

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 1. General

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Nam Tai Electronics, Inc. ("Nam Tai"), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange.

The Company acts as an investment holding company and the activities of its subsidiaries are set out in note 12.

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in these financial statements.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

► 2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 2. Significant Accounting Policies *(Continued)***Goodwill** *(Continued)*

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives, using the straight line method, on the following bases:

Leasehold improvements	15%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	15%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 2. 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 recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no clearly-defined project can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

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. 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 recognised as income immediately.

Club membership

Club membership is stated at cost less identified impairment losses.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments. Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 2. Significant Accounting Policies *(Continued)***Inventories**

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

Operating leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

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 net 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 income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 2. Significant Accounting Policies *(Continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the financial statements of subsidiaries which are denominated in foreign currencies other than Hong Kong dollar and which operate outside Hong Kong are translated into Hong Kong dollars using the temporal method. All assets, liabilities, revenue and expense in currencies other than Hong Kong dollar are translated at the exchange rate ruling at the date on which the amounts are recorded. Monetary assets and liabilities are re-translated at the approximate rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Retirement benefit costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

► 3. Business and Geographical Segments

For the year ended 31 December 2004, the Group is wholly engaged in the manufacturing and distribution of liquid crystal displays ("LCD") products. For the year ended 31 December 2003, the Group was also involved in the manufacturing and distribution of transformers ("Transformers"). The Transformers business was disposed of on 28 June 2003 and discontinued thereafter (note 5).

During the year, the management have reassessed the primary source of the Group's risks and return and redesignated geographical segments as the Group's primary reporting format.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 3. Business and Geographical Segments (Continued)

Geographical segments

The Group's LCD business is located in Hong Kong, Macao and the PRC. Turnover of the Group represents the amounts received and receivable for goods sold, net of returns and services rendered by the Group to outside customers. The Group reports its primary segment information based on the destination of shipment of its products, including principally Hong Kong, the PRC and Japan. Segment information about these geographical markets is presented below:

Income Statement*Year ended 31 December 2004*

	<u>Hong Kong</u>	<u>The PRC</u>	<u>Japan</u>	<u>Others</u>	<u>Consolidated</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
External turnover	59,256	313,978	4,322	6,774	384,330
Segment result	10,174	12,947	367	1,557	25,045
Bank interest income					142
Gain on disposal of other investment					104
Finance costs					(1,335)
Profit before taxation					23,956
Taxation					(521)
Net profit for the year					23,435

Balance Sheet*At 31 December 2004*

	<u>Hong Kong</u>	<u>The PRC</u>	<u>Japan</u>	<u>Others</u>	<u>Consolidated</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS					
Segment assets	45,469	35,792	684	2,555	84,500
Unallocated corporate assets					190,527
Total assets					275,027
LIABILITIES					
Segment liabilities	—	22,274	—	—	22,274
Unallocated corporate liabilities					118,801
Total liabilities					141,075

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 3. Business and Geographical Segments (Continued)

Geographical segments (Continued)

Other Information

Year ended 31 December 2004

	Hong Kong	The PRC	Japan	Others	Unallocated	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Allowance for inventories	17	116	1	2	—	136
Capital additions	—	4,532	—	—	12,835	17,367
Depreciation	—	664	—	—	17,784	18,448
Impairment loss recognised on property, plant and equipment	—	—	—	—	2,763	2,763
Loss on disposal of property, plant and equipment	—	—	—	—	25	25
Net foreign exchange losses	21	111	2	2	—	136

Income Statement

Year ended 31 December 2003

	Hong Kong	The PRC	Japan	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External turnover	75,989	226,327	15,892	7,269	325,477
Segment result	4,555	14,414	195	1,118	20,282
Bank interest income					46
Finance costs					(907)
Profit on disposal of discontinued operations					17,620
Profit before taxation					37,041
Taxation					(29)
Net profit for the year					37,012

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 3. Business and Geographical Segments (Continued)

Geographical segments (Continued)**Balance Sheet**

At 31 December 2003

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	38,275	31,498	465	762	71,000
Unallocated corporate assets					163,316
Total assets					234,316
LIABILITIES					
Segment liabilities	—	16,509	—	—	16,509
Unallocated corporate liabilities					78,583
Total liabilities					95,092

Other Information

Year ended 31 December 2003

	Hong Kong HK'000	The PRC HK'000	Japan HK'000	Others HK'000	Unallocated HK'000	Consolidated HK'000
Allowance for doubtful debts	—	—	—	—	720	720
Capital additions	—	—	—	—	3,661	3,661
Depreciation	—	—	—	—	19,776	19,776
Loss on disposal of property, plant and equipment	—	—	—	—	15	15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 3. Business and Geographical Segments *(Continued)*

Geographical segments *(Continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	89,078	107,067	56	57
The PRC	181,113	125,067	17,311	3,604
Macao	116	—	—	—
	270,307	232,134	17,367	3,661

► 4. Profit from Operations

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>

Profit from operations has been arrived at after charging (crediting):

Staff costs, including directors' remunerations	47,205	43,417
Retirement benefit scheme contributions	3,127	1,979
Total staff costs	50,332	45,396
Less: Included in research and development expenses	(2,163)	(1,699)
	48,169	43,697
Allowance for inventories (written back), net	136	(2,053)
Auditors' remuneration	673	585
Depreciation of property, plant and equipment	18,448	19,776
Loss on disposal of property, plant and equipment	25	15
Net foreign exchange losses	136	888
Operating lease rentals in respect of rented premises	5,989	4,128
(Recovery of) allowance for doubtful debts, net	(484)	708

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 5. Profit on Disposal of Discontinued Operations

In June 2003, the Group entered into a sale agreement to dispose of its Transformers business. The disposal was effected in order to dedicate more resources and focus on its LCD business. The disposal was completed on 28 June 2003 when the control of the Group's Transformers business passed to the acquirer.

The details of the results of the Transformers business for the period from 1 January 2003 to 28 June 2003, which have been included in the consolidated financial statements, are as follows:

	<i>HK\$'000</i>
Turnover	51,943
Other operating income	504
Operating costs	(52,172)
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Profit before taxation	275
Taxation	42
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Profit for the year	317
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The carrying amounts of the assets and liabilities of the Transformers business at the date of disposal are disclosed in note 23.

For the year ended 31 December 2003, the Transformers business contributed HK\$0.9 million to the Group's net operating cash flows, paid HK\$0.8 million in respect of investing activities and paid HK\$0.1 million in respect of financing activities.

A profit of approximately HK\$17,620,000 arose on the disposal of the Transformers business, being the proceeds of disposal less the carrying amount of the net assets of the Transformers business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 6. 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 (2003: nine) directors were as follows:

Year ended 31 December 2004

	Seitaro Furukawa	Koo Ming Kown	Tadao Murakami	Li Shi Yuen, Joseph	Chui Kam Wai	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng	Wong Toe Yeung	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	—	—	—	—	—	120	120	—	120	360
Other emoluments										
Salaries and other benefits	1,514	—	—	1,320	1,234	—	—	—	—	4,068
Performance related incentive bonus	—	—	—	—	522	—	—	—	—	522
Retirement benefit scheme contributions	—	—	—	9	12	—	—	—	—	21
Total emoluments	1,514	—	—	1,329	1,768	120	120	—	120	4,971

Year ended 31 December 2003

	Seitaro Furukawa	Koo Ming Kown	Tadao Murakami	Li Shi Yuen, Joseph	Chui Kam Wai	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng	Wong Toe Yeung	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	—	—	—	—	—	120	120	—	120	360
Other emoluments										
Salaries and other benefits	1,528	—	—	—	9	—	—	—	—	1,537
Retirement benefit scheme contributions	12	—	—	—	—	—	—	—	—	12
Total emoluments	1,540	—	—	—	9	120	120	—	120	1,909

For the year ended 31 December 2004, one of the independent non-executive directors, Mr. CHENG Chi Heng waived emoluments of HK\$120,000 (2003: HK\$120,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 6. Directors' and Employees' Emoluments (Continued)

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2003: one director), details of whose emoluments are set out in note 6(a) above. The emoluments of the remaining two (2003: four) highest paid individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,717	2,424
Retirement benefits scheme contributions	12	48
	1,729	2,472

Their emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	1	4
HK\$1,000,001 to HK\$1,500,000	1	—

► 7. Taxation

	2004 HK\$'000	2003 HK\$'000
Hong Kong Profits Tax		
Current year	—	300
Underprovision in prior years	—	103
PRC income tax		
Current year	347	—
Under (over) provision in prior years	174	(44)
	521	359
Deferred tax (Note 20)		
Current year	—	(85)
Overprovision in prior years	—	(276)
Attributable to change in tax rate	—	31
	—	(330)
	521	29

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 7. Taxation (Continued)

For the year ended 31 December 2004, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries incurred a tax loss for the year.

For the year ended 31 December 2003, Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for that year.

In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government, the Company's PRC subsidiary is subject to a tax rate of 15% on the assessable profit for the year. However, the Company's PRC subsidiary was recognised as a high and new technology enterprise in 2002 and was granted a preferential tax rate of 7.5% from 2002 to 2004. Furthermore, a foreign investment enterprise ("FIE") whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of significant amount of taxes already paid on those profits. The Company's PRC subsidiary qualified for such tax refunds as a result of the Group's reinvestment of its profit earned in previous years. At 31 December 2003 and 2004, taxation recoverable under such arrangements were approximately HK\$2,176,000, and HK\$4,633,000, respectively, which are included in taxation recoverable.

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	23,956	37,041
Tax at Hong Kong Profits Tax rate of 17.5%	4,192	6,482
Tax effect of expenses (income) that are not taxable/deductible for tax purposes	338	(2,871)
Tax effect of tax losses not recognised	1,390	127
Tax effect of PRC income tax refunded	(2,169)	(1,510)
Tax exemptions granted to a PRC subsidiary	(2,520)	(1,510)
Increase in opening deferred tax balances from an increase in the applicable tax rate in Hong Kong	—	31
Underprovision of income tax expense in prior years	174	59
Effect of different tax rates of subsidiaries operating in other jurisdictions	(840)	(503)
Others	(44)	(276)
Tax expense for the year	521	29

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 8. Dividends

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim, paid		
— HK\$0.015 per ordinary share (2003: HK\$0.02 per ordinary share)	5,288	3,651
— HK\$0.015 per preference share (2003: HK\$0.02 per preference share)	6,350	11,968
	11,638	15,619
Final, paid for 2003		
— HK\$0.022 per ordinary share	7,756	—
— HK\$0.022 per preference share	9,313	—
	17,069	—
Dividend paid	28,707	15,619

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: HK\$0.022 per share) and propose that the profit for the year be retained.

► 9. Earnings Per Share

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net profit for the year	23,435	37,012
Dividends on preference shares	(15,663)	(11,968)
Earnings for the purposes of basic earnings per share	7,772	25,044
Effect of dilutive potential ordinary shares		
— Dividends on convertible preference shares	—	11,968
Earnings for the purposes of diluted earnings per share	7,772	37,012

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 9. Earnings Per Share (Continued)

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	356,647,176	199,832,136
Effect of dilutive potential ordinary shares — Convertible preference shares	—	563,702,620
Weighted average number of ordinary shares for the purposes of diluted earnings per share	356,647,176	763,534,756

Note:

Assuming the full conversion of the convertible preference shares outstanding during the year ended 31 December 2004 to reflect the effect of all potential dilutive ordinary shares, the adjusted earnings and weighted average number of ordinary shares is approximately HK\$23,435,000 and 763,534,756, respectively, resulting in an increase in earnings per share for the year. Accordingly, no diluted earnings per share has been presented.

► 10. Property, Plant and Equipment

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1 January 2004	16,543	122,854	5,393	933	145,723
Additions	676	15,114	1,079	498	17,367
Disposals	—	(9)	(154)	(3)	(166)
At 31 December 2004	17,219	137,959	6,318	1,428	162,924
DEPRECIATION					
At 1 January 2004	7,268	42,131	2,414	632	52,445
Provided for the year	2,270	15,129	862	187	18,448
Impairment loss recognised in the income statement	2,763	—	—	—	2,763
Eliminated on disposals	—	(9)	(131)	(1)	(141)
At 31 December 2004	12,301	57,251	3,145	818	73,515
NET BOOK VALUES					
At 31 December 2004	4,918	80,708	3,173	610	89,409
At 31 December 2003	9,275	80,723	2,979	301	93,278

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 10. Property, Plant and Equipment (Continued)

During the year, the Company has commenced relocating to its new manufacturing facilities. As at 31 December 2004, the directors conducted a review of the Group's property, plant and equipment and determined that certain leasehold improvements would no longer be used upon the completion of relocation in January 2005. Accordingly, an impairment loss of approximately HK\$2,763,000 (2003: Nil) has been recognised in respect of these leasehold improvements.

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
COST				
At 1 January 2004	—	—	—	—
Additions	—	56	—	56
Transfer from a fellow subsidiary	161	188	90	439
At 31 December 2004	161	244	90	495
DEPRECIATION				
At 1 January 2004	—	—	—	—
Provided for the year	7	5	23	35
At 31 December 2004	7	5	23	35
NET BOOK VALUES				
At 31 December 2004	154	239	67	460
At 31 December 2003	—	—	—	—

► 11. Machinery under Installation and Deposits Paid for the Acquisition of Property, Plant and Equipment

	2004 HK\$'000	2003 HK\$'000
Machinery under installation	39,157	—
Deposit paid for the acquisition of property, plant and equipment	5,518	482
	44,675	482

The machinery under installation will be classified in the relevant category of property, plant and equipment upon completion of the installation and when it becomes fully operational.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 12. Investments in Subsidiaries

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	214,843	119,576
Less: Dividends distributed from pre-reorganisation reserves of the subsidiaries	(104,488)	(56,394)
	110,355	63,182

Details of the Company's subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and paid up share capital/ registered capital	Proportion of issued capital/ registered capital held directly by the Company	Principal activities
			%	
J.I.C. Enterprises (Hong Kong) Limited	Hong Kong	HK\$500,000	100	Manufacture and trading of electronic components
J.I.C. (Macao Commercial Offshore) Company Limited	Macao	HK\$97,500	100	Trading of electronic components, and the provision of marketing, management and technical consultancy services
Jetup Electronic (Shenzhen) Co., Limited	PRC (Note)	HK\$105,878,396	100	Manufacture of LCD products

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

Note: Registered as a wholly owned FIE.

NOTES TO THE FINANCIAL STATEMENTS

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► 13. Other Investment

	The Group and The Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted equity shares, at fair value	—	3,000

On 20 January 2003, the Company entered into a subscription agreement with iMagic Infomedia Technology Limited ("iMagic") pursuant to which the Company agreed to subscribe for 60 shares of HK\$1 each in iMagic (the "iMagic Shares"), representing 5.36% of the total issued capital of iMagic, for a cash consideration of HK\$3,000,000. On the same date, the Company also entered into a deed of put option with Mr. Tsang Cheung, a then shareholder and director of iMagic, under which he granted to the Company an option to require him to purchase the iMagic Shares from the Company at a consideration of HK\$3,000,000. The put option was exercisable from 31 December 2004 up to 30 January 2005.

In October 2004, the Company sold the iMagic Shares to a person designated by Mr. Tsang Cheung for a cash consideration of approximately HK\$3,104,000, resulting in a gain on disposal of approximately HK\$104,000.

► 14. Inventories

	The Group	
	2004	2003
	HK\$'000	HK\$'000
At cost		
Raw materials	32,280	19,634
Work in progress	2,696	6,595
Finished goods	1,177	670
	36,153	26,899

NOTES TO THE FINANCIAL STATEMENTS

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► 15. Trade and Other Receivables

The Group's policy is to allow credit periods ranging from 30 days to 90 days (2003: 60 days to 120 days) to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet dates, prepared on the basis of sales invoice date:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables:		
Within 30 days	32,326	27,268
More than 30 days and within 60 days	25,147	27,438
More than 60 days and within 90 days	10,876	6,783
More than 90 days	2,795	3,245
	71,144	64,734
Other receivables	5,482	2,578
	76,626	67,312

► 16. Amounts Due from (to) a Fellow Subsidiary

The balances are unsecured, non-interest bearing and have a credit period of 60 days.

► 17. Amounts Due from (to) Subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 18. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet dates, prepared on the basis of supplier invoice date:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade payables:		
Within 30 days	30,636	22,829
More than 30 days and within 60 days	11,043	11,661
More than 60 days and within 90 days	8,908	5,143
More than 90 days	1,138	151
	51,725	39,784
Other payables	9,104	6,992
	60,829	46,776

► 19. Bank Borrowings

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Bank borrowings comprise:		
Bank loans	62,692	21,938
Trust receipt loans	9,801	11,941
	72,493	33,879
The bank borrowings are repayable as follows:		
On demand or within one year	32,226	20,716
In the second year	18,037	8,775
In the third to fifth year inclusive	22,230	4,388
	72,493	33,879
Less: Amounts due for settlement within one year (shown under current liabilities)	(32,226)	(20,716)
Amounts due for settlement after one year	40,267	13,163

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 20. Deferred Tax Liabilities

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	The Group
	<i>HK\$'000</i>
At 1 January 2003	330
Credit to income	(361)
Effect of change in tax rate — charge to income statement	31
<hr/>	
At 31 December 2003, 1 January 2004 and at 31 December 2004	—
<hr/>	

At 31 December 2003, the deferred taxation represented the tax effect of temporary differences attributable to the accelerated tax depreciation.

At 31 December 2004, the Group had unused tax losses of approximately HK\$9,292,000 (2003: HK\$916,000) available for offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The Company had no other significant unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 21. Share Capital

		Ordinary shares of HK\$0.01 each		Non-redeemable convertible preference shares of HK\$0.01 each ^(a)		Total
		Number		Number		
	Notes	of shares	HK\$'000	of shares	HK\$'000	HK\$'000
Authorised:						
At 1 January 2003,						
31 December 2003 and						
31 December 2004		2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:						
At 1 January 2003		182,544,465	1,826	598,420,000	5,984	7,810
Conversion of preference shares to ordinary shares during the year	(b)	170,000,000	1,700	(175,100,000)	(1,751)	(51)
At 31 December 2003 and 1 January 2004		352,544,465	3,526	423,320,000	4,233	7,759
Conversion of preference shares to ordinary shares during the year	(c)	410,990,290	4,109	(423,320,000)	(4,233)	(124)
At 31 December 2004		763,534,755	7,635	—	—	7,635

Notes:

- (a) The preference shares are not redeemable and the holders of which shall not be entitled to vote. At any time after allotment, each holder of the preference shares shall be entitled to convert all or a portion of his preference shares into fully paid ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares shall be entitled to exercise the conversion rights if, as a result, the Company's ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied. On any payment of dividend or distributions (other than a distribution on winding up), the preference shares shall rank *pari passu* with the ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 21. Share Capital *(Continued)*

Notes: (Continued)

- (b) During the year ended 31 December 2003, Nam Tai exercised the conversion right of 175,100,000 preference shares, resulting in the issuance of 170,000,000 ordinary shares in the Company and the creation of ordinary share premium of approximately HK\$51,000. The ordinary shares issued rank *pari passu* in all respects with the then existing issued ordinary shares in the Company.
- (c) During the year ended 31 December 2004, Nam Tai exercised the conversion right of 423,320,000 preference shares, resulting in the issuance of 410,990,290 ordinary shares in the Company and the creation of ordinary share premium of approximately HK\$124,000. The ordinary shares issued rank *pari passu* in all respects with the then existing issued ordinary shares in the Company.

► 22. Reserves

	Ordinary share premium	Contributed surplus	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1 January 2003	—	103,456	7,029	110,485
Conversion of preference shares to ordinary shares <i>(Note 21(b))</i>	51	—	—	51
Net profit for the year	—	—	20,259	20,259
Dividends paid <i>(Note 8)</i>	—	—	(15,619)	(15,619)
At 31 December 2003 and 1 January 2004	51	103,456	11,669	115,176
Conversion of preference shares to ordinary shares <i>(Note 21(c))</i>	124	—	—	124
Net profit for the year	—	—	17,111	17,111
Dividends paid <i>(Note 8)</i>	—	—	(28,707)	(28,707)
At 31 December 2004	175	103,456	73	103,704

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company pursuant to the group restructuring and the nominal value of the Company's shares issued for the acquisition, less subsequent dividends paid.

In addition to the accumulated profits of the Company, the ordinary share premium and the contributed surplus accounts of the Company are also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders at 31 December 2004 amounted to approximately HK\$103,704,000 (2003: HK\$115,176,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 23. Disposal of Business

As referred to in note 5, on 28 June 2003 the Group discontinued its Transformers business at the time of the disposal of certain of its subsidiaries.

The net assets of the Transformers business at the date of disposal were as follows:

	28.6.2003
	<i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	3,384
Inventories	5,632
Trade and other receivables	18,252
Amount due from the Group	6,390
Amount due from a fellow subsidiary	1,065
Bank balances and cash	308
Trade and other payables	(18,901)
	16,130
Profit on disposal	17,620
Total consideration	33,750
Satisfied by:	
Cash consideration received	18,921
Assumption of debt of the Group	6,390
Assignment of certain trade receivables and amount due from a fellow subsidiary, and assumption of certain trade and other payables of the Transformers business	8,439
	33,750
Net cash inflow arising on disposal:	
Cash consideration received	18,921
Bank balances and cash disposed of	(308)
	18,613

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 24. Contingent Liabilities

The Group had no significant contingent liabilities at the balance sheet date.

At 31 December 2004, the Company had issued corporate guarantees amounting to HK\$144,600,000 (2003: HK\$70,100,000) to certain banks in respect of banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries amounted to approximately HK\$78,910,000 (2003: HK\$36,582,000).

► 25. Capital Commitments

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	9,236	5,502
Authorised but not contracted for	8,908	—
	18,144	5,502

The Company had no significant capital commitments at the balance sheet date.

► 26. Operating Lease Commitments

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	10,400	8,955
In the second to fifth year inclusive	36,769	32,235
Over five years	24,794	28,536
	71,963	69,726

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► **26. Operating Lease Commitments** *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to eight years. The rentals for the lease of factory premises contain contingent escalation clauses whereby the percentage increase is subject to periodic review and agreement between the Group and the lessor.

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases amounting to HK\$1,530,000 (2003: HK\$2,200,000) in respect of rented premises and facilities, which fall due within one year.

► **27. Retirement Benefit Schemes**

The Group operates a Mandatory Provident Fund Scheme established under the Mandatory Provident Fund Ordinance for its qualifying employees. The assets of the 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 or 5% of the relevant payroll to the scheme, which contributions are matched by employees. No forfeited contributions are available to reduce the contributions payable in the future years.

The employees of the Company's subsidiary in the PRC are members of state-managed retirement benefit schemes operated by the local municipal government. The PRC subsidiary are required to contribute 8% to 9% of the employee payroll to the schemes to fund the retirement benefits to the employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total cost charged to consolidated income statement represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

► **28. Share Option Schemes****(a) Share option schemes adopted by Nam Tai**

In August 1993, the board of directors of Nam Tai approved a stock option plan which authorised the issuance of 900,000 vested options to key employees, consultants or advisors of Nam Tai 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 Nam Tai 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 Nam Tai.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 28. Share Option Schemes *(Continued)*

(a) Share option schemes adopted by Nam Tai *(Continued)*

In May 2001, the board of directors of Nam Tai approved another stock option plan which would grant 15,000 options to each non-employee director of Nam Tai elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of Nam Tai or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan. The maximum number of shares to be issued pursuant to the exercise of options granted was 3,000,000 shares. There is no maximum entitlement for each of the key employee under this stock option plan. The option price granted to directors shall be equal to 100% of the market value of the common shares of Nam Tai 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 Nam Tai 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 Nam Tai 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 Nam Tai. No consideration is payable on the grant of an option.

Effective 1 January 2003, Nam Tai suspended issuing options to management and employees except for the independent directors. Rather, the board of directors of Nam Tai approved an incentive bonus program to reward management and employees with a cash bonus in lieu of stock options. During 2004, Nam Tai had decided to resume issuing options to employees in addition to giving cash bonuses.

The following tables disclosed details of the share option schemes of Nam Tai held by employees (including directors) of the Company and movements in such holdings during the year of 2003 and 2004:

<u>Option schemes</u>	<u>Outstanding at 1.1.2003</u>	<u>Exercised during the year</u>	<u>Outstanding at 31.12.2003 and 1.1.2004</u>	<u>Granted during the year</u>	<u>Outstanding at 31.12.2004</u>
1993	357,000	357,000	—	—	—
2001	315,000	315,000	—	390,000	390,000
	672,000	672,000	—	390,000	390,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 28. Share Option Schemes (Continued)

(a) Share option schemes adopted by Nam Tai (Continued)

Details of the share option schemes of Nam Tai held by the directors of the Company included in the above table are as follows:

Option schemes	Outstanding at 1.1.2003	Exercised during the year	Outstanding at 31.12.2003 and 1.1.2004	Granted during the year	Outstanding at 31.12.2004
1993	357,000	357,000	—	—	—
2001	255,000	255,000	—	390,000	390,000
	612,000	612,000	—	390,000	390,000

Details of specific categories of options are as follows:

Option schemes	Date of grant	Exercisable period	Exercise price per share US\$
1993	1 February 2000	31 May 2001 - 31 January 2003	4.625
	16 March 2001	16 March 2001 - 16 March 2004	4.647
	30 April 2002	30 April 2002 - 30 April 2005	6.617
2001	22 June 2001	22 June 2001 - 22 June 2004	4.834
	27 June 2001	27 June 2001 - 22 June 2002	2.334
	30 April 2002	30 April 2002 - 30 April 2005	6.617
	30 July 2004	30 July 2004 - 30 July 2006	19.40

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 28. Share Option Schemes *(Continued)*

(b) Share option scheme adopted by the Company

On 16 April 2002, a share option scheme ("the Scheme") was approved by the board of directors and enables the Company to grant options to eligible participants for the purpose of providing incentives and rewards to who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee of the Group (including any director of the Company or any of its subsidiaries) and those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company shares are listed on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share option is determinable by the board of directors, 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 prices of the Company's ordinary shares 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 10% of the ordinary share capital of the Company in issue from time to time. 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.

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 a remittance in favour of the Company in 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 of directors may specify in writing. An option may be exercised during the period specified in the terms of grant.

No options have been granted under the Scheme since its adoption.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 29. Related Party Transactions

During the year, the Group entered into transactions with the following fellow subsidiaries owned by Nam Tai:

<u>Name of related party</u>	<u>Nature of transactions</u>	<u>2004</u> <i>HK\$'000</i>	<u>2003</u> <i>HK\$'000</i>
Namtai Electronic (Shenzhen) Co. Ltd. ("NTSZ")	Sales of finished goods by the Group (Note a)	—	143
	Silk screening services provided by the Group (Note b)	—	2,889
	Sales of finished goods by the Group (Note c)	4,393	—
Nam Tai Group Management Limited ("NTGM")	Service fees paid by the Group (Note d)	5,910	5,280
Zastron Electronic (Shenzhen) Co. Ltd. ("Zastron")	Purchase of processed goods by the Group (Note e)	34,264	39,848
	Sales of raw materials by the Group (Note e)	24,400	35,638
	Silk screening services provided by the Group (Note f)	—	119

In addition, two directors of the Company have guaranteed repayment of certain trade receivables of the Group as at 31 December 2004 amounting to approximately HK\$423,000 (2003: Nil) at nil consideration.

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 33 and note 16.

Notes:

(a) The transactions were carried out at terms determined and agreed by both parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 29. Related Party Transactions *(Continued)*

Notes: (Continued)

- (b) *The Group provides silk screening services to NTSZ by selling electronic components to NTSZ bearing the customers' logo or marks of NTSZ. The transactions were carried out at terms determined and agreed by both parties. Full details of the transaction were disclosed in announcements of the Company dated 24 October 2002 and 17 April 2003.*
- (c) *On 8 April 2004, the Group entered into a letter purchase agreement on the sale of LCD panels to NTSZ under which NTSZ may place purchase orders with the Group at a price no less favourable than that available to NTSZ from independent third parties. The transactions were conducted in accordance with this agreement. Full details of the transaction were disclosed in an announcement of the Company dated 14 May 2004.*
- (d) *On 16 April 2002, the Group entered into a business facilities agreement ("BFA") with NTGM for a term of 12 months from 4 June 2002 to 30 May 2003, under which NTGM agreed to provide the Group with (i) office space with a gross area of approximately 4,500 square feet furnished with fittings, decorations, office equipment and furniture, and use of common areas; and (ii) certain office facilities, office services and outgoings, office equipment and utilities. The monthly service charge was HK\$440,000. On 16 April 2003, the BFA was renewed for another 12 months expiring 30 May 2004 on the same terms and conditions.*

On 30 April 2004, the Group entered into a new BFA with NTGM for a term of 12 months from 1 April 2004 to 31 March 2005, under which NTGM agreed to provide the Group with (i) office space with a gross area of approximately 7,200 square feet and use of public areas and facilities within the property designated by NTGM from time to time; and (ii) certain office facilities, office services and outgoings, office equipment and utilities at a monthly service charge of HK\$510,000. Further details of the transaction were disclosed in an announcement of the Company dated 3 May 2004.

Subsequent to 31 December 2004, the Company had re-negotiated the terms with NTGM and executed a new business facilities agreement on 26 January 2005 such that the monthly service fee would be reduced from HK\$510,000 to HK\$240,000 and the total gross floor area licensed by NTGM to the Company would decrease from approximately 7,200 square feet to approximately 5,500 square feet. The term of this new agreement would be for a period of three years from 1 January 2005 to 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

► 29. Related Party Transactions *(Continued)**Notes: (Continued)*

- (e) On 10 March 2003, the Group entered into two separate agreements ("Sale/Purchase Agreement") on the sale of materials comprising LCD, anisotropic conductive films and integrated circuits to Zastron, and the subsequent purchase of the processed products from Zastron. The transactions were carried out in accordance with the Sale/Purchase Agreement. Full details of the transactions were disclosed in announcements of the Company dated 11 March 2003 and 14 August 2003, and contained in the circular issued to the shareholders of the Company dated 5 September 2003.
- (f) The Group provides silk screening services to Zastron by selling electronic components to Zastron bearing the customers' logo or marks of Zastron. The transactions were carried out at terms determined and agreed by both parties.

► 30. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation. In particular, deposits paid for the acquisition of property, plant and equipment have been reclassified from trade and other receivables, and bills payable have been reclassified from trade and other payables.