

# SECURITIES AND EXCHANGE COMMISSION

## FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

Filing Date: **1997-04-02** | Period of Report: **1996-12-31**  
SEC Accession No. **0000829365-97-000007**

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### **NAM TAI ELECTRONICS INC**

CIK: **829365** | IRS No.: **000000000** | State of Incorporation: **D8** | Fiscal Year End: **1231**  
Type: **20-F** | Act: **34** | File No.: **000-16673** | Film No.: **97573526**  
SIC: **3579** Office machines, nec

#### Mailing Address

*C/O NAM TAI ELECTRONICS  
CANADA LTD  
SUITE 530-999 WEST  
HASTING ST  
VANCOUVER BC A1 V6CZWZ*

#### Business Address

*C/O NAM TAI ELECTRONICS  
INC  
SUITE 530-999 WEST  
HASTING ST  
VANCOUVER BC K3 V6CZWZ  
6046697800*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

Registration Statement Pursuant to Section 12(b) or (g) of the  
Securities Exchange Act of 1934

OR

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the Fiscal Year Ended: December 31, 1996  
Commission File Number: 0-16673

NAM TAI ELECTRONICS, INC.  
(Exact name of registrant as specified in its charter)

British Virgin Islands  
(Jurisdiction of incorporation or organization)

Unit 9, 15/F., Tower 1  
China Hong Kong City, 33 Canton Road  
TST, Kowloon, Hong Kong  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of  
the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common  
Shares, \$0.01 par value per share

Securities for which there is a reporting obligation pursuant to Section  
15(d) of the Act: NONE

As of December 31, 1996, there were 7,837,227 Common Shares of the  
registrant outstanding.

Indicate by check mark whether the registrant: (i) has filed all  
reports required to be filed by Section 13 or 15(d) of the Securities Exchange  
Act of 1934 during the preceding 12 months (or for such shorter period that  
the registrant was required to file such reports), and (ii) has been subject  
to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark which financial statement item the registrant has  
elected to follow:

Item 17. Item 18. X

Exhibit Index on Page 52

TABLE OF CONTENTS

FINANCIAL STATEMENTS AND CURRENCY PRESENTATION . . . . .	2
PART I . . . . .	3
Item 1. Description of Business . . . . .	3
Item 2. Properties . . . . .	18
Item 3. Legal Proceedings . . . . .	19
Item 4. Control of the Company . . . . .	20
Item 5. Nature of Trading Market . . . . .	20
Item 6. Exchange Controls and Other Limitations Affecting Security Holders . . . . .	21
Item 7. Taxation . . . . .	21
Item 8. Selected Financial Data . . . . .	22
Item 9. Management's Discussion and Analysis of Results of Operations and Financial Condition . . . . .	23
Item 10. Directors and Executive Officers of the Company . . . . .	32
Item 11. Compensation of Directors and Officers . . . . .	33
Item 12. Options to Purchase Securities from the Company or its Subsidiaries . . . . .	33
Item 13. Interest of Management in Certain Transactions . . . . .	34
PART II . . . . .	35
Item 14. Description of Securities to be Registered . . . . .	35
PART III . . . . .	35

Item 15. Defaults Upon Senior Securities . . . . .	35
Item 16. Changes in Securities and Changes in Security For the Company's Securities . . . . .	35
PART IV . . . . .	35
Items 17. and 18. Financial Statements . . . . .	35
Item 19. Financial Statements and Exhibits . . . . .	52
SIGNATURES . . . . .	53

Consent of Independent Accountants (to incorporation of their report on  
Financial Statements  
into the Company's Registration Statement on Forms F-3 and S-8). . . .54

This Annual Report on Form 20-F contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled Risk Factors under Item 1 - Description of Business.

Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date of this Report. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. See "Report of Independent Accountants" included elsewhere herein. The Company publishes its financial statements in United States dollars for the following reasons: (i) the Company is incorporated in the British Virgin Islands where the currency is the United States dollar; (ii) the Company conducts the majority of its business transactions in United States dollars; and (iii) the exchange rate between the Hong Kong dollar and the United States dollar has been fixed at approximately 7.80 Hong Kong dollars to \$1.00 since 1983. See Note 1(g) of Notes to Consolidated Financial Statements appearing in Item 18. of this Report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

Nam Tai Electronics, Inc. (which together with its subsidiaries is hereafter referred to as the "Company" or "Nam Tai") was incorporated as a limited liability International Business Company under the laws of the British Virgin Islands in August 1987. The Company's corporate administrative matters are conducted in the British Virgin Islands through its registered agent, McW. Todman & Co., McNamara Chambers, P.O. Box 3342, Road Town, Tortola, British Virgin Islands. The Company's principal executive offices are located in Hong Kong at Unit 9, 15/F., Tower 1, China Hong Kong City, 33 Canton Road, TST, Kowloon, Hong Kong.

As an International Business Company, the Company is prohibited from doing business with persons resident in the British Virgin Islands, owning real estate in the British Virgin Islands, or acting as a bank or insurance company. The Company does not believe these restrictions materially affect its operations.

Nam Tai was incorporated in the British Virgin Islands principally to facilitate trading in its shares. The government of Hong Kong imposes stamp duty on the transfer of shares equal to 0.3% of the value of the transaction. There is no such stamp duty imposed by the British Virgin Islands. The Company was organized in this manner to avoid any such requirements for the collection of stamp duties for share transactions.

COMPANY OVERVIEW

Nam Tai is an independent provider of high quality manufacturing services to original equipment manufacturers ("OEMs") in the consumer electronics industry. All of the Company's manufacturing operations are based in China. Nam Tai assists OEMs in the design and development of products and furnishes full turnkey manufacturing services to its OEM customers utilizing advanced processes such as chip on board ("COB"), multichip modulators ("MCM"), surface mount technology ("SMT"), tape automated bonding ("TAB") and outer lead bonding ("OLB") technologies. The Company provides hardware and

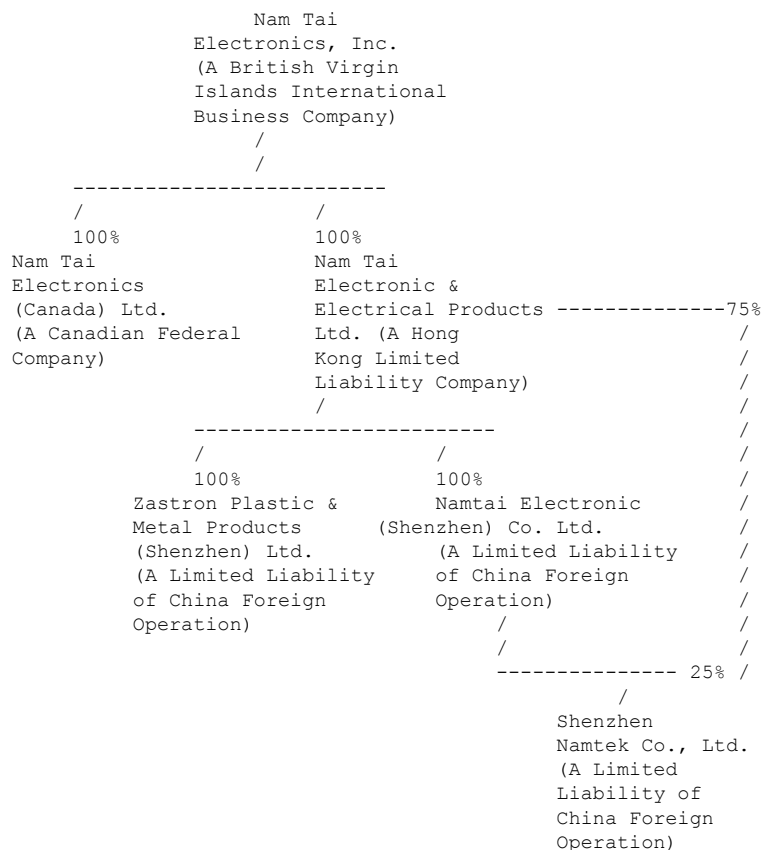
software design, plastic molding, component purchasing, assembly into finished products or electronic subassemblies, post-assembly testing and shipping. The Company manufactures a broad line of finished products for its OEM customers, including personal organizers, linguistic products, calculators, integrated circuit ("IC") or smart card readers (referred to as "IC card readers"). It also manufactures electronic components and subassemblies for printed circuit boards ("PCBs"). These products include large scale integrated circuits ("LSI") bonded on PCBs that are used in the manufacture of products such as electronic toys, and subassemblies for liquid crystal display ("LCD") modules that are in turn used in the manufacture of communications, camera and computer products. In addition, Nam Tai provides OEMs with silk screening services for plastic parts, polyvinyl chloride ("PVC") products and metal parts.

The Company moved its manufacturing facilities to Shenzhen, China in 1987 to take advantage of lower overhead costs and competitive labor rates and to position itself to achieve low-cost, high volume manufacturing. The location of Nam Tai's factory in Shenzhen is about 30 miles from Hong Kong, providing the Company with close access to Hong Kong's infrastructure of communication and banking. This also facilitates transportation of the Company's products out of China through the port of Hong Kong.

The Company emphasizes high responsiveness to the needs of OEM customers through the development and volume production of increasingly sophisticated and specialized products. The Company seeks to build long-term relationships with its customers through high quality standards (supported by ISO 9001/9002 Certification), competitive pricing, strong research and development support, advanced assembly processes and high volume manufacturing, and with key suppliers through volume purchasing and reliable forecasting of component purchases. The Company believes that the potential for increased manufacturing outsourcing by Japanese and U.S. OEMs in China is substantial and that it is in a position to take advantage of this because of its expanded production capacity and experience. Management believes Nam Tai's record of providing timely delivery in volume of high-quality, high technology, low-cost products builds close customer relationships and positions the Company to receive orders for more complex products. As the Company grows, management will seek to maintain a low cost structure, reduce overhead where possible and continuously strive to improve its manufacturing quality and processes.

#### THE COMPANY'S SUBSIDIARIES

The Company is a holding company for Nam Tai Electronic & Electrical Products Limited and its subsidiaries, and Nam Tai Electronics (Canada) Ltd. The chart below illustrates the organizational structure of the Company and its principal operating subsidiaries.



Nam Tai Electronic & Electrical Products Limited ("NTE&E") was incorporated in November 1983 and became the holding company for Namtai Electronic (Shenzhen) Co. Ltd. and Zastron Plastic & Metal Products (Shenzhen) Ltd. in 1992. Marketing and customer relations are handled from NTEE as well as management operations.

Namtai Electronic (Shenzhen) Co. Ltd.

Namtai Electronic (Shenzhen) Co. Ltd. ("NTES") was established as Baoan (Nam Tai) Electronic Co. Ltd. in May 1989 as a joint venture company with limited liability pursuant to the relevant laws of China. The equity of NTES was owned 70% by NTE&E and 30% by a Chinese Governmental agency. During 1992, the joint venture was dissolved and the company changed its name to NTES. As part of such termination, the company returned to the Chinese Governmental agency its real property and investment, and NTES became a wholly owned subsidiary of NTE&E.

NTES is the principal manufacturing arm of the Company and is engaged in manufacturing and assembling the Company's electronic products in China.

Zastron Plastic & Metal Products (Shenzhen) Ltd.

Zastron Plastic & Metal Products (Shenzhen) Ltd. ("Zastron") was organized in March 1992 as a limited liability company pursuant to the relevant laws of China. Zastron is principally engaged in silk screening metal and PVC products, much of which are used in products manufactured by the Company's manufacturing subsidiary. Zastron also provides silk screening of products for other unrelated companies.

Shenzhen Namtek Co., Ltd.

Shenzhen Namtek Co., Ltd. ("Namtek") was organized in December 1995 as a limited liability company pursuant to the relevant laws of China. Namtek commenced operations in early 1996 developing and commercializing software for the consumer electronics industry, particularly for the customers of the Company and for products manufactured or to be manufactured by Nam Tai. Namtek employs approximately 20 software engineers and provides the facilities and expertise to assist in new product development and research, enabling Nam Tai to offer its customers enhanced software design and development services.

Nam Tai Electronics (Canada) Ltd.

Nam Tai Electronics (Canada) Ltd. ("NT Canada") was incorporated in August 1989 under the Canada Business Corporations Act. NT Canada currently provides finance, administrative and investor relations services to the Company from its offices in Vancouver, British Columbia, Canada.

#### RISK FACTORS

The Company may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission, in press releases, and in reports to shareholders. The Private Securities Reform Act of 1995 contains a safe harbor for forward-looking statements on which the Company relies in making such disclosures. In connection with this "safe harbor" the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by or on behalf of the Company. Any such statement is qualified by reference to the following cautionary statements:

#### POLITICAL, LEGAL, ECONOMIC AND OTHER UNCERTAINTIES OF OPERATIONS IN CHINA AND HONG KONG

Internal Political and Other Risks. The Company's single manufacturing complex is located in China. As a result, the Company's operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in China. Changes in policies by the Chinese government resulting in changes in laws, regulations, or the interpretation thereof, confiscatory taxation, restrictions on imports and sources of supply, import duties, corruption, currency revaluations or the expropriation of private enterprise could materially and adversely affect the Company. Under Deng Xiaoping's leadership, the Chinese government pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. With the recent death of Deng Xiaoping there can be no assurance that the Chinese government will continue to pursue such policies, that such policies will be successful if pursued, that such policies will not be significantly altered from time to time or that business operations in China would not become subject to the risk of nationalization,

which could result in the total loss of investment in that country. Economic development may be limited as well by the imposition of austerity measures intended to reduce inflation, the inadequate development of infrastructure and the potential unavailability of adequate power, water supplies, transportation, communications, raw materials and parts. The Company maintains its own electrical generator, water treatment and water storage facilities at the factory site to address certain of these concerns. If for any reason the Company were required to move its manufacturing operations outside of China, the Company's profitability would be substantially impaired, its competitiveness and market position would be materially jeopardized and there can be no assurance that the Company could continue its operations.

**Uncertain Legal System and Application of Laws.** The legal system of China relating to foreign investments is both new and continually evolving, and currently there can be no certainty as to the application of its laws and regulations in particular instances. China does not have a comprehensive system of laws. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of that law.

**Current Dependence on Single Factory Complex.** The Company's products are manufactured exclusively at its complex located in Baoan County, Shenzhen, China. The Company does not own the land at its new facility nor the original facility. It occupies the site under agreements with the local Chinese government. In the case of the original facility, the lease agreement covers an aggregate of approximately 150,000 square feet of factory space and expires in August 2007. In the case of the new facility, the Company is entitled to use the land upon which it is situated until 2044. These agreements and the operations of the Company's Shenzhen factories are dependent on the Company's relationship with the local government. The Company's operations and prospects would be materially and adversely affected by the failure of the local government to honor these agreements. In the event of a dispute, enforcement of these agreements could be difficult in China.

**Possible Changes and Uncertainties in Economic Policies.** As part of its economic reform, China has designated certain areas, including Shenzhen where the Company's manufacturing complex is located, as Special Economic Zones. Foreign enterprises in these areas benefit from greater economic autonomy and more favorable tax treatment than enterprises in other parts of China. Changes in the policies or laws governing special Economic Zones could have a material adverse effect on the Company. Moreover, economic reforms and growth in China have been more successful in certain provinces than others, and the continuation or increase of such disparities could affect the political or social stability of China.

**Inherent Risks of Business in China.** Conducting business in China is inherently risky. Corruption, extortion, bribery, pay-offs, theft, and other fraudulent practices are common in China. The Company has attempted to implement safeguards to prevent losses from such practices, but there can be no assurance that despite these safeguards the Company will not suffer losses relating to such practices.

**Recent Relations with the U.S.** In 1995, the United States considered revocation of China's most favored nation ("MFN") trade status, which provides China with the trading privileges generally available to trading partners of the United States, and in 1996 the United States and China were involved in controversy over the protection in China of intellectual property rights. In 1996, China and the United States reached an agreement on copyright protection and extended China's MFN status to July 3, 1997. Various interest groups continue to urge that the United States not renew China's trade status. There can be no assurance that future controversies will not arise that threaten the status quo involving trade between the United States and China or that the United States will not revoke or refuse to extend China's MFN status. In any of such eventualities, the business of the Company could be adversely affected.

**Relations Between China and Taiwan.** Relations between China and Taiwan have been unresolved since Taiwan was established in 1949. The general election in Taiwan in 1996 heightened tensions between them. Although not directly a threat to Nam Tai, peaceful and normal relations between China and its neighbors reduces the potential for events which could have an adverse impact on the Company's business.

**Operations in Hong Kong.** The Company's executive and sales office, and several of its customers and suppliers are located in Hong Kong, which is currently a British Crown Colony. Sovereignty over Hong Kong will be transferred effective July 1, 1997 to China. The Company is preparing for this transition in Hong Kong by increasing the role and capability of its

personnel in China to manage a number of responsibilities previously managed through the Hong Kong office. Certain other responsibilities are being transferred to the Company's administration and finance office in Canada. While the Company does not believe that the transfer of sovereignty over Hong Kong to China will have a material adverse effect on the Company's business, there can be no assurance as to the continued stability of political, economic or commercial conditions in Hong Kong, and any instability could have an adverse impact on the Company's business.

The Hong Kong dollar and the United States dollars have been fixed at approximately 7.80 Hong Kong dollars to \$1.00 since 1983. The Chinese government has expressed its intention in the basic law to maintain the stability of the Hong Kong currency after the sovereignty of Hong Kong is transferred to China. There can be no assurance that this will occur and the Company could face increased currency risks if the current exchange rate mechanism is changed.

#### CUSTOMER CONCENTRATION; DEPENDENCE ON ELECTRONICS INDUSTRY

Sales to four major customers, Sharp Corporation, Texas Instruments Incorporated, Nintendo, Inc. (which orders through Sharp Corporation) and Seiko Instruments Inc. aggregated approximately 90.3%, 92.3% and 89.7% of the Company's total net sales during the years ended December 31, 1996, 1995 and 1994. Sales to each of these customers as a percentage of the Company's total net sales during the years ended December 31, 1996, 1995 and 1994 are set forth in Item 1. Business --Customers and Marketing. The Company's sales transactions to all its OEM customers are based on purchase orders received by the Company from time to time. Except for these purchase orders, the terms of which in a few cases are supplemented by basic agreements dependent upon the receipt of purchase orders, the Company has no written agreements with its OEM customers. Although management believes that any one of its OEM customers could be replaced eventually, the loss of any one of its major customers could have a material adverse effect on the Company's business.

Virtually all of the Company's sales are to customers in the electronics industry, which is subject to rapid technological change and product obsolescence. The factors affecting the electronics industry in general, or any of the Company's major customers in particular, could have a material adverse effect on the Company's results of operations.

#### POTENTIAL FLUCTUATIONS IN OPERATING RESULTS

The Company's quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect net sales, gross profit and profitability. This could result from any one or a combination of factors such as the cancellation or postponement of orders, the timing and amount of significant orders from the Company's largest customers, customers' announcement and introduction of new products or new generations of products, evolutions in the life cycles of customers' products, the Company's timing of expenditures in anticipation of future orders, effectiveness in managing manufacturing processes, changes in cost and availability of components, mix of orders filled, adverse effects to the Company's financial statements resulting from, or necessitated by, possible future acquisitions, and changes or anticipated changes in economic conditions. The volume and timing of orders received during a quarter are difficult to forecast. The Company's customers from time to time encounter uncertain and changing demand for their products. Customers generally order based on their forecasts. If demand falls below such forecasts or if customers do not control inventories effectively, they may reduce or postpone shipments of orders.

The Company's expense levels during any particular period are based, in part, on expectations of future sales. If sales in a particular quarter do not meet expectations, operating results could be materially adversely affected. In addition, the Company's operating results are affected by seasonality during the third quarter in anticipation of the Christmas buying season and in the first quarter resulting from both the closing of the Company's factory in China for one-half of a month for the Chinese New Year holidays and the general reduction in sales following the holiday season. See Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations. The market segments served by the Company are also subject to economic cycles and have in the past experienced, and are likely in the future to experience, recessionary periods. A recessionary period affecting the industry segments served by the Company could have a material adverse effect on the Company's results of operations. Results of operations in any period should not be considered indicative of results to be expected in any future period, and fluctuations in operating results may also result in fluctuations in the market price of the Company's Common Shares.

#### TECHNOLOGICAL CHANGES AND PROCESS DEVELOPMENT

The market for the Company's manufacturing services is characterized by

rapidly changing technology and continuing process development. The Company is continually evaluating the advantages and feasibility of new manufacturing processes, such as COB, MCM, SMT, TAB and OLB. The Company believes that its future success may depend upon its ability to develop and market manufacturing services which meet changing customer needs, maintain technological leadership and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis. There can be no assurance that the Company's process development efforts will continue to prove successful.

#### EXCHANGE RATE FLUCTUATIONS

The Company sells most of its products in United States dollars and Japanese yen and pays expenses in United States dollars, yen, Hong Kong dollars, Canadian dollars and Chinese renminbi. The Company is subject to a variety of risks associated with changes among the relative value of the United States dollar, yen, Hong Kong dollar, Canadian dollar and Chinese renminbi, but management believes that the most significant exchange risk results from material purchases made in yen. Approximately 28%, 33% and 35% of Nam Tai's material costs have been in yen during the years ended December 31, 1996, 1995 and 1994. Sales made in yen accounted for approximately 15% of sales for the year ended December 31, 1996, 18% of sales for 1995 and 13% of sales for 1994. The net exposure has been declining as material costs in Japanese yen decrease and sales increase. Based on oral agreements with its customers which are customary in the industry, the Company believes its customers will accept an increase in the selling price of manufactured products if the exchange rate of the Japanese yen appreciates beyond a range of 5% to 10% although such customers may also request a decrease in selling price in the event of a depreciation of the Japanese yen. Based on close working relationships with its principal customers, and because management believes that similar oral agreements exist between these OEMs and their other suppliers, the Company believes that the oral nature of these agreements will not prevent its OEMs from honoring them. However, there can be no assurance that such agreements will be honored, and the refusal to honor such an agreement in the event of a severe fluctuation of the Japanese yen at a time when sales made in yen are insufficient to cover material purchases in yen would materially and adversely affect the Company's operations.

Although only 9.3% of the Company's expenses were in Chinese renminbi in 1996, the appreciation of the renminbi against the U.S. dollar increases the expenses of the Company when translated into U.S. dollars. There can be no assurances that the renminbi will not increase significantly in value relative to the U.S. dollar in the future

The Company may elect to hedge its currency exchange risk when it judges such action may be required. The Company's financial results have been affected in the past due to hedging activities, resulting in foreign exchange gains of approximately \$52,000 in 1995 and \$68,000 in 1994 and foreign exchange losses of approximately \$400,000 in 1993 and \$350,000 in 1992. The Company continually reviews its hedging strategy but there can be no assurance that Nam Tai will not suffer losses in the future as a result of currency hedging.

#### COMPETITION

Competition in the contract electronic manufacturing industry is intense. The Company's primary competitors in the manufacture of its principal product lines of calculators, personal organizers and linguistic products, are Kinpo Electronics, Inc. (formerly Cal-Comp Electronics, Inc.) and Inventec Co. Ltd., both of Taiwan. While an OEM may prefer its approved suppliers, management believes that OEMs tend to order from several suppliers in order to lessen dependence on any one of them. Certain competitors may have substantially greater technical, financial and marketing resources than the Company.

#### RISKS FROM POSSIBLE ACQUISITIONS

An important element of the Company's strategy is to review acquisition prospects that would complement the Company's existing products and services, augment its market coverage and sales ability or enhance its technological capabilities. While the Company has no current agreements or negotiations underway with respect to any acquisitions, the Company may acquire businesses, products or technologies in the future. Future acquisitions by the Company could result in accounting charges, potentially dilutive issuance of equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to goodwill and other intangible assets, any of which could materially adversely affect the Company's business, financial condition and results of operations and/or the price of the Company's Common Stock. Acquisitions entail numerous risks, including the assimilation of the acquired operations, technologies and products, diversion of management's attention to other business concerns, risks of entering markets in which the Company has no



or limited prior experience and potential loss of key employees of acquired organizations. Management has no experience in assimilating acquired organizations. There can be no assurance as to the ability of the Company to successfully integrate the products, technologies or personnel of any business that might be acquired in the future, and the failure of the Company to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

#### DEPENDENCE ON KEY PERSONNEL

The Company depends to a large extent on the abilities and continued participation of Mr. M. K. Koo, its Chairman of the Board, and Mr. Tadao Murakami, its Chief Executive Officer and President, who is in charge of the Company's day-to-day manufacturing and marketing operations in China. The loss of the services of Mr. Koo or Mr. Murakami could have a material adverse effect on Company's business.

#### ENFORCEABILITY OF CIVIL LIABILITIES

The Company is a holding corporation organized as an International Business Company under the laws of the British Virgin Islands and its principal operating subsidiary is organized under the laws of Hong Kong, where the Company's principal executive offices are also located. The Company has appointed Mr. Stephen Seung, an attorney engaged in the private practice of law in New York and a director of Nam Tai since 1995, as its agent upon whom process may be served in any action brought against the Company under the securities laws of the United States. However, outside the United States, it may be difficult for investors to enforce judgments against the Company obtained in the United States in any such actions, including actions predicated upon civil liability provisions of Federal securities laws. In addition, all of the Company's officers and a majority of its directors reside outside the United States and nearly all of the assets of these persons and of the Company are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against the Company or such persons judgments predicated upon the liability provisions of U.S. securities laws. The Company has been advised by its Hong Kong counsel and its British Virgin Island counsel that there is substantial doubt as to the enforceability against the Company or any of its directors and officers located outside the United States in original actions or in actions for enforcement of judgments of U.S. courts of liabilities predicated on the civil liability provisions of Federal securities laws.

#### CERTAIN LEGAL CONSEQUENCES OF INCORPORATION IN THE BRITISH VIRGIN ISLANDS

The Company is organized under the laws of the British Virgin Islands. Principles of law relating to matters affecting the validity of corporate procedures, the fiduciary duties of the Company's management, directors and controlling shareholders and the rights of Nam Tai's shareholders differ from, and may not be as protective of shareholders as, those that would apply if the Company were incorporated in a jurisdiction within the United States. Directors of the Company have the power to take certain actions without shareholder approval, including an amendment of the Company's Memorandum or Articles of Association, a change in the Company's authorized capital, and certain fundamental corporate transactions, including reorganizations, certain mergers or consolidations, and the sale or transfer of assets. In addition, there is doubt that the courts of the British Virgin Islands would enforce liabilities predicated upon U.S. securities laws.

#### RISKS OF INTERNATIONAL SALES

The products of the Company are sold in the United States and internationally, principally in Japan, Europe and Hong Kong. International sales may be subject to political and economic risks, including political instability, currency controls and exchange rate fluctuations, and changes in import/export regulations, tariff and freight rates. Changes in tariffs or other trade policies could adversely affect the Company's customers or suppliers or decrease the cost of products for Nam Tai's competitors relative to such costs for the Company.

#### EXEMPTIONS UNDER THE EXCHANGE ACT AS A FOREIGN PRIVATE ISSUER

The Company is a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). As such, and though its Common Shares are registered under Section 12(g) of the Exchange Act, it is exempt from certain provisions of the Exchange Act applicable to United States public companies including: the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q or current reports on Form 8-K; the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect to a security registered under the Exchange Act; and the sections of the

Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short-swing" trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer's equity securities within six months or less). Because of the exemptions under the Exchange Act applicable to foreign private issuers, shareholders of the Company are not afforded the same protections or information generally available to investors in public companies organized in the United States.

#### VOLATILITY OF SHARE PRICE

The markets for equity securities have been volatile and the price of the Company's Common Shares has been and could continue to be subject to wide fluctuations in response to quarter to quarter variations in operating results, news announcements, trading volume, sales of Common Shares by officers, directors and principal shareholders of the Company, general market trends and other factors.

#### PRODUCTS

The following table sets forth the percentage of net sales of each of the Company's product lines for the years ended December 31, 1996, 1995 and 1994.

<TABLE>

<CAPTION>

PRODUCT LINE -----	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
-----	----	----	----
<S>	<C>	<C>	<C>
Personal organizers and linguistic products	36%	47%	47%
Electronic calculators	35	30	34
Subassemblies, components and other products	28	22	17
Silk screening	1	1	1
Discontinued products(1)	0	0	1
	----	----	----
	100%	100%	100%

</TABLE>

(1) Includes health care products, such as electronic scales, thermometers and blood pressure meters, which were discontinued in 1994.

#### Personal Organizers and Linguistic Products

The Company produces various types of electronic personal organizers, particularly telephone directories and business card organizers with scheduler, clock, memo pad and calculator functions.

The linguistic products manufactured by Nam Tai include electronic spell checkers, dictionaries and language translators. These models generally include a built-in calculator.

#### Electronic Calculators

The Company manufactures a wide range of electronic calculators with a variety of features. These include calculators designed for different uses, including mini card, scientific, desk top, hand held, graphical and printer calculators.

#### Subassemblies, Components and Other Products

In 1994, the Company began manufacturing and delivering subassemblies consisting of LSIs bonded on PCBs utilizing advanced technological processes. These products are used to manufacture components which are incorporated into such products as electronic toys and games.

In 1995, the Company expanded its subassembly manufacturing business into liquid crystal display ("LCD") modules. These subassemblies display information as part of such products as portable telephones, portable computers and facsimile machines, and employ the same bonding technologies as are used for the LSI bonded PCBs.

In 1995, the Company delivered a sample run of integrated circuit card balance readers ("IC card readers") and in 1996 began volume shipments of these products. These readers are hand-held devices used to check information contained on the IC cards which are being developed for use by certain major banks in Europe, Asia and North America as an alternative to the use of cash.

In 1996, the Company again expanded the component products it offers by completing the development and shipping of control panel modules for microwave

ovens manufactured by a division of Sharp Corporation, which, management believes, is the world's leading manufacturer of microwave ovens.

#### Silk Screening Services

Through Zastron, the Company provides manufacturing and silk screening services to customers for plastic parts, PVC products and metal parts. This service is also supplied to other firms for incorporation into their finished products.

#### MANUFACTURING

##### Quality Control

The Company maintains strict quality control programs for its products, including the use of total quality management ("TQM") systems. All incoming raw materials and components are checked by the Company's quality control personnel. During the production stage, Nam Tai's quality control personnel check all work in process at several points in the production process. Finally, after the assembly stage, the Company conducts random testing of finished products. In addition, the Company provides office space at its China manufacturing facility for representatives of its major customers to permit them to monitor production of their products and to provide direct access to the Company's manufacturing personnel. Manufactured products have a low level of product defect, as required by the Company's OEM customers. When requested, Nam Tai provides a limited warranty of six months to one year for products it manufactures. To date, claims under the Company's warranty program have been negligible.

The Company's Hong Kong and China subsidiaries have maintained ISO 9002 Certification since December 1993 and ISO 9001 Certification since February 1996. The "ISO," or International Organization for Standardization, is a Geneva-based organization dedicated to the development of worldwide standards for quality management guidelines and quality assurance. ISO 9000, which was the first quality system standard to gain worldwide recognition, requires a company gather, analyze, document, monitor and make improvements where needed. The Company's receipt of ISO 9001 Certification demonstrates that the Company's manufacturing operations meet the most demanding of the established world standards.

Management believes sophisticated customers are increasingly requiring their manufacturers to be ISO 9000 certified, and that manufacturers that are not so qualified are increasingly looking to certified manufacturers like Nam Tai rather than undertaking the expensive and time-consuming process of qualifying their own operations.

In 1996, the Company received notice that it had been awarded the Texas Instruments Supplier Excellence Award for commitment to excellence and support of Texas Instruments' quality leadership. In early 1997, the Company again received notice that it received the award for a second year. Texas Instruments, one of the Company's largest OEM customers, has advised the Company that only a select group of its suppliers which have demonstrated an unwavering commitment to the principle of total quality are recognized with this award and that it was unusual for a company to be so honored in two consecutive years.

##### Component Parts and Suppliers

The Company purchases over 100 different component parts from more than 30 major suppliers and is not dependent upon any single supplier for any key component. The Company purchases components for its electronic products from suppliers in Japan and elsewhere. Orders for components are based on forecasts that Nam Tai receives from its OEM customers, which reflect anticipated shipments during the production cycle for a particular model.

The major component parts purchased by the Company are ICs or "chips", LCDs, solar cells, printer heads and batteries. The Company purchases both stock "off the shelf" chips and custom chips, the latter being the most expensive component parts purchased by Nam Tai. At the present time, the Company purchases most of its chips from Toshiba Corporation, Sharp Corporation and certain of their affiliates, although there are many additional suppliers from which the Company could purchase chips.

LCDs are readily available from many manufacturers and the Company currently has two major suppliers, Epson Hong Kong Ltd. and Sharp Corporation. PCBs and other circuit boards are purchased from circuit board manufacturers in Hong Kong and solar cells are purchased from Matsushita Battery Industrial Company Ltd. Batteries are standard "off the shelf" items, generally purchased in Hong Kong from agents of Japanese manufacturers. Certain components may be subject to limited allocation by certain of Nam Tai's suppliers. Although such shortages and allocations have not had a material

adverse effect on the Company's results of operations, there can be no assurance that any future allocation or shortages would not have such an effect.

In an effort to assure an adequate supply of competitively priced plastic components, the Company maintains a minority interest in a Hong Kong supplier of plastic parts, Deswell Industries, Inc. ("Deswell") (see "Formation of Strategic Alliances").

#### CUSTOMERS AND MARKETING

##### General

Approximate percentages of net sales to customers by geographic area, based upon location of product delivery, are set forth below for the periods indicated:

<TABLE>

<CAPTION>

GEOGRAPHIC AREAS	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
-----	----	----	----
<S>	<C>	<C>	<C>
Japan	28%	34%	24%
North America	34	30	33
Hong Kong	18	17	23
Europe	12	13	14
Other	8	6	6
	----	----	----
	100%	100%	100%

</TABLE>

The Company's Hong Kong based management personnel and sales staff are responsible for marketing products to existing customers as well as potential new customers.

Five of the Company's major customers have done business with the Company for over five years or more, and management believes that Nam Tai has a stable relationship with all of its customers. The Company places great emphasis on providing quality service to its customers and has, as a result, limited the number of companies for which it manufactures in an effort to ensure quality service.

##### Major Customers

The Company's OEM customers include the following entities. The OEM customers either market Nam Tai's products under their own brand name or, where no brand name is shown, incorporate the Company's products into their products:

<TABLE>

<CAPTION>

CUSTOMER	BRAND NAME	PRODUCT	CUSTOMER SINCE
-----	-----	-----	-----
<S>	<C>	<C>	<C>
A&A International (Yichi-HK) Ltd.	Radio Shack	Calculators	1993
Canon, Inc.	Canon	Personal organizers and calculators	1988
Casio Computer (Hong Kong) Limited	Casio	Aluminum panels and PVC wallets	1994
Matsushita Battery Industrial Co. Ltd.	-----	IC card readers	1994
Nintendo, Inc. (through Sharp Corp.)	-----	Bonding on PCBs	1994
Optrex Corporation	-----	Assemblies for LCD modules	1994
Premier Precision Ltd.	Citizen	Silk screening and aluminum panel	1993
Sanyo Electric (H.K.) Ltd.	Sanyo	Silk screening	1988
Seiko Instruments Inc.	Seiko, SII	Personal organizers	1991

and linguistic products

Sharp Corporation	Sharp	Personal organizers, calculators and control panel modules	1989
Texas Instruments Incorporated	Texas Instruments	Personal organizers and calculators	1989

</TABLE>

At any given time, different customers account for a significant portion of Nam Tai's business. Percentages of total sales by customer vary from year to year and may fluctuate depending on the timing of production cycles for particular products. Sales to four major customers, Sharp Corporation, Seiko Instruments Inc., Nintendo, Inc. (which orders through Sharp Corporation) and Texas Instruments Incorporated, aggregated approximately 90%, 92% and 90% of the Company's total net sales during the years ended December 31, 1996, 1995 and 1994, respectively, as follows:

<TABLE>

<CAPTION>

CUSTOMER	YEAR ENDED DECEMBER 31		
	1996	1995	1994
-----	----	----	----
<S>	<C>	<C>	<C>
Sharp Corporation	38.4%	47.9%	47.7%
Texas Instruments Incorporated	22.3	13.2	9.8
Nintendo, Inc. (through Sharp Corporation)	16.1	18.0	13.0
Seiko Instruments Inc.	13.5	13.2	19.2
	----	----	----
	90.3%	92.3%	89.7%

</TABLE>

A number of products are made for its major customers such that the Company is not necessarily dependent on a single product by one customer. Although management believes that any one of the Company's customers could be replaced with time, the loss of any one of its major customers, particularly one or more of its top four customers, could have a material adverse effect on the Company's business. While each of the companies listed above is expected to continue to be a significant customer, the Company continually tries to lessen its dependence on large customers through efforts to diversify its customer and product base. There can be no assurance, however, that such efforts will prove successful.

The Company's sales to all of its OEM customers are based on purchase orders. Except for these purchase orders, the terms of which in a few cases are supplemented by basic agreements dependent upon the receipt of purchase orders, Nam Tai has no written agreements with its OEM customers. The Company receives letters of credit to cover the next three months of orders and all the molds, tooling and development charges (including software design) are charged to the account of OEM customers prior to production.

Many of Nam Tai's customers have a relationship which extends for a number of years and consequently the Company believes its relations with these customers are good. The Company encourages cooperation and communication with its most important customers. In particular, senior management includes a team of Japanese professionals who provide technical experience and work closely with both the Company's Japanese component suppliers and its Japanese customers. Management also believes the risk of a sudden withdrawal by any of its major customers is diminished by: (i) the lengthy production cycle, typically over three years for each model, which is required to produce the products sold to customers; (ii) the fact that production cycles may begin while other products for the same customers are in progress; and (iii) the investment in molds, tooling and development charges (including software design) which is borne by each OEM customer.

Sales are predominately based on standard letters of credit denominated in either U.S. dollars or Japanese yen.

#### Production Scheduling and Backlog

The typical cycle for a product to be manufactured and sold to an OEM customer is three to four years, including the development period and production period. Initially an OEM customer gathers data from its sales personnel as to products for which there is market interest, including features and unit costs. The OEM then contacts the Company, and possibly other prospective manufacturers, with forecasted total production quantities and design specifications or renderings. From that information, the Company

in turn contacts its suppliers and determines estimated component costs. The Company later advises the OEM of the development costs, charges (including molds, tooling and development costs such as software design) and unit cost based on the forecasted production quantities desired during the expected production cycle. Once the Company and the OEM customer agree to the Company's quotation for the development costs and the unit cost, the Company begins the product development. This development period lasts approximately nine to 15 months, or longer if software design is included. During this time the Company completes all molds, tooling and software required to manufacture the product with the development costs reimbursed by the customer. Upon completion of the molds, tooling and software, the Company produces samples of the product for the customer's quality testing, and, once approved, commences mass production of the product.

The production period usually lasts approximately 18 to 30 months. Typically, more advanced products have longer production runs. If total production quantities change, the OEM customer often provides six months notice before discontinuing orders for a product. At any point in time the Company is in different stages of the development period and production period for the various models it has under development or in production for OEM customers.

The Company's production is based on forecasts received from OEM customers covering the next six month period, the first three months of which are scheduled shipments. These forecasts are reviewed and adjusted where necessary at the beginning of each month with confirmed orders covering the first three months. Confirmed orders are supported by letters of credit and may not be canceled once confirmed without the customer becoming responsible for all costs of the remaining components included in inventory for that order. During the years ended December 31, 1995 and 1994, the Company did not suffer a material loss resulting from the cancellation of an OEM customer confirmed order. However, during the course of the audit of its financial statements for the year ended December 31, 1996, the Company confirmed that certain components included in its raw material inventory were not likely to be used in connection with future production, and due to the passage of time, could not be charged to customers who would have otherwise been responsible for the reimbursement of cost. While the Company believes that it may in the future be able to use some portion of the components in connection with future production, the Company has elected to write-off the cost of such inventory in the net amount of \$415,000.

Backlog is defined by Nam Tai as the sales value of orders from OEM customers for which shipments have been scheduled during the next three months. Although orders are confirmed and covered by letters of credit, there can be no assurance that the backlog can be produced, shipped and sales recorded in its entirety during the following three month period. The Company's backlog as at December 31, 1996 and 1995 was approximately \$28,500,000 and \$24,800,000, respectively.

#### Marketing Plans for China

The Company has Chinese government approval to sell up to 20% of the products manufactured and 10% of the parts manufactured by the Company in China. The Company does not have any immediate plans to re-enter the China market and make domestic sales, however, the Company would consider doing so if economic and other factors in China appear favorable.

#### Formation of Strategic Alliance

The Company strives to maintain stable sources for quality components it uses in its manufacturing operations. Suppliers of these components have from time to time, in periods of short supply, limited allocation of their production among their customers. The Company believes that the formation of strategic alliances with certain of its suppliers assists the Company to satisfy its OEM customers' needs for timely delivery of high-quality products and permits Nam Tai to have greater control over the quality of its suppliers' components.

Consistent with this strategy, in 1994 the Company purchased approximately 10% of the outstanding common stock of Deswell Industries, Inc. ("Deswell"), the Nasdaq listed holding company of the Hong Kong-based supplier of plastic parts used in many of the Company's products. Deswell has manufacturing facilities in Shenzhen, China. In February 1997, the Company reduced its holdings in Deswell to approximately 5.8% of the common shares of Deswell reported outstanding as at December 31, 1996, realizing proceeds of approximately \$4.4 million. The Company plans to continue to maintain a close working relationship with Deswell.

#### Transportation

Since the Company sells its products F.O.B. Hong Kong, its customers are

responsible for the transportation of finished products from Hong Kong to their final destination. Transportation of components and finished products to and from Shenzhen is by truck. Component parts purchased from Japan are generally shipped by air. To date, the Company has not been materially affected by any transportation problems.

#### TECHNOLOGY DEVELOPMENT

Between 1984 and 1994, the Company spent an average of approximately \$360,000 per annum on research and development, chiefly to advance manufacturing technology. During the later half of this period Nam Tai concentrated on its OEM business and expenditures fell below the average by the end of the period. At that time the major responsibility of the Company's product design personnel was limited to the production to the satisfaction of and in accordance with the specifications provided by OEM customers.

Since 1995, the Company has placed increased emphasis on research and development which provides greater service to OEM customers and assists in design and development of future products. Research and development expenses increased marginally to \$950,000 in 1996 from \$945,000 in 1995. Namtek, the Company's software development subsidiary which began operations in early 1996 accounted for approximately 40% of the research and development expenses in 1996 and these expenses were substantially recovered from fees paid by third parties.

#### COMPETITION

The Company competes with numerous other companies in the contract electronic manufacturing industry and competition is intense. Competition has been limited by OEMs to a small number of companies who satisfy the requirements to become approved suppliers. While individual OEM customers are likely to prefer certain contract manufacturers, OEMs tend to order from several different suppliers in order to reduce dependence on any one. Competition for OEM sales is based primarily on unit price, product quality and availability, promptness of service, reputation for reliability and OEM confidence in the manufacturer. The Company believes that it competes favorably in each of these areas.

#### EMPLOYEES

At December 31, 1996, Nam Tai employed approximately 2,000 persons on a full-time basis, of which approximately 1,960 were working in China, 30 in Hong Kong, and 10 in Canada. Of these, approximately 1,750 were engaged in manufacturing, 181 were engaged in clerical, research and development and marketing positions and the balance in supporting jobs such as security, janitorial, and food and medical services. The Company is not a party to any material labor contract or collective bargaining agreement. The Company has experienced no significant labor stoppages and believes that relations with its employees are satisfactory. The nature of its arrangement with its manufacturing employees is such that it can increase or reduce staffing levels without significant difficulty, cost or penalty.

An employee incentive compensation program is in place in China whereby a regular bonus is paid to employees on the employee's return to work following the Chinese New Year holiday. Management believes this method has contributed to low employee turnover in the factory.

#### PATENTS, LICENSES AND TRADEMARKS

The Company has no patents, licenses, franchises, concessions or royalty agreements that are material to its business as a whole. Due to rapid technological change in the products manufactured, the Company does not believe the absence of patents has had or will have a material impact on its business.

The Company has obtained trademark registrations in Hong Kong for the mark "FORTEC" in connection with electronic calculators. Nam Tai has also obtained a trademark registration in Hong Kong for the mark "SANTRON" in connection with electronic calculators. The Company has registered the trademark "NAMTAI" in connection with electronic calculators in Hong Kong, the United States and Canada. The trademark "PEACOCK" is registered in China although no products are currently being produced under this name.

#### ITEM 2. PROPERTIES

##### British Virgin Islands

As of January 17, 1997, the registered office of the Company was transferred to McNamara Chambers, P.O. Box 3342, Road Town, Tortola, British Virgin Islands. Only corporate administrative matters are conducted at such office, through Nam Tai's registered agent, McW. Todman & Co. The Company

neither owns nor leases property in the British Virgin Islands.

#### Hong Kong

In February 1997 the Company leased new premises at Unit 9, 15/F., Tower 1, China Hong Kong City, 33 Canton Road, TST, Kowloon, Hong Kong for a term of three years. Rental is approximately \$17,900 per month for the first two years, and will be renegotiated in the third year. The Company moved its principle executive and marketing offices into these new premises in late March 1997.

The Company owns a residential flat in Hong Kong which was purchased for total consideration of \$1,850,000. This property houses the Chief Executive Officer of the Company and forms part of his overall compensation. See Item 11. Compensation of Directors and Officers.

The Company also owns approximately ten acres of land in Hong Kong which the Company plans to sell. This land has been held since 1984 and is carried on the books of the Company at its cost of approximately \$523,000. In February 1997, the Company was notified that the Hong Kong government intends to expropriate 0.55 acres of this land and has offered compensation of approximately \$240,000.

#### Shenzhen, China

Nam Tai's manufacturing complex is located in Baoan County, Shenzhen, China. It includes the original facility and Phase I of the factory expansion which was completed in May 1996. At December 31, 1996, the total combined capacity utilization of the original factory and Phase I of the factory expansion was 60%.

The original facility consists of 150,000 square feet of manufacturing space under a 15 year lease expiring in 2007. The rental rate is approximately \$32,000 per month due to increase by 20% in August 1997 and a further 20% in August 2002.

Phase I of the complex expansion is located on 286,600 square feet of leasehold land adjacent to the original facility. The lease for this land was purchased for approximately \$2,450,000 in 1994 and has a term of 50 years.

Construction of the approximately 437,000 square feet new facility began in early 1995 and portions were completed in August 1995 to house new factory employees needed to expand production at that time. Nam Tai's Phase I complex expansion was completed on schedule in May 1996. The expanded new facility is adjacent to the Company's original facility and consists of 160,000 additional square feet of manufacturing space, 39,000 square feet of offices, 212,000 square feet of new dormitories, 26,000 square feet of full service cafeteria and recreation facilities and a swimming pool. The total cost of the new factory complex, excluding land, was approximately \$21,800,000. In addition, during 1996 Nam Tai purchased \$1,100,000 of new production equipment for the new factory. It has also transferred equipment from the original factory to the new factory. In accordance with an expansion schedule, Nam Tai intends to establish production lines and purchase additional equipment as required by growth in the Company's business through 1997 and into early 1998.

The Company also has a 26,000 square feet facility in Shenzhen located approximately one mile from its complex. This contains 28 apartment units which the Company uses to house certain of its factory managers who are married and have families. The Company purchased this building for approximately \$1,000,000, paying the final instalment in June 1993.

During 1992, the Company purchased the development rights to a further parcel of leasehold land in Baoan County, Shenzhen, China. The purchase price was approximately \$343,000. The land area consists of approximately 70,000 square feet of land in a developed area of commercial buildings and residences. The purchase of the leasehold land gives Nam Tai the right to use the land for fifty years. The Company reviewed the construction of a high rise office building to house its corporate headquarters and subsequently decided to concentrate on its core contract manufacturing business. In January 1997, Nam Tai entered into a Land Development Agreement with Shenzhen Baoheng (Group) Co. Ltd. which is expected to result in the eventual sale of the property and the recovery of the original purchase price. There can be no assurance that the sale will occur.

#### Canada

On November 1, 1995, Nam Tai Canada moved its corporate office to new leased premises in Vancouver, British Columbia. The Company entered into a lease for 2,637 square feet of office space at an annual rental of \$26,000. The lease expires in August 1998.



In 1995, the Company completed construction of a building in Burnaby, British Columbia in which it intended to house both manufacturing operations and its Canadian administration and finance office. The two-story building consists of approximately 7,000 square feet of office space and 8,000 square feet of manufacturing space. Construction was completed in mid 1995 at a cost of approximately \$2,400,000, including the cost of land. The prospects for manufacturing have been re-evaluated and the property is currently listed for sale.

#### General

The Company believes that its existing manufacturing and office facilities are adequate for the operation of its business for the foreseeable future.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not party to any legal proceedings other than routine litigation incidental to its business and there are no material legal proceedings pending with respect to the property of the Company, other than as described below.

In September 1993, Tele-Art, Inc., a shareholder of Nam Tai, commenced an action against the Company seeking an injunction prohibiting the Company from proceeding with a rights offering which was contemplated at that time. Tele-Art's application was based on claims that Nam Tai may have violated British Virgin Islands and United States law. Among other claims, Tele-Art asserted that the Company's rights offering was part of a scheme to enrich directors and management of Nam Tai and dilute the interest of minority shareholders. After a hearing, a temporary injunction obtained by Tele-Art was discharged, permitting the Company to proceed with, and complete, its rights and standby offerings in October 1993. Tele-Art is pursuing claims in the British Virgin Islands against Nam Tai for damages. In November 1993, Tele-Art applied to the Court to include the Company's directors in the proceedings, and in March 1994 the application was granted. In May 1996, the Court ordered the parties to make discovery by exchanging lists of documents and to-date this exchange has not occurred. The Company continues to believe that Tele-Art's claims are without merit and plans to continue to vigorously defend them as well as to seek from Tele-Art and its agents compensation for the damage caused by the injunction and the proceedings that were brought to obtain it.

#### ITEM 4. CONTROL OF THE COMPANY

The Company is not directly owned or controlled by another corporation or by any foreign government. The following table sets forth, as of December 31, 1996, the beneficial ownership of the Company's Common Shares by each person known by the Company to own beneficially more than 10% of the Common Shares of the Company outstanding as of such date and by the officers and directors of the Company as a group.

<TABLE>  
<CAPTION>

IDENTITY OF PERSONS OR GROUPS -----	NUMBER OF COMMON SHARES BENEFICIALLY OWNED -----	PERCENT OF CLASS -----
<S>	<C>	<C>
M. K. Koo c/o Suite 530 999 West Hastings Street Vancouver, B.C. V6C 2W2 Canada	2,553,656 (Note 1.)	32.5%
Officers and directors as a group (seven persons)	3,238,017 (Note 2.)	40.2%

</TABLE>

#### Notes

1. Includes outstanding shares which are personally owned by Mr. Koo and 26,667 shares issuable to Mr. Koo upon exercise of options exercisable within 60 days of December 31, 1996.
2. Includes outstanding shares and a total of up to 216,667 shares issuable to officers upon exercise of employee options exercisable within 60 days of December 31, 1996.

#### ITEM 5. NATURE OF TRADING MARKET

COMMON SHARES

The Company's Common Shares are traded on The Nasdaq National Market under the symbol "NTAIF".

The following table sets forth the high and low closing sale prices as reported by The Nasdaq National Market during each of the quarters in the two year period ended December 31, 1996.

<TABLE>  
<CAPTION>

QUARTER ENDED -----	HIGH ----	LOW ----
<S>	<C>	<C>
December 31, 1996	10.63	7.25
September 30, 1996	11.50	8.63
June 30, 1996	13.88	10.50
March 31, 1996	13.13	9.25
December 31, 1995	13.88	10.75
September 30, 1995	17.25	9.00
June 30, 1995	10.50	9.00
March 31, 1995	9.75	7.94

</TABLE>

On December 12, 1996, the Company listed its shares on The Toronto Stock Exchange under the symbol "NMT." The high and low closing sales prices of the Company's Common Shares on the Toronto Stock Exchange during the period from December 12, 1996 to December 31, 1996 were Canadian \$12.25 and Canadian \$10.85, respectively.

Of the 7,837,227 Common Shares of the Company outstanding as of December 31, 1996, approximately 4,200,000 are beneficially held by approximately 1,250 holders of record in the United States.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are no exchange control restrictions on payments of dividends on the Company's Common Shares or on the conduct of the Company's operations either in Hong Kong, where the Company's principal executive offices are located, or the British Virgin Islands, where Nam Tai is incorporated. Other jurisdictions in which the Company conducts operations may have various exchange controls. Dividend distribution and repatriation by Nam Tai's subsidiaries in China are regulated by Chinese laws and regulations. To date these controls have not had a material impact on the Company's financial results as sales to customers are generally made in Hong Kong. There are no material British Virgin Islands laws which impose foreign exchange controls on the Company or that affect the payment of dividends, interest, or other payments to nonresident holders of the Nam Tai's securities. British Virgin Islands law and the Company's Memorandum and Articles of Association impose no limitations on the right of nonresident or foreign owners to hold or vote such securities of the Company.

ITEM 7. TAXATION

British Virgin Islands Tax Considerations

No reciprocal tax treaty regarding withholding tax exists between the United States and the British Virgin Islands. Under current British Virgin Islands law, dividends, interest or royalties paid by the Company to individuals and gains realized on the sale or disposition of shares are not subject to tax as long as the recipient is not a resident of the British Virgin Islands. The Company is not obligated to withhold any tax for payments of dividends and shareholders receive gross dividends irrespective of their residential or national status.

ITEM 8. SELECTED FINANCIAL DATA

The selected financial information set forth below is derived from consolidated financial statements of the Company. The selected information is qualified in its entirety by reference to, and should be read in conjunction with, such consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

SELECTED FINANCIAL INFORMATION

(In thousands of U.S. dollars except per share data)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	----	----	----	----	----
Income Statement Data					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$108,234	\$121,240	\$ 96,564	\$ 70,844	\$ 57,955
Gross margin	22,185	23,152	17,223	14,098	10,940
Net income	9,416	11,419	8,099	5,197	2,503
Dividends paid	243	120	65	-	853
Per share amounts (Note 2.)					
Net income	\$ 1.16	\$ 1.40	\$ 1.09	\$ 0.87	\$ 0.47
Dividend paid	0.03	0.015	0.01	-	0.20
Balance Sheet Data					
Current assets	\$ 46,609	\$ 47,011	\$ 45,520	\$ 31,247	\$ 23,071
Property, plant and equipment - net	36,487	27,635	14,624	7,396	6,337
Total assets	88,391	79,281	66,287	39,530	29,474
Current liabilities	21,401	19,108	17,838	10,644	12,475
Non current liabilities	-	-	-	609	631
Shareholders' equity	66,990	60,173	48,449	28,162	16,368

</TABLE>

#### Notes

- Assets and liabilities are translated into United States dollars using the appropriate rates of exchange at the balance sheet date. Income and expenses are translated at the average exchange rate in effect during the year.
- The weighted average number of shares outstanding and common stock equivalents for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 were 8,142,131, 8,171,750, 7,459,570, 5,976,136 and 5,301,996, respectively.

#### ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the section of this Report entitled Item 1. Business -- Risk Factors. This section should be read in conjunction with the Company's Consolidated Financial Statements included elsewhere herein.

#### RESULTS OF OPERATIONS

##### General

The Company derives its revenues principally from manufacturing consumer electronic products and subassemblies for OEM customers in the electronics industry. The Company manufactures a broad line of finished products for its OEM customers, including personal organizers, linguistic products, calculators and IC card readers. In addition, it manufactures electronic components and subassemblies. In 1994, the Company discontinued sales of its proprietary products, sales of which had not been material to the Company prior to the sale of the product lines.

During the years ended December 31, 1996, 1995 and 1994, sales to OEM customers accounted for 99% of total net sales in each year. Management believes that sales of personal organizers, linguistic products and calculators will continue to be an important line of business for the Company for the next several years. The importance of sales of subassemblies and components and other products to total revenues has been rising, and management expects these products, particularly LCD modules and IC card readers, to contribute an increasing proportion of total revenue. See Item 1. Description of Business -- Customers and Marketing.

The consumer electronics industry is very competitive and the Company is continuously under pressure to lower the selling price and therefore reduce the gross profit margin of its existing product lines. In response to these pressures, the Company seeks to upgrade its technology in order to be capable of manufacturing more advanced and specialized products with higher unit margins. It also strives to improve customer relations and quality. The Company believes there is less competition in more advanced and specialized products due to the complexity involved in manufacturing and the lower numbers of direct competitors.

Since 1987, when the Company moved its manufacturing operations to China, Nam Tai has derived substantially all of its operating income from its China operations. The Company plans to continue increasing the scope of its

operations and investment in China.

Under current British Virgin Islands law, Nam Tai is not subject to tax on its income. Most of the Company's operating profits accrue in China, where its effective tax rate is 10%, and in Hong Kong, where the corporate tax rate on assessable profits is currently 16.5%. The Company receives tax credits in China related to its investment there which reduces the overall tax payable by the Company. See Note 9 of Notes to Consolidated Financial Statements.

The Company uses a standard cost system to value its inventory, which is purchased in U.S. dollars, Japanese yen and Hong Kong dollars. At the end of each quarter, the Company revalues its inventory based upon actual costs and the resulting standard cost revaluation flows through cost of sales when the inventory is sold.

The first quarter is typically the Company's slowest sales period because, as is customary in China, the Company's factories in China are closed for two weeks for the Chinese New Year holidays. The following table sets forth certain unaudited quarterly financial information for the four quarters of 1996, 1995 and 1994.

<TABLE>

<CAPTION>

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
(In thousands of U.S. dollars except per share data)				
1996				
----				
<S>	<C>	<C>	<C>	<C>
Summary of operations				
Net sales	\$ 25,357	\$ 24,885	\$ 28,005	\$ 29,987
Gross profit	5,036	4,907	6,344	5,898
Income from operations	2,007	1,201	2,893	2,432
Net income	2,333	1,409	3,318	2,356
Net income per share	\$ 0.29	\$ 0.17	\$ 0.40	\$ 0.30
1995				
----				
Summary of operations				
Net sales	\$ 22,443	\$ 30,065	\$ 35,514	\$ 33,218
Gross profit	4,256	5,987	6,967	5,942
Income from operations	1,609	2,880	3,736	2,541
Net income	1,556	3,210	4,637	2,016
Net income per share	\$ 0.19	\$ 0.39	\$ 0.57	\$ 0.25
1994				
----				
Summary of operations				
Net sales	\$ 14,888	\$ 24,625	\$ 32,127	\$ 24,924
Gross profit	2,602	4,681	5,702	4,238
Income from operations	672	2,111	3,137	1,694
Net income	655	2,003	3,494	1,947
Net income per share	\$ 0.09	\$ 0.28	\$ 0.48	\$ 0.24

</TABLE>

The following table presents selected consolidated financial information stated as a percentage of net sales for the years ended December 31, 1996, 1995 and 1994:

<TABLE>

<CAPTION>

	Year ended December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%
Cost of sales	79.5	80.9	82.2
Gross profit	20.5	19.1	17.8
Costs and expenses:			
Selling, general and administrative expenses	11.7	9.4	9.7
Research and development expenses	0.9	0.8	0.2
	12.6	10.2	9.9
Income from operations	7.9	8.9	7.9
(Loss) on disposal of fixed assets	(0.1)	0	0
Other income - net	1.1	0.2	0.8
Interest expense	(0.1)	(0.2)	(0.2)

Income from consolidated companies			
before income taxes and minority interests	8.8	8.9	8.5
	----	----	----
Net income	8.7%	9.4%	8.4%
	----	----	----

</TABLE>

Year ended December 31, 1996 Compared to Year Ended December 31, 1995

Nam Tai's sales declined by 11% to \$108,234,000 for the year ended December 31, 1996 compared to \$121,240,000 for the year ended December 31, 1995. A reduction in orders from certain OEM customers, particularly Sharp Corporation, caused the decline in sales. Management believes the reduction in orders was the result of forecasts of year-end sales levels by certain of the Company's OEM customers which had caused them to place extensive orders with the Company for production during the third and fourth quarters of 1995. Lower than expected year-end 1995 sales by these OEM customers caused them to curtail orders for production in 1996. The decline in orders from Sharp Corporation during 1996 did not offset a substantial increase in sales to certain other OEM customers, particularly Texas Instruments Incorporated.

The Company's gross profit decreased to \$22,185,000 for the year ended December 31, 1996 from \$23,152,000 for 1995. The principal reason for the decrease in gross profit was the decrease in sales. Also contributing to the decrease in gross profit was an increase in the cost of sales resulting from a net write-off of \$415,000 of inventory. During the course of the audit of its financial statements for the year ended December 31, 1996, the Company confirmed that certain components included in its raw material inventory were not likely to be used in connection with future production, and due to the passage of time, could not be charged to customers who would have otherwise been responsible for the reimbursement of cost. After consulting with its auditors, the Company elected to write-off the cost of such inventory.

Despite the reduction in sales and additions to costs of sales, Nam Tai's gross profit margin improved to 20.5% in 1996 from 19.1% in 1995. This was principally because of lower component costs and efficiencies implemented to reduce manufacturing costs. Lower component costs were attributable to the general decline in the cost of certain components as well as the decline in the value of the yen relative to the U.S. dollar. The latter benefited the Company as it purchases a substantial volume of components from Japanese companies which are paid in yen.

Selling, general and administrative expenses increased by 11.0% to \$12,702,000 or 11.7% of sales in the year ended December 31, 1996 from \$11,441,000 or 9.4% of sales for the year ended December 31, 1995. The increase in absolute dollars was principally the result of costs associated with the addition of management personnel to the Company's operations in China, Hong Kong and Canada, plus certain one-time expenses relating to the opening of Phase I of the Company's the new factory.

Research and development expenses increased marginally to \$950,000 in 1996 from \$945,000 in 1995. Namtek, the Company's software-development subsidiary which began operations in early 1996, accounted for approximately 40% of the research and development expenses in 1996. These expenses were substantially recovered from fees paid by third parties.

Loss on disposal of fixed assets was \$123,000 in the year ended December 31, 1996 as compared to zero for the year ended December 31, 1995. The loss in 1996 principally related to \$120,000 of leasehold improvements Nam Tai had made to its former principal executive offices in Hong Kong under a lease which was prematurely terminated as of the end of 1996. See the discussion regarding this lease, its termination and Nam Tai's relocation of its principal executive offices in Hong Kong to new premises under Item 9. Liquidity and Capital Resources below.

Other income (net) increased to \$1,253,000 for the year ended December 31, 1996 from \$225,000 for the year ended December 31, 1995. This income consisted chiefly of interest income of \$1,092,000 on the Company's cash balances and \$294,000 of income from dividends paid by Deswell to the Company as a shareholder. In 1995, other income was reduced as a result of fourth quarter charges totaling \$936,000 in regard to a provision for the Company's compensation for loss of office arrangement and a one-time bonus to workers.

Interest expense decreased to \$89,000 for the year ended December 31, 1996 from \$161,000 for the year ended December 31, 1995 as a result of the reduction in the Company's borrowings under its banking facilities.

Income from continuing operations before income tax was \$9,574,000 for the year ended December 31, 1996 as compared to \$10,830,000 for the year ended December 31, 1995. The decrease of 11.6% was primarily due to decreased 1996 sales.

The income tax expense of \$158,000 for the year ended December 31, 1996 compares to a recovery of \$589,000 for the prior year. The income tax expense in 1996 relates to income taxes on Hong Kong operations and is comparable to 1995 income taxes paid with respect to Hong Kong operations. In 1995, the Company reversed a provision of \$705,000 against income taxes owing from China operations following receipt of a refund of 1994 income taxes on China operations. The refund in 1995 of 1994 China income taxes resulted in an overall recovery of total income taxes paid for 1995. As a result of expected refunds of income taxes attributable to China operations, the Company made no provision for such income taxes in either 1995 or 1996. The refund of 1995 income taxes on China operations was received in 1996 and the refund of 1996 income taxes from such operations is expected in 1997.

Net income decreased by 17.5% to \$9,416,000 (or 8.7% of sales) for the year ended December 31, 1996 compared to \$11,419,000 (or 9.4% of sales) for the year ended December 31, 1995. This resulted in earnings per share for the year ended December 31, 1996 of \$1.16 compared to earnings per share of \$1.40 for the year ended December 31, 1995. The decrease in net income and earnings per share was in line with the decrease in sales taking into consideration the higher operating margins.

The weighted average number of Common Shares outstanding and common stock equivalents decreased to 8,142,131 for the year ended December 31, 1996 from 8,171,750 for the year ended December 31, 1995, reflecting the repurchase by the Company of 273,500 shares through its share repurchase program in effect from September 11, 1996 to December 4, 1996.

Year ended December 31, 1995 Compared to Year Ended December 31, 1994

Nam Tai's sales increased by 26% to \$121,240,000 in the year ended December 31, 1995 compared to \$96,564,000 for the year ended December 31, 1994, primarily due to increases in sales to Sharp Corporation, Nintendo, Inc. (which orders through Sharp Corporation) and Texas Instruments Incorporated. The Company also received additional orders from Optrex Corporation.

The Company's gross profit margin increased to \$23,152,000 or 19.1% of sales for the year ended December 31, 1995 from \$17,223,000 or 17.8% of sales. The principal reasons for the increase in profit margins were (i) low cost of raw materials, in part the result of the weakness of the Japanese yen in relation to the US dollar, and (ii) improvements to quality control which resulted in a reduction of the scrap rate.

Selling, general and administrative expenses increased by 22.1% to \$11,441,000 or 9.4% of sales in the year ended December 31, 1995 from \$9,370,000 or 9.7% of sales for the year ended December 31, 1994. The increase in absolute dollars mainly reflected additional staff and costs required to provide services to the Company in line with growth in sales. The decrease in such expenses as a percent of sales was the result of efficiencies obtained in general administrative expense as the Company handled a greater level of activity with existing resources. Other expenses included the initial start up expenses associated with the formation of the new subsidiary operation, Namtek.

No gain or loss on disposal of fixed assets was incurred in the year ended December 31, 1995 compared to a net loss on disposal of fixed assets of \$48,000 in the year ended December 31, 1994. Other income - net declined to \$225,000 for the year ended December 31, 1995 from \$761,000 for the year ended December 31, 1994. This income mainly consists of \$1,548,000 of interest income less a \$560,000 charge relating to undepreciated cost of the compensation for loss of office arrangement and \$376,000 associated with a one-time bonus to staff in Hong Kong, China and Canada to recognize exceptional work in the fourth quarter of 1995 (a period of high activity). The provision taken to expense the compensation for loss of office arrangement applied to certain senior management who were the beneficiaries of such arrangement but did not involve the payment of any funds and will eliminate the need to accrue for this expense in the future.

Interest expense increased to \$161,000 for the year ended December 31, 1995 from \$129,000 for the year ended December 31, 1994.

Income from continuing operations before income taxes increased to \$10,830,000 for the year ended December 31, 1995 from \$8,198,000 for the year ended December 31, 1994. The improvement of 32.1% was primarily attributable to higher operating income reflecting increased sales volume and higher gross profit margins associated with 1995 sales.

The income tax benefit of \$589,000 for the year ended December 31, 1995 compared to a provision for income tax expense of \$173,000 for the year ended December 31, 1994. The tax recovery resulted from the refund of \$782,000 China tax paid for the year ended December 31, 1994 which was received during

the second quarter of 1995. Hong Kong tax payable was \$106,000 for the year ended December 31, 1995.

Minority interest in subsidiaries declined to nil for the year ended December 31, 1995 from \$74,000 for the year ended December 31, 1994 following the repurchase of shares of NT Canada from a minority shareholder during 1994.

Net income increased by 41% to \$11,419,000 (or 9.4% of sales) for the year ended December 31, 1995 compared to \$8,099,000 (or 8.4% of sales) for the year ended December 31, 1994. This resulted in earnings per share for the year ended December 31, 1995 of \$1.40 compared to earnings per share of \$1.09 for the year ended December 31, 1994. The increase in net income and earnings per share was in line with the increase in sales taking into consideration the higher operating margins. The weighted average number of common shares outstanding and common stock equivalents increased to 8,171,750 for the year ended December 31, 1995 from 7,459,570 for the year ended December 31, 1994, reflecting the exercise of warrants issued according to the 1993 Rights Offering which occurred in September 1994.

#### LIQUIDITY AND CAPITAL RESOURCES

Current assets remained relatively stationary at \$46,609,000 for the year ended December 31, 1996 compared to \$47,011,000 for the year ended December 31, 1995. Cash, cash equivalents and term deposits were also relatively stationary at \$17,741,000 for the year ended December 31, 1996 versus \$17,362,000 for the year ended December 31, 1995. Accounts receivable at December 31, 1996 decreased by 6.3% from the level at December 31, 1995, essentially corresponding to the decrease in sales during 1996. Inventories at December 31, 1996 increased by 0.8% from levels at December 31, 1995, reflecting an inventory turnover period of 45 days in 1996 versus 37 days for 1995. The increase in the inventory turnover was principally the result of Nam Tai's transfer of responsibility for accounts payable on China deliveries from the Hong Kong office to personnel at the Company's China factory complex.

Total current assets also remained relatively stationary at \$47,011,000 for the year ended December 31, 1995 compared to \$45,520,000 for the year ended December 31, 1994. Cash, cash equivalents and term deposits declined to \$17,362,000 for the year ended December 31, 1995 from \$23,681,000 for the year ended December 31, 1994. This decline of \$6,319,000 resulted from expenditures on new plant construction. The increase in accounts receivable and inventories for the year ended December 31, 1995 compared to 1994 was in line with the increase in sales during 1995 over 1994 plus additional receivables at December 31, 1995 in the amount of \$2,620,000 which related to the residential property in West Vancouver, British Columbia, Canada. The sale of this property was concluded as at December 31, 1995.

In December 1994, the Company invested \$3,931,000 for approximately 14% of Deswell's then outstanding capital stock. In July 1995, Deswell completed an initial public offering of its securities in the United States and the Company's investment was diluted to approximately 10.5% of Deswell's outstanding shares as at December 31, 1995. In July 1996, the Company exercised warrants to purchase an additional 12,000 shares of Deswell for \$119,000. As at December 31, 1996, this investment was shown at cost and was approximately 87% of the market value of Deswell common shares as reported on The National Market at the December 31, 1996. Subsequent to the end of the year, the market price of the Deswell shares rose substantially on The Nasdaq National Market System and the Company elected to sell a portion of its investment in Deswell, reducing its stake in Deswell to approximately 5.8% of its reported shares outstanding at December 31, 1996. The Company realized a gain of \$2,564,500 on sales of 225,000 shares for total gross proceeds of \$4,428,000.

The increase in property, plant and equipment - net to \$36,487,000 for the year ended December 31, 1996 from \$27,635,000 for the year ended December 31, 1995 principally reflects the expenditure of capital on new plant facilities. A total of \$9,904,000 was expended finalizing the construction of the new facility resulting in a total expenditure, excluding land and production equipment, of \$21,812,000. In addition, \$1,100,000 of new production equipment costs were incurred during 1996. The increase in property, plant and equipment - net to \$27,635,000 for the year ended December 31, 1995 from \$14,624,000 for the year ended December 31, 1994 reflects the expenditure of capital on new plant facilities, net of depreciation.

At December 31, 1996, 28% and 51% of the Company's identifiable assets were located in Hong Kong and China, respectively, as compared to 32% and 54%, respectively, at December 31, 1995. In 1996, the Company implemented a new policy of holding surplus funds in Canada. Consequently, cash and term deposits representing 53% of the total cash and term deposits of \$17,741,000 were held by the Company in Canada at December 31, 1996 versus nil as at December 31, 1995. As a result, identifiable assets in Canada represented 21% of total assets at December 31, 1996 as compared to 14% of total assets at

December 31, 1995.

In the past, the Company used short-term bank borrowings to assist it to meet its working capital requirements and to provide funds for investment in property, plant and equipment. Short-term bank borrowings totaled \$273,000 as at December 31, 1995. During 1996, the Company's capital requirements were financed from internally generated funds and short-term borrowings were reduced to nil at December 31, 1996. The Company plans to finance its 1997 capital requirements from internally generated funds and working capital of which there was approximately \$25,208,000 as at December 31, 1996.

At December 31, 1996, Nam Tai had in place general banking facilities with six financial institutions aggregating \$49,200,000. Such facilities, which are subject to annual review, permit the Company to obtain overdrafts, lines of credit for forward exchange contracts, letters of credit, import facilities, trust receipt financing, shipping guarantees and working capital, as well as fixed loans. As at December 31, 1996, the Company had utilized approximately \$7,629,000 under such general credit facilities and had available unused credit facilities of \$41,571,000. Interest on notes payable averaged 5.1% per annum during the year ended December 31, 1996. During the year ended December 31, 1996, the Company paid a total of \$89,000 in interest on indebtedness.

Accounts payable increased by 20.7% to \$16,184,000 for the year ended December 31, 1996 from \$13,408,000 for the year ended December 31, 1995, principally as a result of changes to policy regarding the payment of vendors associated with the transfer, during 1996, of responsibility for accounts payable on China deliveries from the Hong Kong office to personnel at the Company's China factory complex. The Company had no long term debt during either 1995 or 1996.

Cash flow from operations for 1996 included net income of \$9,416,000 and depreciation of \$2,676,000. The net cash addition due to changes in working capital (excluding cash and bank borrowings) was \$3,347,000. During 1996, the Company's investment activities utilized \$11,650,000 in additions to property, plant and equipment, mainly consisting of capitalized construction costs for the Company's new factory and additional equipment costing \$1,100,000.

During 1995, the Company commenced the expansion of its complex in China, including the construction of Phase I of its new manufacturing facility adjacent to the Company's original factory. The Company used existing cash balances to finance the construction. Construction was substantially completed in May 1996 and the Company began to utilize portions of the facility during the period from June 1 through December 31, 1996. As a result of the partial use of the new facility during the last seven months of 1996, the Company recorded a depreciation expense of \$346,000 for the year ended December 31, 1996.

In September 1994, the Company agreed to a three-year lease for office space in Hong Kong and effective March 1, 1995 moved its principal executive and marketing offices there. The rent for the first two years was approximately \$17,800 per month. As a result of zoning regulations which limited the use that the Company could make of the space comprising its Hong Kong headquarters, Nam Tai was required to terminate its existing lease and relocate its principal executive and Hong Kong marketing offices prior to the expiration of the lease term. Accordingly, in February 1997, the Company leased new premises for its principal executive offices in Hong Kong. The rent for the new space is approximately \$17,900 per month for the first two years and is to be renegotiated for the third year. The Company moved into the new premises in late March 1997. The Company recorded a charge of \$120,000 for the year ended December 31, 1996 in regard to leasehold improvements Nam Tai had made in the terminated leasehold.

Net cash utilized by financing activities was \$290,000 in 1996. No major financing was undertaken during the year.

The Company believes that there are no material restrictions (including foreign exchange controls) on the ability of Nam Tai's non-China subsidiaries to transfer funds to the Company in the form of cash dividends, loans, advances, or product/material purchases. With respect to the Company's China subsidiaries, there are restrictions on the payment of dividends and the removal of dividends from China, however, the Company believes that such restrictions will not have a material effect on the Company's liquidity or cash flow.

In the past Nam Tai paid quarterly dividends on its Common Shares, but such dividends were discontinued in January 1993. In 1994, the Company began paying annual dividends, paying shareholders aggregate dividends of \$65,000 (\$0.01 per share) in 1994, \$120,000 (0.015 per share) in 1995 and \$243,000 (\$0.03 per share) in 1996. It is the current policy of Nam Tai to determine



the actual amount of future dividends based upon the Company's growth during the preceding year and to limit cash dividends to less than 20% of net cash flow in order to have sufficient cash to finance growth. Future dividends will be in the form of cash or stock or a combination of both. There can be no assurance that any dividend on the Common Shares will be declared or, if declared, what the amounts of dividends will be or whether such dividends, once declared, will continue for any future period.

#### IMPACT OF INFLATION

The Company believes that inflation has not had a material effect on its past business. The Company has generally been able to increase the price of its products in order to keep pace with inflation. The Company believes that increases in labor costs, which represent the most significant component of the Company's production costs (other than material costs), will not materially affect its business because of the Company's utilization of less expensive labor through its operations in China. Labor and overhead expenses related to Nam Tai's Chinese factory amounted to 8.7% of the Company's total expenses before operating income during the year ended December 31, 1996 and 6.2% during the year ended December 31, 1995, the increase principally resulting from the expansion of the facility.

#### EXCHANGE RATES

The Company sells a majority of its products in U.S. dollars and pays for its material components in Japanese yen, U.S. dollars and Hong Kong dollars. It pays labor costs and overhead expenses in renminbi, the currency of China (the basic unit of which is the yuan), Hong Kong dollars and Canadian dollars. The exchange rate of the Hong Kong dollar to the United States dollar has been fixed by the Hong Kong government since 1983 at approximately HK\$7.80 to \$1.00 through the currency issuing banks in Hong Kong and accordingly has not presented a currency exchange risk. Canadian operations are relatively small with the percentage of expense in Canadian dollars representing 2% of the total expenses for the year ended December 31, 1996.

Management believes that the Company's most significant foreign exchange risk results from material purchases made in Japanese yen. Approximately 28%, 33% and 35% of Nam Tai's material costs have been in yen during the years ended December 31, 1996, 1995 and 1994, respectively. Sales made in yen account for approximately 15% of sales for the year ended December 31, 1996, 18% of sales for 1995 and 13% of sales for 1994. The net currency exposure has been declining as material costs in yen decrease and sales in yen increase. The Company also believes its customers will accept an increase in the selling price of manufactured products if the exchange rate of the yen appreciates beyond a range of 5% to 10% although such customers may also request a decrease in selling price in the event of a depreciation of the Japanese yen. This Company's belief is based on oral agreements with its principal customers which management believes are customary between OEMs and their suppliers. However, there can be no assurance that such agreements will be honored, and the refusal to honor such an agreement in the event of a severe fluctuation of the yen at a time when sales made in yen are insufficient to cover material purchases in yen would materially and adversely affect the Company's operations.

Effective January 1, 1994, China adopted a floating currency system whereby the official exchange rate equalled the market rate. Since the market and official renminbi rates were unified, the value of the renminbi against the dollar has been stable. This is in spite of significant inflation during 1994 and 1995 which placed devaluation pressure on the renminbi. The Chinese Government took steps to restrict credit to counteract these pressures, which taken together with the net inflow of capital into China, resulted in stability of the currency against the United States dollar. This stability was maintained through 1996. The Company believes that because its Chinese operations presently are confined to manufacturing products for export, any devaluation of the renminbi would benefit Nam Tai by reducing its costs in China provided that action or other economic pressures do not lead to fundamental changes in the present economic climate in China.

Foreign exchange transactions involving the renminbi take place through the Bank of China or other institutions authorized to buy and sell foreign exchange or at an approved foreign exchange adjustment center (known as a "swap center"). In the past, when exchanging Hong Kong dollars for renminbi, the Company used a swap center to obtain the best possible rate. When translating the Chinese company account into U.S. dollars, the Company uses the same exchange rate as quoted by the Bank of China. Since January 1, 1994, when China adopted a floating currency system (whereby the official rate is equal to the market rate), swap centers and banks in China offer essentially the same market rates, facilitating the exchange of Hong Kong dollars for renminbi. The adoption of a floating currency system has had no material impact on the Company.

On April 1, 1996, new regulations on foreign exchange were implemented by the China government. Trade-related foreign exchange receipts and disbursements are generally not subject to restriction in accordance with the provisions on settling, selling or buying foreign exchange. Capital account foreign exchange receipts and disbursements are subject to control and organizations in China are restricted in foreign currency transactions which must take place through designated banks.

The Company may elect to hedge its currency exchange risk when it judges such action may be required. In an attempt to lower the costs of expenditures in foreign currencies, management will periodically enter into forward contracts to buy or sell foreign currency(ies) against the U.S. dollar through one of its banks. A buy contract allows Nam Tai to buy a targeted currency at a fixed price for up to one year, but which the Company normally books forward six months. Conversely, a sale contract allows the Company to sell the currency at a fixed price during the contract period. The type of contract and currency that the Company enters into depends on whether management believes the currency will rise or fall against the dollar in the succeeding period. Nam Tai will enter into buy forward contracts if it appears the currency will rise and sell forward contracts if it appears the currency will fall against the dollar. If there is a fluctuation in the two currencies a gain or loss occurs between the buy forward exchange rate and the sell forward exchange rate. The Company enters into foreign currency contracts in order to manage foreign exchange exposures. However, since the foreign currency contracts are not intended to hedge identifiable foreign currency commitments, as required by generally accepted accounting principles, the contracts are marked to the market with any realized and unrealized gains or losses recorded as other income (loss) - net.

As at December 31, 1996, the Company had no open forward contracts while at December 31, 1995 there were open forward contracts amounting to \$60,000. During 1996, Nam Tai recorded no gain from hedging transactions. The Company's financial results have been affected in the past due to hedging activities, resulting in foreign exchange gains of approximately \$52,000 in 1995 and \$68,000 in 1994 and foreign exchange losses of approximately \$400,000 in 1993 and \$350,000 in 1992. These exchange gains and losses were caused by the difference between the buy forward rate and sell forward rate for exchange contracts between the foreign currencies (Japanese yen in 1992 and 1993, Canadian dollars in 1994 and 1995) entered into by the Company. The Company is continuing to review its hedging strategy and there can be no assurance that Nam Tai will not suffer losses in the future as a result of currency hedging.

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.

##### Management

The directors and executive officers of the Company are as follows:

NAME	POSITION WITH COMPANY
----	-----
M. K. Koo and Director	Chairman of the Board
Tadao Murakami and Director	Chief Executive Officer, Vice-Chairman
Ronald Erdman and Director	Chief Financial Officer, Secretary
Hidekazu Amishima	General Manager of NTES
Jerry Chang	Vice General Manager of NTES
Charles Chu	Director
Robert McNamara	Director
Stephen Seung	Director

M. K. KOO. Mr. Koo has served as Chairman of the Board and a Director of Nam Tai and its predecessor companies since inception. Mr. Koo serves on the Company's audit committee. Mr. Koo received his Bachelor of Laws degree from National Taiwan University in 1970.

TADAO MURAKAMI. Mr. Murakami has served the Company in various executive capacities since 1984. He became Secretary and a Director of the Company in December 1989. From June 1989, he has been employed as the President of the Company's Hong Kong subsidiary. In July 1994, Mr. Murakami succeeded Mr. Koo as President and in June 1995 became the Company's Chief Executive Officer. Mr. Murakami assumed the position of Vice-Chairman in January 1996 and is in charge of the manufacturing and marketing operations of the Company. Mr. Murakami graduated from Japan Electronic Technology College in 1964.

RONALD ERDMAN. Mr. Erdman joined Nam Tai as Chief Financial Officer, Secretary and Director in January 1996 based in Vancouver, Canada. He also

serves as President of Nam Tai Electronics (Canada) Ltd. Mr. Erdman was employed by HSBC Capital Canada Inc. (formerly Wardley Canada Inc.), acting as Chief Executive Officer since 1992. Mr. Erdman obtained a BSc. (Eng.) from Queen's University, Kingston, Ontario, Canada in 1973 and M.B.A. from Cranfield School of Management, Cranfield, United Kingdom in 1979.

HIDEKAZU AMISHIMA. Mr. Amishima joined the Company in August 1996 as Vice General Manager and assumed the responsibility for overseeing day-to-day factory operations of the Company's Shenzhen, China manufacturing complex as General Manager in November 1996. From 1964 until joining the Company, Mr. Amishima was employed by Kanda Tsushin Industrial Co. Ltd., a Japanese electronics manufacturer.

JERRY CHANG. Mr. Chang joined the Company in 1995 and assumed the position of Vice General Manager of NTES in late 1996. Mr. Chang is in charge of production at the Company's Shenzhen, China manufacturing facility. Prior to joining Nam Tai he was General Manager of R.C. Centronix Electronics (M) SDN BHD, a Malaysian electronics manufacturer.

CHARLES CHU. Mr. Chu originally served as Secretary and a Director of the Company from August 1987 to September 1989. He was reappointed a Director in December 1992. Since July 1988, Mr. Chu has been engaged in the private practice of law in Hong Kong. Mr. Chu serves on Nam Tai's audit committee. Mr. Chu received his Bachelor of Laws degree and Post-Graduate Certificate of Laws from the University of Hong Kong in 1980 and 1981, respectively.

ROBERT MCNAMARA. Mr. McNamara served as a consultant to Nam Tai during 1995 and joined the Board of Directors of the Company effective May 18, 1996. He is currently Managing Director of Broadview Associates, L.P. of Fort Lee, New Jersey. Prior to joining Broadview Associates, L.P. in 1995, Mr. McNamara spent fifteen years in the investment banking business with Smith Barney Inc. and Salomon Brothers Inc., most recently as head of Salomon Brothers' Technology Group in New York.

STEPHEN SEUNG. Mr. Seung was appointed a Director of Nam Tai in 1995. Mr. Seung is an attorney and Certified Accountant and has been engaged in the private practice of law in New York since 1981. Mr. Seung received a B.S. degree in Engineering from the University of Minnesota in 1969, an M.S. degree in Engineering from the University of California at Berkeley in 1971, an MBA degree from New York University in 1973 and a J.D. degree from New York Law School in 1979. Mr. Seung serves on Nam Tai's audit committee and acts as Nam Tai's authorized agent in the United States.

No family relationship exists among any of the named directors, executive officers or key employees. No arrangement or understanding exists between any such director or officer and any other persons pursuant to which any director or executive officer was elected as a director or executive officer of the Company. Directors of the Company are elected each year at its annual meeting of shareholders and serve until their successors take office or until their death, resignation or removal. Executive officers serve at the pleasure of the Board of Directors of the Company.

#### ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS.

The aggregate amount of compensation paid by Nam Tai and its subsidiaries during the year ended December 31, 1996 to all directors and the five highest paid officers as a group for services in all capacities was approximately \$1,574,000, including the benefit provided in lieu of compensation for loss of office described below. The Company also provides additional compensation in the form of housing for its Chief Executive Officer in Hong Kong.

In August 1990, the Company fixed compensation for loss of office at \$500,000 for Mr. M. K. Koo and \$300,000 for Mr. Tadao Murakami. The Company also fixed the age of retirement for directors at age 65 years. At December 31, 1995, the Company had accrued the entire \$800,000. In March 1996, Mr. Koo agreed to release the Company from its obligation to pay compensation for loss of office in exchange for the Company's agreement to reduce the final purchase price of the property purchased by Mr. Koo from the Company by \$450,000. See Item 13. Interest of Management in Certain Transactions.

Directors who are not employees of the Company nor any of its subsidiaries are paid \$1,000 per month for services as a director, \$750 per meeting attended in person, \$500 per meeting attended by telephone. In addition they are reimbursed for all reasonable expenses incurred in connection with services as a director.

#### ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM THE COMPANY OR ITS SUBSIDIARIES.

As at December 31, 1996, the Company had outstanding options to purchase an aggregate of 537,300 Common Shares. Of these options, all of which were

granted under the Company's 1993 stock option plan, options to purchase 131,550, 225,750 and 10,000 Common Shares were exercisable at \$5.35, \$11.00 and \$11.375 per share, respectively, and expire on September 9, 1998, and July 15, 1999 and July 15, 1999, respectively. Options to purchase an aggregate of 330,000 Common Shares were held by the Company's officers and directors as a group at December 31, 1996.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS.

In January 1995, Nam Tai entered into an arrangement with Mr. M. K. Koo, Chairman of the Company, requiring him to purchase a residential property in West Vancouver, British Columbia, Canada no later than December 31, 1995 at the higher of book value or market value. At December 29, 1995, Mr. Koo purchased the property for book value in the amount of \$2,620,445. In 1996, the Company agreed to reduce the final purchase price of the property by \$450,000 in exchange for Mr. Koo's agreement to release the Company from its obligation to pay him \$500,000 as compensation for loss of office upon Mr. Koo's retirement. The balance outstanding at December 31, 1996 amounting to \$2,120,000 is repayable by Mr. M.K. Koo on or before December 31, 1997. See Item 11. Compensation of Directors and Officers.

It is the Company's policy that all future transactions between the Company and any interested director or executive officer be approved by a majority of the disinterested directors and on terms no more favorable than would be available from an independent third party.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not Applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR THE COMPANY'S SECURITIES

Not Applicable.

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this Report:

<TABLE> <CAPTION>	Page No. ----- <C>
<S> Report of Independent Accountants. . . . .	.36
Consolidated Statements of Income for the years ended December 31, 1996, December 31, 1995 and December 31, 1994. . . . .	.37
Consolidated Balance Sheets as of December 31, 1996 and December 31, 1995. . . . .	.38
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 1996, December 31, 1995 and December 31, 1994 . . . . .	.39
Consolidated Statements of Cash Flows for the years ended December 31, 1996, December 31, 1995 and December 31, 1994. . . . .	.40
Notes to Consolidated Financial Statements . . . . .	.41

All other schedules for which provisions made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

REPORT OF INDEPENDENT ACCOUNTANTS  
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF  
NAM TAI ELECTRONICS, INC.

We have audited the accompanying consolidated balance sheets of Nam Tai

Electronics, Inc and its subsidiaries as of December 31, 1996 and 1995, and the related statements of income, shareholders' equity, and cash flows for each of the three years ended December 31, 1996, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nam Tai Electronics, Inc. and its subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years ended December 31, 1996, 1995 and 1994 in conformity with accounting principles generally accepted in the United States of America.

Price Waterhouse  
Certified Public Accountants

Hong Kong, March 31, 1997

NAM TAI ELECTRONICS, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands of U.S. Dollars except share data)

</TABLE>  
<TABLE>  
<CAPTION>

	Year ended December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Net sales	\$108,234	\$ 121,240	\$ 96,564
Cost of sales	86,049	98,088	79,341
	-----	-----	-----
Gross profit	22,185	23,152	17,223
	-----	-----	-----
Costs and expenses			
Selling, general and administrative expenses	12,702	11,441	9,370
Research and development expenses	950	945	239
	-----	-----	-----
	13,652	12,386	9,609
	-----	-----	-----
Income from operations	8,533	10,766	7,614
(Loss) on disposal of fixed assets	(123)	0	(48)
Other income - net (Note 5)	1253	225	761
Interest expense	(89)	(161)	(129)
	-----	-----	-----
Income from consolidated companies before income taxes and minority interests	9,574	10,830	8,198
Income tax (expense) benefit (Note 8)	(158)	589	(173)
	-----	-----	-----
	9,416	11,419	8,025
Minority interests in subsidiaries	0	0	74
	-----	-----	-----
Net income	\$ 9,416	\$ 11,419	\$ 8,099
	-----	-----	-----
Earnings per share	\$ 1.16	\$ 1.40	\$ 1.09
	-----	-----	-----

Weighted average Common Shares  
outstanding and common stock  
equivalents (Note 1(f)) 8,142,131 8,171,750 7,459,570  
</TABLE>

See accompanying notes to consolidated financial statements.

NAM TAI ELECTRONICS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands of U.S. Dollars)

<TABLE>

<CAPTION>

	As at December 31,	
	1996	1995
	----	----
<b>ASSETS</b>		
<S>		
Current assets:		
Cash and cash equivalents (Note 12)	\$ 1,761	\$ 10,927
Term deposits	15,980	6,435
Accounts receivable, net	16,589	17,699
Inventories (Note 3)	10,511	10,425
Prepaid expenses and deposits	1,768	1,525
	-----	-----
Total current assets	46,609	47,011
Long term investment (Note 4)	4,050	3,931
Property, plant and equipment, at cost	46,751	35,365
Less: Accumulated depreciation and amortization	(10,264)	(7,730)
	-----	-----
	36,487	27,635
Other assets	1,245	704
	-----	-----
Total assets	\$ 88,391	\$ 79,281

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Short-term bank borrowings	\$ 0	\$ 273
Notes payable	5,186	5,320
Accounts payable and accrued expenses	16,184	13,408
Income taxes payable	31	107
	-----	-----
Total current liabilities	21,401	19,108

Shareholders' equity:		
Common stock (Note 13)	78	80
Additional paid-in capital	28,572	28,182
Stock option grants (Note 13(b))	305	467
Retained earnings	38,007	31,417
Foreign currency translation adjustment	28	27
	-----	-----
Total shareholders' equity	66,990	60,173

Total liabilities and shareholders' equity \$ 88,391 \$ 79,281

</TABLE>

Commitments and contingencies (Note 11)

See accompanying notes to consolidated financial statements.

NAM TAI ELECTRONICS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(in thousands of U.S. Dollars except shares outstanding)

<TABLE>

<CAPTION>

	Common Shares		Additional	Stock	Foreign	Total	Share-
	Shares	Amount	Paid-in	Option	Retained	Currency	holders'
	Outstanding		Capital	Grants	Earnings	Translation	Equity
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1993	6,498,825	\$65	\$15,355	\$690	\$12,084	\$(32)	\$28,162
Shares issued on exercise of options	9,000	-	69	(21)	-	-	48

Options cancelled	-	-	-	(38)	-	-	(38)
Warrants cancelled	-	-	(657)	-	-	-	(657)
Shares issued on exercise of warrants	1,485,202	15	12,878	-	-	-	12,893
Net income	-	-	-	-	8,099	-	8,099
Dividends paid	-	-	-	-	(65)	-	(65)
Foreign currency translation adjustments	-	-	-	-	-	7	7
Balance at December 31, 1994	7,993,027	\$80	\$27,645	\$631	\$20,118	\$(25)	\$48,449
Shares issued on exercise of options	70,150	-	537	(161)	-	-	376
Options cancelled	-	-	-	(3)	-	-	(3)
Net income	-	-	-	-	11,419	-	11,419
Dividends paid	-	-	-	-	(120)	-	(120)
Foreign currency translation adjustments	-	-	-	-	-	52	52
Balance at December 31, 1995	8,063,177	\$80	\$28,182	\$467	\$31,417	\$27	\$60,173
Share buy-back program	(273,500)	(3)	-	-	(2,583)	-	(2,586)
Shares issued on exercise of options	47,550	1	390	(91)	-	-	300
Options cancelled	-	-	-	(71)	-	-	(71)
Net income	-	-	-	-	9,416	-	9,416
Dividends paid	-	-	-	-	(243)	-	(243)
Foreign currency translation adjustments	-	-	-	-	-	1	1
Balance at December 31, 1996	7,837,227	\$78	\$28,572	\$305	\$38,007	\$28	\$66,990

</TABLE>

See accompanying notes to consolidated financial statements.

NAM TAI ELECTRONICS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands of U.S. Dollars)

<TABLE>

<CAPTION>

	Year ended December 31,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 9,416	\$ 11,419	\$ 8,099
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,676	2,612	2,063
Gain on release of deferred credit to income	-	-	(594)
Loss on disposal of property, plant and equipment	123	-	48
Gain on disposal of product lines	-	-	(129)
Minority interests in subsidiaries	-	-	(74)
Other items	-	-	9
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable	1,110	(5,955)	(1,857)
(Increase) in inventories	(86)	(1,338)	(2,414)
(Increase) in prepayments and deposits	(243)	(517)	(337)
Increase (decrease) in notes payable	(134)	(797)	4,244
Increase in accounts payable and accrued expenses	2,776	2,876	2,917
(Decrease) in income taxes payable	(76)	(519)	(140)
Total adjustments	6,146	(3,638)	3,736
Net cash provided by operating activities	15,562	7,781	11,835
Cash flows from investing activities:			
Proceeds from disposal of property, plant and equipment	-	12	12

Proceeds from disposal of product lines	-	-	270
Additions to property, plant and equipment	(11,650)	(13,696)	(10,673)
Additions to other assets	(541)	(379)	(199)
Term deposits	(9,545)	(6,035)	-
Purchase of long term investment	(119)	-	(3,931)
	-----	-----	-----
Net cash used in investing activities	(21,855)	(20,098)	(14,521)
	-----	-----	-----
Cash flows from financing activities:			
Share buy-back program	(2,583)	-	-
Increase (decrease) in short-term bank loans and overdraft	(273)	(290)	173
(Distributed to) received from minority interests	-	-	(41)
Additional shares issued (net)	226	373	12,284
Dividends paid	(243)	(120)	(65)
	-----	-----	-----
Net cash (used in) provided by financing activities	(2,873)	(37)	12,351
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(9,166)	(12,354)	9,665
	-----	-----	-----
Cash and cash equivalents at beginning of period	10,927	23,281	13,616
Cash and cash equivalents at end of period	\$ 1,761	\$ 10,927	\$ 23,281

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:

Interest paid	\$ 89	\$ 186	\$ 131
Income taxes paid	\$ 234	\$ 47	\$ 313

</TABLE>

See accompanying notes to consolidated financial statements.

NAM TAI ELECTRONICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In U.S. Dollars)

1 Summary of Significant Accounting Policies

a Basis of presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b Principles of consolidation

The consolidated financial statements include the financial statements of Nam Tai Electronics, Inc. ("the Company") and all its subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation. Minority interest is recognized in respect of earnings of less than wholly-owned subsidiaries. The details of the Company's subsidiaries are described in Note 9.

c Deferred credit

When a subsidiary is purchased, the excess of the fair value of the net assets acquired over the purchase price is recorded as a reduction to non-current assets with any remainder being recorded as a deferred credit. If the purchase price exceeds the fair value of net assets acquired, the excess cost is recorded as goodwill. Any goodwill or deferred credit which may result is amortized over its estimated useful life, not to exceed forty years. The remaining deferred credit of \$594,000 at September 30, 1994 was credited to income in 1994 as the subsidiary to which the deferred credit related commenced liquidation procedures and was insolvent.

d Inventories

Inventories are stated at the lower of cost and market value. Cost is determined on the first-in, first-out basis.

e Property, plant and equipment



Property, plant and equipment are recorded at cost and include interest on funds borrowed to finance construction in Canada. Capitalized interest was \$12,650, \$12,650 and nil for the years ended December 31, 1996, 1995 and 1994 respectively. The cost of major improvements and betterments is capitalized whereas the cost of maintenance and repairs is expensed in the year incurred.

All land in Hong Kong is owned by the government which leases the land at public auction to nongovernmental entities. With the exception of those leases which expire after June 30, 1997 and before June 30, 2047 with no right of renewal, the Sino-British Joint Declaration extends the terms of all currently existing land leases for another 50 years beyond June 30, 1997. Thus, all of the Company's land leaseholds in Hong Kong are considered to be purchased long-term assets. The cost of such land leaseholds is amortized on the straight-line basis over the respective terms of the leases.

All land in the People's Republic of China ("PRC") is owned by the government. The government in the PRC, according to PRC law, may sell the right to use the land for a specified period of time. Thus all of the Company's land purchases in the PRC are considered to be land leaseholds and are amortized on the straight line basis over the respective term of the right to use the land.

1 Summary of Significant Accounting Policies (cont'd)

e Property, plant and equipment (cont'd)

Depreciation and amortization rates computed using the straight-line method are as follows:

Classification	Rate
Long-term leasehold buildings . . . . .	2%-4.5%
Freehold buildings. . . . .	3.3%-4%
Furniture and fixtures. . . . .	18%-25%
Machinery and equipment . . . . .	9%-25%
Molds and tools . . . . .	18%-25%
Motor vehicles. . . . .	18%-25%
Leasehold improvements. . . . .	18%-33%

During 1996, management reassessed the useful life of certain plant and equipment assets and changed their estimated useful life from four to five years effective January 1, 1996. As a result of this change, the 1996 depreciation expense was \$860,000 less than it would have been had an estimated life of four years been used.

f Per share amounts

The per share amounts in the consolidated statements of income have been computed based on the weighted average number of Common Shares and common stock equivalents outstanding during each period. Common stock equivalents include the number of shares that would be issued from the exercise of in-the-money stock options reduced by the assumed number of shares that could be purchased from the proceeds based on the average market price of the Company's Common Stock.

The weighted average number of shares outstanding for the years ended December 31, 1996, 1995 and 1994 were 8,040,497, 8,018,252, and 6,934,098, respectively. Common stock equivalents for the years ended December 31, 1996, 1995 and 1994 were 101,634, 153,498, and 525,472 respectively. Fully diluted earnings per share do not differ materially from the undiluted figures.

g Foreign currency translations

The financial statements have been stated in United States dollars, the official currency used in the British Virgin Islands (the Company's place of incorporation). Although the operating facilities are located in Hong Kong and the PRC, the United States dollar is the currency of the primary economic environment in which the Company's consolidated operations are conducted. The exchange rate between the Hong Kong dollar and the United States dollar has been pegged (HK\$7.80 to US\$1.00) since October 1983.

All transactions in currencies other than functional currencies during the year are translated at the exchange rates existing on the respective transaction dates. Related accounts payable or receivable existing at the balance sheet date denominated in

currencies other than functional currencies are translated at the exchange rates existing on that date. Exchange differences arising in these cases are dealt with in the statement of income.

The financial statements of all subsidiaries with functional currencies other than the United States dollar are translated in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation". With the exception of Namtai Electronic (Shenzhen) Co. Ltd. ("NTES"), Zastron Plastic & Metal Products (Shenzhen) Ltd. ("Zastron") and Shenzhen Namtek Co. Ltd. ("Namtek"), which are companies incorporated in the PRC, all assets and liabilities are translated at the rates of exchange ruling at the balance sheet date and all income and expense items are translated at the average rates of exchange over the year. Also with the exception of the PRC companies, all exchange differences arising from translation of subsidiaries' financial statements are dealt with as a separate component of equity.

#### 1 Summary of Significant Accounting Policies (cont'd)

##### g Foreign currency translations (cont'd)

As NTES, Zastron and Namtek act as production centers for the Company, the Company controls their operations and the majority of their transactions are made in Hong Kong dollars. Therefore, the Hong Kong dollar has been determined to be the functional currency of NTES, Zastron and Namtek. Accordingly, all monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date, non-monetary assets and liabilities are translated at the historical rate and all income and expense items are translated at the average rates of exchange over the year and all translation adjustments resulting from the conversion of NTES, Zastron and Namtek's financial statements to Hong Kong dollars are taken to the income statements. Exchange rates used to translate and remeasure transactions and balances of NTES, Zastron and Namtek are the rates quoted by the Bank of China.

##### h Income taxes

The Company provides for all taxes based on income whether due at year end or estimated to become due in future periods but based on profits earned to date. However, under the current tax legislation in the People's Republic of China ("PRC"), the Company has reasonable grounds to believe that income taxes paid in respect of any year would be refunded after the profits earned in that year are reinvested in the business. Accordingly, any PRC tax paid during the year is recorded as an amount receivable at year end. Deferred income taxes are provided to recognize the effect on the difference between the financial statement and income tax bases of assets and liabilities.

##### i Staff retirement plan costs

The Company's contributions to the staff retirement plan (Note 6) are charged to the income statements as incurred.

##### j Deferred Compensation Arrangement costs

For the years 1990 to 1995, the liability relating to the Deferred Compensation Arrangement (Note 7) was provided ratably over the future employment periods of the beneficiaries of the plan until their dates of retirement or earlier departure from the Company. At December 31, 1995, the remaining balance was fully provided for. Consequently, at December 31, 1996, no provision was taken.

##### k Cash and cash equivalents

Cash equivalents include certificates of deposit having a maturity date of three months or less upon acquisition.

##### l Currency contracts

The Company enters into forward currency contracts in its management of foreign currency exposures. Since the forward currency contracts are not intended to hedge an identifiable foreign currency commitment, generally accepted accounting principles require that the contracts are marked to market with the net realized or unrealized gains or losses recognized in other income. (Note 5).

##### m Long term investment

Long term investment is stated at the lower of cost and market value.

n Research and development costs

Research and development costs relating to the development of new products and processes, including significant improvements and refinements to existing products are expensed as incurred. The amounts charged against income were \$949,941, \$945,333 and \$239,139 for the years ended December 31, 1996, 1995 and 1994 respectively.

1 Summary of Significant Accounting Policies (cont'd)

o Stock options

Financial Accounting Standards Board ("FASB") Statement No. 123 allows companies which have stock-based compensation arrangements with employees to adopt a new fair-value basis of accounting for stock options and other equity instruments, or to continue to apply the existing accounting rules under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", but with additional financial statement disclosure. The Company plans to continue to account for stock-based compensation arrangements under APB Opinion No. 25 and provides additional disclosure to that effect in Note 13 (b).

2 Financial Instruments

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents, term deposits and trade receivables.

The Company's cash equivalents and term deposits are high-quality deposits placed with banking institutions with high credit ratings. This investment policy limits the Company's exposure to concentration of credit risk.

The trade receivable balances largely represent amounts due from the Company's principal customers who are generally international organizations with high credit ratings. As a consequence, concentrations of credit risk are limited. Letters of credit are the principal security obtained to support lines of credit or negotiated contracts when the financial strength of a customer is not considered sufficient.

All of the Company's significant financial instruments at December 31, 1996 are reported in current assets or current liabilities in the consolidated balance sheet at carrying amounts which approximate their fair value.

From time to time, the Company hedges its currency exchange risk, which primarily arises from materials purchased in currencies other than the United States dollar, through the purchase and sale of forward exchange contracts. Such contracts typically allow the Company to buy or sell currency at a fixed price for up to one year, but the Company normally books forward six months. At December 31, 1996, there was no open forward currency contract and at December 31, 1995, the open forward contracts amounted to \$60,000 at face value.

3 Inventories

Inventories consist of (in thousands):

	As at December 31,	
	1996	1995
	----	----
Finished goods . . . . .	\$ 576	\$ 1,927
Work-in-progress . . . . .	2,548	1,690
Raw materials. . . . .	7,387	6,808
	-----	-----
	\$10,511	\$10,425

4 Long Term Investment

In December 1994, the Company purchased 14.04% or 477,370 of the outstanding common shares of Deswell Investment Holdings Limited ("Deswell"), a supplier of plastic parts to the Company, for a total consideration of \$3,931,284. In 1995, Deswell changed its name to Deswell Industries, Inc. and completed its initial public offering which reduced the Company's ownership to approximately 10.5% at December 31, 1995. In July 1996, the Company elected to exercise warrants which increased its holdings by 12,000 shares to 489,370 or 10.6% of the outstanding common shares of Deswell Industries, Inc.

In February 1997, the Company sold 225,000 shares of Deswell Industries Inc. realizing a net gain of \$2,564,500.

5 Other Income - Net

Other income - net consists of (in thousands):

<TABLE>

<CAPTION>

	As at December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Foreign exchange gains	\$ 20	\$ 52	\$ 68
Interest income	1,092	1,548	591
Bank charges	(406)	(490)	(364)
Release of deferred credit (Note 1(c))	-	-	594
Offering costs written off	-	(334)	-
Full provision for Deferred Compensation Arrangement (Note 7)	-	(560)	-
Special bonus	-	(376)	-
Miscellaneous income (expenses)	547	385	(128)
	-----	-----	-----
	\$1,253	\$ 225	\$ 761

</TABLE>

#### 6 Staff Retirement Plan

The Company maintains staff retirement plans (defined contribution pension plans) which cover certain of its employees. The cost of the Company's contributions amounted to \$92,399, \$80,545 and \$67,034 for the years ended December 31, 1996, 1995 and 1994 respectively.

#### 7 Deferred Compensation Arrangement

In August 1990, the Company agreed to provide compensation in the event of loss of office, for whatever reason, for two officers. The amount of compensation to be ultimately provided is \$500,000 for Mr. Koo and \$300,000 for Mr. Murakami. A provision of \$40,000 was made in each of the years ended December 31, 1995 and 1994. At December 31, 1995, the balance of the deferred compensation arrangement, which amounted to \$560,000, was provided for. For the year ended December 31, 1996, pursuant to an agreement between Mr. Koo and the Company, an amount of \$450,000 payable to Mr M.K. Koo was transferred from the provision for compensation for loss of office and applied against an amount receivable from him. (Note 10).

#### 8 Income Taxes

Under the current British Virgin Islands law, the Company's income is not subject to taxation. Subsidiaries, primarily operating in Hong Kong and the PRC, are subject to income tax as described below.

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 16.5% (1995: 16.5% and 1994: 16.5%) to the estimated taxable income earned in or derived from Hong Kong during the period.

Deferred tax, where applicable, is provided under the liability method at the rate of 16.5% (1995: 16.5%, 1994: 16.5%), being the effective Hong Kong statutory income tax rate applicable to the ensuing financial year, on the difference between the financial statement and income tax bases of assets and liabilities.

The basic corporate tax rate for Foreign Investment Enterprises ("FIE's") in the PRC, such as NTES, Zastron and Namtek, is currently 33% (30% state tax and 3% local tax). However, because NTES, Zastron and Namtek are located in the designated Special Economic Zone ("SEZ") of Shenzhen and are involved in production operations, they qualify for a special reduced state tax rate of 15%. In addition, the local tax authorities in the Shenzhen SEZ are not currently assessing any local tax. Since NTES, Zastron, and Namtek have agreed to operate for a minimum of ten years in the PRC, a two year tax holiday from the first profit making year is available, following which in the third through fifth years there is a 50% reduction to 7.5%. In any event, for FIE's such as NTES, Zastron and Namtek which export 70% or more of the production value of their products, a reduction in the tax rate is available; in all cases apart from years in which a tax holiday is available, there is an overall minimum tax rate of 10%. In 1990 and 1991, NTES qualified for a tax holiday; tax was payable at the rate of 7.5% on the assessable profits of NTES in 1992, 1993 and 1994, and 10% in 1995 and 1996. In 1992 and 1993, Zastron qualified for a tax holiday; tax was payable at the rate of 7.5% on the assessable profits of Zastron in 1994, 1995 and 1996. Namtek in 1996 was in its first year of operation and qualified for a two year tax holiday.

#### 8 Income Taxes (cont'd)

An FIE whose foreign investor directly reinvests its share of profits obtained

from that FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years may obtain a refund of the taxes already paid on those profits. The Company has gained reasonable assurance through previous experience that when profits are reinvested, PRC taxes paid are refunded in full in the ensuing year.

NTES qualified for such refunds of its 1993, 1994 and 1995 taxes as a result of reinvesting its profits in those years. Zastron qualified for such refund of its 1994 taxes as a result of reinvesting its profits in that year.

The tax refunds received were as follows:

Company	Taxation Year	Paid	Refunded	Date Received
NTES	1993	\$212,000	\$212,000	Nov 1994
	1994	\$714,000	\$714,000	Aug 1995
	1995	\$918,727	\$918,727	Dec 1996
Zastron	1994	\$ 68,000	\$ 68,000	Aug 1995
	1995	\$ 30,967	-	Refund awaited

The Company intends to reinvest profits earned in 1996 by NTES and Zastron and accordingly no provision for PRC taxes was made in 1996.

The current and deferred components of the income tax (expense) benefit appearing in the income statement are as follows (in thousands):

	Year ended December 31,		
	1996	1995	1994
Current tax . . . . .	\$ (158)	\$ 589	\$ (173)
Deferred tax .. . . .	-	-	-
	\$ (158)	\$ 589	\$ (173)

A reconciliation of the tax (expense) benefit to the amount computed by applying the current tax rate to the income from continuing operations before taxes in the consolidated statements of income is as follows (in thousands except tax rate):

	Year ended December 31,		
	1996	1995	1994
Hong Kong statutory tax rate	16.5%	16.5%	16.5%
Income tax expense at current tax rate on income from consolidated companies before income taxes and minority interests	\$ (1,580)	\$ (1,787)	\$ (1,353)
Tax (expense) benefit arising from items which are not (allowable) assessable for tax purposes:			
Gain on write-off of deferred credit which is not taxable under Hong Kong tax law	0	0	98
Effect of difference between PRC and Hong Kong tax applied to PRC taxable income	1,449	1,659	873
Reversal of subsidiary's tax provision	0	314	0
Income tax refund	0	391	270
Other	(27)	12	(61)
	\$ (158)	\$ 589	\$ (173)

8 Income Taxes (cont'd)

No income tax arose in the United States of America in any of the periods presented.

In prior years, the purchase cost of patents and trademarks and certain expenses incurred by a subsidiary, Nam Tai Supplies Ltd., were claimed as tax deductible expenses. The Hong Kong Inland Revenue Department ("IRD") has taken issue on the deductibility of these expenses and issued revised assessments to recover taxes of \$995,000. In January 1994, the IRD petitioned the Hong Kong court to wind up the subsidiary for non-payment of assessed

taxes. A winding up order was made on March 9, 1994, and the Official Receiver was appointed as liquidator. In 1995, the tax provision of \$314,000 for this subsidiary was reversed as the subsidiary is in the process of liquidation and is insolvent.

#### 9 Investment in Subsidiaries

<TABLE>

<CAPTION>

Consolidated Subsidiaries -----	Country of Incorporation -----	Principal Activity -----	Percentage of Ownership December 31,	
			1996	1995
<S>	<C>	<C>	<C>	<C>
Nam Tai Electronic & Electrical Products Ltd.	Hong Kong	Trading	100%	100%
Nam Tai Electronics (Canada) Ltd.	Canada	Services	100%	100%
Nantai Electronic (Shenzhen) Co. Ltd.	PRC	Manufacturing	100%	100%
Zastron Plastic & Metal Products (Shenzhen) Ltd.	PRC	Manufacturing	100%	100%
Shenzhen Namtek Co. Ltd.	PRC	Software Development	100%	-

</TABLE>

In February 1995, NTEE invested \$9,546,000 in NTES by reinvesting NTES's 1994 net income. This increased NTEE's total investment in NTES to \$24,490,000. In April 1996, NTEE invested a further \$9,165,000 in NTES by reinvesting NTES's 1995 net income. This increased NTEE's total investment in NTES to \$33,655,000.

At December 31, 1995, NTEE's investment in Zastron was \$3,100,000 and Nam Tai Electronics, Inc.'s investment in Nam Tai Electronics (Canada) was \$256,000. At December 31, 1996, NTEE's investment in Zastron and Namtek were \$3,512,000 and \$225,000, respectively. Nam Tai Electronics, Inc.'s investment in Nam Tai Electronics (Canada) Ltd. was \$256,000.

Retained earnings are not restricted as to the payment of dividends except to the extent dictated by prudent business practices. The Company believes that there are no material restrictions, including foreign exchange controls, on the ability of its non-PRC subsidiaries to transfer surplus funds to the Company in the form of cash dividends, loans, advances or purchases. With respect to the Company's PRC subsidiaries, there are restrictions on the purchase of materials by these companies, the payment of dividends and the removal of dividends from the PRC. However, the Company believes that such restrictions will not have a material effect on the group's liquidity or cash flows.

#### 10 Related Party Transactions

In June 1995, the Company completed the construction of a residential property pursuant to an agreement dated January 13, 1995. As the property had not been sold to a third party by December 31, 1995, Mr. M.K. Koo, the Chairman of the Company, purchased the property for book value of \$2,620,000 being the higher of the market value and book value of the property as required by the contract. At December 31, 1995 this amount was included in accounts receivable. In March 1996, Mr M.K. Koo elected to apply \$450,000 available from his compensation for loss of office against the account receivable. The balance outstanding at December 31, 1996 amounting to \$2,120,000 is repayable by Mr. M.K. Koo on or before December 31, 1997.

#### 11 Commitments and Contingencies

a Pursuant to the August 17, 1992 land purchase and development agreement between NTES and Baoan County City Development Foundation, NTES is required to construct a multi-purpose business building of seven floors or more in Baoan City, Shenzhen, PRC. The Company is looking for a partner to develop, manage and finance the entire project. To date, the Company has invested \$488,000 to purchase the land and in capitalized design fees. Subsequent to December 31, 1996, the Company signed an agreement with Shenzhen Baoheng (Group) Co. Ltd., a Chinese company, which will be responsible for the design, construction and marketing of this project.

b Lease commitments

At December 31, 1996, there were annual commitments under operating leases which relate to land and buildings as follows (in thousands):

- 1997 . . . . .	\$ 891
- 1998 . . . . .	698
- 1999 . . . . .	469
- 2000 . . . . .	443
- 2001 and thereafter. . . . .	3,174
	-----
	\$ 5,675

c The Company has been advised that Tele-Art, Inc., a shareholder of the Company, intends to pursue claims in a court in the British Virgin Islands for damages allegedly suffered as a result of the rights offering completed in 1993. Management believes that the claim is without merit and will vigorously defend it and believes that the outcome of the case will not have a significant effect on the financial statements.

12 Banking Facilities

General banking facilities amounted to \$49,200,000 at December 31, 1996, (December 31, 1995 - \$38,202,000), with interest charged based on the Hong Kong prime rate for Hong Kong dollar transactions and banks' cost of funds rate for transactions in other currencies (effectively 8.50% and 0.50%, respectively at December 31, 1996).

The total amount of banking facilities utilized as at December 31, 1996 was \$7,629,000 (December 31, 1995 - \$10,216,000).

The notes payable, which include trust receipts, shipping guarantees and discounted bills, may not agree to utilized banking facilities due to a timing difference between the Company receiving the goods and the bank issuing the trust receipt to cover financing of the purchase. The Company recognizes the outstanding letter of credit as a note payable when the goods are received, even though the bank may not have issued the trust receipt. However, this will not affect the total bank facility utilization, as an addition to trust receipts will be offset by a reduction in the same amount of outstanding letters of credit.

	December 31,	
	1996	1995
	-----	-----
Outstanding letters of credit. . . . .	\$ 3,688	\$ 7,724
Usance bills pending maturity. . . . .	619	2,159
Discounted bills . . . . .	-	-
Trust receipts and shipping guarantees . . . . .	3,322	-
Short-term bank borrowings . . . . .	-	273
Forward exchange contracts . . . . .	-	60
	-----	-----
Total banking facilities utilized . . . . .	7,629	10,216
Less:		
Outstanding letters of credit. . . . .	(3,688)	(7,724)
Short-term bank borrowings . . . . .	-	(273)
Forward Contracts. . . . .	-	(60)
Plus:		
Goods received but trust receipts not issued		
by the bank. . . . .	1,245	3,161
	-----	-----
Notes payable per balance sheets . . . . .	\$ 5,186	\$ 5,320

Discounted bills normally have a term to maturity of 30 days. Trust receipts normally have terms from 90 to 100 days. The interest rate for the above facilities is normally prime plus 3/4% for all currencies.

In the third quarter of 1995, the Company's bankers agreed to release the charges on the pledged assets and to provide the banking facilities with only the corporate guarantee from Nam Tai Electronics, Inc., the parent company, and its undertaking not to pledge any assets to any banks without the prior consent of the Company's bankers. Throughout 1996, banking facilities bore the corporate guarantee of Nam Tai Electronics, Inc.

13 Common Shares

a Authorized shares

In July 1994, the Board of Directors increased the number of authorized

Common Shares to 20,000,000. The par value of each Common Share is \$0.01.

b Stock options

In August 1993, the Board of Directors approved a stock option plan which authorized the issuance of 300,000 vested options to key employees of the Company at an exercise price of \$5.35. The options expire in September 1998. Because the option's exercise price was less than the market value of the Company's Common Shares on the date of grant, the Company recorded compensation expense of \$690,000 reflecting the excess of the fair value of the underlying stock over the exercise price. In December 1993 and January 1996, the option plan was amended and the maximum number of shares to be issued pursuant to the exercise of options granted was increased to 650,000 and 1,000,000 respectively.

A summary of stock option activity is as follows:

	Number of Options -----	Option Price Per Share -----
Outstanding at December 31, 1993	300,000	\$5.35
Exercised	(9,000)	\$5.35
Granted	365,000	\$11.00
Cancelled	(40,750)	\$5.35 & \$11.00
	-----	
Outstanding at December 31, 1994	615,250	\$5.35 & \$11.00
Reissued	40,750	\$11.00
Exercised	(70,150)	\$5.35
Cancelled	(25,000)	\$11.00
Reissued	10,000	\$11.375
	-----	
Outstanding at December 31, 1995	570,850	\$5.35, \$11.00 & 11.375
Exercised	(47,550)	\$5.35 & \$11.00
Granted	170,000	\$10.50
Cancelled	(156,000)	\$5.35 & \$11.00
	-----	
Outstanding at December 31, 1996	537,300	\$5.35, \$10.50, \$11.00 & \$11.375

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1995 ----	1996 ----
Net Income	As Reported	11,419	9,416
	Pro forma	11,340	9,081
Earnings per share	As Reported	1.40	1.16
	Pro forma	1.39	1.12

The weighted-average fair value of options granted during the year was \$4.52 (1995 - \$4.03), using the Black-Scholes option-pricing model based on the following assumptions:

	\$11.00 Options -----	\$11.375 Options -----	\$10.50 Options -----
Risk-free interest rate	6.0%	5.4%	5.3%
Expected life	8/01/98	12/01/98	1/12/00
Expected volatility	44.0%	49.0%	48.0%
Expected dividends	.030	.030	.030

c Share buy-back program

During 1996, the Company bought back 273,500 Common Shares of its outstanding capital stock at an average price of \$9.46 per share.

14 Business Segment Information

The Company operates principally in the consumer electronic products industry. The following is a summary of sales, income from continuing operations and assets by geographic area (in thousands):

<TABLE>  
<CAPTION>

Year ended December 31,



	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Net sales from operations within			
Hong Kong:			
Unaffiliated customers	\$105,170	\$ 119,417	\$ 95,470
Related parties	-	-	-
Intersegment sales	-	353	-
	-----	-----	-----
	105,170	119,770	95,470
People's Republic of China:			
Unaffiliated customers	3,064	1,445	810
Intersegment sales	95,669	112,804	92,612
	-----	-----	-----
	98,733	114,249	93,422
Canada:			
Unaffiliated customers	-	378	284
Intersegment eliminations	(95,669)	(113,157)	(92,612)
	-----	-----	-----
Total net sales	\$108,234	\$121,240	\$ 96,564
Income (loss) from continuing operations			
within:			
- People's Republic of China	10,339	10,448	7,491
- Hong Kong	2,921	4,196	2,020
- Canada	(3,844)	(3,225)	(1,412)
	-----	-----	-----
Net income	\$ 9,416	\$ 11,419	\$ 8,099
Identifiable assets by geographic			
area:			
- People's Republic of China	44,975	42,416	19,116
- Hong Kong	24,564	25,505	23,463
- Canada	18,852	11,360	23,708
	-----	-----	-----
Total assets	\$ 88,391	\$ 79,281	\$ 66,287

</TABLE>

Intersegment sales arise from the transfer of finished goods between subsidiaries operating in different areas. These sales are generally at estimated market prices.

<TABLE>

<CAPTION

	Year ended December 31,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Net sales to customers by geographic			
area:			
- North America	\$ 36,595	\$ 36,730	\$ 31,686
- Japan	30,483	41,532	23,547
- Hong Kong	19,404	20,544	21,855
- Europe	13,187	16,003	13,831
- Other	8,565	6,431	5,645
	-----	-----	-----
Total net sales	\$108,234	\$121,240	\$ 96,564

</TABLE>

The Company had sales to four major customers, each individually exceeding 10% of total sales in 1996 as follows:

<TABLE>

Customer

-----

<S>	<C>	<C>	<C>
A	\$ 41,569	\$ 58,124	\$ 46,032
B (through customer A)	17,395	21,805	12,600
C	24,138	16,022	9,421
D	14,642	15,962	18,573
	-----	-----	-----
	\$ 97,744	\$111,913	\$ 86,626

</TABLE>

Item 19. Financial Statements and Exhibits

- (a) Financial Statements. See list under Item 18. of this Report.
- (b) Exhibits. The following documents are filed as exhibits herewith, unless, otherwise specified and are incorporated herein by this reference:

- 2.1 Letter of Agreement dated May 15, 1996 making available credit facilities with Kredietbank N.V. Hong Kong Branch.
- 2.2 Letter of Agreement dated June 5, 1996 offering credit facility with Argentaria Banco Exterior De Espana.
- 2.3 Letter of Agreement dated June 11, 1996 revising existing facilities with Credit Commercial De France.
- 2.4 Letter of Agreement dated August 5, 1996 renewing banking facilities with The Hongkong and Shanghai Banking Corporation Limited.
- 2.5 Letter of Agreement dated August 29, 1996 revising banking facilities with The Sanwa Bank Limited.
- 2.6 Letter of Agreement dated September 18, 1996 making available credit facilities with Banque Worms Hong Kong Branch.
- 2.7 Contract for Use of Land dated March 25, 1996 between NTSZ and Shenzhen City Xinan Gu Su Estate Residents Committee extending the lease on land situated at Zhuao, Gu Su Industrial Estate, Xinan, Baoan from 30 years to 50 years.
- 2.8 Tenancy Agreement dated February 24th 1997 between NTE&E and Wide Harvest Investment Limited for Suite Nos. 6B-9 on 15/F., Tower 1, China Hong Kong City.
- 2.9 Contract of Purchase and Sale dated December 29, 1995 with Mr. Koo regarding residential property in West Vancouver - Filed as Exhibit 2.8 to the Company's Form 20-F for the fiscal year ended December 31, 1995 and hereby incorporated by reference.
- 3.1 Diagram of the Company's operating subsidiaries. See page 4 of this Report.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

NAM TAI ELECTRONICS, INC.

Date: March 31, 1997 By: /s/ M.K. Koo

\_\_\_\_\_  
M. K. Koo  
Chairman of the Board

[PRICE WATERHOUSE LETTERHEAD]  
CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference into the Registration Statement on Form F-3 (the "Registration Statement") of Nam Tai Electronics, Inc. (File No. 33-91553) of our report dated March 31, 1997 appearing in this Annual Report on Form 20-F. We hereby further consent to the reference to us under the heading "Experts" in the Prospectus included as part of the Registration Statement.

Price Waterhouse  
Certified Public Accountants

Hong Kong  
March 31, 1997

[PRICE WATERHOUSE LETTERHEAD]  
CONSENT OF PRICE WATERHOUSE

We hereby consent to the incorporation into the Registration Statement on Form S-8 of Nam Tai Electronics, Inc. (File No. 33-73954) relating to 650,000 Common Shares issuable upon exercise of options granted under the Nam Tai Electronics, Inc. 1993 Stock Option Plan of our report dated March 31, 1997 relating to the financial statements of Nam Tai Electronics, Inc. appearing in this Annual

Report on Form 20-F.

Price Waterhouse  
Certified Public Accountants

Hong Kong  
March 31, 1997



## [KREDIETBANK LETTERHEAD]

Our ref: L/RN/107/96

15th May 1996

Nam Tai Electronic & Electrical Products Ltd.  
Unit 513-520, 5/F,  
No. 1 Hung To Road,  
Kwun Tong, Kowloon,  
Hong Kong

Attn : Mr. Maxwell Yeung, Director

Dear Mr. Yeung,

RE : BANKING FACILITY

We are pleased to advise you that Kredietbank N.V. Hong Kong Branch (the "Bank") will make available the credit facilities to your company on the following terms and conditions.

<TABLE>		
<S>	<C>	<C>
BORROWER	:	Nam Tai Electronic & Electrical Products Ltd.
PURPOSE	:	Short term trade financing
FACILITY	:	US\$3,000,000.00 (United States Dollars Three Million Only)
AMOUNT	:	or its equivalent in other major currencies subject to availability of funds.
AVAILABILITY	:	Within the facility amount:
		- Issuing sight/usance Letters of Credit ("L/C") with tenor up to 90 days and/or
		- Trust Receipts refinancing under L/C with tenor up to 120 days and/or
		- Issuing shipping guarantee and/or
		- Negotiation of Export L/C with discrepancies acceptable to us
		- A Sublimit of HK\$4,000,000.00 available for Overdraft
</TABLE>		

Page 1

## [KREDIETBANK LOGO]

NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LTD.

<TABLE>		
<S>	<C>	<C>
INTEREST RATE		
Import/export bills	:	0.5% over the Bank's Cost of Fund
Overdraft	:	At Bank's Prime Rate

Our Prime Rate is defined as the Prime Rate quoted by the Hongkong and Shanghai Banking Corporation Ltd. or 2% over the Bank's cost of fund whichever is higher.

FEE

L/C Commission & Commission in lieu of exchange	:	1/4% on first US\$50,000 1/16% for US\$50,001 - US\$100,000 1/24% for the balance
Collection Commission & Commission in lieu of exchange	:	1/8% on first US\$50,000 1/24% for the balance
SECURITY	:	A Corporate Guarantee of Nam Tai Electronics, Inc. ("Corporate Guarantor") for the amount to the extent of US\$3,000,000.00 (United States Dollars Three Million Only) plus accrued interest thereon and recovery expenses (to be executed)
GOVERNING LAW	:	Laws of Hong Kong

</TABLE>

In case of exceptional circumstances outside our control preventing us from obtaining the funds required for the purpose to provide funding under the abovementioned facilities, we shall have the discretion to provide our funding in any other currency (the "Alternative Currency"), provided that such principal with all interest accrued thereon shall be repaid in that Alternative Currency.

It is our intention to keep the above facilities open to your continuing advantage and to our mutual satisfaction subject to receipt of the annual audited financial statements of the Borrower and the Corporate Guarantor within six months after closing of accounts as well as any other information that may be required by us. However, we reserve the right without further notice to you, to amend the above terms and conditions or to cancel the facilities at any time and demand for full repayment of principal and interest and for full cash cover on contingent and prospective liabilities.

Page 2

3

[KREDIETBANK LOGO]

NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LTD.

If you are agreeable to the above, kindly sign and return to us the copy of this letter together with supporting documents (see attached list) to signify your understanding and acceptance to the foregoing. We reserve the right to lapse this offer if we do not receive the signed duplicate of this letter by 18th June, 1996.

FOR AND ON BEHALF OF  
KREDIETBANK N.V.  
HONG KONG BRANCH

<TABLE>

<S>	<C>
/s/ LAWRENCE LAU	/s/ RONNIE NG
-----	-----
Lawrence Lau	Ronnie Ng
Deputy General Manager	Senior Account Manager

We hereby accept the terms and conditions of Facility Letter dated 15th May 1996

We hereby agree the terms and conditions of Facility Letter dated 15th May 1996

For and on behalf of  
NAM TAI ELECTRICAL PRODUCTS LIMITED

[SIG]

[SIG]

-----  
Authorized Signature

Nam Tai Electronic & Electrical Products Ltd. (as Borrower)  
Date: 96.7.23

Nam Tai Electronics, Inc. (as Corporate Guarantor)  
Date: July 10/96

4

[KREDIETBANK LOGO]

NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LTD.

LIST OF DOCUMENTS REQUIRED

The availability of the facilities is also subject to the receipt and completion of the following documentation in form and substance satisfactory to the Bank :

- 1) The Directors' Board Resolution of Borrower authorizing
  - a) the acceptance and execution of this Facility Letter and
  - b) the Officers to sign the Resolution and other relevant documents.
- 2) A duly executed Corporate Guarantee of Nam Tai Electronics, Inc., supported by the relevant Directors' Board Resolutions authorizing
  - a) the execution and performance of the Guarantee,
  - b) the Officers to sign the Guarantee and
  - c) the acceptance of this Facility Letter.
- 3) A duly executed Mandate for Account of a Limited Company of the Borrower.
- 4) Duly executed General Loan and Collateral Agreement by the Borrower.
- 5) Duly executed Continuing Documentary Credit Agreement by the Borrower.
- 6) Certified true copies of the Borrower's and the Corporate Guarantor's Memorandum and Articles of Association or By-laws (where appropriate), Certificate of Incorporation, valid Business Registration Certificate, Form X (Return of Directors and Secretary), Consent to act as Directors and all other constitutional documents.
- 7) Certified Identity Card copies of all authorized signers.

[ARGENTARIA LETTERHEAD]

BANCO EXTERIOR

Our Ref. DN/wt96080  
5 June 1996

Nam Tai Electronic & Electrical Products Ltd.  
Unit 513-520, 5/F,  
No. 1 Hung To Road,  
Kwun Tong, Kowloon

Attn: Mr. Maxwell Yeung  
Director, Finance & Administration

Dear Sirs,

We are pleased to offer the following facility to you subject to the terms and conditions set out as below:

1. BORROWER  
Nam Tai Electronic & Electrical Products Limited

<TABLE>

<S>

<C>

2. FACILITY  
General Banking Facility ..... US\$3,000,000

with sublimit for

- a. Opening of LC and  
subsequent financing of TR ..... (US\$3,000,000)
- b. Negotiation of export L/C with  
acceptable discrepancies ..... (US\$600,000)
- c. Overdraft ("OD") ..... (HK\$4,000,000)

</TABLE>

3. CONDITIONS

- a. Aggregate outstanding of the Borrower shall not exceed  
US\$3,000,000;
- b. Financing period for TR under each transaction shall not exceed



120 days;

<TABLE>

<S>	<C>	<C>
4.	INTEREST	
	TR	: 0.5% p.a. over Cost of Funds
	OD	: HKD Prime

</TABLE>

2

[ARGENTARIA LETTERHEAD]

BANCO EXTERIOR

Our Ref. DN/wt96080

5. COMMISSION

Handling commission for LC opening/commission in lieu of exchange:

<TABLE>

<S>	<C>	<C>
1st US \$50,000	:	1/4%
US\$50,001-100,000	:	1/16%
Balance	:	1/24%

</TABLE>

6. SECURITY

As security for the aforesaid facility, we shall require a Corporate Guarantee to be issued by Nam Tai Electronics Inc. ("Guarantor") for account of Nam Tai Electronic & Electrical Products Limited.

7. AVAILABILITY

Without prejudice to the foregoing, we shall not be obliged to make any of the Facility available to the Borrower unless and until we have received, in form and substance satisfactory to us, all of the following:

- a. The attached copy of this Offer Letter duly signed the Borrower's authorised signatories together with certified true copy board resolutions;
- b. Account opening documentation;
- c. Security as stipulated in Clause (6);
- d. Any documentation requested by us from time to time.

8. DEFAULT INTEREST

If the Borrower fail to pay any sum on its due date for payment under the above facility, it shall forthwith on demand by us pay interest on the overdue amount from the due date up to date of actual payment, at a rate determined by us to be 2% per annum above the applicable rate under Clause (4) or prevailing prime lending rate, whichever is higher.

9. VALIDITY

The foregoing facility is subject to our review at any time, or in any event by June 1997. We reserve the right, at our discretion, to modify, cancel or terminate the facility, on demand, and to declare all amounts then outstanding to be immediately due and payable.

10. FEES & EXPENSES

All fees and expenses, including legal fees, stamp duty, documentary and other duties and taxes and out-of-pocket expenses, incurred by us in connection with the relevant bank and security documentation, or in contemplation of or in connection with the enforcement or preservation of our right under any documentation in respect of monies owing thereunder should be borne by the Borrower.

3

[ARGENTARIA LOGO]

BANCO EXTERIOR

Our Ref. DN/wt96080

11. OTHER CONDITIONS

The Borrower and Guarantor are required to submit copies of updated Trading Profit & Loss Account, Balance Sheet and any other information which we may reasonably request from time to time.

12. GOVERNING LAW

This letter shall be governed by and construed in all respects in accordance with the laws of Hong Kong and the Borrower and Guarantor hereby irrevocably submit to the non-exclusive jurisdiction of the Hong Kong courts.

We trust that the above terms and conditions are acceptable to you and appreciate your acceptance by signing and returning the copy of this letter to us at your earliest convenience.

Yours faithfully,

<TABLE>

<S>

<C>

/s/ DICKY LO

-----

Dicky Lo  
Deputy General Manager  
</TABLE>

/s/ DENNIS LEE

-----

Dennis Lee  
Senior Manager

[CREDIT COMMERCIAL DE FRANCE LETTERHEAD]

June 11, 1996

Nam Tai Electronic & Electrical Products Limited  
Unit 513-520, 5/F.  
No. 1 Hung To Road  
Kwun Tong, Kowloon  
Hong Kong

Attn: Mr. Maxwell Yeung

Dear Sirs,

We are pleased to confirm that Credit Commercial de France, Hong Kong Branch (the "Bank") is prepared to revise its existing facility offer of October 19, 1995 to Nam Tai Electronic & Electrical Products Limited as follows subject to the terms and conditions of this letter and the attached loan agreement of even date:-

- a) A US\$3 million 3-year loan facility governed by the enclosed loan agreement dated June 11, 1996.
- b) A US\$2 million short term trade credit facilities governed by terms and as conditions stipulated hereunder.

THE SHORT TERM TRADE CREDIT FACILITY (THE "FACILITY")

1. BORROWER

Nam Tai Electronic & Electrical Products Limited.

2. FACILITY

US\$2 million short term trade credit facility for:-

- Opening sight import letter of credit and trust receipt refinancing up to 120 days;
- Issuance of shipping guarantee under letter of credit;
- Negotiation of export letter of credit with discrepancies under letter of guarantee;
- Discounting of documents against payment and documents against acceptance;
- Sublimit of HK\$1 million for overdraft.

## 3. PURPOSE

Trade financing.

## 4. PRICING

<TABLE>

<S>	<C>	<C>
L/C opening commission and Commission in-lieu-of exchange		
First US\$50,000	:	1/4%
US\$50,001 to US\$100,000	:	1/12%
Balance	:	1/24%
Collection commission		
First US\$50,000	:	1/8%
US\$50,001 to US\$250,000	:	1/24%
Balance	:	1/48%
Interest rate		
Trust receipt & Transit financing	:	Cost of funds + 1/2% p.a.
Overdraft	:	HK\$ Prime Rate

</TABLE>

Other commissions and charges

Hong Kong Association of Banks' rules to be observed.

## 5. GUARANTEE

Corporate guarantee executed by Nam Tai Electronic, Inc. (the "Guarantor") for US\$2 million.

## 6. AVAILABILITY

a) No obligation to grant accommodation under the Facility shall commence until the Bank has received as conditions precedent the following documents duly executed in form and substance satisfactory to the Bank:-

From the Borrower

- i) A signed copy of this letter;
- ii) Board resolution to authorise acceptance of the Facility and opening of account with the Bank;
- iii) Mandate for Limited Company;
- iv) Letter of Set Off;
- v) General Security and Credit Agreement;

- vii) Specimen Signature Card (2 copies) and
- viii) Account Opening Form and certified true copies of Business Registration Certificate, Certificate of Incorporation, Memorandum and Articles of Association, Particulars of Directors (Form X), and ID Card or Passport of the Directors and persons authorised to sign for the account.

From the Guarantor

- i) Endorsement on this letter;
  - ii) A duly executed Continuing Guarantee for US\$2 million.
  - iii) Board resolution to authorise the execution of the Continuing Guarantee; and
  - iv) Certified true copies of its Certificate of Incorporation, Memorandum and Articles of Association and other constitutive documents.
- b) Notwithstanding (a) above, accommodation under this Facility remains the entire discretion of the Bank.

7. INTEREST AND CHARGES

Interest and banking charges shall accrue and be payable in respect of accommodation provided under the Facility on the basis, at the rates and on dates agreed between the Borrower and the Bank, or upon failure in agreement, as determined by the Bank from time to time.

8. PAYMENTS

All payments by the Borrower to the Bank in respect of liabilities under the Facility shall be made free and clear of all taxes, withholdings and deductions whatsoever. If the Borrower is ever required to make any withholding, deduction or otherwise, the amount payable by the Borrower shall be grossed-up so that the Bank receives the full amount which would have been payable if there had been no withholding or deduction.

9. REPRESENTATIONS AND WARRANTIES

The Borrower and the Guarantor hereby represent and warrant that:-

- a) The Borrower and the Guarantor are duly incorporated and validly existing under the respective laws of their countries of incorporation;
- b) The Borrower has full power and authority to execute, deliver and perform the terms of this letter;

3

4

CREDIT COMMERCIAL DE FRANCE

- c) All such documents required have been duly authorized by all necessary corporate actions and constitute or will constitute valid and binding obligations on the Borrower enforceable in accordance with their terms;
- d) The Borrower and the Guarantor are not in default under any other agreement nor are they the subject of any actual or threatened legal proceedings or claims;
- e) The financial statements of the Borrower and the Guarantor and all other financial and other information delivered to the Bank are true and accurate and reflect the true condition of the affairs of the Borrower and the Guarantor as of a recent date;
- f) The Borrower and the Guarantor have good title to all properties and assets referred to in its audited accounts;
- g) The Borrower and the Guarantor have arranged all necessary insurance policies to cover business risks on properties, trading assets and executive management;
- h) Each request for an advance shall operate as a warranty that these representations and warranties will remain unaltered and that there has not been and there is not likely to be any material adverse change; and
- i) All necessary tax returns have been filed and all assessments which are due and payable have been paid.

#### 10. UNDERTAKINGS

The Borrower and the Guarantor hereby undertake with the Bank:-

- a) To ensure that the obligations of the Borrower and the Guarantor under this letter are not subordinated to and will at all times rank at least pari passu with all existing and future short term obligations of the Borrower and the Guarantor.
- b) Not to create any mortgages or charges on the undertaking, property and assets of the Borrower and the Guarantor

whatsoever and wheresoever both present and future without the Bank's prior consent. Exception is allowed if and only if the Borrower or the Guarantor are to obtain financing to purchase certain assets and needs to pledge these assets as a pre-requisite collateral;

- c) To make available such information, financial or otherwise, for which the Bank may reasonably request;
- d) To provide the Bank with audited financial statements of the Borrower and the audited consolidated financial statements of the Guarantor within 150 days after the end of the relevant financial years;
- e) To inform the Bank promptly of any material adverse change; and

4

5

CREDIT COMMERCIAL DE FRANCE

- f) To inform the Bank promptly of any significant event of default under any other agreement.

#### 11. EVENT OF DEFAULT

If the Borrower fails to pay the Bank any amount on any due date or if any information delivered by the Borrower or the Guarantor shall be shown to have been wrong or misleading in any respect or if there is any material adverse change about which the Bank has not been informed or for which the Bank's acceptance has not been given, or fails to comply with any undertaking, the Bank will be entitled to declare the Facility cancelled whereupon all amounts and commitments outstanding under the Facility shall become immediately due and payable, and the Bank shall be under no further obligation to make available any further advances under the Facility.

#### 12. DEMAND

All indebtedness and liabilities of the Borrower under the Facility shall be subject to the Bank's customary overriding right to call for repayment on demand and to the Bank's continuous satisfaction of the business affairs and financial conditions of the Borrower and the Guarantor. The Bank also reserves the right to freeze the utilization of the Facility after a demand for repayment is made.

#### 13. REVIEW

The Facility is subject to the Bank's on-going reviews.

#### 14. ASSIGNMENT AND WAIVER

The Borrower may not assign any of their rights or obligations in



respect of the Facility without the Bank's prior written agreement. No time or indulgence granted by the Bank or failure or delay in exercising any right hereunder shall operate as a waiver by the Bank.

15. COSTS, FEES AND COMMISSIONS

The Borrower and the Guarantor will reimburse the Bank promptly for all commissions, fees, charges and expenses including legal fees incurred by the Bank in respect of the maintenance or enforcement of the terms of the Facility and/or other documents referred to herein.

16. LAW AND JURISDICTION

The Facility shall be governed by Hong Kong Law. The Borrower hereby submits to the non-exclusive jurisdiction of the Hong Kong Courts.

5

6

CREDIT COMMERCIAL DE FRANCE

Please signify your acceptance of the terms and conditions of the Facility by executing and returning the documents as stipulated under paragraph 6 within 45 days from the date of this letter. Upon satisfactory execution, this letter supersedes our previous letter of offer dated October 19, 1995.

We are delighted to be able to work with you and look forward to establishing a mutually beneficial relationship between our two institutions.

Yours faithfully,  
For and on behalf of  
CREDIT COMMERCIAL DE FRANCE  
HONG KONG BRANCH

<TABLE>

<S>

/s/ ALFRED LEUNG

-----  
Alfred Leung  
Assistant General Manager

Accepted by:

-----  
Nam Tai Electronic &  
Electrical Products Limited

</TABLE>

<C>

/s/ ALAIN CANY

-----  
Alain Cany  
General Manager

Endorsed by:

[SIG]

-----  
Nam Tai Electronics, Inc.



[HONGKONGBANK LETTERHEAD]

Ref: CORPORATE & INSTITUTIONAL BANKING  
TOYS & ELECTRONICS DIVISION

CONFIDENTIAL

Nam Tai Electronic &  
Electrical Products Ltd  
Unit 513-520  
No. 1 Hung To Road  
Kwun Tong  
KOWLOON  
Attention: Mr Tadao Murakami

5 August 1996

Dear Sirs

BANKING FACILITIES  
A/C NO. 600-848972-001

With reference to our recent discussion, we are pleased to advise that we have reviewed your banking facilities and offer a renewal within the following limits which will be made available on the specific terms and conditions outlined below. These facilities are subject to review at any time and, in any event by 31 May 1997, and also subject to our overriding right of withdrawal and repayment on demand, including the right to call for cash cover on demand for prospective and contingent liabilities.

&lt;TABLE&gt;

<S>	<C>
Overdraft	HKD 500,000

Interest on the overdraft facility will continue to be charged on daily balances at 1/2 % per annum over our best lending rate, (currently 8 1/2% per annum, but subject to fluctuation at our discretion) and payable monthly in arrears to the debit of your current account.

Import/Export Facilities	HKD60,000,000
--------------------------	---------------

Documentary Credits with import finance  
up to 90 days (less any usance/credit  
periods granted by your suppliers)

and/or D/P bills purchased on approved drawees.

within which

(HKD60,000,000)

Goods under your control and/or Trust Receipts.

Interest on your import loans will be charged on a daily basis at 0.75% per annum over HIBOR or SIBOR as appropriate (previously at 1% below our board rates).

</TABLE>

2

[LOGO]

Nam Tai Electronic & Electrical Products Ltd

5 August 1996

- 2 -

Please note that the aforementioned Import/Export Facilities carry the following concessionary rates:

<TABLE>

<S>

<C>

DC OPENING COMMISSION:-

First USD50,000

1/4%

USD50,001 to USD300,000

1/16%

Balance in excess of USD300,000

1/32% (previously 1/16%)

COMMISSION IN LIEU OF EXCHANGE (CILE):-

First USD50,000

1/4%

USD50,001 to USD300,000

1/16%

Balance in excess of USD300,000

1/32% (previously 1/16%)

EXPORT BILLS FOR COLLECTION COMMISSION:-

First USD75,000

1/8%

Balance in EXCESS of USD75,000

1/24% (previously 1/8%)

Foreign Exchange Line

HKD10,000,000

</TABLE>

Total Forward Contract Limit up to 6 months.

Unless by prior arrangement, contracts entered into under this facility are not to exceed six months in duration.

Terms and Conditions

Contracts may only be entered into to cover trade related exchange exposure incurred in the normal course of business.

Foreign Exchange facilities remain subject to our overriding right to call for cash cover on demand if in the Bank's view a negative foreign exchange position requires such cover. Further, the Bank may, after having discussed the position with yourselves, close out any or all of your outstanding forward foreign exchange contracts and demand settlement of the balance due.

Foreign exchange contracts continue to be governed by the conditions appearing on the reverse of the standard contract form. These contract forms should be checked upon receipt and the copy signed and returned to the Bank.

### Security

As security for the existing facilities, we continue to hold:-

- 1) A corporate guarantee together with a supporting board resolution dated 8 August 1995 for HKD65,000,000 from Nam Tai Electronics Inc.
- 2) A Negative Pledge together with a supporting board resolution dated 8 August 1995 from Nam Tai Electronics Inc not to pledge any of its assets with any banks as securities without our prior consent.

3

[LOGO]

Nam Tai Electronic & Electrical Products Ltd

5 August 1996

- 3 -

Please arrange for the authorized signatories of your company, in accordance with the terms of the mandate given to the Bank, to sign and return to us the duplicate copy of this letter to signify your confirmation as to the correctness of the security held, and your continued understanding and acceptance of the terms and conditions under which these facilities are granted.

A review fee of HKD10,000 will be charged to the debit of your current account upon receipt of your acceptance to these facilities.

These facilities will remain open for acceptance until the close of business on 27 August 1996 and if not accepted by that date will be deemed to have lapsed.

We are pleased to be of continued assistance.

Yours faithfully

/s/ EDEN Y D WONG

-----  
Eden Y D Wong  
Corporate Relationship Manager

p1/NAMTAIL

Enc

Our Ref. 96-OL-549

29th August, 1996

Nam Tai Electronic and Electrical  
Products Limited  
Unit 513-520,  
No. 1 Hung To Road,  
Kwun Tong,  
Kowloon

CONFIRMATION

Dear Sirs,

Re: Banking Facilities

With reference to our recent discussions, we write to confirm that the banking facilities made available by us to you under the facility letter dated 18th September, 1995 shall be revised upon and subject to the terms and conditions set out below.

1. Facilities and Amount

- (a) Import facility (including letter of credit opening, bills receivable and acceptance provided that the tenor of each letter of credit shall not exceed 6 months and the tenor of any item under acceptance and bills receivable together shall not exceed 100 days) of up to HK\$56,000,000 with a sub-limit for acceptance and bills receivable together of up to HK\$32,000,000.
- (b) Overdraft facility of up to HK\$1,000,000.
- (c) Shipping guarantee facility (under letter of credit) of up to HK\$10,000,000.
- (d) Bills negotiation facility (without letter of credit) of up to HK\$5,000,000 provided that this facility is restricted to bills drawn by Canon Inc., Sharp Corp., Seiko Instruments Inc. and Toshiba Corp. only and the minimum interest charge for each advance under this facility equals to 4 days' interest on such advance.
- (e) Bills negotiation facility (under letter of credit) of up to HK\$40,000,000.

- 1 -

2

- (f) Forward foreign exchange facility of up to HK\$20,000,000.

2. Interest

<TABLE>

<S>

Overdraft

<C>

Interest shall be charged at 0.25% per annum above whichever is the higher of our cost of funds or the prevailing Hong Kong Dollars Prime Rate quoted by us from time to time and shall be payable monthly in arrears on the first day of each calendar month.

Bills receivable  
and

bills negotiation

</TABLE>

Interest shall be charged at the prevailing Hong Kong Dollars

Prime Rate quoted by us from time to time (in case of Hong

Kong Dollars items) or 0.75% per annum above our cost of funds (in case of any other currency items).

We reserve the right to charge additional interest from the date of any default in payment, on a daily basis, at 5% per annum above the prevailing Hong Kong Dollars Prime Rate quoted by us from time to time, or, in case of default sum denominated other than in Hong Kong Dollars, 5% per annum above our cost of funding the default sum.

3. Commission

- (a) Commission in lieu of exchange and opening commission for each letter

of credit shall be charged on the amount of each letter of credit as follows:-

- 1/4% on the first US\$50,000 or its equivalent;
- 1/16% on any amount in excess of US\$50,000 and up to US\$100,000 or their respective equivalent;
- 1/24% on any amount in excess of US\$100,000 and up to US\$300,000 or their respective equivalent; and
- 1/48% on any amount in excess of US\$300,000 or its equivalent.

(b) Collection commission shall be charged as follows:-

- 1/8% on the first US\$50,000 or its equivalent;
- 1/24% on any amount in excess of US\$50,000 and up to US\$300,000 or their respective equivalent; and
- 1/48% on any amount in excess of US\$300,000 or its equivalent.

(c) The minimum commission and charges for each bills transaction shall be determined by us from time to time at our sole discretion.

-2-

3

(d) The commission scale charged on the above facilities shall always be subject to the General Rules of The Hong Kong Association of Banks and its amendment from time to time.

#### 4. Repayment

Any amount advanced under the overdraft facility shall be repaid on demand. Any amounts advanced under the other banking facilities shall be repaid on the respective due dates applicable thereto.

#### 5. Security

The above facilities (including principal, interest and all other monies payable hereunder or in connection with the facilities) shall continue to be secured by an unconditional and irrevocable letter of guarantee dated 19th August, 1991 given by Nam Tai Electronics, Inc. (the "Guarantor").

#### 6. Availability

The above facilities will become available to you when we have received from you on or before 30th September, 1996 the following documents in form and substance satisfactory to us in all respects:-

- (a) the enclosed duplicate of this facility letter duly signed by you to signify your acceptance hereof and countersigned by the Guarantor;
- (b) certified copy of the resolution of your Board of Directors approving the terms and conditions of this facility letter and authorising a person or persons to sign such document on your behalf;
- (c) certified copy of the resolution of the Board of Directors of the Guarantor approving the countersignature on this facility letter and authorising a person or persons to sign such document on its behalf;
- (d) lists of specimen signatures (authenticated to our satisfaction) of the Directors and the person(s) authorised to act on behalf of you and the Guarantor by the resolutions referred to in sub-clauses (b) and (c) above;
- (e) certified copies of your up-to-date Memorandum and Articles of Association, Certificate of Incorporation and Business Registration Certificate;

-3-

4

(f) certified copies of the up-to-date constitutional documents of the Guarantor; and

(g) such other necessary documents required to validate the above facilities as we may specify from time to time.

#### 7. Undertakings



You hereby undertake with us that so long as the above facilities being available and/or any money remaining outstanding thereunder, you will not create or allow to exist (except in our favour) any mortgage, charge (whether fixed or floating), security interest or other encumbrance over any part of present or future assets of you or any of your subsidiaries without our prior written consent.

8. Lien and Set-off

We shall be entitled to exercise, at any time without notice, our right of lien and our rights to set-off and combine your account(s) with us in or towards satisfaction of your indebtedness to us in respect of the above facilities whenever due and payable.

9. Expenses

You shall pay to us upon demand all costs, charges and expenses (including legal expenses on a full indemnity basis, stamp, registration or other duties) incurred by us in connection with the preparation of the documentation contemplated hereby, the administration of the above facilities, or the enforcement of or preservation of any rights hereunder or otherwise in connection with the above facilities.

10. Governing Law

The above facilities and this facility letter shall be governed by and construed in accordance with the laws of Hong Kong.

11. Other Conditions

- (a) The above facilities shall be subject to all other terms and conditions which you may have agreed with us in writing.
- (b) Notwithstanding any provision to the contrary contained in this facility letter or any applicable documents, we reserve the right, at our discretion, to modify, cancel

-4-

5

or terminate all or part of the above facilities and the terms governing thereof, on demand, and to declare all amounts then outstanding to be immediately due and payable and to call on demand cash cover for your prospective and contingent liabilities.

12. Acceptance and Agreement

Please confirm your agreement (i) to be bound by the above terms and conditions and (ii) that any change to the above terms and conditions which is requested by you or your duly authorised representative(s) and which is approved by us will also be binding on you by signing and returning to us the enclosed duplicate of this facility letter together with the other documents referred to in clause 6 above.

Yours faithfully,

For and on behalf of  
The Sanwa Bank, Limited  
Hong Kong Branch

/s/ Y. HIRANO

-----  
Y. Hirano  
Assistant General Manager

-5-

6

[THE SANWA BANK LIMITED LETTERHEAD]

To: The Sanwa Bank, Limited  
Hong Kong Branch

We accept the above revised terms and conditions for your grant of the above facilities to us and agree to be bound thereby.

For and on behalf of  
Nam Tai Electronic and Electrical  
Products Limited

For and on behalf of  
NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LIMITED

[SIG]

-----  
Authorized Signature

Name:  
Title:  
Date:

We hereby acknowledge and agree to the above revised terms and conditions for your grant of the above facilities to Nam Tai Electronic and Electrical Products Limited and confirm that the Continuing Guarantee dated 19th August, 1991 given by us remains in full force, valid and effect.

For and on behalf of  
Nam Tai Electronics, Inc.

/s/ R.G. ERDMAN

-----  
Name: R.G. Erdman  
Title: Chief Financial Officer  
Date: Sept. 13, 1996

[BANQUE WORMS LETTERHEAD]

18 September 1996

Nam Tai Electronic & Electrical Products Ltd  
Unit 513-520  
No. 1 Hung To Road  
Kwun Tong, Kowloon

Attn: Mr Maxwell Yeung, Director Finance & Administration

Dear Sirs

We are pleased to advise that the following credit facilities have been made available for NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LTD and/or NAM TAI ELECTRONIC (SHENZHEN) CO LTD until further notice:

<TABLE>

<S>                    <C>

CREDIT FACILITIES

Line (01)            US\$7,000,000 (UNITED STATES DOLLARS SEVEN MILLION ONLY)

- For opening letters of credit; and/or
- For trust receipt loans up to 90 days; and/or
- For issuing shipping guarantee under letters of credit issued by us; and/or
- For discounting sight D/P bills drawn on customers acceptable to us; and/or
- For short term loan up to 90 days and/or overdraft up to HK\$7,800,000.

</TABLE>

Sublimit 01-1

US\$3,000,000 (UNITED STATES DOLLARS THREE MILLION ONLY)

<TABLE>

<S>

<C>

<C>

- For a 3-year term loan ("the Loan") subject to the terms hereunder:

Borrower	:	Nam Tai Electronic & Electrical Products Ltd
Purpose	:	For acquisition of a minority stake in a company relating to the core business of Nam Tai Electronics Inc
Final Maturity	:	3 years from the date of first drawdown of the Loan
Availability	:	Within 12 months from the date of this letter

</TABLE>

[LOGO]

18 September 1996

Nam Tai Electronic & Electrical Products Ltd

<TABLE>

<S>

Repayment	:	<C>	<C>
			the Loan shall be repaid by 6 equal semi-annual installments commencing 6 months from the date of first drawdown of the Loan

</TABLE>

Line (02) US\$1,000,000 (UNITED STATES DOLLARS ONE MILLION ONLY)

- For negotiation of export bills under letters of credit with discrepancies supported by your letter of guarantee; and/or
- For advance against export bills up to 30 days under letters of credit sent for collection.

Line (03) US\$4,000,000 (UNITED STATES DOLLARS FOUR MILLION ONLY)

- For booking foreign exchange contracts up to 180 days.

COMMISSION AND INTEREST RATE

<TABLE>

<S>	<C>		<C>
(i)	L/C opening & in lieu of exchange commission	-	1/4% for the first US\$50,000 1/16% for balance up to US\$100,000 1/24% for balance
(ii)	Collection commission	-	1/8% for the first US\$50,000 1/24% for balance
(iii)	Bills interest	-	1/2% p.a. over our cost of funds
(iv)	Short term loan interest	-	1% p.a. over our cost of funds
(v)	Overdraft interest	-	1/4% p.a. over Prime
(vi)	3-year term loan interest	-	1 1/4% p.a. over our 1-, 2- or 3-month cost of funds
(vii)	Front end fee for 3-year term loan	-	1/4% flat on the Loan amount, payable on acceptance of our offer by debiting your USD call account in our bank

</TABLE>

All interest rates are subject to fluctuation at our discretion.

/3

3

[LOGO]

18 September 1996  
 Nam Tai Electronic & Electrical Products Ltd  
 Nam Tai Electronic (Shenzhen) Co Ltd

CONDITIONS

The facilities may be drawn in currency other than United States Dollar as shall be specified by you by giving us not less than two days prior written notice provided that:-

- (1) nothing herein shall impose on us any obligation to make advance in the currency requested, which shall in any event be subject to the availability of funds in such currency and we reserve the overriding right to refuse advance in the currency requested without assigning any reasons therefore;
- (2) any amount drawn under the facilities and all interest thereon shall be repaid in the currency in which the said amount was drawn or in such other currency as shall be acceptable to us and in which event we have absolute discretion to decide the applicable conversion rate between the two currencies.

The availability of the credit facilities is subject to:-

For Line (01), (02) and (03)

- (1) Corporate guarantee of Nam Tai Electronics Inc for US\$8,400,000 for Nam Tai Electronic & Electrical Products Ltd and Nam Tai Electronic (Shenzhen) Co Ltd; and
- (2) Nam Tai Electronics Inc undertakes that it will not and will procure that all its subsidiaries including but not limited to Nam Tai Electronic & Electrical Products Ltd and Nam Tai Electronic (Shenzhen) Co Ltd, will not pledge any of their existing or future assets to any third party; and
- (3) Submission of audited annual and unaudited half yearly financial statements of Nam Tai Electronic & Electrical Products Ltd, Nam Tai Electronic (Shenzhen) Co Ltd and Nam Tat Electronics Inc for our review as soon as possible but no later than 180 days and 60 days from respective closing dates.

Additional condition for Sublimit 01-1

- (4) Nam Tai Electronics Inc undertakes that it will maintain not less than US\$60 million consolidated tangible net worth (excluding minority interests and revaluation surplus) at all times.

/4

4

[LOGO]

18 September 1996

Nam Tai Electronic & Electrical Products Ltd  
Nam Tai Electronic (Shenzhen) Co Ltd

-4-

Usage of the above facilities is subject to our availability of funds and completion of our normal banking documentation as well as the usual requirement that there be no materially adverse changes in the financial conditions of your group. As a general banking practice, we reserve our overriding right of demand for repayment of principal plus interest.

LIEN AND SET OFF

We shall be entitled to exercise, without notice, our right of lien and our right to set off and combine your account(s) with us in or towards satisfaction of your indebtedness to us in respect to the facilities whenever due.

EXPENSES

You shall pay to us upon demand all costs, charges and expenses (including legal expenses on a full indemnity basis, stamp, registration, or other duties) incurred by us in connection with the enforcement of or preservation of any rights hereunder or in connection with the facilities.

GOVERNING LAW

The above facilities and this letter shall be governed by and construed in accordance with the Laws of Hong Kong.

This letter supersedes all our previous letters of facilities offer.

As a token of your understanding and acceptance of the above terms and conditions, please sign and return the duplicate of this letter together with your Board Resolutions authorizing borrowing from our bank under the aforesaid terms.

We thank you for this opportunity to be of continued service to you and look forward to a mutually beneficial relationship and closer working relationship with your group.

/5

5

[LOGO]

18 September 1996  
Nam Tai Electronic & Electrical Products Ltd  
Nam Tai Electronic (Shenzhen) Co Ltd

-5-

Yours faithfully  
per pro BANQUE WORMS HONG KONG BRANCH

<TABLE>

<S>

/s/ IRIS NGO

-----  
Iris Ngo  
Head of Corporate Banking

</TABLE>

<C>

/s/ JOSPEH HO

-----  
Jospeh Ho  
Assistant Manager, Corporate Banking

6

[LOGO]

18 September 1996  
Nam Tai Electronic & Electrical Products Ltd  
Nam Tai Electronic (Shenzhen) Co Ltd

-5-

Yours faithfully

<TABLE>

<S>

/s/ IRIS NGO

-----  
Iris Ngo  
Head of Corporate Banking

</TABLE>

<C>

/s/ JOSPEH HO

-----  
Josphe Ho  
Assistant Manager, Corporate Banking

Accepted by For and on behalf of  
NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LIMITED

[SIG]

-----  
Authorized Signature

-----  
Borrower: Nam Tai Electronic & Electrical Products Ltd  
Date:

-----  
Borrower: Nam Tai Electronic (Shenzhen) Co Ltd  
Date:

The terms and conditions of Banque Worms's offer to the Borrower of which this letter is a duplicate are agreed to by the undersigned.

[SIG]

-----  
Guarantor: Nam Tai Electronics Inc.  
Date:

(Unofficial translation from Chinese to English. In case of discrepancy, the Chinese version prevails.)

=====

MEMORANDUM REGARDING CONTRACT FOR USE OF LAND

This Memorandum is made on March 25, 1996 between

Party A: Shenzhen City Baoan Xinan Gu Su Estate Residents Committee;  
and

Party B: Nantai Electronic (Shenzhen) Co. Ltd.

Whereas Parties A and B have entered into an agreement dated November 29, 1993 regarding the transfer of the land with a total area of 26,313.28 square meters, situated at Zhuao, Gu Su Industrial Estate, Xinan, Baoan (hereinafter called "the Land"); and

Whereas The People's Government of Shenzhen City, on February 27, 1996, announced a new legislation regarding lease tenure.

Therefore Parties A and B agree to execute this Memorandum to confirm the lease tenure for Party B to use the Land be extended to 50 years.

This Memorandum is legally binding. All disputes or contradictions arising from the execution of the terms of this Memorandum, the related contracts and agreements and other related documents shall be resolved by benevolent negotiations between Party A and Party B. In failure to agree on a mutually acceptable solution, the issue should be submitted to the local arbitration authority for judgement and such judgement shall be final and legally binding to both parties.

This Memorandum comprises of six counterparts and each party shall retain three counterparts. All six counterparts duly signed, executed and sealed shall be valid and have the same legal effect.

<TABLE>

<S>

<C>

Signed by:

Party A:  
Shenzhen City Baoan Xinan Gu Su Estate

Party B:  
Nantai Electronic (Shenzhen)



Residents Committee  
Authorized Person  
</TABLE>

Co. Ltd.  
Authorized Person

Date: March 25, 1996

OFFICE PREMISES

DATED 21st FEBRUARY 1997.

WIDE HARVEST INVESTMENT LIMITED

and

NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LIMITED

\*\*\*\*\*

TENANCY AGREEMENT

of

Suite Nos.6B, 7, 8 and 9 on the 15th Floor of Tower 1,  
China Hong Kong City, China Ferry Terminal,  
Canton Road, Kowloon.

\*\*\*\*\*

BAKER & MCKENZIE  
Solicitors  
1401 Hutchison House  
Hong Kong

AN AGREEMENT made the 21st day of February  
One thousand nine hundred and ninety-seven

Parties BETWEEN WIDE HARVEST INVESTMENT LIMITED whose registered office is situate at 11th-12th Floors, Tsim Sha Tsui Centre, Salisbury Road, Kowloon, Hong Kong (hereinafter called "the Landlord which expression shall include its successors and assigns") of the one part and the person, firm or company set out in Part I of the First Schedule hereto (hereinafter called "the Tenant") of the other part.

WHEREBY IT IS AGREED as follows:

Premises 1. In consideration of the rent hereinafter mentioned and of the terms by the Tenant hereinafter contained the Landlord hereby lets and the Tenant hereby takes ALL THAT Portion of the building as set out in Part II of the First Schedule hereto forming part of the Office Towers of CHINA HONG KONG CITY, CHINA FERRY TERMINAL Canton Road, Kowloon, Hong Kong (hereinafter referred to as "the said building") (which said Portion for the purpose of identification only is delineated and described on the Plan hereto annexed and thereon coloured Pink and marked "P") (hereinafter called "the said premises") standing on ALL THAT piece or parcel of ground registered in the Land Registry as KOWLOON INLAND LOT NO. 10743 TOGETHER with the use and enjoyment in common with the Landlord and/the other persons entitled thereto of the entrances, staircases, landings, lavatories, corridors and

passages in the said building insofar as the same are necessary for the proper use and enjoyment of the said premises AND TOGETHER with the use in common with others having the like right of the lifts escalators and central air-conditioning services serving the said premises whenever the same shall be operating for the term defined in Part III of the First Schedule hereto ("the said term") YIELDING AND PAYING therefor throughout the term such rent and other charges as are from time to time payable in advance and in accordance with the Provisions set out in the Second Schedule and subject to the Tenant's use, occupation and enjoyment of the said premises only for the purposes set out in Part IV of the First Schedule hereto and not for any other purposes whatsoever.

Rental deposit

2. The Tenant shall on the signing hereof deposit with the Landlord the sum specified in Part V of the First Schedule hereto (adjusted where necessary in the manner hereinafter provided) as security for the due payment of the said rent and the due observance and performance of the terms conditions and stipulations herein contained and on the part of the Tenant to be observed and performed and the said deposit shall be retained by the Landlord throughout the said term free of any interest to the Tenant with power for the Landlord without prejudice to any other right or remedy hereunder to deduct therefrom the amount of any rent. surcharge or other payments that fall due under this Agreement and subject as aforesaid the same or the balance thereof after satisfaction of the amount of any costs, expenses, loss or damage sustained by the Landlord as a result of any non-observance or non-performance by the Tenant of any such agreement stipulation or condition shall be returned to the Tenant without compensation or interest within 45 days

3

after the Tenant shall have delivered up vacant possession of the said premises pursuant to Clause 5(j) hereof PROVIDED that any sum already paid by way of part payment on account of the deposit shall be automatically transferred as part payment of the monies payable under this Clause and only the balance shall then be payable at the time stipulated herein but without prejudice to the Landlord's rights to claim any further damages which the Landlord has sustained or may sustain.

3. The Tenant to the intent that the obligations hereunder shall continue throughout the said term of tenancy hereby agrees with the Landlord as follows:

Rent and surcharge

(a) (i) To pay the said rent (Provided that the Tenant shall be entitled to 45-days rent-free period from the commencement of the said term of tenancy) and surcharge on the days in manner aforesaid without any deduction or set-off.

Computation of time of payment

(ii) If the day on which the rent, surcharge or other payments falls due under this Agreement is a public holiday, the relevant payment of rent, surcharge or otherwise shall be due and payable on the preceding business day.

(iii) If payment is made by the Tenant by

cheque, such cheque must reach the office of the Landlord before 3:30 o'clock in the afternoon if such payment is made on any weekday except Saturday, and before 12 noon if such payment is made on a Saturday otherwise the payment shall be deemed to have been paid by the Tenant on the following business day and the Tenant shall be deemed to have defaulted in making due payment. For the avoidance of doubt, business day means a day on which banks are ordinarily open for business in Hong Kong.

Adjustment of charges

(iv) If at any time during the said term the operating cost relative to the supply of the said air-conditioning and/or the costs and expenses of management of the said building shall have risen over costs prevailing at the commencement of the said term the Landlord shall be entitled to serve one month's notice in writing upon the Tenant to increase the said surcharges or any of them by appropriate amount(s) and thereafter such increased charges shall prevail. Further increases shall be made in the same manner in the event of costs rising after an earlier notice of increase shall have become operative. The Landlord's assessments of the appropriate increase shall be conclusive and binding on the Tenant.

Additional air-conditioning charges

(v) If the Tenant shall require air-conditioning outside the hours set out in Clause 4(c) hereof, the same can normally be charges provided on not less than 48 hours notice in writing

- 2 -

4

stipulating at what time the Tenant shall require additional air-conditioning to the Landlord at such adjusted rates as may be charged by the Landlord from time to time.

(vi) Should the surcharge be increased in accordance with the provisions of Clause 3(a)(iv) of this Agreement or should there be any other increase in the rent during the term, the Tenant shall upon such increase becoming applicable pay to the Landlord by way of an increase in

the said deposit a sum proportional thereto in order to restore the ratio of deposit to the rent plus the surcharge to that previously subsisting and the payment of such increase should be a condition precedent to the continuation of this tenancy.

Rates

- (b) (i) To pay and discharge punctually during the said term all rates, taxes, assessments, duties, charges, impositions and outgoings of an annual or recurring nature whatsoever now or hereafter to be assessed imposed or charged on the said premises or upon the owner or occupier in respect thereof by the Hong Kong Government or other lawful authority (Crown rent and Property Tax and outgoings of a capital or non-recurring nature only excepted).
- (ii) In the event that an assessment to rates in respect of the said premises shall be raised directly upon the Landlord the Landlord shall during the month immediately preceding any quarter in respect of which such rates may fall due be at liberty to debit the Tenant with the amount thereof and the same shall forthwith be paid by the Tenant to the Landlord whereupon the Landlord shall account for the same to the Government of Hong Kong.
- (iii) In the event that no valuation of the said premises shall have been made in accordance with the Rating Ordinance (Cap. 116) or any statutory amendment or modification thereof for the time being in force the Landlord shall be at liberty and entitled to make an interim valuation equivalent to 7.5 % of the annual rents of the said premises and to debit the Tenant with the amount which would be payable upon such interim valuation and the same shall forthwith be paid by the Tenant to the Landlord and any over-payment or under-payment by the Tenant on such interim valuation shall be adjusted when a valuation under the Rating Ordinance shall have been made known.
- (iv) The Landlord shall be entitled to treat non-payment of any amount debited to the Tenant in accordance with the

5

foregoing provisions of this Clause or any part thereof in all respects as non-payment of rent under this Agreement.

- Water, gas and electricity charges (c) To pay and discharge punctually during the said term all charges (including all necessary deposits) in respect of water, gas, electric light, power and telephones as may be shown by the separate meter or meters installed upon the said premises or by accounts rendered to the Tenant.
- Cleaning charges (d) To keep the said premises in clean and sanitary condition and to employ cleaning contractors for the said premises which cleaning contractors shall be only such persons or such firm as may be nominated by the Landlord. Such cleaning contractors shall be employed at the sole expense of the Tenant and at the rate agreed by the Landlord with the contractors and on such terms and conditions which shall have been previously approved by the Landlord, all such payments to be made by the Tenant to such contractors direct. In case the Tenant shall have for disposal wet garbage or any garbage of a perishable nature including but not limited to food or food remains, the Tenant shall use plastic bags of such standards, size and thickness as shall be prescribed by the Landlord for the removal or disposal of such garbage and shall direct and procure cleaning contractors appointed as aforesaid to use such plastic bags for such purposes at the sole costs of the Tenant.
- Interior Fitting out (e) To fit out the interior of the said premises in accordance with the drawings approved by the Landlord (which approval shall not be unreasonably withheld or delayed). The Tenant will not cause or permit to be made any variation to the interior design or layout of the said premises without the prior written approval of the Landlord first having been obtained (such approval shall not be unreasonably withheld).
- Fitting up (f) To fit up the said premises in a style and manner appropriate to a first class office building and so to maintain the same throughout the said term in good condition and repair to the satisfaction of the Landlord (fair wear and tear, inherent defects, damages caused by fire, whiteants (not attributable to the act default or neglect of the Tenant), storm, typhoon, earthquake, acts of God and Force Majeure excepted).
- Decoration works by the Tenant (g) To construct at the Tenant's own expense within the said premises or furnish items to the said premises as follows:-

- (i) (a) A ceiling of non-combustible material and electrical light fittings. In case of extension or relocation of the sprinkler heads and/or the smoke detectors and other fire services equipment installed by the Landlord is

- 4 -

6

needed, the cost of such work will be paid by the Tenant.

- (b) Vertical window blinds, tracks and fittings at Tenant's expenses.
- (ii) Paint and decorate the interior of the said premises.
- (iii) Furnish and install floor fill and floor finishes. PVC tiles shall not be used unless approved by the Landlord (which approval shall not be unreasonably withheld).
- (iv) With the relevant plan showing all the details including but not limiting to the gauge of wire, etc. duly approved in writing in advance by the Landlord (which approval shall not be unreasonably withheld or delayed), complete all internal electrical and mechanical installations (heating, ventilation, air-conditioning, plumbing, drainage and fire services) of workmanships and materials of a standard to the reasonable approval of the Landlord.
- (v) Furnish and install or arrange for the installation of telephones as well as other Tenant's requirements within the said premises together with such meters as are necessary to measure the Tenant's consumption thereof.
- (vi) Install, support and connect all lighting fixtures, including lamps, switches and wiring, save that in the case of support involving cutting into structure prior written approval of the Landlord will be required (which approval shall not be unreasonably withheld or delayed).
- (vii) Install such fire extinguishers or other means of fire-fighting equipment

inside the said premises as may be required from time to time by all relevant Ordinances and regulations of the Hong Kong Government.

- Telephone System (h) To install at the Tenant's own expense empty conduits for telephone service to the said premises. Telephone service to the premises shall only be installed by the Hong Kong Telephone Company Limited and the Tenant shall leave pull wire in all conduits and pay to the Landlord the expenses incurred in the installation of telephone jacks and conduits to the said premises.
- Electrical Testing (i) To test all circuits for shorts and ground and to balance loads on all panels.
- Pass for Service (j) The Tenant agrees that permanent utility lines may pass through the

- 5 -

7

ceiling cavity of the said premises to service other premises and areas in the said building.

- Building Service & Builders' Work (k) To employ at the Tenant's expenses only such contractors as may be nominated by the Landlord from time to time for the purpose of designing and carrying out and installing all the necessary building services and builder's work as hereinafter defined in the said premises in manner as prescribed by the Landlord or its nominated contractors and in particular to pay the Landlord vetting fees consultancy fees and relating charges at the pre-determined scales as set out by the Landlord and notified to the Tenant. For the purpose of this sub-clause, subject to amendments/ alterations from time to time and to such extent as the Landlord shall in its discretion deem appropriate or necessary.
- (a) The expression "building services" shall mean all mechanical and electrical engineering work and arrangement related to the said premises including but not confined to electrical air-conditioning, plumbing, building automation and fire fighting installation.
- (b) The expression "Builders' work" shall mean all renovation work not specified under "building service" including but not confined to light track, light trough and graphic panel.
- Submission of Information (l) (i) All specifications, prints, copies and drawing information or materials are to be furnished by the Tenant as required by the Landlord and shall be



delivered to the Landlord's office.

- (ii) Prior to the commencement of construction of Tenant's work, the Tenant shall furnish the Landlord with the following information and items:-
  - (1) The name and address of the appointed designer/agent for the said premises.
  - (2) The name(s) and address(es) of the general contractor(s) the Tenant intends to engage in the construction of Tenant's work.
  - (3) The name and address of the Tenant's authorized agent/representative, if any.
  - (4) The actual commencement date of interior decoration and the estimated date of completion of decoration work, fixturing work, and date of projected opening.
- (iii) The Tenant when notified by the Landlord has to submit

- 6 -

8

office layout drawing within 2 weeks to the Landlord for its approval. The Landlord shall within 2 weeks of the Tenant's submission of the plans notify the Tenant of its approval or rejection of such plans. If the Landlord shall reject such plans, the Landlord shall in the same notice specify the reasons for rejection and the manner in which the Landlord requires the Tenant to make to such plans.

- (iv) For the nominated mechanical and electrical contractors to prepare the corresponding designs and drawings, the Tenant shall provide the Landlord the followings:-
  - (1) Three copies of the reflected ceiling plan with schedule on voltage, type, wattage, quantity and location of outlets for all light fittings and air-conditioning.
  - (2) Three copies of the floor

plan with partitions.

(3) Three layout prints of all case work including the location of all sockets, switches, fuse box, telephone points, size, weight and location of safe, if any.

(4) Three sets of elevations to describe the space with all electric outlets.

Statutes, Codes & Ordinances (m) The Tenant shall have the sole responsibility to comply with all applicable statutes, codes, ordinances and other regulations for all work performed by or on behalf of the Tenant within the said premises and the Landlord or the Landlord's agents or representative's approval of plans, specifications, calculations or of the Tenant's work shall not constitute any implication, representation or certification by the Landlord that the said improvements are in compliance with said statutes, codes, ordinances, and other regulations.

Inspection by Landlord (n) All Tenant's work shall be subject to the inspection of the Landlord, the Landlord's Architect and Landlord's General Contractor from time to time during the period in which Tenant's work aforesaid is being performed.

Reimbursement to (o) The Landlord shall have the right to perform on behalf of and for the account of the Tenant, any of the Tenant's work which is the responsibility, of the Tenant hereunder. Such work shall be limited to work which the Landlord deems necessary to be done on an emergency basis, work caused by the Tenant's fault, and work which pertains to structural components, the general utility systems

- 7 -

9

for the said Building and the erection of temporary safety barricades and temporary signs during construction.

Good repair of interior (p) To keep all the non-structural parts of the interior of the said premises, the flooring and interior plaster or other finishing material or rendering to walls floors and ceilings, and the Landlord's fixtures therein and all addition thereto including doors, window, electric wires and installations and fittings for light and power in good clean, tenantable and proper repair and condition and properly preserved and painted as may be appropriate when from time to time required and to so maintain the same at the expense of

the Tenant and deliver up the same to the Landlord at the expiration or sooner determination of the term in such repair and the like condition (fair wear and tear inherent defects, damages caused by fire whiteants (not attributable to the act default or neglect of the Tenant), storm, typhoon earthquake, acts of God and Force Majeure excepted).

Replacement of windows

(q) To reimburse to the Landlord the cost of replacing all broken and damaged windows door glass and fixtures within the said premises whether the same be broken or damaged by the negligence of the Tenant or owing to circumstances beyond the control of the Tenant.

Good repairs & replacement of sanitary apparatus & electrical wiring

(r) To keep all taps lavatories wash basins sinks sanitary and water apparatus and other internal pipes and all drains (if any) in or belonging to the inside of the said premises clean and in good order and repair and to keep in clean and good order and repair all other pipes and all wires cables conduits fittings and apparatus within or exclusively serving the said premises and used for or in connection with the services of water gas or electricity in the said premises (fair wear and tear inherent defects, damages caused by fire whiteants (not attributable to the act default or neglect of the Tenant), storm, typhoon earthquake, acts of God and Force Majeure save and excepted) and to repair or replace the same (including burnt out fluorescent tubes or light bulbs) at the expenses of the Tenant if so required by the Landlord or other competent authority. In the event of the Tenant failing to proceed diligently with the necessary repairs or replacements so required within 21 days after the Landlord has notified the Tenant in writing then the Landlord may proceed with such repairs or replacement and recover all costs incurred thereby from the Tenant as a debt.

Cleansing & Clearing of Drains

(s) In the event of the pipes or drains of the said building becoming choked or stopped up owing to the careless use by the Tenant its servants agents licensees invitees the Tenant shall pay the costs incurred by the Landlord in cleansing and clearing the same from obstruction.

- 8 -

10  
Entry by Landlord

(t) To permit the Landlord or its agents with or without workmen or other persons authorised by it and with or without appliances at all reasonable times and upon prior appointment to enter into and upon the said premises and to

examine the conditions thereof and thereupon the Landlord may serve upon the Tenant notice in writing specifying any repairs necessary to be done and require the Tenant forthwith to execute the same and if the Tenant shall not within 21 days after the service of such notice proceed diligently with the execution of such repairs then to permit the Landlord to enter upon the said premises and execute such repairs and the costs thereof (the amount thereof in case of difference to be determined by the Landlord's agent) together with the interest thereon at the rate of 2% per month calculated from the date on which such costs are incurred by the Landlord to be paid by the Tenant shall be a debt due from the Tenant to the Landlord and be forthwith recoverable by action.

Entry by the Landlord to carry out repairs and take inventories

(u) To permit the Landlord or its authorised, agents at all reasonable times and with prior appointment to enter the said premises for the purpose of taking inventories of fixtures therein and carrying out any repairs therein provided that in the event of emergency the Landlord or its authorised agents may without notice enter the said premises forcibly and the Tenant shall at its own expense reinstate the entrance to the said premises to its original position.

Entry by the Landlord to close Windows and doors

(v) To keep all windows and doors of the said premises closed and to permit the Landlord or its servants and agents and others from time to time during the said term to enter upon the said premises for the purpose of closing any doors or windows.

Notify Landlord of damage

(w) To notify the Landlord in writing of any accidents to or defects in the water pipes gas pipes electrical wire or fittings fixtures or other facilities provided by the Landlord in the said premises whether or not the Tenant is liable hereunder for the repair of the same forthwith upon the Tenant becoming aware whether actually or constructively of the same arising.

To make good & take care of all articles provided by Landlord

(x) To make good and pay for all damage caused by the Tenant his Servants or licensees to any fixtures fittings and other articles in the said premises and provided by the Landlord and shall take reasonable care of the same and shall not remove any of them from the said premises.

Repair of neighbouring premises

(y) To permit the Landlord and its duly authorised agents workmen and others appointed by it at all reasonable times during the said term (but by prior appointment save in case of emergency) to enter into and upon the said premises and to execute any works of renewal

cleansing alteration or repair to any adjacent or neighbouring premises or to the building of which the said premises form part.

Combustible or dangerous goods

(z)

Not to store or bring upon the said premises or any part thereof any unlicensed arms ammunition gun-powder spirits saltpetre or kerosene any articles of a specially combustible inflammable or unlawful goods or dangerous nature.

Storage of goods

(aa)

Not to use the said premises or any part thereof for the storage of goods or merchandise other than in small quantities consistent with the nature of the Tenant's business by way of samples and exhibits.

Insurance against loss/damage from Interior Defects

(ab)

To indemnify the Landlord against any proceedings actions claims or demands whatsoever by any person for loss and damage suffered as a result of the want of repair of the interior of the said premises the repair of which the Tenant is responsible hereunder or the spread of fire or the overflow of water or the escape of any substance or anything from the said premises due to the default or negligence of the Tenant its servants agents licensees or customers; and to effect and maintain a policy or policies of insurance which should include the Landlord's properties and fixtures inside the said premises against the risks hereinbefore mentioned in a reputable insurance company to be approved by the Landlord (which approval shall not be unreasonably withheld) in such amount as the Landlord may reasonably determine and to produce to the Landlord the policy or policies and the receipt on request provided always that if the Tenant shall at any time fail to keep such insurance on foot the Landlord may do all things necessary to effect and maintain such insurance and any monies expended by the Landlord for that purpose shall be recoverable from the Tenant on demand.

Breach of Insurance Policy

(ac)

Not to do or permit to be done anything whereby the policy or policies of the insurance of the said building against damage by fire or other risks for the time being subsisting may become void or voidable or whereby the rate of premium thereon may be increased and the premium and all expenses incurred by the Landlord in or about any renewal of such policy or policies rendered necessary by breach of this term shall be borne by the Tenant and shall be recoverable from the Tenant by the Landlord on demand.

Illegal or immoral purposes

(ad)

Not to use or permit or suffer to be used the said premises or any part thereof for any illegal or immoral purposes.

- (ae) (i) To fit out the interior of the said premises in accordance with the drawings approved by the Landlord and not without the prior written consent of the Landlord (which consent shall not be unreasonably withheld) to make any alteration or addition to the said premises or any part thereof either

- 10 -

12

- internally or externally or to any fixtures or fittings or electrical wiring or electrical mechanical or air-conditioning installations therein or to any item therein (whether or not of a structural nature).
- (ii) Not to place in or upon any part of the said premises or the said building any equipment apparatus machinery or load likely to or which may cause damage thereto and not to cause permit or suffer any load to be placed in any part of the said premises if the weight of such load exceeds that permitted from time to time by the Landlord in using the said premises or the said building or any lifts serving the same or any other thing in or upon the said premises or the said building.
- (iii) Not to install set up or affix or permit to be installed set up affixed in or upon the said premises or any part thereof in any manner whatsoever any engine or machinery or plant or air-conditioning or heating system.
- (iv) To observe and comply with all rules regulations and instructions from time to time prescribed by the Landlord or its authorised representative or officer in carrying out any alterations additions or improvements to the said premises.
- (v) To observe and comply with all rules regulations and instructions from time to time prescribed by The China Light & Power Company Limited or the relevant authority relating to the electrical wiring and installation in the said premises.
- (vi) Not to cut maim injure damage alter or interfere with any of the walls structural members pipes drains appurtenances electrical cables wires fixtures or fittings of or in the said

premises or any part thereof or suffer or permit the same to be done.

- (vii) Not to change or in any way to alter the standard entrance doors provided by the Landlord for access to and egress from the said premises without having first obtained the written consent of the Landlord therefor (which consent shall not be unreasonably withheld or delayed).
- (viii) Not to install additional locks bolts or additional fittings to the entrance doors of the said premises or in any way to cut or alter the same without having first obtained the written consent of the Landlord therefor (which consent shall not be unreasonably withheld or delayed).

- 11 -

13

- (ix) To display and decorate the show windows up to a first class standard and in such manner as not to be offensive to the Landlord who has the right to require the removal of any part of the display as in the Landlord's absolute discretion considers offensive.

Protection from typhoon

- (af) To take all necessary precautions to protect the interior of the said premises against damage by storm typhoon heavy rainfall or the like and in particular to ensure all exterior doors and windows are securely fastened upon the threat of such adverse weather conditions.

Subletting Assigning

- (ag) Not to assign underlet or otherwise part with the possession of the said premises or any part thereof in any way whether by way of subletting lending sharing or other means whereby any organization company firm or person or persons not a party to this Agreement obtains the use or possession of the said premises or any part thereof irrespective of whether any rental or other consideration is given for such use or possession and in the event of any such transfer sub-letting sharing assignment or parting with the possession of the said premises (whether for monetary consideration or not) this Agreement shall absolutely determine and the Tenant shall forthwith vacate the said premises on notice to that effect from the Landlord. The Tenancy shall be personal to the Tenant named in this Agreement and without in any way limiting the generality of the foregoing the following acts and events shall, unless approved in writing by the Landlord, be deemed to be breaches of this Clause:-

- (i) In the case of a tenant which is a partnership the taking in of one or more new partners whether on the death or retirement of an existing partner or otherwise.
- (ii) In the case of a tenant who is an individual (including a sole surviving partner of a partnership tenant) the death insanity or disability of that individual to the intent that no right to use possess occupy or enjoy the said premises or any part thereof shall vest in the executors administrators personal representatives next of kin trustee or committee of any such individual.
- (iii) In the case of a tenant which is a corporation any liquidation (save for the purpose of amalgamation).
- (iv) The giving by the Tenant of a Power of Attorney or similar authority whereby the donee of the Power obtains the right to use possess occupy or enjoy the said premises or any part thereof or does in fact use possess occupy or enjoy the same.

- 12 -

14

- (v) The change of the Tenant's business name without the previous written consent of the Landlord which consent the Landlord may give or withhold at its discretion.

Provided That notwithstanding anything herein contained the Tenant shall be entitled to share the use of the said premises with its subsidiaries or its holding company after submission of satisfactory proof to the Landlord.

Compliance with ordinance, Crown Lease and Deed of Mutual Covenant

- (ah) To carry out and comply with all ordinances regulations by-laws and rules and all notices and requirements of the appropriate government authorities in connection with or in relation to the said premises and not to do anything or suffer or permit anything to be done in contravention of the provisions of the Conditions of Sale or Crown Lease and Deed of Mutual Covenant under which the Landlord holds the said premises and to indemnify the Landlord against any breach of the terms of this clause.

Noise

- (ai) Not to do or permit or suffer to be done upon the said premises or any part thereof any music noise (including sound produced by



broadcasting from Television, Radio and any apparatus or instrument capable of producing or reproducing music and sound) or other act matter or thing whatsoever which may be or tend to the nuisance annoyance damage or disturbance of the Landlord or the owners tenants lessees or occupiers of any adjoining or neighbouring premises.

Responsible for acts of servants agents and licensees

(aj) To be wholly responsible for and to indemnify the Landlord against all damage loss or injury occasioned to the said premises or any part of the said building or any adjacent or neighbouring premises to any person whether directly or indirectly through the defective or damaged conditions of any part of the interior of the said premises or any fixtures fittings wiring or piping therein for the repair of which the Tenant is responsible hereunder or through or in any way owing to the spread of fire or smoke or the leakage or overflow of water including storm or rain water from the said premises or any part thereof caused by the act default or neglect of the Tenant or the servants agents licensees or invitees of the Tenant.

Preparation of food

(ak) Not to prepare or permit or suffer to be prepared any food in the said premises.

Sleeping or domestic use

(al) Not without the Landlord's prior permission in writing, permit any person to remain in the said premises overnight. Such permission shall only be given to enable the Tenant to post watchmen to look after the contents of the said premises, which shall not be used as sleeping quarters or as domestic premises within the meaning of the

- 13 -

15

Landlord and Tenant (Consolidation) Ordinance for the time being in force.

Installation in Common Area, etc.

(am) Not to lay, install, affix or attach any wiring, cables or other article or thing whatsoever in or upon any areas or parts of the Building in common use or in any place which is not hereby exclusively let to the Tenant.

Obstructions in common area

(an) Not to encumber obstruct or permit to be encumbered or obstructed with any boxes, packaging, merchandise, rubbish or other articles or obstructions of any kind or nature at any of the entrances, exits, staircases, landings, passages, lifts, escalators, lobbies or other parts of the said building not included in the said premises. In addition to any other remedies which the Landlord may have hereunder, the Landlord, its servants or agents may without any prior notice to the Tenant remove any such obstruction and dispose

of the same as they may think fit without incurring any liability therefor and the Tenant shall on demand pay to the Landlord all costs and expenses incurred in such removal.

- Signs (ao) Not to affix, erect, attach, exhibit, display or permit or suffer so to be done upon any part within or on the exterior of the said premises or to or through any windows thereof any writing sign, decoration, signboard notice advertisement placard neon light or other device whether illuminated or not which may be visible from outside the said premises except the display of name-plate or signboard of the Tenant and their lawful subtenant or licensee at the entrance to the said premises the size and position of such name-plate or signboard shall be subject to the approval of the Landlord (which approval shall not be unreasonably withheld). The Landlord or its authorised agents shall have absolute discretion in granting or refusing such approval and any approval to be granted shall be subject to such conditions as the Landlord or its authorised agents may think fit. The Landlord or its authorised agents shall have the right to remove at the cost and expense of the Tenant any unauthorised writing, sign, decoration signboard notice advertisement placard neon light or device affixed or put up or displayed without the proper approval of the Landlord or its agents.
- Sale by auction or etc. (ap) Not to permit or suffer to be held upon the said premises any sales by auction, fire, bankruptcy, closing-down or sale of similar nature or any discount-type of retail business or any form of unethical business operation Provided that this clause shall not preclude genuine promotional, clearance or periodic seasonal sales.
- Movement of safe and heavy machinery (aq) Not to move any safe heavy machinery equipment and freight bulky and heavy matter or fixtures in and out of the said building during normal office hours without first obtaining the Landlord's written consent

- 14 -

16

(which consent shall not be unreasonably withheld). The Tenant shall keep the Landlord indemnified against all damages sustained by any person or property and for any damages or monies paid out by the Landlord in settlement of any claim or judgments as well as legal costs incurred in connection therewith and all costs incurred in repairing any damage to the said building or its appurtenances resulting from movement of any heavy machinery equipment freight bulky matter or fixtures. The Tenant requiring to move to and from the said building such items undertakes at all times to

use the service lifts provided by Landlord for such purposes and to notify Landlord and arrange with the Landlord a suitable time for such deliveries to be effected.

- Adjacent excavation or shoring (ar) If any excavation or other building works shall be made or authorised in the vicinity of said building, the Tenant shall permit shoring the Landlord his servants or agents to enter the said premises to do such work as may be deemed necessary to preserve the exterior wall of the said building from injury or damage without any claim for damages or indemnity against the Landlord.
- Floor loading (as) The Tenant shall not place any load upon any floor of the said premises in excess of the loading capacity for which the floor is designed. The Landlord preserves the right to prescribe the weight and position of all safes and any heavy articles which must be placed so as to distribute the weight. Business machines and mechanical equipment authorised by the Landlord shall be placed and maintained by the Tenant at the Tenant's expense in settings sufficient in the Landlord's judgment to absorb and prevent vibration noise and annoyance to occupiers of the other portions of the said building.
- Vermin (at) The Tenant shall take all due precautions to ensure that the said premises do not become infested with insects or vermin. In the event of the premises becoming so infested the Tenant shall pay the cost of extermination as arranged or approved by the Landlord and the selected exterminators shall be given full access to the said premises for such purpose.
- Rules and Regulations (au) To observe faithfully and comply strictly with such reasonable Rules and Regulations as the Landlord or the Landlord's agents from time to time prescribe for the proper management and maintenance of the said premises and the said building. Notice of any additional Rules or Regulations shall be given in such manner as the Landlord may elect. The Rules and Regulations set out in the Third Schedule hereto and such additional Rules or Regulations shall constitute the initial Rules and Regulations binding upon the Tenant and shall have the same force and effect as if set out in the body of this agreement provided that in case of any conflict between the Rules and
- Keep premises well lighted (av) To keep the said premises well and sufficiently lighted throughout the business hours of the Tenant.

- 15 -

17

Regulations and the context of this Agreement, the latter shall prevail.

- No incense to be burnt (aw) Not to burn or permit to be burnt incense in the said premises or in any part of the said building.
- Fire Risk (ax) Not to do or permit any act or thing to be done which is likely to cause any fire risk or other hazard in the said building.
- Loading & Unloading Areas (ay) To ensure that the Tenant's employees servants agents or visitors do not obstruct those areas of the building allocated to temporary vehicle parking or designated as loading/unloading areas and at all times comply with the directions of the Landlord staff and accredited agents in exercising due control of such areas and the delivery of goods generally.
- Toilet Facilities (az) To use in common with others the lavatories and washing accommodations and facilities provided by the Landlord in the said building and not to permit or suffer the same to be used in any improper manner or whereby the soil or waste pipes may become impeded or blocked and at all times to indemnify the Landlord against liability for damage by the escape of water caused by the negligence of the Tenant to the properties or effects of the tenants or occupiers of the other part of the said building.
- Parking (ba) Not to park in obstruct or otherwise use nor permit any employee agent or licensee of the Tenant to park in obstruct or otherwise use these areas of the said building allocated to the parking or movement of or access for vehicles or designated as loading/unloading areas otherwise than in accordance with the regulations from time to time made by the Landlord.
- Use of building name (bb) Not without the previous written consent of the Landlord to use or permit to be used the name/logo or any part of the name/logo of the Landlord or of the said building or any picture representation or likeness of the whole or any part of such name/logo or of the said building or of the said premises in connection with the business or operations of the Tenant or for any purpose whatsoever other than to indicate the address and place of business of the Tenant.

4. The Landlord hereby, agrees with the Tenant as follows: -

- Quiet enjoyment (a) To permit the Tenant (duly paying the rent surcharge and rates and observing and performing the terms and conditions herein contained) to have quiet possession and enjoyment of the said premises during

the said term without any interruption by the Landlord or any person or persons lawfully claiming through under or in trust for the Landlord.

- |                             |     |   |
|-----------------------------|-----|---|
| Roof and main structure     | (b) | To amend and repair such defects in the roof, main electricity supply cables, main drain pipes, main walls and exterior windows frames of the said building and the structural parts of the said premises and the said building and the lifts and the central air-conditioning plant therein as the Landlord shall discover or as the Tenant or other authorised person or Authority shall by notice in writing bring to the attention of the Landlord and to maintain the same in a proper state of repair and condition at the cost of the Landlord PROVIDED that the Landlord shall be entitled to be given a reasonable period of time wherein to view any such defects and to amend and repair the same.   |
| Air-conditioning services   | (c) | To provide and maintain lifts, escalators air-conditioning service during the hours of 8:00 o'clock in the forenoon to 6:00 o'clock in the afternoon on weekdays and during the hours of 8:00 o'clock in the forenoon to 2:00 o'clock in the afternoon on Saturdays (excluding Sundays and public holidays). The supply of air-conditioning shall be controlled and regulated by the Landlord at its sole discretion, and also such electricity as is attributable to lights of the entrances, passages, corridors, staircases, landings and lavatories PROVIDED however the Landlord shall neither be liable to pay compensation to the Tenant in respect of any period during which due to circumstances beyond the control of the Landlord the proper operation of the said lifts or central air-conditioning plant shall be interrupted as the result of defects, mechanical failure or breakdown or need for repair or overhaul, nor shall the Landlord be liable thereby to grant any abatement of rent and/or air-conditioning service charge in respect of such interruption. |
| Crown Rent and property Tax | (d) | To pay the Crown Rent and Property Tax and outgoings of a capital or non-recurring nature for the time being payable in respect of the said premises.   |
| Maintenance of common parts | (e) | <p>(i) To be responsible for the maintenance lighting cleaning operating and servicing of all the common parts of the said building.</p> <p>(ii) To carry out all necessary decoration to the common parts of the said building as and when the Landlord shall in its absolute discretion decide the same is necessary.</p> <p>(iii) To keep the common parts toilets and other parts of the said building for common use clean and in proper</p>   |

(iv) To use its best endeavours to maintain lifts escalators fire and security services equipment air-conditioning plant and other facilities of the said building in proper working order.

Directory board

(f) To provide and maintain at the main entrances and in all other appropriate places suitable directory boards indicating to all persons entering the said building the whereabouts of the said premises with the Tenant's name in such uniform lettering or characters as shall be designated by the Landlord. For the avoidance of doubt, the expression "the Tenant's name" herein contained shall mean the name of the Tenant as set out in First Schedule of this Agreement and if the Tenant carries on business under a name other than his own name such expression shall mean the first of his business names as the Landlord shall be notified by the Tenant. For any subsequent change of the name of the Tenant or his business name which necessitates the replacement of the directory board or name plates thereon, the costs for the new directory boards and the new name plates shall be borne solely by the Tenant.

5. It is hereby expressly provided as follows: -

Default

(a) (i) If the rent or the surcharge reserved or interest thereon, if any, or any part thereof shall be unpaid (whether formally or legally demanded or not) for fifteen days next after any of the days on which the same ought to have been paid or in the case of the breach or non-performance of any of the stipulations and agreements herein contained on the part of the Tenant to be kept done or performed or if the Tenant shall become bankrupt or go into liquidation (save and except voluntary liquidation for the purpose of amalgamation) it shall be lawful for the Landlord at any time thereafter to re-enter into and upon the said premises or any part thereof in the name of the whole and thereupon this Agreement shall absolutely determine but without prejudice to the right of action of the Landlord in respect of any breach by the Tenant of the terms of this Agreement. All costs and expenses incurred by the Landlord in demanding the rent and the surcharge and other charges (if the Landlord elects to demand) shall be paid by the Tenant and shall be recoverable from him as a debt.

(ii) Notwithstanding anything hereinbefore contained in the event of default in payment of rent and the surcharge on the date on which the same falls due

for payment, the Tenant shall further pay to the Landlord on demand interest on the amount in arrears at the rate of (1.5%) per month calculated from the date on which the same became due for payment (as stipulated in Clause 1 hereof) until the date of payment as

- 18 -

20

liquidated damages and not as penalty provided that the demand and/or receipt by the Landlord of interest pursuant to this provision shall be without prejudice to and shall not affect the right of the Landlord to exercise any other right or remedy hereof (including the right of re-entry) exercisable under the terms of this Agreement.

(iii) Notwithstanding anything herein contained in the event of default in payment of the surcharge on the date on which the same falls due for payment or any interest thereon the Landlord shall in addition to its other rights under the terms of this Agreement be entitled to disconnect the supply of air-conditioning to the said premises until the amount in arrears shall have been fully paid by the Tenant without incurring any liability to the Tenant for any loss or damages suffered by the Tenant as a result thereof.

Distrain

(iv) For the purpose of Part III of the Landlord and Tenant (Consolidation) Ordinance relating to distress for rent or of these presents the rent payable in respect of the said premises shall be and be deemed to be in arrear if not paid in advance at the time and in manner hereinbefore provided for payment therefor. All costs and expenses for and incidental to the distraint shall be paid by the Tenant and shall be recoverable from him as a debt.

Abatement

(b) If the said premises or any part thereof are rendered uninhabitable or inaccessible by fire water storm wind typhoon defective construction white ants earthquake subsidence of the ground or any calamity beyond the control of the Landlord and not attributable to any failure by the Tenant to observe and carry out the terms of this Agreement the rent rates and surcharge or a part thereof proportionate to the extent to which the said premises shall have been so rendered uninhabitable shall abate and cease to be payable until the same shall have been again rendered fit for occupation or accessible

Provided That the Landlord shall repay to the Tenant any rent rates or surcharge which has been paid in advance And Provided Further that any dispute in relation to this clause shall be determined by an arbitrator in accordance with the Arbitration Ordinance Provided always that the Landlord shall not be required to reinstate the said premises if by reason of the condition of the same or any local Regulations or other circumstances beyond the control of the Landlord it is not practicable or reasonable to do so. If the said premises shall not be reinstated within two months from the date of the event rendering the same to be uninhabitable or inaccessible then the Tenant shall be entitled to terminate the same by one month's prior notice in writing to the Landlord but without prejudice to either party's antecedent claim against the other and

- 19 -

21

without prejudice to the Tenant's right to the refund of deposit paid hereunder.

Condemnation

(c)

If at any time during the continuance of this tenancy the competent authorities shall condemn the said building as a dangerous structure and it shall be pulled down or shall make a demolition order which shall become operative in respect of the said premises or any part thereof or a closure order in respect of a part of the said premises under their powers the tenancy hereby created shall cease as from the commencement of the pulling down of the said premises or from the time when such demolition or closure order shall become operative without prejudice to any antecedent claims by the Landlord or the Tenant and without prejudice to the Tenant's right to the refund of the deposit paid hereunder.

Expression of Tenant

(d)

The expression "the Tenant" shall (where the context permits) mean and include the party or parties specifically named and shall not include the executors and administrators of any such party or where such party is a corporation any liquidator thereof.

Acceptance of rent

(e)

The acceptance of rent by the Landlord hereby stipulated shall not be deemed to operate as a waiver by the Landlord of any right to proceed against the Tenant in respect of a breach by the Tenant of any of the Tenant's obligations herein contained.

Fire and overflow of water

(f)

The Landlord shall not be under any liability to the Tenant or to any other person whomsoever in respect of any loss or damage to person or property sustained by the Tenant or any such other person caused by or through or in any way owing to the overflow of water or the escape of fumes, smoke, fire or any other substance or thing from anywhere within the said building unless the same is caused by the



act default or neglect of the Landlord. The Tenant shall fully and effectually indemnify the Landlord from and against all claims and demands made against the Landlord by any person in respect of any loss, damage or injury caused by or through or in any way owing to the overflow of water or the escape of fumes, smoke, fire or any other substance or thing from the said premises caused by the neglect or default of the Tenant his servants, agents or licensees or to the defective or damaged condition of the interior of the said premises or any fixtures or fittings for the repair of which the Tenant is responsible hereunder and against all costs and expenses incurred by the Landlord in respect of any such claim or demand.

Injury to Tenant  
caused by lifts,  
escalators

(g) The Landlord, shall not be liable for any injury to the Tenant his servants licensees or invitees caused by any defect in or by the defective working of any lift or escalators in the said building by the Landlord's servants or otherwise unless the same is caused by the act, default or neglect of the Landlord.

- 20 -

22

Accidents and  
Injury to Tenant's  
chattel

(h) The Landlord shall not be responsible to the Tenant or the Tenant's licensees servants agents or other persons in the said premises or calling upon the Tenant for any accident happening or injury suffered or damage to or loss of any chattel or property sustained on the said premises or in the said building unless the same is caused by the act, default or neglect of the Landlord.

Re-Letting notices

(i) During the three(3) months immediately preceding the determination of the said term of tenancy the Landlord shall be at liberty to affix and retain without interference upon any external part of the said premises a notice for re-letting the same and the Tenant shall permit persons with written authority from the Landlord or its agents at reasonable hours of the day and by prior appointment to view the said premises or any part thereof.

Delivery of vacant  
possession

(j) The Tenant shall deliver up vacant possession of the said premises to the Landlord with all the Landlord's fixtures fittings and additions therein and thereto at the expiration or sooner determination of this Agreement in good clean and tenantable repair and condition in accordance with the stipulations herein before contained together with all keys giving access to all parts of the said premises provided that where the Tenant has made any alterations or installed any fixtures fittings or additions in or to the said premises and

notwithstanding that the Landlord's consent for so doing may have been obtained, the Landlord may at its sole discretion require the Tenant at the Tenant's sole cost and expense to reinstate or remove or do away with all or any such alterations fixtures fittings or additions or any part or portion thereof and to make good and repair in a proper and workman like manner any damage to the said premises and the Landlord's fixtures and fittings therein as a result thereof before delivering up the said premises to the Landlord.

Landlord not bound by oral representation

(k) The Landlord shall not be bound by any oral representations or oral promises with respect to the said building and its appurtenances or in respect of the said premises except as herein expressly set forth with the object and intention that the whole of the agreement between the Landlord and the Tenant shall be set forth herein and in no way modified by any oral discussions which may have preceded the signing of this Agreement.

No waiver

(l) No condoning excusing or overlooking by the Landlord of any default breach or non-observance or non-performance by the Tenant at any time or times of any of the Tenant's obligations herein contained shall operate as a waiver of the Landlord's rights hereunder in respect of any continuing or subsequent default breach of non-observance or non-performance or so as to defeat or affect in any way the right of the Landlord herein in respect of any such continuing or subsequent default or breach and no waiver by the

- 21 -

23

Landlord shall be inferred from or implied by anything done or admitted by the Landlord unless expressed in writing and signed by the Landlord.

No excuse for non-payment of rent

(m) This Agreement and the obligation of the Tenant to pay rent and other sums due hereunder and perform the Tenant's obligations hereunder shall in no way be affected impaired or excused because the Landlord is unable due to circumstances beyond his control to fulfil any of his obligations under this Agreement or to supply any service expressly or impliedly to be supplied or is unable to make any repair additions alterations or decoration or is unable to supply any equipment or fixtures if the Landlord is prevented or delayed from so doing by reason of strike labour troubles shortage of materials or any outside cause whatsoever or by reason of any order or regulation of any department of Hong Kong Government.

No actual eviction in certain events

(n) The Landlord shall also have the right at any time without constituting an actual or

constructive eviction of the Tenant and without incurring any liability to the Tenant therefor to install or erect at the entrances passages passageways doorways corridors landings staircases lobbies or other public parts of the said building counters showcases or light boxes or to change the arrangement and/or location of entrances passageways doors doorways corridors landings staircases lobbies lifts escalators toilets or other public parts of the said building or any service or apparatus serving the said building and to change the name number or designation by which the said building is known.

- Stamp Duty and legal costs (o) Each party shall pay its own legal costs for the preparation and completion of this Agreement but the stamp duty payable on this Agreement shall be borne by the parties hereto in equal shares and the land registration fee (if any) shall be paid by the Tenant.
- Service of notice (p) Any notice hereunder shall be in writing and any notice to be served by one party on the other party under the terms of this Agreement shall be duly served if left at or despatched by registered post to the last known address of the other party in Hong Kong.
- Approval of Landlord (q) No approval by the Landlord is valid unless it is in writing and signed by the Landlord or its authorised agents.
- No premium or fine (r) The Tenant hereby expressly admits and declares that no premium or fine or other consideration or key money has been paid to the Landlord by the Tenant for the creation of this tenancy.
- Sale and redevelopment (s) If at any time during the tenancy hereby created the Landlord shall enter into a contract for the sale of the said building or of any part thereof which shall include the said premises or if the Landlord

- 22 -

24

shall resolve to redevelop the said building or any part thereof whether wholly by demolition and rebuilding or otherwise, or partially by renovation, refurbishment or otherwise (which intention so to redevelop shall be sufficiently evidenced by a copy of a Resolution of its Directors certified to be a true and correct copy by its Secretary) then in either of such events the Landlord shall be entitled to give six clear calendar months' notice in writing expiring at the end of any calendar month during the tenancy hereby created terminating this Agreement and immediately upon the expiration of such notice this Agreement and everything herein contained shall cease and be void but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of any of the agreements or

stipulations herein set out.

- Reservation of Rights (t) The Landlord reserves the right exercisable at any time or times:-
- (i) To change the name or description of the said building or any part thereof,
  - (ii) To make or cause to be made any structural or non-structural alteration or improvement in or addition to entrances landings staircases driveways passages lobbies or any part of the said building in common use, without incurring any liability to make any payment to the Tenant on any account whatsoever provided that in the happening of case (i) hereof the Landlord shall give to the Tenant and the Postal and other Government Authorities not less than three months' notice in writing or any such change.
  - (iii) The Landlord reserves the right from time to time and by notice in writing to the Tenant to make and introduce and subsequently amend adapt or abolish if necessary such regulations as it may consider necessary for the management and maintenance of the said building as a first class commercial Building.
  - (iv) Such regulations shall be supplementary to the terms and conditions contained in this Agreement and shall not in any way derogate from such terms and conditions. In the event of conflict between such regulations and the terms and conditions of this Agreement the terms and conditions of this Agreement shall prevail.
- Special Condition (u) The parties hereto hereby agree that the terms or conditions or matters set out in the Fourth Schedule hereto (if any) shall apply to this Agreement and shall be incorporated as an integral part of the Agreement.
- 23 -
- 25  
Joint and Several Liability (v) In this Agreement where the context so permits or requires the words importing the singular number shall include the plural number and vice versa and word importing the masculine gender shall include the feminine gender and neuter gender and where there are two or more persons included in the expression "the Tenant" covenants expressed to be made by the Tenant shall be deemed to be made by such persons jointly and severally.
- Marginal notes (w) The marginal notes are intended for guidance only and do not form part of this Agreement

nor shall any of the provisions of this Agreement be construed or interpreted by reference thereto or in any way affected or limited thereby.

- 24 -

26

THE FIRST SCHEDULE ABOVE REFERRED TO

PART I

NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LIMITED whose registered office is situate at Unit 513-520, No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

PART II - PREMISES

Suite Nos.6B, 7, 8 and 9 on the 15th Floor of Tower 1 of China Hong Kong City, China Ferry Terminal, Canton Road, Kowloon which for the purposes of identification only is shown on the Floor Plan annexed hereto and thereon coloured Pink.

PART III - TERM

Two years eleven months and eighteen days commencing from the 14th day of February 1997 to the 31st day of January 2000 (both days inclusive).

PART IV - USER

To use or occupy the said premises or any part thereof solely and exclusively for the purpose of office which shall not be changed without the previous written consent of the Landlord and in particular not to use or permit the same to be used for domestic purpose or for shops or as sleeping quarters and not to allow any person to remain in the said premises overnight (save and except a watchman posted by the Tenant).

PART V - DEPOSIT

The deposit subject to increase in accordance with Clause 3(a)(vi) of this Agreement shall be HK\$479,514.00.

- 25 -

27

THE SECOND SCHEDULE ABOVE REFERRED TO

PART I

PARTICULARS OF RENT

- (1) The rent for the period from 14th February 1997 to 13th February 1999 shall be HK\$138,321.00 per calendar month.
- (2) The rent for the period from 14th February 1999 to 31st January 2000

shall be at the then prevailing market rent to be agreed by the parties hereto. Failing which it shall be decided by an independent valuer who shall be a suitably qualified Surveyor and shall, in the absence of agreement between the parties hereto, be appointed by the President for the time being of the Hong Kong Institution of Surveyors whose decision on the market rent shall be final and binding upon both parties. The costs of the independent valuer shall be borne and paid by the Tenant solely.

Rent is payable on the first day of each and every calendar month.

## PART II

### PARTICULARS OF SURCHARGES

The monthly surcharge to cover the costs of building management and air-conditioning throughout the said term subject to increase in accordance with clause 3(a)(iv) of this Agreement shall be HK\$21,517.00 per calendar month payable in advance on the first day of each and every calendar month.

- 26 -

28

### THE THIRD SCHEDULE ABOVE REFERRED TO RULES AND REGULATIONS

1. Plumbing fixture shall be used only for the purposes for which they were constructed. No sweepings rubbish rags or other alien substances shall be deposited therein. All costs for making good damage resulting from any misuse of the plumbing fixtures shall be borne by the Tenant.
2. No Tenant shall drill into or in any way deface part of the said premises or the said building. No drilling shall be permitted save with prior written approval of the Landlord (which approval shall not be unreasonably withheld or delayed) and as the Landlord may direct.
3. Save with prior written consent of the Landlord, which consent will not normally be granted, no flagholes or aerials shall be erected, and no flags shall be flown from windows or elsewhere in or upon the said building.
4. Each Tenant must upon the termination of his tenancy restore to the Landlord all keys of offices and toilet rooms used by the Tenant.
5. All removals or the carrying in or out of furniture or bulky matter of any description must take place after office hours and during the hours which the Landlord or his agent may reasonably determine from time to time. The Landlord reserves the right to exclude goods from the said building which violate any of these Rules and Regulations or the Agreement of which these Rules and Regulations are a part.
6. No Tenant nor any of the Tenant's servants employees agents visitors or licensees shall bring into any passenger lift in the said building any goods effects chattels luggage bulky parcels food trays tiffin carriers or other space-occupying items and the Tenant shall ensure that such items are restricted to the designated lift.
7. No Tenant shall do or permit to be done in the said premises or any part thereof any act which shall or might subject the Landlord to any liability or responsibility for injury to any person or to property.

8. Windows shall remain closed or locked save in an emergency such as fire or break-down of the air-conditioning system and the reasonable extent necessary to enable the Tenant to clean the same.
9. Canvassing touting and peddling in the said building is prohibited and each Tenant shall co-operate to prevent the same.
10. Save with the prior written consent of the Landlord, which consent will not normally be granted, no cooking or preparation of food shall be permitted by any

- 27 -

29

Tenant in the said premises. No Tenant shall permit any unusual or objectionable odours to be produced upon or to permeate from the said premises.

11. Not to do or permit or suffer anything in the said premises or in the said building which may be or go to be a nuisance or annoyance to the Landlord or any other Tenants or occupiers thereof or of any adjoining building or affect the reputation of the said building as a high class office building.
12. The Tenant shall not install in the said premises any partitioning other than that supplied or approved by the Landlord (which approval shall not be unreasonably withheld or delayed).
13. Not to keep or permit or suffer to be kept upon any part of the said premises any lives-stocks or animals and to carry out such pest control for the said premises upon the request by the Landlord for the said premises via nominated pest control companies at the Tenant's expense.
14. All blinds and/or curtains used within the said premises shall conform externally to standard colour and design and such blinds and/or curtains shall be approved by the Landlord (which approval shall not be unreasonably withheld or delayed) so as to preserve a uniform external appearance.
15. The Tenant shall not carry on or permit or suffer to be carried on in or upon the said premises or any part thereof any trade or business which the Landlord shall in its absolute discretion regard as dangerous noxious noisy or offensive.

- 28 -

30

THE FOURTH SCHEDULE ABOVE REFERRED TO

SPECIAL CONDITION

1. The Landlord shall be responsible for the removal of the existing fittings and partitioning in the said premises prior to the commencement of this Agreement and shall provide new carpet and clean up/repair the fan coil units within the said premises.
2. The Landlord shall provide the Tenant with ceiling tiles prior to the commencement of this Agreement but the Tenant shall install the same at its own

costs and expenses.

31

AS WITNESS the hands of the parties hereto the day and year first above written.

<TABLE>		
<S>	<C>	<C>
SIGNED by	)	
	)	
Justin Chiu of Sino Real Estate	)	
Agency Limited, a company duly	)	
authorised by the Board of	)	For and on behalf of
Directors of the Landlord	)	SINO REAL ESTATE AGENCY LTD.
for and on behalf of the	)	
Landlord whose signature is	)	[SIG]
verified by: -	)	-----
		Agent for the landlord for
		the sole purpose of
		execution of this Agreement
/s/ DEBBIE CHEUNG		
-----		
Debbie F. Cheung		
Solicitor, Hong Kong		
SIGNED by /s/ TADAO MURAKAMI	)	For and on behalf of
-----	)	NAM TAI ELECTRONIC & ELECTRICAL PRODUCTS LIMITED
Tadao Murakami	)	
	)	[SIG]
for and on behalf of the Tenant	)	-----
in the presence of: -	)	Authorized Signature
/s/ LAM LAI NGO		For and on behalf of
-----		SINO REAL ESTATE AGENCY LTD
Lam Lai Ngo		
R E C E I V E D the day and year	)	[SIG]
first above written of and from the	)	-----
Tenant the sum of HONG KONG DOLLARS	)	Agent for the landlord for
FOUR HUNDRED SEVENTY NINE	)	the sole purpose of
THOUSAND FIVE HUNDRED AND	)	execution of this Agreement
FOURTEEN being the above mentioned deposit)	)	
to be paid by the Tenant to the Landlord. )	)	HK\$479,514.00
		=====
</TABLE>		

32

[ILLUSTRATION -- TOWER 1]

[ 9TH - 16TH TOWER FLOOR PLAN ]



