NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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. ("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 introduction to the annual report.

The consolidated financial statements are presented in Hong Kong Dollars, which is the functional currency of the Company.

The principal activities of the Company and its subsidiaries ("the Group") are the manufacturing and distribution of liquid crystal display ("LCD") products.

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"), amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or 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]

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and in accordance with the disclosure requirements of 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 into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in associate

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods 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.

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.

Property, plant and equipment

Property, plant and equipment 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, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Machinery under installation are carried at cost, less any identified impairment losses. Depreciation of these assets commences when they are available for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated 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 date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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.

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 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.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

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.

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 the respective functional currency (i.e. 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from 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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Retirement benefit costs

Payments to state-managed retirement benefit schemes ("PRC Scheme"), the retirement benefit scheme in Macao ("Macao Scheme") and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

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 classified into loans and receivables. 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 loans and receivables are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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 and 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 consolidated income statement 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.

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 including trade and other payables, amount due to an associate and bank borrowings 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 and 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 expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 recognised as income immediately.

Inventories

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

Intangible assets

Intangible assets represent club membership with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. KEY SOURCES OF ESTIMATION

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Income taxes

As at 31 December 2006, no deferred tax asset has been recognised on the tax losses of HK$20,376,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where there is actual future profits generated, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, trade and other receivables, amount due from a fellow subsidiary, amount due to an associate and trade and other payables and bank borrowings. 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

Certain bank balance, trade receivables, amount due to an associate and bank borrowings of the Group are denominated in currencies other than the functional currencies of the group entities. 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 should the need arise.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 21 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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 an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

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 on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in PRC. As at 31 December 2006, trade receivable from PRC customer amounted to approximately HK$32,127,000.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2006, the Group has available unutilised short-term bank loan facilities of approximately HK$103,769,000 (2005: HK$100,000,000).

b. Fair value

The fair value of 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 directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. SEGMENTS

As the Group is entirely engaged in the manufacturing and distribution of LCD products, the Group has only one business segment and the Group's primary reporting segment is geographical segment.

Geographical segments

The Group's operation are predominately located in the People's Republic of China ("PRC"). Revenue 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 initial destination of shipment of its products, principally Hong Kong, the PRC, Europe and Japan. Revenues from sales to other locations, that do not meet the criteria as a separate reportable segment, have been combined and reported as "Others". The Group's subsidiary in the PRC remains as an export based enterprise in the PRC. Segment information about these geographical markets is presented follows:

INCOME STATEMENT

Year ended 31 December 2006

	Hong Kong *HK$'000*	The PRC *HK$'000*	Europe *HK$'000*	Japan *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
External revenue	284,582	177,881	33,788	4,466	3,580	504,297
Segment results	26,409	30,939	4,003	1,785	473	63,609
Unallocated expenses						(30,732)
Bank interest income						648
Share of loss of an associate						(58)
Interest on bank borrowings						(4,673)
Profit before tax						28,794
Income tax expense						(601)
Profit for the year						28,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. SEGMENTS *(Continued)*

BALANCE SHEET

At 31 December 2006

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	52,947	36,822	17,575	508	923	108,775
Unallocated assets						208,610
Consolidated total assets						317,385
LIABILITIES						
Segment liabilities	4,470	–	–	–	–	4,470
Unallocated liabilities						143,931
Consolidated total liabilities						148,401

OTHER INFORMATION

Year ended 31 December 2006

	Hong Kong HK$'000	The PRC HK$'000	Europe HK$'000	Japan HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	503	985	–	–	–	13,527	15,015
Depreciation	377	739	–	–	–	29,597	30,713
Impairment losses (reversed) recognised in respect of trade receivables	(1,767)	(870)	38	–	(207)	–	(2,806)
Loss on disposal of property, plant and equipment	–	–	–	–	–	19	19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. SEGMENTS *(Continued)*

INCOME STATEMENT

Year ended 31 December 2005

	Hong Kong	The PRC	Europe	Japan	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External revenue	204,458	243,922	3,558	2,958	3,602	458,498
Segment results	38,216	23,811	1,715	1,407	1,918	67,067
Unallocated expenses						(26,053)
Bank interest income						368
Interest on bank borrowings						(3,418)
Profit before taxation						37,964
Income tax expense						(583)
Profit for the year						37,381

BALANCE SHEET

At 31 December 2005

	Hong Kong	The PRC	Europe	Japan	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	59,613	44,600	764	354	800	106,131
Unallocated assets						220,276
Consolidated total assets						326,407
LIABILITIES						
Segment liabilities	–	12,349	–	–	–	12,349
Unallocated liabilities						157,996
Consolidated total liabilities						170,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. SEGMENTS *(Continued)*

OTHER INFORMATION

Year ended 31 December 2005

	Hong Kong	The PRC	Europe	Japan	Others	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Allowance for inventories	189	266	1	1	1	–	458
Capital additions	–	9,166	–	–	–	70,054	79,220
Depreciation	–	1,028	–	–	–	25,472	26,500
Impairment loss recognised (reversed) in respect of trade receivables	1,970	1,056	–	(50)	385	–	3,361
Loss on disposal of property, plant and equipment	–	–	–	–	–	581	581

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	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**2,340**	16,961	**–**	85
The PRC	**308,769**	292,759	**15,015**	79,135
Macao	**656**	12,004	**–**	–
	311,765	321,724	**15,015**	79,220

7. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
PRC income tax		
Current year	**333**	359
Underprovision in prior years	**268**	224
	601	583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

7. INCOME TAX EXPENSE *(Continued)*

The PRC enterprise income tax rate of 15% is used for the following reconciliation as the PRC is where the operation of the Group is substantially based.

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

	2006 **HK$'000**	2005 HK$'000
Profit before tax	**28,794**	37,964
Tax at PRC enterprise income tax rate of 15%	**4,319**	5,695
Tax effect of income not taxable for tax purposes	**(400)**	(377)
Tax effect of tax losses not recognised	**796**	1,143
Refund of PRC income tax	**(1,638)**	(4,573)
Underprovision in respect of prior years	**268**	224
Effect of different tax rates of the Company and its subsidiaries operating in other jurisdictions	**78**	907
Effect of tax exemptions granted to Macao subsidiary	**(2,822)**	(2,366)
Others	**–**	(70)
Tax charge for the year	**601**	583

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

As at 31 December 2006, the Group had unused tax losses of approximately HK$20,376,000 (2005: HK$15,827,000) available to 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.

In accordance with the applicable enterprise income tax laws 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. 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, the Company's PRC subsidiary exported more than 70% of the production value of their products and was qualified as an Export Enterprise and enjoyed a reduced tax rate of 10%. For the year ended 31 December 2006, the Company's PRC subsidiary 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 the Company's PRC subsidiary will also qualify for a reduced tax rate of 10% for the year ended 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

7. INCOME TAX EXPENSE *(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 significant amount of the taxes already paid on those profits may be obtained by the foreign investor, i.e. the Group.

As at 31 December 2006, income taxes recoverable under such arrangements were HK$5,512,000 (2005: HK$4,575,000), which are included in tax recoverable in the consolidated balance sheet.

J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law.

8. PROFIT FOR THE YEAR

	2006 **HK$'000**	2005 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remunerations	**66,798**	57,700
Retirement benefit scheme contributions	**4,393**	4,189
Total staff costs	**71,191**	61,889
Less: Staff costs included in research and development expenditure	**(6,131)**	(4,267)
	65,060	57,622
Cost of inventories recognised as an expense	**420,142**	365,725
(Reversal of) allowance for inventories, net	**(522)**	458
Auditors' remuneration	**882**	770
Depreciation of property, plant and equipment	**30,713**	26,500
Impairment loss (reversed) recognised in respect of trade receivables, net	**(2,806)**	3,361
Loss on disposal/write off of property, plant and equipment	**19**	581
Foreign exchange losses (gains), net	**206**	(4,348)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. 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 eight (2005: ten) directors were as follows:

Year ended 31 December 2006

	Seitaro Furukawa	Koo Ming Kown	Li Shi Yuen, Joseph*	Chui Kam Wai	Yeoh Teck Hooi	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	270	–	–	–	540	120	120	–	1,050
Other emoluments									
Salaries and other benefits	1,284	–	–	1,534	1,132	–	–	–	3,950
Performance related incentive bonus *(note)*	153	–	–	309	203	–	–	–	665
Retirement benefit scheme contributions	–	–	–	12	12	–	–	–	24
Total emoluments	1,707	–	–	1,855	1,887	120	120	–	5,689

* *Resigned during the year ended 31 December 2006.*

Note: The performance related incentive bonus is determined based on the performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

a. Directors' emoluments *(Continued)*

Year ended 31 December 2005

	Seitaro Furukawa *HK$'000*	Koo Ming Kown *HK$'000*	Tadao Murakami* *HK$'000*	Yeoh Teck Hooi *HK$'000*	Li Shi Yuen, Joseph *HK$'000*	Chui Kam Wai *HK$'000*	Cham Yau Nam *HK$'000*	Leung Wai Hung *HK$'000*	Cheng Chi Heng *HK$'000*	Wong Toe Yeung* *HK$'000*	Total *HK$'000*
Fee	225	–	–	225	–	–	120	120	–	90	780
Other emoluments											
Salaries and other benefits	1,352	–	–	1,083	–	1,500	–	–	–	–	3,935
Performance related incentive bonus	461	–	–	345	–	576	–	–	–	–	1,382
Retirement benefit scheme contributions	–	–	–	12	–	12	–	–	–	–	24
Total emoluments	2,038	–	–	1,665	–	2,088	120	120	–	90	6,121

* *Resigned during the year ended 31 December 2005.*

In the year ended 31 December 2006, one of the independent non-executive directors, Mr. Cheng Chi Heng waived emoluments of HK$120,000 (2005: HK$120,000).

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

b. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three were directors of the Company (2005: three directors), whose emoluments are included in the disclosures in note 9(a) above. The emoluments of the remaining two (2005: two) highest paid individuals were as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Salaries and other benefits	**1,474**	1,440
Retirement benefits scheme contributions	**–**	–
	1,474	1,440

Each of their emoluments were below HK$1,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim, paid for 2005		
– HK$0.020 per ordinary share	**–**	15,271
Final, paid for 2005		
– HK$0.020 per ordinary share	**15,271**	–
	15,271	15,271

No dividend was proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: HK$30,542,000).

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	**28,193**	37,381

	Number of shares	
Number of ordinary shares for the purposes of basic earnings per share	**763,534,755**	763,534,755

Diluted earnings per share has not been disclosed as there were no dilutive potential shares in issue in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2005	17,219	137,959	6,318	1,428	162,924
Additions	52,996	23,714	2,072	438	79,220
Disposals/written off	(3,482)	(579)	(619)	–	(4,680)
At 31 December 2005 and 1 January 2006	66,733	161,094	7,771	1,866	237,464
Additions	3,148	10,994	470	403	15,015
Disposals/written off	–	(142)	(11)	–	(153)
At 31 December 2006	69,881	171,946	8,230	2,269	252,326
DEPRECIATION					
At 1 January 2005	12,301	57,251	3,145	818	73,515
Provided for the year	6,570	18,645	1,075	210	26,500
Eliminated on disposals	(3,141)	(482)	(476)	–	(4,099)
At 31 December 2005 and 1 January 2006	15,730	75,414	3,744	1,028	95,916
Provided for the year	9,319	19,976	1,156	262	30,713
Eliminated on disposals	–	(126)	(8)	–	(134)
At 31 December 2006	25,049	95,264	4,892	1,290	126,495
CARRYING VALUES					
At 31 December 2006	**44,832**	**76,682**	**3,338**	**979**	**125,831**
At 31 December 2005	51,003	85,680	4,027	838	141,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

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

13. INVESTMENT IN AN ASSOCIATE

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in an associate	**58**	–
Share of post-acquisition losses	**(58)**	–
	–	–

As at 31 December 2006, the Group had interests in the following associate:

Name of entity	**Form of business structure**	**Country of incorporation/ operation**	**Class of share held**	**Proportion of nominal value of issued capital held by the Group**	**Proportion of voting power held**	**Principal activity**
					%	%
Nam Tai Solartech, Inc.	Incorporated	Cayman Islands	Ordinary	25	25	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. INVESTMENT IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group's associate is set out below:

	2006 **HK$'000**	2005 *HK$'000*
Total assets	**227**	–
Total liabilities	**(333)**	–
Net liabilities	**(106)**	–
Group's share of net assets of an associate	**–**	–
Revenue	**–**	–
Loss for the year	**(338)**	–
Group's share of result of an associate for the year	**(58)**	–

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of this associate, extracted from the relevant audited accounts of an associate, both for the year and cumulatively, are as follows:

	2006 **HK$'000**	2005 *HK$'000*
Unrecognised share of losses of an associate for the year	**(27)**	–
Accumulated unrecognised share of losses of an associate	**(27)**	–

14. IMPAIRMENT TESTING ON GOODWILL RESERVE

As explained in Note 6, the Group uses geographical segment as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives have been allocated to a cash generating unit ("CGU") which is the subsidiary of the Company in the PRC ("PRC Operation"). The carrying amounts of goodwill reserve as at 31 December 2006 is allocated to the PRC Operation.

During the year ended 31 December 2006, management of the Group determines that there are no impairments of this CGU containing goodwill with indefinite useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. IMPAIRMENT TESTING ON GOODWILL RESERVE *(Continued)*

The basis of the recoverable amounts of the above CGU and its major underlying assumptions are summarised below:

PRC Operation

The recoverable amount of this unit 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 one-year period, and discount rate of 6.67%. CGU's cash flows beyond the one-year period are extrapolated using a 28% 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 calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU.

15. INTANGIBLE ASSETS

The club membership currently has a second hand market and has no foreseeable limit to its useful life. The directors of the Company are of the opinion that the Group would continue to hold the club membership and has the ability to do so. The club membership has been tested for impairment in the current year by reference to its second hand market value and no impairment loss was charged for the current year.

16. INVENTORIES

	2006 ***HK$'000***	2005 *HK$'000*
Raw materials	**48,225**	39,508
Work in progress	**4,632**	5,442
Finished goods	**1,720**	2,220
	54,577	47,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

17. TRADE AND OTHER RECEIVABLES

	2006 **HK$'000**	2005 *HK$'000*
Trade receivables	**98,222**	85,740
Less: accumulated impairment losses	**(765)**	(3,748)
	97,457	81,992
Other receivables	**2,728**	1,008
Total trade and other receivables	**100,185**	83,000

The Group allows an average credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of impairment losses, at the balance sheet dates, prepared on the basis of sales invoice date:

	2006 **HK$'000**	2005 *HK$'000*
Within 30 days	**42,569**	27,586
More than 30 days and within 60 days	**28,929**	29,702
More than 60 days and within 90 days	**17,548**	15,519
More than 90 days	**8,411**	9,185
	97,457	81,992

18. AMOUNT DUE FROM/TO A FELLOW SUBSIDIARY/AN ASSOCIATE

The balances are unsecured, non-interest bearing and repayable on demand, besides the balance of a fellow subsidiary which has a credit period of 60 days.

19. BANK BALANCES

Bank balances carry interest at market rates which range from 1.0% to 3.6% (2005: 1.0% to 3.9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

20. 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:

	2006 HK$'000	2005 HK$'000
Within 30 days	**58,676**	35,012
More than 30 days and within 60 days	**10,581**	10,843
More than 60 days and within 90 days	**6,894**	2,349
More than 90 days	**4**	10,952
	76,155	59,156
Other payables	**13,920**	14,047
	90,075	73,203

21. BANK BORROWINGS

	2006 HK$'000	2005 HK$'000
Bank borrowings are unsecured and comprise the followings:		
Bank loans	**22,088**	57,639
Trust receipt loans	**34,980**	37,303
	57,068	94,942
Carrying amount repayable:		
Within one year	**48,543**	72,854
More than one year, but not exceeding two years	**8,525**	13,563
More than two years, but not exceeding three years	**–**	8,525
	57,068	94,942
Less: Amounts due within one year (shown under current liabilities)	**(48,543)**	(72,854)
Amounts due after one year	**8,525**	22,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

21. BANK BORROWINGS *(Continued)*

The above borrowings are at annual interest rates ranging from 0.55% to 0.75% (2005: 0.55% to 1.50%) over Hong Kong/London/Singapore Interbank Offered Rate.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rate	**4.5% to 6.1%**	3.2% to 5.2%

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	JPY *'000*	**RMB *'000***	**USD *'000***
As at 31 December 2006	125,835	–	5,957
As at 31 December 2005	–	11,500	5,764

During the year, the Group obtained new bank loans in the amount of approximately HK$26,910,000 (2005: HK$37,129,000). The loans were interest-bearing at market rates and have been fully repaid during the year. The loans raised were used to finance the acquisition of plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

22. SHARE CAPITAL OF THE COMPANY

	Ordinary shares of HK$0.01 each		**Non-redeemable convertible preference shares of HK$0.01 each** *(note)*		**Total**
	Number of shares	*HK$'000*	Number of shares	*HK$'000*	*HK$'000*
Authorised:					
At 1 January 2005, 31 December 2005 and 31 December 2006	2,000,000,000	20,000	600,000,000	6,000	26,000
Issued and fully paid:					
At 1 January 2005, 31 December 2005 and 31 December 2006	763,534,755	7,635	–	–	7,635

Note: 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/her 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, 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 *HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	**930**	3,203
Authorised but not contracted for	**2,439**	8,037
	3,369	11,240

24. OPERATING LEASE COMMITMENTS

	2006 **HK$'000**	2005 *HK$'000*
Minimum lease payments paid under operating leases during the year	**8,872**	8,085

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 **HK$'000**	2005 *HK$'000*
Within one year	**9,415**	8,821
In the second to fifth year inclusive	**41,247**	38,733
Over five years	**4,564**	14,999
	55,226	62,553

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 six years. Monthly rent is renegotiated every three years with a maximum increase of 10% on prior year's monthly rent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

25. RETIREMENT BENEFIT SCHEMES

According to the relevant laws and regulations in the PRC, Jetup Electronic is required to contribute 8% to 11% and 1% to 2% of the stipulated salary set by the local government of Shenzhen, the PRC, to the PRC Scheme and social benefit scheme to fund the retirement benefits and social benefits respectively 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 HK$4,328,000 (2005: HK$4,086,000).

The Group operates the Macao Scheme for all qualifying employees in Macao and the 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 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 HK$65,000 (2005: HK$103,000).

26. SHARE-BASED PAYMENT TRANSACTIONS

Equity – settled share options scheme:

(a) *Share option schemes 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 the 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

Equity – settled share options scheme: *(Continued)*

(a) Share option schemes adopted by NTE Inc. (Continued)

The following tables disclosed details of the share options granted to the directors of the Company for services provided to NTE Inc. and movements in such holdings during the years:

Directors

	2001 Scheme	**2001 Scheme**	**2001 Scheme**	**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 resignation.

Details of specific categories of options are as follows:

Date of grant	**Exercisable period**	**Exercise price per share** *US$*
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 6 June 2008	21.620
9 June 2006	9 June 2006 to 8 June 2009	22.250

The weighted average closing price of NTE Inc.'s shares on the dates in which the share options were exercised was approximately US$21.68 for the year ended 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

Equity – settled share options scheme: *(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 those 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 the Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company's 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 payment 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 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

27. RELATED PARTY TRANSACTIONS

Other than that disclosed in note 9(a) in respect of the remunerations of directors, the Group entered into transactions with the following fellow subsidiaries wholly owned by NTE Inc. during the year:

Name of related party	Nature of transactions	2006 HK$'000	2005 HK$'000
Namtai Electronic (Shenzhen) Co., Ltd.	Sales of finished goods by the Group, net	**3,218**	5,216
Nam Tai Group Management Limited	Service fees paid by the Group	**–**	2,230
Zastron Precision-Tech Limited	Recharge of office expense	**2,165**	–
Namtek Japan Company Limited	Sales commission expense	**20**	–

From October 2005 onwards, Zastron Precision-Tech Limited also provided certain administrative services to the Group, for which no charge was made until the end of year 2005.

During the year, the Company and its fellow subsidiary, Nam Tai Electronic & Electrical Products Limited, jointly incorporated a company, Nam Tai Solartech, Inc., in which the Company has 25% shareholding. This investment has been accounted as an associate.

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 27 and note 18.

Compensation to key management personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	**5,665**	6,097
Post-employment benefits	**24**	24
	5,689	6,121

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

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For the year ended 31 December 2006

28. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2006 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	Inactive
J.I.C. (Macao Commercial Offshore) Company Limited	Macao	HK$97,500	100	Data management, research and development, and technical analysis
Jetup Electronic (Shenzhen) Co., Ltd.	PRC *(note)*	HK$158,500,000	100	Manufacture and distribution of LCD products

Note: Registered as a wholly owned FIE.

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