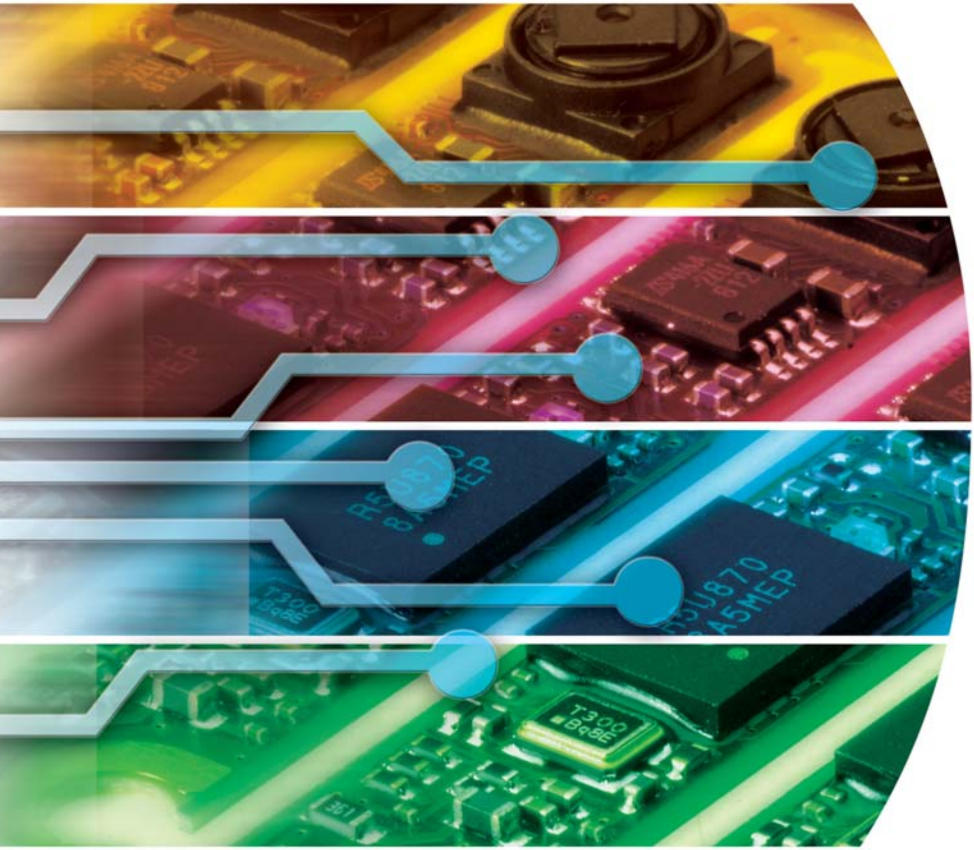
Namtai

Interim Report 2008



Stock Code: 2633

Nam Tai Electronic & Electrical Products Limited

A member of the Nam Tai Group

(Incorporated in the Cayman Islands with limited liability)

KEY HIGHLIGHTS

- **Comparing the results of 2008 to 2007**
  - Q2 Sales up 93.0%, Operating income up 15.7% and EPS at 0.97 US cent
  - 1H Sales up 124.9%, Operating income up 49.3% and EPS at 1.94 US cents

- **No interim dividend will be declared for the six months ended 30 June 2008. The Board intends to consider distributing dividends in two instalments for the whole financial year of 2008 and will make the necessary announcement in early 2009, if any dividend is decided to be paid.**

SUMMARIZED STATEMENT OF INCOME

(In thousands of US Dollars, except as otherwise stated)

	Quarterly Results[a]			Half-year Results[a]		
	Q2 2008	Q2 2007	YoY (%)	**1H 2008**	1H 2007	YoY (%)
Sales (Revenue)[b]	**146,168**	75,732	93.0	**293,006**	130,293	124.9
Gross profit	**21,712**	13,412	61.9	**42,016**	22,312	88.3
% of sales	***14.9%***	*17.7%*		***14.3 %***	*17.1%*	
Operating income[c]	**11,723**	10,133	15.7	**23,330**	15,631	49.3
% of sales	***8.0%***	*13.4%*		***8.0%***	*12.0%*	
Per share *(US cents)*	**1.33**	1.15	15.7	**2.65**	1.77	49.7
Profit for the period attributable to the equity holders of the Company[d]	**8,560**	25,602	(66.6)	**17,082**	32,073	(46.7)
% of sales	***5.9%***	*33.8%*		***5.8%***	*24.6%*	
Basic earnings per share *(US cent(s))*	**0.97**	2.90	(66.6)	**1.94**	3.64	(46.7)
Diluted earnings per share *(US cent(s))*	**0.97**	2.90	(66.6)	**1.94**	3.64	(46.7)
Weighted average number of shares *('000)*						
Basic	**881,671**	881,671		**881,671**	881,671	
Diluted[e]	**881,671**	881,671		**881,671**	881,671	

Notes:

(a) Results in the first and second quarters of 2008 included the results of Consumer Electronic and Communication Products ("CECP") business segment ("NTEEP business unit"), Telecommunication Component Assembly ("TCA") business segment ("Zastron business unit") and Liquid Crystal Display ("LCD") Products ("LCDP") business segment ("Jetup business unit") upon the completion of reorganization of Nam Tai Electronics, Inc. (NYSE stock code: NTE) ("NTEI") and its subsidiaries on 31 December 2007 (the "Reorganization"). Results in the first and second quarters of 2007 included the results of CECP business segment only.

(b) Included sales from the TCA business segment and the LCDP business segment in the sum of US$150.1 million in the first half year of 2008. TCA business segment and LCDP business segment became part of the Group's business upon the completion of the Reorganization. If such sales had been excluded, sales of the Group would have increased by 9.7% as compared with the first half year of 2007. The Group means Nam Tai Electronic & Electrical Products Limited and its subsidiaries.

(c) Operating income = gross profit + other income — other expenses — selling and distribution costs — administrative expenses — research and development expenditure.

(d) Included (i) a gain of US$43.8 million in the second quarter of 2007 on disposal of the investment in TCL Corporation ("TCL Corp."); and (ii) a non-cash impairment loss of US$24.3 million in the second quarter of 2007 on goodwill arising from the Group's acquisition of Namtek Group (comprising Namtek Japan Company Limited and Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen")) in May 2005.

(e) Excluded outstanding options in respect of 22,140,000 shares which had not been exercised as at 30 June 2008 (as at 30 June 2007: 14,520,000). These outstanding options cover (i) 2,720,000 shares under the Pre-IPO Share Option Scheme adopted on 22 March 2004; and (ii) 19,420,000 shares granted to several directors and certain employees of the Group on 5 February 2008 under the Share Option Scheme adopted on 8 April 2004. The exercise period and exercise price of these newly granted share options are from 5 February 2008 to 4 February 2011 and HK$1.85 per share, respectively.

QUARTERLY SALES BREAKDOWN

(In thousands of US Dollars, except percentages)

Quarter	**2008**	2007	YoY(%) (Quarterly)	YoY(%) (Quarterly accumulated)
1st Quarter	**146,838**	54,561	169.1	169.1
2nd Quarter	**146,168**	75,732	93.0	124.9
3rd Quarter	**N/A**	90,276	—	—
4th Quarter	**N/A**	63,191	—	—
Total	**293,006**	283,760		

KEY HIGHLIGHTS OF FINANCIAL POSITION

(In thousands of US Dollars, except ratio and percentage)

	As at 30 June		As at 31 December
	2008	2007	2007
Cash on Hand[(a)]	**151,208**	130,796	154,236
Ratio of Cash[(a)] to Current Liabilities	**1.10**	1.94	0.98
Current Ratio	**1.97**	2.97	1.87
Ratio of Total Assets to Total Liabilities	**1.46**	3.77	1.45
Return on Equity	**17%**	36%	33%
Ratio of Total Liabilities to Equity[(b)]	**2.18**	0.36	2.24
Debtors Turnover	**50 days**	60 days	39 days[(c)]
Inventory Turnover	**16 days**	33 days	25 days[(c)]
Average Payable Period	**56 days**	90 days	57 days[(c)]

Notes:

(a) Includes cash equivalents.

(b) Ratio of Total Liabilities to Equity increased from 0.36 time as at 30 June 2007 to 2.18 times as at 30 June 2008 mainly because of the amount of US$311.4 million due to NTEI, the ultimate holding company arising from the Reorganization.

(c) The debtors turnover, inventory turnover and average payable period as at 31 December 2007 were based on the data prior to the Reorganization.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Nam Tai Electronic & Electrical Products Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the three months and the six months ended 30 June 2008 respectively together with comparative figures for the corresponding periods of last year as follows.

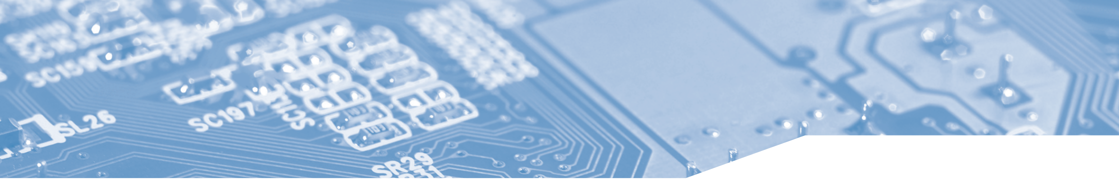
CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June 2008 US$'000	Three months ended 30 June 2007 US$'000	Six months ended 30 June 2008 US$'000	Six months ended 30 June 2007 US$'000
Revenue	4	**146,168**	75,732	**293,006**	130,293
Cost of sales		**(124,456)**	(62,320)	**(250,990)**	(107,981)
Gross profit		**21,712**	13,412	**42,016**	22,312
Bank interest income		**851**	941	**1,869**	1,623
Interest income from entrusted loan receivable		**16**	–	**16**	–
Gain on disposal of available-for-sale investments	5	**–**	43,815	**–**	43,815
Other income		**1,957**	1,528	**4,820**	2,105
Other expenses		**–**	(328)	**–**	(655)
Impairment loss on goodwill	6	**–**	(24,340)	**–**	(24,340)
Selling and distribution costs		**(2,937)**	(767)	**(5,612)**	(1,316)
Administrative expenses		**(6,344)**	(2,735)	**(12,895)**	(4,995)
Research and development expenditure		**(2,665)**	(977)	**(4,999)**	(1,820)
Interest expense on unsecured bank borrowings		**(52)**	–	**(118)**	–
Interest expense on entrusted loan payable		**(16)**	–	**(16)**	–
Interest expense on amount due to ultimate holding company		**(3,037)**	(9)	**(6,073)**	(24)
Profit before tax	7	**9,485**	30,540	**19,008**	36,705
Income tax expense	8	**(925)**	(5,055)	**(1,926)**	(4,749)
Profit for the period		**8,560**	25,485	**17,082**	31,956
Attributable to:					
Equity holders of the Company		**8,560**	25,602	**17,082**	32,073
Minority interests		**–**	(117)	**–**	(117)
		8,560	25,485	**17,082**	31,956
Dividends paid *(Note)*	9	**22,606**	–	**22,606**	–
Earnings per share for profit for the period attributable to equity holders of the Company – basic and diluted	10	**0.97 US cent**	2.90 US cents	**1.94 US cents**	3.64 US cents

Note: The dividends paid in 2008 were in relation to the 2007 final dividends.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2008 US$'000 (Unaudited)	At 31 December 2007 US$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**117,644**	118,934
Prepaid lease payments		**15,664**	15,083
Goodwill		**186,299**	186,299
Deposits paid for the acquisition of equipment		**1,280**	536
Other assets		**357**	357
Deferred tax assets		**848**	755
Intangible assets		**44,385**	46,721
		366,477	368,685
Current assets			
Inventories		**22,257**	32,598
Trade and other receivables	12	**84,152**	101,494
Prepaid lease payments		**342**	143
Taxation recoverable		**3,544**	5,407
Entrusted loan receivable	13	**8,166**	—
Bank balances and cash		**151,208**	154,236
		269,669	293,878
Current liabilities			
Trade and other payables	14	**99,294**	125,719
Taxation payable		**1,146**	390
Entrusted loan payable	13	**8,166**	—
Unsecured bank borrowings – due within one year		**2,571**	5,470
Loan from ultimate holding company – due within one year		**25,953**	25,953
		137,130	157,532
Net current assets		**132,539**	136,346
Total assets less current liabilities		**499,016**	505,031
Non-current liabilities			
Unsecured bank borrowings — due after one year		**—**	1,558
Loan from ultimate holding company — due after one year		**285,477**	285,477
Deferred tax liabilities		**13,764**	13,614
		299,241	300,649
Net assets		**199,775**	204,382
Capital and reserves			
Share capital	15	**1,131**	1,131
Reserves		**198,644**	203,251
Equity attributable to equity holders of the Company		**199,775**	204,382
Minority interests		**—**	—
Total equity		**199,775**	204,382



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital *US$'000*	Share premium *US$'000*	Capital reserve *US$'000*	Equity-settled share-based payment reserve *US$'000*	Statutory reserve *US$'000*	Investment Revaluation reserve *US$'000*	Retained profits *US$'000*	Total *US$'000*	Minority interests *US$'000*	Total *US$'000*
At 1 January 2007	1,131	81,198	2,829	1,098	4,381	14,261	64,068	168,966	–	168,966
Effect of change in tax rates	–	–	–	–	–	(2,139)	–	(2,139)	–	(2,139)
Transfer to profit or loss on disposal of available-for-sale investments	–	–	–	–	–	(39,061)	–	(39,061)	–	(39,061)
Increase in fair value of available-for-sale investments recognised directly in equity	–	–	–	–	–	26,939	–	26,939	–	26,939
Net expense recognised directly in equity	–	–	–	–	–	(14,261)	–	(14,261)	–	(14,261)
Profit (loss) for the period	–	–	–	–	–	–	32,073	32,073	(117)	31,956
Total recognised (expense) income for the period	–	–	–	–	–	(14,261)	32,073	17,812	(117)	17,695
Transfer	–	–	–	–	1,595	–	(1,595)	–	–	–
Reclassify to amount due from a fellow subsidiary	–	–	–	–	–	–	–	–	117	117
Share options expense	–	–	–	121	–	–	–	121	–	121
At 30 June 2007 and 1 July 2007	1,131	81,198	2,829	1,219	5,976	–	94,546	186,899	–	186,899
Profit for the period	–	–	–	–	–	–	28,786	28,786	–	28,786
Total recognised income for the period	–	–	–	–	–	–	28,786	28,786	–	28,786
Dividend paid	–	–	–	–	–	–	(11,303)	(11,303)	–	(11,303)
Transfer	–	–	–	–	7,133	–	(7,133)	–	–	–
Transfer to retained profits	–	–	–	(42)	–	–	42	–	–	–
At 31 December 2007 and 1 January 2008	1,131	81,198	2,829	1,177	13,109	–	104,938	204,382	–	204,382
Profit for the period	–	–	–	–	–	–	17,082	17,082	–	17,082
Total recognised income for the period	–	–	–	–	–	–	17,082	17,082	–	17,082
Share options expense	–	–	–	917	–	–	–	917	–	917
Dividend paid	–	–	–	–	–	–	(22,606)	(22,606)	–	(22,606)
Transfer to retained profits	–	–	–	(65)	–	–	65	–	–	–
At 30 June 2008	**1,131**	**81,198**	**2,829**	**2,029**	**13,109**	**–**	**99,479**	**199,775**	**–**	**199,775**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**31,415**	18,671
Net cash (used in) from investing activities, including purchase of plant and equipment of US$8,125,000 (six months ended 30 June 2007: US$3,543,000) and proceeds from disposal of available-for-sale investments of US$Nil (six months ended 30 June 2007: US$53,914,000)	**(15,377)**	51,681
Net cash used in financing activities, including dividend paid of US$22,606,000 (six months ended 30 June 2007: US$Nil)	**(19,066)**	(16)
Net (decrease) increase in cash and cash equivalents	**(3,028)**	70,336
Cash and cash equivalents at beginning of the period	**154,236**	60,460
Cash and cash equivalents at end of the period, represented by bank balances and cash	**151,208**	130,796

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2008

1. BASIS OF PRESENTATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 June 2003. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") with effect from 28 April 2004. Its ultimate holding company is Nam Tai Electronics, Inc. (NYSE stock code: NTE) ("NTEI"), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are the manufacturing and marketing of consumer electronic and communication products, telecommunication component assembly and Liquid Crystal Display ("LCD") products.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The functional currency of the Company is the United States dollars and accordingly the condensed consolidated financial statements are presented in United States dollars.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments which are measured at fair values.

The accounting policies used in condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007 except as described below.

In the current interim period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2008.

HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The adoption of these interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

In addition, the Group has early adopted Hong Kong Financial Reporting Standard ("HKFRS") 8 "Operating Segments" in advance of its effective date, with effect from 1 January 2008. Amounts reported for the prior period/year have been restated on the new basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other revised standards, amendments and interpretations will have no material impact on how the results and financial positions of the Group are prepared and presented.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" in advance of its effective date, with effect from 1 January 2008. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior periods, segment information reported externally was analysed on the basis of geographical locations of its customers. However, information reported to Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the operating divisions for different products and services.

As at 31 December 2007, the Group completed acquisition of certain new businesses from NTEI ("Acquisition") and consequently has organised into three operating divisions, namely, Consumer Electronic and Communication Products ("CECP"), Telecommunication Component Assembly ("TCA"), and the LCD Products ("LCDP"), for the purposes of resource allocation and assessment of performance.

3. **SEGMENT INFORMATION** *(Continued)*

The Group's reportable segments under HKFRS 8 are therefore CECP, TCA and LCDP and the principal activities of each reportable segment are as follows:

- CECP — manufacturing and marketing of consumer electronic and communication products, including mobile phone accessories, home entertainment devices, educational products and optical devices;
- TCA — manufacturing and marketing of telecommunication component assembly including telecom LCD modules, telecom flexible printed circuit ("FPC") modules; and
- LCDP — manufacturing and marketing of LCD products.

Financial information regarding these segments is reported below. The Company does not allocate certain adjustments arising from the Acquisition to individual reporting segments when making decision about resources to be allocated to the segment and assessing its performance (see below). These differences between this financial information and the consolidated total are also described below.

Six months ended 30 June 2008 (unaudited)

	CECP *US$'000*	TCA *US$'000*	LCDP *US$'000*	Elimination *US$'000* *(Note)*	Segment total *US$'000*
Revenue — third parties	142,887	111,158	38,961	–	293,006
Revenue — inter-segment	–	–	117	(117)	–
	142,887	111,158	39,078	(117)	293,006
Cost of sales	(115,627)	(101,714)	(35,670)	56	(252,955)
Gross profit	27,260	9,444	3,408	(61)	40,051
Bank interest income	1,344	509	16	–	1,869
Interest income from entrusted loan receivable	16	–	–	–	16
Other income (expense)	3,954	1,178	(17)	(295)	4,820
Selling and distribution costs	(1,747)	(751)	(791)	–	(3,289)
Administrative expenses	(6,414)	(4,811)	(2,164)	360	(13,029)
Research and development expenditure	(2,653)	(1,621)	(737)	(4)	(5,015)
Interest expense on unsecured bank borrowings	–	–	(118)	–	(118)
Interest expense on entrusted loan payable	–	–	(16)	–	(16)
Profit (loss) before tax	21,760	3,948	(419)	–	25,289
Income tax (expense) credit	(2,155)	181	346	–	(1,628)
Profit (loss) for the period	19,605	4,129	(73)	–	23,661

Note: Being elimination of inter-segment sales and other transactions which are charged at terms agreed by both parties.

3. SEGMENT INFORMATION *(Continued)*

The amounts presented for reportable segments reconciled to the consolidated total are as follows:

	Segments total US$'000	Adjustments Note 1 US$'000	Note 2 US$'000	Note 3 US$'000	Consolidated total US$'000
Revenue — third parties	293,006	–	–	–	293,006
Revenue — inter-segment	–	–	–	–	–
	293,006	–	–	–	293,006
Cost of sales	(252,955)	–	1,965	–	(250,990)
Gross profit	40,051	–	1,965	–	42,016
Bank interest income	1,869	–	–	–	1,869
Interest income from entrusted loan receivable	16	–	–	–	16
Other income	4,820	–	–	–	4,820
Selling and distribution costs	(3,289)		13	(2,336)	(5,612)
Administrative expenses	(13,029)	–	134	–	(12,895)
Research and development expenditure	(5,015)	–	16	–	(4,999)
Interest expense on unsecured bank borrowings	(118)	–	–	–	(118)
Interest expense on entrusted loan payable	(16)	–	–	–	(16)
Interest expense on amount due to ultimate holding company	–	(6,073)	–	–	(6,073)
Profit (loss) before tax	25,289	(6,073)	2,128	(2,336)	19,008
Income tax expense	(1,628)	–	(298)	–	(1,926)
Profit (loss) for the period	23,661	(6,073)	1,830	(2,336)	17,082

Note 1: Being accrued interest on loan from ultimate holding company.

Note 2: Being reassessment on the estimation of the useful life of the property, plant and equipment arising from the Acquisition.

Note 3: Being amortisation of intangible assets arising from the Acquisition.

As the Acquisition was only completed at 31 December 2007 and the Group was wholly engaged in manufacturing and marketing of consumer electronic and communication products and software development before the completion of the Acquisition, the Group had only one reportable segment, i.e. CECP for the period ended 30 June 2007. No segment information is therefore presented for the period ended 30 June 2007.

4. REVENUE

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	**2008**	2007
	US$'000	*US$'000*	***US$'000***	*US$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Sales of telecom FPC modules	**27,594**	–	**59,640**	–
Sales of mobile phone accessories	**27,049**	37,590	**55,780**	71,285
Sales of home entertainment devices	**27,088**	22,145	**53,056**	34,830
Sales of telecom LCD modules	**22,729**	–	**48,442**	–
Sales of LCD products	**20,900**	–	**38,961**	–
Sales of educational products	**12,833**	11,439	**20,546**	17,684
Sales of optical devices	**6,422**	4,141	**13,503**	5,330
Others	**1,553**	417	**3,078**	1,164
	146,168	75,732	**293,006**	130,293

5. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

On 20 April 2007 and 23 April 2007, the Group disposed of 39,000,000 and 41,600,173, respectively, A-shares of TCL Corporation through the Shenzhen Stock Exchange. Upon these disposals, the Group no longer owned any share of TCL Corporation. The net sales proceeds from the disposals in aggregate were US$53.9 million (net of commission, expenses and stamp duty), resulting in a gain of US$43.8 million.

6. IMPAIRMENT LOSS ON GOODWILL

During the six months ended 30 June 2007, the management of the Group recognised an impairment loss of US$24.3 million on the goodwill arising from the acquisition of the software development business (the "Namtek Group") from its ultimate holding company, NTEI and the then management of the Namtek Group as the performance of the Namtek Group was not satisfactory and had deviated much negatively from plan.

7. PROFIT BEFORE TAX

	2008	2007
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**8,571**	2,634
Depreciation of investment properties	**—**	484
Amortisation of prepaid lease payments	**171**	35
Amortisation of intangible assets	**2,336**	—
	11,078	3,153
Less: Depreciation and amortisation included in research and development expenditure	**(193)**	(69)
	10,885	3,084
Staff costs	**24,926**	8,322
Less: Staff costs included in research and development expenditure	**(4,149)**	(1,466)
	20,777	6,856

8. INCOME TAX EXPENSE

	Three months ended 30 June		**Six months ended 30 June**	
	2008	2007	**2008**	2007
	US$'000	*US$'000*	***US$'000***	*US$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
The charge (credit) comprises:				
The People's Republic of China ("PRC") Enterprise Income Tax	**1,116**	4,782	**1,869**	5,173
Deferred tax (credit) expense	**(191)**	273	**57**	(424)
	925	5,055	**1,926**	4,749

The PRC subsidiaries of the Group in Shenzhen are subject to tax rate of 18%, 20%, 22%, 24% and 25% for the year ending 31 December 2008, 2009, 2010, 2011, 2012 onwards, respectively, under the new Law of the PRC on Enterprise Income Tax effective 1 January 2008.

8. INCOME TAX EXPENSE *(Continued)*

For the period ended 30 June 2007, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ") and Shenzhen Namtek Co., Ltd. ("Namtek Shenzhen"), the two then wholly owned subsidiaries of the Company, were subject to a tax rate of 15% on the assessable profits in accordance with the then applicable enterprise income tax law of the PRC and the relevant rules promulgated by the Shenzhen municipal government ("Former EIT Law"). In addition, the then directors of the Company expected that NTSZ and Namtek Shenzhen would qualify for a reduced tax rate of 10% as these subsidiaries exported 70% or more of the production value of its product in the past. Furthermore, the Group has applied refund of the taxes already paid for the profits of the PRC subsidiaries as a result of reinvestment of those profits by way of capital injection as allowed under the Former EIT Law. As at 30 June 2008, income tax recoverable under the above arrangements were US$3,466,000 (31 December 2007: US$5,334,000), which are included in taxation recoverable in the condensed consolidated balance sheet.

Taxation arising in PRC is recognised based on management's best estimate of weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 18% (2007: 10%) for the six months ended 30 June 2008.

The subsidiaries of the Company incorporated in Macao are exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both periods.

9. DIVIDENDS

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	**2008**	2007
	US$'000	*US$'000*	***US$'000***	*US$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Final paid — 2.56 US cents per share (2007: Nil)	**22,606**	–	**22,606**	–

Out of the 30 HK cents per share of the final dividend for 2007, the Company already paid 20 HK cents per share in April 2008 to the shareholders of the Company whose names appeared on the register of members of the Company on 15 April 2008. The remaining 10 HK cents per share is scheduled to be paid on or around 28 August 2008 to the shareholders of the Company whose names appear on the register of members of the Company on 15 August 2008.

The directors of the Company do not recommend the payment of an interim dividend for 2008.

The directors of the Company intend to consider distributing dividends in two instalments for the whole financial year of 2008 and will make the necessary announcement in early 2009, if any dividend is decided to be paid. The Board also intends to follow this same pattern of dividend payment for the financial years onwards.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the profit for the period attributable to equity holders of the Company is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	**2008**	2007
	US$'000	*US$'000*	***US$'000***	*US$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period attributable to equity holders of the Company	**8,560**	25,602	**17,082**	32,073
	'000	*'000*	***'000***	*'000*
Number of ordinary shares for the purpose of basic and diluted earnings per share *(Note)*	**881,671**	881,671	**881,671**	881,671

Note: During each of the six months ended 30 June 2008 and 30 June 2007, the exercise of the share option is not considered in calculating the diluted earnings per share because they will not result in a decrease in earnings per share. Share options which were not dilutive in 2008 and 2007 may affect earnings per share in future periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group spent approximately US$2.95 million (for the six months ended 30 June 2007: approximately US$0.16 million) on the construction of its new office and factory located in the PRC and approximately US$4.43 million (for the six months ended 30 June 2007: approximately US$3.38 million) on the acquisition of plant and equipment, in order to increase and upgrade the Group's manufacturing capabilities.

During each of the six months ended 30 June 2008 and 2007, there was no material disposal of property, plant and equipment for the Group.

12. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers with credit periods normally ranging from 30 to 60 days.

The following is an aged analysis of trade receivables at the balance sheet dates:

	30 June 2008	31 December 2007
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables		
Up to 30 days	**54,209**	53,915
31 — 60 days	**19,618**	33,211
Over 60 days	**7,268**	8,481
	81,095	95,607
Other receivables	**3,057**	5,887
	84,152	101,494

13. ENTRUSTED LOAN RECEIVABLE/PAYABLE

During the six months ended 30 June 2008, two of the PRC subsidiaries of the Company, Namtai Electronic (Shenzhen) Co., Ltd. ("NTSZ") and Jetup Electronic (Shenzhen) Co., Ltd. ("Jetup"), entered into an entrusted loan arrangement in the amount of RMB56,000,000 (equivalent to US$8,166,000) with a bank, in which NTSZ acts as the entrusting party, the bank acts as the lender and Jetup acts as the borrower (the "Entrusted Loan"). The Entrusted Loan receivable and Entrusted Loan payable cannot be set off and bear interest of 5% per annum and are repayable within one year. The Entrusted Loan is used to finance the operation and working capital needs of Jetup.

14. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates:

	30 June 2008 US$'000 (unaudited)	31 December 2007 US$'000 (audited)
Trade payables		
Up to 30 days	**43,660**	52,481
31 — 60 days	**25,522**	38,341
Over 60 days	**8,518**	16,504
	77,700	107,326
Other payables	**21,594**	18,393
	99,294	125,719

15. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2008 (unaudited)	31 December 2007 (audited)	**30 June 2008 HK$'000 (unaudited)**	31 December 2007 HK$'000 (audited)
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and end of the period/year	**2,000,000,000**	2,000,000,000	**20,000**	20,000
Issued and fully paid:				
At beginning and end of the period/year	**881,670,588**	881,670,588	**8,817**	8,817
			US$'000	*US$'000*
Shown in the condensed consolidated financial statements			**1,131**	1,131

16. SHARE-BASED PAYMENTS

In the current period, options to subscribe for 20,000,000 shares were granted on 5 February 2008 with an exercise price of HK$1.85. The fair values of the options determined at the date of grant using the Black Scholes option pricing model were US$917,000.

17. COMMITMENTS

	30 June 2008 ***US$'000*** **(unaudited)**	31 December 2007 *US$'000* (audited)
Capital expenditure in respect of acquisition of property, plant and equipment:		
— contracted for but not provided in the condensed consolidated financial statements	**44,041**	3,116
— authorised but not contracted for in the condensed consolidated financial statements	**653**	42,918
	44,694	46,034
Other commitments contracted for but not provided in the consolidated financial statements	**138**	185
	44,832	46,219

18. RELATED PARTY TRANSACTIONS

During the period, the Group has the following significant transactions with related parties:

		Six months ended 30 June	
Related parties	**Nature of transactions**	**2008** ***US$'000*** **(unaudited)**	2007 *US$'000* (unaudited)
Ultimate holding company	Interest expense	**6,073**	—
Former fellow subsidiaries	Rental income received	**—**	643
	Purchase of materials	**—**	147
Directors	Remuneration	**1,314**	431

DIVIDEND

Out of the 30 HK cents per share of final dividend declared for 2007, the Company already paid 20 HK cents per share in April 2008 to the shareholders of the Company whose names appeared on the register of members of the Company on 15 April 2008. The remaining 10 HK cents per share is scheduled to be paid on or around 28 August 2008 to the shareholders of the Company whose names appear on the register of members of the Company on 15 August 2008.

The Board intends to consider distributing dividends in two instalments for the whole financial year of 2008 and will make the necessary announcement in early 2009, if any dividend is decided to be paid. The Board also intends to follow this same pattern of dividend payment for the financial years onwards.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14 August 2008 to 15 August 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the second instalment of the final dividend for 2007, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, of Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 13 August 2008.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

During the three months ended 30 June 2008, the Group recorded sales of US$146.2 million, representing an increase of 93.0%. Sales of the TCA segment (Zastron business unit) and LCDP segment (Jetup business unit) for the second quarter of 2008 decreased by 48.0% and 6.1% respectively when compared with the same period of 2007. These two business segments, TCA (Zastron business unit) and LCDP (Jetup business unit), acquired under the Reorganization contributed sales of US$72.8 million. As compared with the same period last year, sales of CECP segment (NTEEP business unit) decreased by 3.1%, which was mainly due to the significant decrease in sales of mobile phone accessories, offset by the increase in sales of home entertainment devices.

Gross profit for the three months ended 30 June 2008 increased by 61.9% from US$13.4 million to US$21.7 million as compared with the same period last year, primarily driven by the results of TCA and LCDP segments which had not been included in the same period last year as the Reorganization was completed only on 31 December 2007.

As compared with the same period last year, operating income for the three months ended 30 June 2008 increased by 15.7% while profit for the period attributable to the equity holders of the Company for the three months ended 30 June 2008 decreased by 66.6% because profit for the period attributable to the equity holders of the Company of the same period last year included the gain on disposal of investment in TCL Corp.

For the six months ended 30 June 2008, sales of the Group increased by approximately 124.9% from US$130.3 million to US$293.0 million when compared with the same period last year. Gross profit and operating income increased by approximately 88.3% and 49.3% respectively as compared with the same period last year. For the same reasons as stated in the paragraph above, profit attributable to the equity holders of the Company for the interim period of year 2008 decreased by approximately 46.7% as compared with the same period last year.

Segment information

The Group has three business segments, CECP, TCA and LCDP. The two business segments, TCA and LCDP, became part of the Group's business upon the completion of the Reorganization on 31 December 2007.

The results of these segments are as follows:

CECP business segment

During the six months ended 30 June 2008, CECP segment achieved sales of US$142.9 million, representing approximately 48.8% of the Group's revenue and an increase of approximately 9.7% when compared with the same period last year of US$130.3 million. The increase was largely attributable to the significant increase of US$18.2 million in sales of home entertainment devices, which outweighed the decrease of US$15.5 million in sales of mobile phone accessories.

TCA business segment

During the six months ended 30 June 2008, sales of TCA segment were US$111.1 million, which mainly comprised sales of telecom FPC modules of US$59.6 million and telecom LCD modules of US$48.4 million.

LCDP business segment

During the six months ended 30 June 2008, LCDP segment recorded sales of US$39.0 million.

Outlook

Recent global adverse economic conditions (which, we believe, have been primarily driven by the sub-prime crisis in the US) aggravated the Company's results in the past quarter and may exacerbate the difficult business environment we currently face and could result in negative effects on our results of operations over the next several quarters. Additionally, we also face issues such as the continuing appreciation of the exchange rate of Renminbi against the US dollar, the effects of changing tax and labour laws in the People's Republic of China (the "PRC"), shortages of electricity supply and increases in overhead expenses resulting from inflation.

To respond to the challenges surfacing from the current business environment, management has continued to focus efforts on optimizing operating efficiencies by realigning production capacity to higher margin product offerings and has sought to diversify the Company's customer base. Management believes that the Company has begun to realize limited benefits from the Company's simpler organizational structure implemented at the beginning of 2008, which management believes has fostered, and will continue to foster a more efficient and effective exchange of know-how and technology among our group companies, reduced overhead costs and facilitated stronger management controls.

During the second quarter of 2008, the foundation of the first of the Company's planned new factories in Wuxi in the Jiangsu Province of the PRC was completed and the Company had, according to its schedule, selected a contractor for the mechanical and electrical construction required for the expansion project. Management is optimistic that the Company will be in a position to begin mass production at the new Wuxi facility in early to mid-2009.

Capital Expenditure

During the six months ended 30 June 2008, the Group spent approximately US$3.0 million on the construction of its new office and factory located in the PRC and approximately US$4.4 million on the acquisition of plant and equipment, in order to increase and upgrade the Group's manufacturing capabilities. Such investments are financed by internal cash resources.

Liquidity, Financial Resources and Financial Ratios

With US$31.4 million of net cash generated from operating activities in the first half of 2008, the Group continued to maintain a strong liquidity position. As at 30 June 2008, the Group had 17.15 US cents (31 December 2007: 17.49 US cents) of cash per share ("Share") and 22.66 US cents (31 December 2007: 23.18 US cents) of net asset per Share based on 881,670,588 Shares (31 December 2007: 881,670,588) issued ordinary Shares. The Group had, as at 30 June 2008, a cash to current liabilities ratio of 1.10 (31 December 2007: 0.98), a current ratio of 1.97 (31 December 2007: 1.87). A total assets to total liabilities ratio of 1.46 (31 December 2007: 1.45), and US$151.2 million (31 December 2007: US$154.2 million) of bank balances and cash.

As at the end of the interim period of 2008, the Group had an external loan of US$322.2 million, including an unsecured loan of US$311.4 million borrowed from NTEI as a result of the Reorganization, a bank borrowing of US$2.6 million, and an entrusted loan arrangement with a bank of US$8.2 million between the Company's two PRC subsidiaries.

The gearing ratio was 1.61 (31 December 2007: 1.56). The Group recorded debtors turnover and average payable period of approximately 50 days and 56 days respectively for the six months ended 30 June 2008 (approximately 39 days and 57 days respectively for the year ended 31 December 2007) based on the amount of trade debtors/creditors as at the relevant period end divided by sales/cost of sales of the same period and multiplied by 182 days for the six months ended 30 June 2008 (365 days for the year ended 31 December 2007).

The Group recorded inventory turnover of approximately 16 days for the six months ended 30 June 2008 (approximately 25 days for the year ended 31 December 2007) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 182 days for the six months ended 30 June 2008 (365 days for the year ended 31 December 2007).

Foreign Exchange Exposures

Since most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi, the Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

Employee and Remuneration Policy

Up to 30 June 2008, the Group had a total of 7,987 dynamic and talented employees, among which 103 were marketing staff and 744 were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff cost for the period was approximately US$24.9 million.

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

In order to align the interests of Directors and employees with those of shareholders, options to subscribe for 20,000,000 shares were granted to Directors and employees under the Company's share option scheme adopted on 22 March 2004 ("Pre-IPO Share Option Scheme"). As at 1 January 2008, options in respect of 14,020,000 shares were outstanding. During the interim period, options in respect of 400,000 shares lapsed as a result of the cessation of employment of 1 staff member, options in respect of 10,900,000 shares were cancelled, and options in respect of 2,720,000 shares remained outstanding as at 30 June 2008. In addition, under the Share Option Scheme adopted on 8 April 2004, options to subscribe for 20,000,000 shares were granted to several Directors and certain employees of the Group on 5 February 2008. During the interim period, options in respect of 580,000 shares lapsed as a result of the cessation of employment of 3 staff members, and options in respect of 19,420,000 shares remained outstanding as at 30 June 2008.

DIRECTORATE AND SENIOR MANAGEMENT

Executive Directors

Mr. Masaaki Yasukawa *(Chief Executive Officer)*	(appointed on 2 February 2008)
Mr. John Quinto Farina *(Chief Financial Officer)*	(appointed as a non-executive Director on 1 August 2007 and re-designated as an executive Director on 2 February 2008)
Mr. Wang Lu-Ping *(Chief Operating Officer)*	(appointed on 2 February 2008)
Mr. Kazuhiro Asano	(resigned on 1 March 2008)
Ms. Wong Kuen Ling, Karene	(appointed on 13 June 2003)
Ms. Lei Lai Fong, Patinda	(appointed on 2 February 2008)
Mr. Chui Kam Wai	(appointed on 2 February 2008)

Non-executive Director

Mr. Koo Ming Kown *(Non-executive Chairman)*	(appointed on 13 June 2003)

Independent Non-executive Directors

Mr. Thaddeus Thomas Beczak	(appointed on 22 March 2004)
Mr. Chan Tit Hee, Charles	(appointed on 1 November 2004)
Mr. Roger Simon Pyrke	(appointed on 13 February 2006)
Mr. Cham Yau Nam	(appointed on 5 May 2008)
Mr. Leung Wai Hung	(appointed on 5 May 2008)
Mr. Choi Man Chau, Michael	(appointed on 5 May 2008)

Senior Management

Ms. Sit Fung Ying
(Operations Chief Financial Officer)

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

NTEI, the controlling shareholder of the Company, has increased its equity interest in the Company since May 2008. As at 30 June 2008, the equity interest of NTEI in the Company was 74.44%. As at 4 August 2008, the equity interest of NTEI in the Company further increased to 74.88%.

Save and except as aforesaid, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed Shares during the six months ended 30 June 2008.

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

As at 30 June 2008, the interests or short positions of the Directors and chief executives in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules, were as follows:

(I) Long position in the shares and the underlying shares of the Company

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

Name of Director	Nature of Interest	Number of Shares held	Approximate percentage of the issued share capital of the Company
Mr. Thaddeus Thomas Beczak	Family *(Note 1)*	500,000	0.06%
Mr. Chan Tit Hee, Charles	Personal	350,000	0.04%
Mr. Roger Simon Pyrke	Family *(Note 2)*	50,000	0.006%

(b) Share Options under the Pre-IPO Share Option Scheme

Name of Director	Number of options held	Number of underlying shares
Nil	Nil	Nil

(c) Share Options under the Share Option Scheme dated 8 April 2004 of the Company

Name of Director	Number of options held	Number of underlying shares
Mr. Masaaki Yasukawa	2,000,000	2,000,000
Mr. John Quinto Farina	2,000,000	2,000,000
Mr. Wang Lu-Ping	1,460,000	1,460,000
Ms. Wong Kuen Ling, Karene	1,800,000	1,800,000
Ms. Lei Lai Fong, Patinda	1,050,000	1,050,000

(II) Long position in the shares and the underlying shares of the associated corporation

(a) Common shares of US$0.01 each in NTEI

Name of Director	Nature of Interest	Number of shares held	Approximate percentage of the issued share capital of the associated corporation
Mr. Koo Ming Kown	Personal *(Note 3)*	5,690,786	12.70%
Mr. Wang Lu-Ping	Family *(Note 4)*	1,516	0.003%
Ms. Wong Kuen Ling, Karene	Personal	37,100	0.08%
Ms. Lei Lai Fong, Patinda	Personal	26,400	0.06%
Mr. Chui Kam Wai	Personal	545,870	1.22%

(b) Share Options granted by NTEI

Name of Director	Number of share options held	Number of underlying shares of the associated corporation
Mr. Koo Ming Kown	45,000	45,000
Mr. John Quinto Farina	90,000	90,000

Notes:

(1) The Shares are held by Value Scale Investments Limited of which Ms. Rosalind G.D. Beczak, the spouse of Mr. Beczak, is the ultimate beneficial owner.

(2) The Shares are held by Ms. May Thiri, the spouse of Mr. Pyrke.

(3) The common shares are held jointly by Mr. Koo and his spouse, Ms. Cho Sui Sin.

(4) The common shares are held by Ms. Jean S. Tsai, the spouse of Mr. Wang.

Save as disclosed above, no Director or chief executive has any interests or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and SEHK pursuant to the Listing Rules.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Schemes" below, at no time during the six months ended 30 June 2008 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors of the Company (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 30 June 2008, shareholders who had interests or short positions in the Shares or underlying shares which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO or, who were or were expected directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

Long position of the substantial shareholder in the Shares of the Company

Name of substantial shareholder	Number of ordinary Shares beneficially held	Approximate percentage of the issued share capital of the Company
NTEI	660,215,470	74.88%

As at 30 June 2008, the number of ordinary Shares held by NTEI in the Company was 656,345,470, representing approximately 74.44%. As at 4 August 2008, the equity interest of NTEI in the Company further increased to 660,215,470, representing approximately 74.88%.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would have to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO or, who were or were expected directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEMES

The Company operates a Pre-IPO Share Option Scheme and a share option scheme (the "Scheme").

(I) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognize the contribution of certain Directors and employees of the Group to the Group as a whole. The total number of Shares subject to the Pre-IPO Share Option Scheme is 20,000,000 and no further options shall be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

Details of the share options which were granted under the Pre-IPO Share Option Scheme and which remained outstanding as at 30 June 2008 are as follows:

	Date of grant	Exercise price per Share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 1 January 2008	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options outstanding as at 30 June 2008
(1) Director										
Ms. Wong Kuen Ling, Karene	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	*Note 1*	7,000,000	–	–	–	7,000,000	–
(2) Employees Under Continuous Employment Contract	6 April 2004	HK$3.88	28 April 2005 to 27 April 2014	*Note 1*	7,020,000	–	–	400,000 *Note 2*	3,900,000 *Note 3*	2,720,000
					14,020,000	–	–	400,000	10,900,000	2,720,000

Notes:

(1) During the first 12 months from 28 April 2004, no option may be exercised by any of the Directors and/or employees.

During the second 12 months from 28 April 2004, a cumulative maximum of 30% of the share options may be exercised by the Directors and/or employees.

During the third 12 months from 28 April 2004, a cumulative maximum of 60% of the share options may be exercised by the Directors and/or employees.

During the remaining option period, a cumulative maximum of 100% of the share options may be exercised by the Directors and/or employees.

(2) During the interim period, options in respect of 400,000 shares lapsed due to the cessation of employment of 1 staff member.

(3) During the interim period, options in respect of 10,900,000 shares were cancelled.

(II) The Scheme

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

During the six months ended 30 June 2008, options to subscribe for 20,000,000 shares under the Scheme were granted to several Directors and certain employees of the Group on 5 February 2008.

	Date of grant	Exercise price per Share	Exercisable period	Vesting period (from the date of grant)	Options outstanding as at 5 February 2008	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options outstanding as at 30 June 2008
(1) Director										
Mr. Masaaki Yasukawa	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	2,000,000	–	–	–	–	2,000,000
Mr. John Quinto Farina	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	2,000,000	–	–	–	–	2,000,000
Mr. Wang Lu-Ping	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	1,460,000	–	–	–	–	1,460,000
Ms. Wong Kuen Ling, Karene	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	1,800,000	–	–	–	–	1,800,000
Ms. Lei Lai Fong, Patinda	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	1,050,000	–	–	–	–	1,050,000
(2) Employees Under Continuous Employment Contract	5 February 2008	HK$1.850	5 February 2008 to 4 February 2011	–	11,690,000	–	–	580,000 *Note 1*	–	11,110,000
					20,000,000	–	–	580,000	–	19,420,000

Note:

(1) During the interim period, options in respect of 580,000 shares lapsed due to the cessation of employment of 3 staff members.

CORPORATE GOVERNANCE

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of the Group and to safeguard the interests of the Company's shareholders.

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK"). Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code for any part of the period ended 30 June 2008.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably practicable the recommended best practices of the Code on Corporate Governance Practices (the "Corporate Governance Code"). In the opinion of the Board, the Company has also fully complied with the code provisions and a majority of the recommended best practice of the Corporate Governance Code throughout the accounting period ended 30 June 2008.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

To further enhance its corporate governance, the group of companies of NTEI, which is a New York Stock Exchange listed company, successfully complied with Section 404 of the U.S. Sarbanes-Oxley Act (the "Act") for the financial years ended 31 December 2006 and 2007. The Act focuses mainly on the effectiveness of internal control and essentially requires the management to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting; and to conduct an assessment of the effectiveness of the Group's internal controls over financial reporting, followed by an attestation of management's assertions as well as the effectiveness of the Group's internal controls over financial reporting by its external auditors. To this end, the Company has set up a task force which follows the methodology and time schedule of NTEI to ensure that the internal control requirements under the Act can be fully complied with accordingly. Besides, the Company has engaged its external auditors to review its financial statements on a quarterly basis in year 2008.

AUDIT COMMITTEE

As at 30 June 2008, the Audit Committee comprised three Independent Non-executive Directors, Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Beczak and Mr. Roger Simon Pyrke. Mr. Chan is the chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Group's unaudited financial statements for the six months ended 30 June 2008 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

The Board is pleased to announce that Mr. Cham Yau Nam and Mr. Choi Man Chau, Michael, both current Independent Non-executive Directors of the Company, have been appointed as additional members of the Audit Committee with effect from 4 August 2008.

As at 4 August 2008, the Audit Committee comprises Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Beczak, Mr. Roger Simon Pyrke, Mr. Cham Yau Nam and Mr. Choi Man Chau, Michael.

REMUNERATION COMMITTEE

As at 30 June 2008, the Remuneration Committee comprised two Independent Non-executive Directors, Mr. Thaddeus Thomas Beczak and Mr. Roger Simon Pyrke, and one Non-executive Director, Mr. Koo Ming Kown. Mr. Beczak is the chairman of the Remuneration Committee. The Remuneration Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Remuneration Committee met once a year to review the remuneration packages of the executive Directors and members of the senior management.

The Board is pleased to announce that Mr. Leung Wai Hung, a current Independent Non-executive Director of the Company, has been appointed as an additional member of the Remuneration Committee with effect from 4 August 2008.

As at 4 August 2008, the Remuneration Committee comprises Mr. Thaddeus Thomas Beczak, Mr. Roger Simon Pyrke, Mr. Koo Ming Kown and Mr. Leung Wai Hung.

By Order of the Board
Nam Tai Electronic & Electrical Products Limited
Koo Ming Kown
Non-executive Chairman

Hong Kong, 4 August 2008