	Japan	JPY10,000,000	100	Provision of consultancy services
Namtek Shenzhen	PRC *(note)*	US$800,000	100	Software development
Nam Tai Solartech, Inc.	Cayman Islands	US$30,000	75	Investment holding

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

None of the subsidiaries had issued any debt securities at the end of the year.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. In particular, cost of sales of US$628,000, other income of US$55,000 and administrative expenses of US$346,000 were reclassified as other expenses.