

NAM TAI ELECTRONICS INC  
Form 20-F  
March 15, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 20-F**

(Mark one)

**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, 2012

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Date of event requiring this shell company report

Commission File Number: 001-31583

**Nam Tai Electronics, Inc.**

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(Exact name of registrant as specified in its charter)

**British Virgin Islands**

(Jurisdiction of incorporation or organization)

**Gushu Industrial Estate,**

**Xixiang,**

**Baoan, Shenzhen,**

**People's Republic of China**

(Address of principal executive offices)

**Paul Lau, Corporate Secretary**

**Unit 1201, 12<sup>th</sup> Floor, Tower 1, Lippo Centre,**

**89 Queensway, Admiralty, Hong Kong**

**Tele: (852) 2341 0273; Fax (852) 2263 1001;**

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(Name, telephone, e-mail and/or facsimile

number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<b>Title of Each Class</b>	<b>Name of each exchange on which registered</b>
Common shares, \$0.01 par value per share Securities registered pursuant to Section 12(g) of the Act.	New York Stock Exchange

**None.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None.**

**As of December 31, 2012 there were 44,803,735 common shares of the registrant outstanding.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant: (1) 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 (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked, indicate by check mark which financial statement item the registrant has elected to follow:  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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**NOTE REGARDING USE OF FORWARD LOOKING STATEMENTS**

This Annual Report on Form 20-F (this Report) contains forward-looking statements. The words as aim, anticipate, believe, continue, estimate, expect, forecast, intend, plan, project, potential, seek, may, might, could, would, should, will, is likely to and other similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. These statements are subject to many important factors, 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 3. Key Information.

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 duty to update any forward-looking statement to conform the statement to actual results or changes in management's expectations. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the U.S. Securities and Exchange Commission, which we refer to in this Report as the SEC.

**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 and publishes its financial statements in United States dollars.

**INTRODUCTION**

Except where the context otherwise requires and for purposes of this Report only:

we, us, our company, our, the Company and Nam Tai refer to Nam Tai Electronics, Inc. and, in the context of describing our operations, also include our PRC operating companies;

shares refer to our common shares, \$0.01 par value;

China or PRC refers to the People's Republic of China, excluding Taiwan, Hong Kong and Macao;

Taiwan refers to the Taiwan province of the People's Republic of China;

Hong Kong refers to the Hong Kong Special Administrative Region of the People's Republic of China and HK\$ refers to the legal currency of Hong Kong;

Macao refers to the Macao Special Administrative Region of the People's Republic of China; and

all references to Renminbi, RMB or yuan are to the legal currency of China; all references to U.S. dollars, dollars, \$ or US\$ are to the legal currency of the United States.

*Note with respect to our use of Bluetooth: The Bluetooth® word mark and logos are owned by the Bluetooth SIG, Inc. and any use of such marks by Nam Tai is under license. Other trademarks and trade names used in this Report, if any, are those of their respective owners.*



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**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable to Nam Tai.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable to Nam Tai.

**ITEM 3. KEY INFORMATION**

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and are presented in U.S. dollars. The following selected consolidated statements of income data for each of the three years in the period ended December 31, 2012 and the consolidated balance sheets data as of December 31, 2011 and 2012 are derived from our consolidated financial statements and notes thereto included in this Report. The selected consolidated statements of comprehensive income data for each of the two-year periods ended December 31, 2008 and 2009 and the consolidated balance sheets data as of December 31, 2008, 2009 and 2010 were derived from our audited financial statements, which are not included in this Report. The following data should be read in conjunction with the Section of the Report entitled ITEM 5. Operating and Financial Review and Prospects and our consolidated financial statements including the related footnotes which are included in the F pages of this Report immediately following page 77.

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Consolidated statements of comprehensive income data:	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands, except per share data)				
Net sales	\$ 546,319	\$ 339,022	\$ 448,313	\$ 525,077	\$ 1,147,923
Cost of sales	(480,748)	(305,192)	(409,317)	(505,825)	(1,042,146)
Gross profit	65,571	33,830	38,996	19,252	105,777
Operating expenses:					
General and administrative expenses <sup>(1)(2)</sup>	(26,070)	(24,679)	(22,372)	(21,439)	(28,440)
Selling expenses <sup>(1)</sup>	(1,966)	(3,802)	(3,702)	(3,919)	(2,666)
Research and development expenses	(9,276)	(5,438)	(4,723)	(2,297)	(1,364)
Impairment loss on goodwill	(17,345)			(2,951)	
Total operating expenses	(54,657)	(33,919)	(30,797)	(30,606)	(32,470)
Income (loss) from operations	10,914	(89)	8,199	(11,354)	73,307
Other income (expenses) net	6,595	(305)	3,877	9,184	9,787
Gain on sale of subsidiaries shares	20,206				
Interest income	6,235	808	1,462	2,728	2,112
Interest expense	(10)				(292)
Income before income tax	43,940	414	13,538	558	84,914
Income tax expenses	(2,930)	(1,939)	(3,672)	(972)	(17,299)
Income (loss) from continuing business	41,010	(1,525)	9,866	(414)	67,615
(Loss) income from discontinued business	(4,941)	990	5,140	919	(694)
Consolidated net income (loss)	36,069	(535)	15,006	505	66,921
Net (income) loss from continuing business attributable to noncontrolling interests	(5,511)	1,010			
Net loss from discontinued business attributable to noncontrolling interests	77	1,177			
Net income (loss) from continuing business attributable to Nam Tai shareholders	35,499	(515)	9,866	(414)	67,615
Net (loss) income from discontinued business attributable to Nam Tai shareholders	(4,864)	2,167	5,140	919	(694)
Consolidated net income attributable to Nam Tai shareholders	30,635	1,652	15,006	505	66,921
Other comprehensive income					
Consolidated comprehensive income attributable to Nam Tai shareholders	30,635	1,652	15,006	505	66,921
Earnings per share:					
Basic earnings per share					
Basic earnings (loss) per share from continuing business	\$ 0.79	\$ (0.01)	\$ 0.22	\$ (0.01)	\$ 1.51
Basic (loss) earnings per share from discontinued business	\$ (0.11)	\$ 0.05	\$ 0.11	\$ 0.02	\$ (0.02)
Basic earnings per share	\$ 0.68	\$ 0.04	\$ 0.33	\$ 0.01	\$ 1.49
Diluted earnings per share					
Diluted earnings (loss) per share from continuing business	\$ 0.79	\$ (0.01)	\$ 0.22	\$ (0.01)	\$ 1.49
Diluted (loss) earnings per share from discontinued business	\$ (0.11)	\$ 0.05	\$ 0.11	\$ 0.02	\$ (0.01)
Diluted net earnings per share	\$ 0.68	\$ 0.04	\$ 0.33	\$ 0.01	\$ 1.48
<b>Consolidated balance sheet data:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	(in thousands, except per share data)				
Cash and cash equivalents	237,017	182,722	228,067	118,510	157,838
Fixed deposits maturing over three months		12,903		34,825	49,824
Working capital <sup>(3)</sup>	256,304	209,661	229,049	163,060	181,360
Land use rights and property, plant and equipment, net	105,964	111,408	96,869	149,374	168,087
Current assets from discontinued business	36,113	29,695	27,846	34,179	112
Total assets	514,061	403,924	450,780	457,743	636,044
Short-term debts	8,199			268	12,655
Current liabilities from discontinued business	11,815	13,237	15,474	10,280	515
Total Nam Tai shareholders equity <sup>(4)</sup>	322,261	326,410	334,134	322,206	362,792
Common shares	448	448	448	448	448
Total dividend per share <sup>(5)</sup>	0.88		0.20	0.28	0.60
Total number of common shares issued	44,804	44,804	44,804	44,804	44,804

(1) The Company's consolidated statements of comprehensive income from 2008 to 2011 have been restated according to the reclassified profit and loss resulting from discontinued business. The Company's consolidated statements of comprehensive income for years prior to 2009, as originally published, combined general and administrative expenses and selling expenses as a single line items labeled "Selling, general and administrative expenses". In the above presentation of Selected Financial Data and in the Company's consolidated financial statements included in this Report, such expenses have been presented separately to conform to the 2009, 2010, 2011 and 2012 presentation.





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- (2) General and administrative expenses for the years ended December 31, 2009, 2010, 2011 and 2012 included employee severance benefits of \$3.8 million, \$0.7 million, \$0.2 million and \$3.5 million, respectively. General and administrative expenses for the years ended December 31, 2009 and 2010 also included accruals of \$0.8 million and \$0.8 million, respectively, for a compensation obligation payable to the Company's CFO at the end of three years of continuous service. In October 2010, the Company's compensation obligation payable at the end of three years to its CFO was terminated. In accordance with Staff Accounting Bulletin (SAB) Topics 1B.1 and 5T, Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 718-10-15-4, the aggregate of approximately \$1.6 million previously accrued on this obligation during the periods from March 1, 2009 through December 31, 2009 and from January 1, 2010 to September 30, 2010 was reclassified and added to additional paid-in capital on the Company's Balance Sheet as at December 31, 2010.
- (3) Working Capital represents the excess of current assets over current liabilities.
- (4) In November 2009, Nam Tai successfully completed the privatization of Nam Tai Electronic & Electrical Products Limited, or NTEEP, by tendering for and acquiring the 25.12% of NTEEP that it did not previously own. This acquisition resulted in NTEEP becoming the Company's wholly-owned subsidiary. Beginning with its consolidated financial statements for the year ended December 31, 2009, Nam Tai reclassified non-controlling interests for years prior to 2009 as equity in accordance with FASB ASC 810-10-45-16 Consolidated-Overall-Other Presentation Matter Non-controlling Interest in a Subsidiary. The presentation in the table above includes such reclassification for 2008. Total Nam Tai shareholders' equity at December 31, 2010 also included approximately \$1.6 million previously accrued on a compensation obligation payable to the Company's CFO, which was terminated in October 2010. See footnote (2) above.
- (5) For 2010, 2011 and 2012, the Company declared a dividend payable quarterly in 2011, 2012 and 2013, respectively. See the table entitled Dividends declared for 2013 in ITEM 8. Financial Information Dividends on page 61 of this Report for the schedule of dividend payments for 2013.

**Risk Factors**

*We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in this document and other documents filed with the SEC, in press releases, in reports to shareholders, on our website, and other documents. 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, we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Any such statements are qualified by reference to the following cautionary statements.*

**We are dependent on a few large customers, the loss of any of which could substantially harm our business and operating results.**

Historically, a substantial percentage of our sales have been made to a small number of customers. During the years ended December 31, 2010, 2011 and 2012, sales to customers who account for 10% or more of our net sales totaled approximately 84.6%, 96.1% and 94.9% of our net sales, respectively. During these same years, sales to our largest 10 customers accounted for 98.6%, 99.4% and 99.5% of our net sales, respectively. We currently depend, and expect to continue to depend, on a relatively small number of customers for a significant percentage of our net revenue. If our customers, particularly our major customers, experience a decline in the demand for their products as a result of the prevailing economic environment or other factors, the electronic manufacturing services, or EMS, that we provide to these customers could be curtailed or possibly even terminated. The loss of any one of our major customers or a substantial reduction in orders from any of them could adversely impact our sales and decrease our net income or cause us to incur losses unless and until we were able to replace the customer or order with one or more of comparable size.

In addition, we generate significant account receivables in connection with the EMS that we provide to our customers. If one or more of our customers became insolvent or otherwise were unable to pay for these services on a timely basis, or at all, our operating results and financial position could be adversely affected. Such adverse effects could include any one or more of the following: a further decline in revenue or net income, a charge for bad debts, a charge for inventory write-offs, a decrease in inventory turns, an increase in days in inventory and an increase in days in accounts receivable.

**Consolidation in industries that utilize or manufacture electronics components may adversely affect our business.**

Consolidation in industries that utilize electronic components may continue to increase as companies combine to achieve further economies of scale and other synergies. Further consolidation could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity may decrease pricing and increase competitive pressures for our industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large companies offering products in multiple industries. If one of our customers is acquired by another company that does not rely on us to provide services and has its own production facilities or relies on another provider of similar services, we may lose that customer's business. Such consolidation among our customers may further reduce the number of customers that generate a significant percentage of our net revenue and exposes us to increased risks relating to our reliance on a small number of customers. Any of the foregoing results of industry consolidation could adversely affect our business.

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In addition, consolidation in our industry would result in larger and more geographically diverse competitors that have significantly larger combined resources, which may allow them to devote significantly greater resources to the expansion of the EMS that they offer and the marketing of their existing services to their larger installed customer bases or to new customers attracted to a larger global manufacturing organization.

### **Continuing economic uncertainty may adversely affect our earnings, liquidity and financial position.**

The business environment in the electronics industry depends significantly on worldwide economic conditions. In particular, there has been an erosion of global consumer confidence from concerns over declining asset values, price instability, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations. These concerns slowed global economic growth and resulted in recessions in many countries, including in the U.S., Europe and certain countries in Asia. The global economic downturn negatively impacted our operating results beginning in the second half of 2008 through the first quarter ended March 31, 2010.

Even though there were signs that an overall economic recovery was beginning in the second quarter of 2010 and throughout 2011 and 2012, such recovery continues to be uncertain. Recessionary conditions may return. If any of these potential negative economic conditions occur, a number of negative effects on our business could result and adversely affect:

the demand for our customers' products;

the amount, timing and stability of their orders;

the financial strength of our customers and suppliers;

our customers' and suppliers' ability or willingness to do business with us;

our willingness to do business with our current customers and suppliers;

our suppliers' and customers' ability to fulfill their obligations to us;

our customers', our suppliers' or our ability to obtain credit, secure funds or raise capital; and

the prices at which we can sell our products and services.

Any of these effects could impact our ability to effectively manage inventory levels and collect receivables, increase our need for cash, or decrease our net revenue and profitability. As a result, continuing economic uncertainty may adversely affect our earnings, liquidity and financial position and no assurance can be given that we will not be impacted by changes in the economic environment or perceived changes in the economic environment.

### **Our quarterly and annual operating results are subject to significant fluctuations as a result of a wide variety of factors.**

Substantially all of our sales are made on purchase order bases, and we are not always able to predict with certainty the timing or magnitude of these orders, especially during the current global economic downturn. We cannot guarantee that we will continue to receive orders from any of our customers. Our net sales will be harmed if we are unable to obtain a sufficient number of orders from, perform a sufficient number of EMS for, or ship a sufficient number of products to our customers in each quarter. In addition, our customers may cancel, change or delay product purchase orders with little or no advance notice to us. Also, we believe customers may be increasing the number of vendors upon which they

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rely for manufacturing. Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect our business and operating results during any period. This could result from any one or a combination of factors, such as:

the timing, cancellation or deferral of orders;

adverse changes in global economic conditions, particularly those affecting the electronics industry;

the level of capacity utilization of our manufacturing facilities and associated fixed costs;

the composition of the costs of revenue between materials, labor and manufacturing overhead;

changes in demand for our products or services;

changes in demand in our customers' end markets, which affect the type of product and related margins;

our customers' announcement and introduction of new products or new generations of products;

the efficiencies we achieve in managing inventories and fixed assets;

the degree to which we are able to utilize our available manufacturing capacity;

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long national seasonal breaks in the PRC, such as the Chinese New Year holidays in our first quarter and the National Day Golden week in our fourth quarter, during which our ability to manufacture products, obtain components and materials from suppliers and receive and process orders from customers are adversely affected;

fluctuations in the cost of materials and the availability of materials;

the life cycles of our customers' products;

variability in our manufacturing yields;

long lead times and advance financial commitments for our factories, equipment expenditures and components required to complete anticipated customer orders;

our effectiveness in managing our manufacturing processes, including, interruptions or slowdowns in production and changes in cost and availability of components;

changes in the specific products or quantities our customers order;

extended payment terms demanded by our major customers which, for competitive reasons, we choose to accommodate and result in longer periods for us to receive payment and increase our accounts receivable;

customer insolvencies resulting in bad debt or inventory exposures that are in excess of our reserves;

charges to our operating results because of impairments to the values of long-lived assets or goodwill carried on our balance sheet; and

price reductions caused by competitive pressure.

The volume and timing of orders received during a quarter have been, even in normal economic climates, difficult to forecast and fluctuate as a consequence of variation in demand for our customers' products; our customers' attempts to manage their inventory; electronic design changes; changes in our customers' manufacturing strategies; and acquisitions of or consolidations among our customers. Customers generally order based on their forecasts. Further, we do not typically operate with any significant backlog in orders, and this makes it difficult for us to forecast our revenues, plan our production and allocate resources for future periods (including for our capital expenditures). If demand falls below such forecasts or if customers do not control inventories effectively, they may reduce, cancel or postpone shipments of orders.

Because of any of the above factors, our operating results 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 our common shares. Our operating results in future periods may fall below the expectations of public market analysts and investors. This failure to meet expectations could cause the trading price of our common shares to decline.

**We face increasing competition, which has had and may continue to have, an adverse effect on our gross margins.**

Certain barriers to entry exist in the EMS industry such as technical expertise, substantial capital requirements, and establishing and maintaining valuable customer relationships and a large and loyal customer base. However, these barriers to entry are relatively low. We are aware that

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manufacturers in Hong Kong and China may be developing or have developed the required technical capability and customer base to compete with our existing business.

Competition in the EMS industry is intense, characterized by price erosion, rapid technological change and competition from major international companies. This intense competition has resulted in pricing pressures and a lower gross margin percentage in certain years. Our gross margin percentages during the years ended December 31, 2008, 2009, 2010, 2011 and 2012 are shown in the chart below.

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During 2012, our gross profit margin increased to 9.2% from 3.7% in 2011. Our Wuxi manufacturing facility commenced production of high-resolution liquid crystal display modules ( LCMs ) for tablets in June 2012 and continued to ramp up its production throughout 2012 and our Shenzhen manufacturing facility also began mass production of high-resolution LCMs for smartphones in September 2012, while our overall overhead costs remained stable, which improved our overall gross profit margin. Nevertheless, we may continue to face certain risks including, but not limited to, the appreciation of renminbi, inflation in China, continuous increase in wages and allowance, materials shortage, customers and suppliers inability to meet their contractual obligations and financial difficulties resulting in customers and suppliers illiquidity. These risks could affect our sales and profit margin. We cannot assure you that we will be able to improve on, or even maintain, our gross margin percentage at the 2012 level. If, as a result of competitive forces, we are compelled to lower our unit prices and are unable to maintain the recent trend of increases in our gross margin percentage, our financial position may be harmed and our stock price may fall.

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**We may not be able to compete successfully with our competitors, many of which have substantially greater resources than we do.**

The EMS we provide are available from many independent sources as well as from our current and potential customers with in-house manufacturing capabilities. The following table identifies those companies, which we believe are our principal competitors (listed alphabetically) by category of products or services we provide:

Product/Service	Competitor
EMS	Celestica, Inc. Flextronics International Ltd. Hon Hai Precision Industry Co., Ltd. Jabil Circuit, Inc. Sanmina-SCI Corporation
Image capturing devices and their modules	Altus Technology Inc. (controlled by Foxconn) Lite-on Technology Corporation Logitech International S.A The Primax Group Goer Tek, Inc.
Mobile phone accessories	Balda-Thong Fook Solutions Sdn., Bhd. Celestica, Inc. Elcoteq Network Corporation Flextronics International Ltd. Foster Corporation Foxlink Group Merry Electronics Co., Ltd. WKK International (Holdings) Ltd.
Liquid crystal display, or LCD panels	Tianma Microelectronics Co., Ltd. Truly International Holdings Ltd. Varitronix International Ltd. Yeebo (International) Holdings Ltd.
Telecommunication subassemblies and components	Flextronics International Ltd. S-Tech Corporation Shin-Tech Electronic Co., Ltd. Varitronix International Ltd. Wuxi Sharp Electronic Components Wuxi Technology Corporation
Consumer electronic products (calculators, personal organizers and linguistic products)	Computime Limited Inventec Co., Ltd. Kinpo Electronics, Inc. VTech Holdings Limited
FPC Boards/FPC Subassemblies	Ichia Technologies Inc. Nitto Denko (HK) Ltd. NOK Corporation Sumitomo Chemical Co., Ltd. Fujikura Ltd.



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Many of our competitors have greater financial, technical, marketing, manufacturing, regional shipping capabilities, logistics support and personnel resources than we do. Consolidation among our competitors could result in even larger competitors emerging. As a result, we may be unable to compete successfully with these organizations in the future.

In addition to intense competition from large FPC board manufacturers located in Taiwan, China, Korea, Singapore, North America, Japan and Europe, we also face such competition from large, established EMS providers that have acquired or, like we have, developed their own FPC manufacturing capabilities, and have extensive experience in electronics assembly. Furthermore, many companies in our target customer base are moving the design and manufacturing of their products to original engineering manufacturers, or OEMs, in Asia. OEMs could create pressure on us to provide discounts or lower prices to gain or maintain market share, which could adversely affect our margins and the profitability of our FPC business and our operating results as a whole. In addition, after the final evaluation on the viability of our FPC business based on its performance in the third quarter of 2012, we have decided to discontinue our FPC business by the end of March 2013, as this business has been generating losses since its initial production.

### **Cancellations or delays in orders could materially and adversely affect our gross margins and operating results.**

Our sales to OEMs are primarily based on purchase orders that we receive from time to time rather than firm, long-term purchase commitments. Although it is our general practice to purchase raw materials only upon receiving a purchase order, for certain customers we will occasionally purchase raw materials based on such customers' rolling forecasts. Further, during times of potential component shortages, we have purchased, and may continue to purchase, raw materials and component parts expecting that we will receive purchase orders for products that use these components. In the event actual purchase orders are delayed, are not received or are cancelled and we declined any other potential orders that may arise, we would experience increased inventory levels or possible write-offs of obsolete inventory, write-downs of raw materials inventory or the underutilization of our manufacturing capacity.

### **Our customers face numerous competitive challenges, such as rapid technological changes and short life cycles for their products, which may materially adversely affect both their business and ours.**

Factors affecting the industries that utilize electronic components, and our customers specifically, could seriously harm our customers and, as a result, us. These factors include:

The inability of our customers to adapt to rapidly changing technology and evolving industry standards, which may result in short product life cycles;

The inability of our customers to develop and market their products, some of which are new and untested;

The potential that our customers' products may become obsolete or the failure of our customers' products to gain widespread commercial acceptance;

Recessionary periods in our customers' markets;

Increased competition among our customers and their respective competitors which may result in a loss of business, or a reduction in pricing power, for our customers; and

New product offerings by our customers' competitors may prove to be more successful than our customers' product offerings. If our customers are unsuccessful in addressing these competitive challenges, or any others that they may face, then their business may be materially adversely affected, and as a result, the demand for our services could decline.

### **Our business has been characterized by a rapidly changing mix of products and customers.**

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Since 2007, we have targeted markets that we believe offer significant growth opportunities and for which OEMs sell complex products that are subject to rapid technological change. We believe that markets involving complex, rapidly changing products offer us opportunities to produce products with higher margins because these products require higher value-added manufacturing services and may also include advanced components. We expect that our current mix of customers and products will continue to change rapidly, and we believe this to be relatively common in the EMS industry. If the products we manufacture for our customers become obsolete or less profitable and we are not able to diversify our product offerings or expand customer base in a timely manner, our business could be materially and adversely affected.

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### **There may not be a sufficient market for new products that our customers or we develop.**

Our customers may not develop new products in a timely and cost-effective manner, or the market for products they choose to develop may not grow or continue in line with their expectations. This would reduce the overall businesses they outsource, which would seriously affect our business and operating results. Even if we develop capabilities to manufacture new products, there can be no guarantee that a market exists or will develop for such products or that such products will adequately respond to market trends. If we invest resources to develop capabilities to manufacture or expand capabilities for existing and new products, like our investments in our new factory in Wuxi, China and in Guangming Hi-Tech Industrial Park, Shenzhen, China for which sales do not develop, our business and operating results could be seriously harmed. Even if the market for our services grows, it may not grow at an adequate pace.

### **We must spend substantial amounts to maintain and develop advanced manufacturing processes and engage additional engineering personnel in order to attract new customers and business.**

We operate in a rapidly changing industry. Technological advances and the introduction of new products and new manufacturing and design techniques could materially and adversely affect our business unless we are able to adapt to those changing conditions. As a result, we are continually required to commit substantial funds for, and significant resources to, engaging additional engineering and other technical personnel and to purchase advanced design, production and test equipment. Our future operating results will depend to a significant extent on our ability to continue to provide new manufacturing solutions which, based on time to introduction, cost and performance with the manufacturing capabilities of OEMs and competitive third-party suppliers compare favorably to those offered by our competitors. Our success in attracting new customers and developing new business depends on various factors, including:

the utilization of advances in technology;

the development of new or improved manufacturing processes for our customers' products;

the delivery of efficient and cost-effective services; and

the timely completion of manufacturing of new products.

### **Our business is capital intensive and the failure to generate sufficient cash could require that we curtail capital expenditures.**

To remain competitive, we must continue to make investments in capital equipment, facilities and technological improvements. We plan to finance our expansion with capital we generate from operations. If we are unable to generate sufficient funds to conduct existing operations and fund our expansion, we may have to curtail our capital expenditures. Any curtailment of our capital expenditures could result in a reduction in net sales, the reduction or elimination of dividends to shareholders, the reduced quality of our products, increased manufacturing costs for our products, harm to our reputation and reduced manufacturing efficiencies.

### **Our ability to obtain local government approvals to release or obtain lands for our planned expansion projects could expand our future manufacturing capacity and positively impact our growth and financial results.**

Currently, we have two separate projects planned for expansion, including:

the development of raw land in the Guangming Hi-Tech Industrial Park in Shenzhen, China that we acquired in 2007 into new manufacturing and support facilities to supplement our current manufacturing capabilities at our principal manufacturing facilities in Shenzhen, China; and

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the development of raw land adjacent to our recently operational manufacturing facility in Wuxi, China that we acquired in 2012 in order to construct buildings to support our operations in Wuxi, such as: dormitories, a canteen, a labor activity center, a research laboratory and testing and training centers.

All capital construction and expansion projects in China must obtain a number of government approvals. In 2012, we purchased two parcels of land in Wuxi of approximately 0.5 million square feet from the Wuxi government for the expansion of our Wuxi manufacturing facility. We are currently applying to convert the zoning of a part of our land in Wuxi from industrial to residential and to build certain employee accommodation facilities on that land for self-use. In December 2012, the Shenzhen government released a parcel of land in Shenzhen, Guangming Hi-Tech Industrial Park of approximately 1.2 million square feet that we acquired previously. The release of the land is an important development for the continuity of our manufacturing facility and coincides with the Shenzhen government's recently announced city rezoning project to redevelop the land that encompasses our existing Shenzhen facility into a high-end commercial district, making the land unsuitable for any manufacturing factory thereafter. To accommodate Shenzhen government's city re-zoning plan, we plan to relocate our current production facility in Shenzhen city to a new location in Guangming Hi-Tech Industrial Park of approximately 1.2 million square feet (double the size of current facilities). We currently anticipate that it will take approximately three years to complete this relocation and expansion project.

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**We generally do not have written agreements with suppliers to obtain components and our margins and operating results could suffer from price increases of components.**

For certain customers, we are responsible for purchasing components used in manufacturing their products. We do not have written agreements with some of our suppliers of components and, in many cases, we bear the risk of cost increases. We may be unable to procure the required materials at a price level necessary to generate anticipated margins from the orders of our customers. Accordingly, increases in component prices could materially and adversely affect our gross margins and operating results.

**Our business and operating results would be materially and adversely affected if our component suppliers fail to meet our needs.**

At various times, we have experienced and expect to continue to experience, shortages of some of the electronic components that we use. Some of our component suppliers lack sufficient capacity to meet the demand for these components. In some cases, supply shortages and delays in deliveries of particular components have resulted in curtailed production, or delays in production, of assemblies using that component, which contributed to an increase in our inventory levels and reduction in our gross margins. We expect that shortages and delays in deliveries of some components will continue. If we are unable to obtain sufficient components on a timely basis, we may experience manufacturing delays, which could harm our relationships with current or prospective customers and reduce our sales. We also depend on a small number of suppliers for certain components that we use in our business. If we were unable to continue to purchase components from this group, our business and operating results could be materially and adversely affected.

**We may be required to write down our long-lived assets and a significant impairment charge would adversely affect our operating results.**

At December 31, 2012, we had \$168.1 million in long-lived assets on our balance sheet. The valuation of our long-lived assets requires us to make assumptions about future sales prices and sales volumes for our products. Our assumptions are used to forecast future undiscounted cash flows. Given the current economic environment, uncertainties regarding the duration and severity of these conditions, forecasting future business is difficult and subject to modification. If actual market conditions differ or our forecasts change, we may be required to reassess long-lived assets and we may have to record an impairment charge. Any impairment charge relating to long-lived assets would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, our operating results could be materially adversely affected in the periods and year in which the charge is incurred.

**The PRC's labor law could penalize Nam Tai if it needs to make additional workforce reductions.**

In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this new law provides for an open-ended employment contract for any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An open-ended employment contract is a lifetime, permanent contract, which is terminable by the Company only in specific circumstances, such as a material breach by the employee of the employer's rules and regulations or for a serious dereliction of an employee's duty. Under the new law, a reduction in the workforce of 20% or more may occur only under specific circumstances, such as a restructuring undertaken pursuant China's Enterprise Bankruptcy Law or where a company suffers serious difficulties in production and/or business operations. In addition, the new law requires that companies communicate with the labor union of the Company and the District Labor Bureau if the Company terminates the employment of 20 or more people at one time. We can expect to incur much higher costs under China's labor laws if we are forced in the future to downsize our workforce materially and such costs could have a material adverse effect on our financial results and financial condition.

**The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. Any material increases in the labor costs for workers in the PRC may have a material and adverse effect on our financial operating results and profitability.**

We generate all revenues from sales of products that we manufacture at our facilities in the PRC. The economy in China has grown significantly over the past 20 years, which has resulted in inflation and an increase in the average cost of labor, especially in the coastal cities. China's consumer price index, the broadest measure of inflation, rose 2.0% in January 2013 from the level in January 2012. The wages we pay our employees also increased substantially in 2012. At December 31, 2012, the average wage level of our direct labor workforce was approximately 13.5% higher than that at December 31, 2011. China's overall economy and the average wage in the PRC are expected to continue to grow.

Continuing inflation and material increases in the cost of labor in China could diminish our competitive advantage. Unless we are able pass on these increased labor costs to our customers by increasing prices for our products and services, our profitability and results of operations could be materially and adversely affected.



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### **We are exposed to global business trends in the mobile phone industry, which could result in even lower gross margins on mobile phone components and subassemblies we manufacture.**

During the year ended December 31, 2012, approximately 57% of our sales were derived from subassemblies and components for mobile phones. Accordingly, any fluctuations in the size of the mobile phone market, market trends, increased competition or pricing pressure in the mobile phone industry may affect our business and operating results. For example, the mobile phone industry has been experiencing rapid growth, particularly from emerging economies such as India and China. The growth in these markets, however, does not necessarily translate into increased margins or growing profits as mobile phones sold in developing countries are typically stripped down to basic features and sold for low prices. Competition in the emerging markets is fierce, even more intense than in developed markets. Accordingly, we expect that our margins and profitability from the components and assemblies we manufacture for use in mobile phones for emerging economies will continue to undergo severe pricing pressures, resulting in lower margins than we have experienced historically.

### **Our customers are dependent on shipping companies for the delivery of our products. Interruptions to shipping could materially and adversely affect our business and operating results.**

Our customers rely on a variety of carriers for product transportation through various international ports. A work stoppage, strike or shutdown of one or more major ports or airports could result in shipping delays that could materially and adversely affect our customers, our business and our operating results. Similarly, an increase in freight surcharges from rising fuel costs or general price increases could materially and adversely affect our business and operating results.

### **The political, economic and legal uncertainties involved with operating an international organization could significantly harm us.**

As of December 31, 2012, approximately 97.2% of the net book value of our total property, plant and equipment was located in China. We sell our products to customers in Hong Kong, North America, Europe, Japan, China and Southeast Asia. Our international operations are subject to significant political and economic risks and legal uncertainties, including:

changes in economic and political conditions and in governmental policies;

changes in international and domestic customs regulations;

wars, civil unrest, acts of terrorism and other conflicts;

changes in tariffs, trade restrictions, trade agreements and taxation;

limitations on the repatriation of funds because of foreign exchange controls;

exposure to political and financial instability;

currency exchange fluctuations, collection difficulties or other country-specific losses;

exposure to fluctuations in the value of local currencies;

changes in value-added tax reimbursement;

imposition of currency exchange controls; and

delays from customs brokers or government agencies.

Any of these risks could significantly harm our business, financial condition and operating results.

**Our operating results could be negatively impacted by seasonality.**

Historically, our sales and operating results have been affected by seasonality. Sales of products and components related to mobile phones have generally been lower in the first quarter after peaking in the fourth quarter. Similarly, orders for consumer electronics products have historically been lower in the first quarter due to the closing of our factories in China for the Lunar New Year holidays and the general reduction in sales following the holiday season. These sales patterns may not be indicative of our future sales performance. For example, in 2009 as a result of the prevailing economic turmoil, many of our customers either postponed or cancelled orders that had been scheduled to be delivered for the holidays, which based on our historical seasonal patterns was unusual.

The long, national seasonal breaks in the PRC, such as the Chinese Lunar New Year holidays during the first quarter, and the National Day Golden week during the fourth quarter, typically adversely affect our ability to manufacture products, obtain components and materials from suppliers and receive and process orders from customers. Accordingly our results of operations during these periods can be expected to suffer.



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### **Our results could be adversely affected with intensifying environmental regulations.**

Our operations create environmentally sensitive waste. Our manufacturing process involves the use and disposal of chemicals, solid and hazardous waste and other toxic and hazardous materials. The disposal of hazardous waste has received increasing attention from PRC national and local governments and foreign governments and agencies and is subject to increasing regulation. Currently, PRC environmental protection laws and regulations impose fines on the discharge of waste materials and empower certain environmental authorities to close any facility that causes serious environmental problems. The costs of remedying violations or resolving enforcement actions that might be initiated by governmental authorities could be substantial. Any remediation of environmental contamination would involve substantial expense that could harm our operating results. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our operations may be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations may be applied to materials, products or activities that have not yet been subject to regulation. The costs of complying with new or more stringent regulations could be significant.

Global environmental legislation continues to emerge. These laws place increased responsibility and requirements on the producers of electronic equipment and, in turn, their EMS providers and suppliers. On July 1, 2006, the European Union's Restriction of Hazardous Substances ( RoHS ) came into effect. As a result, the use of lead and certain other specific substances in electronic products is restricted in the European Union. Where appropriate, we have transitioned our manufacturing processes and interfaced with suppliers and customers to review and secure RoHS compliance. In the event we are not in compliance with the RoHS requirements, we could incur substantial costs, including fines and penalties, as well as liability to our customers. In addition, our customers who were deemed exempt for certain substances, or beyond the scope of the legislation, are beginning to be impacted by the changing supply chain. In this respect, we may incur costs related to the portion of our inventory that contains these restricted substances. There are also European Union requirements with respect to the collection, recycling and management of electronic product and component waste. Under the European Union's Waste Electrical and Electronic Equipment ( WEEE ) directive, responsibility rests primarily with OEMs rather than with EMS companies. However, OEMs may turn to EMS companies such as Nam Tai for assistance in meeting their WEEE obligations. Failure by our customers to meet the RoHS or WEEE requirements or obligations could have a negative impact on their businesses and revenues which would adversely impact our financial results. Similar restrictions are being proposed or enacted in other jurisdictions, including China. We cannot currently assess the impact of these legislations on our operations.

### **Power shortages in China could affect our business.**

We consume substantial amounts of electricity in our manufacturing processes at our production facilities in China. Certain parts of China, including areas where our manufacturing facilities are located, have been subject to power shortages in recent years. We have experienced a number of power shortages at our production facilities in China to date. Sometimes we are given advance notice of power shortages and, in response to the occurrence of power shortages we currently have a backup power system. However, there can be no assurance that in the future our backup power system will be completely effective in the event of a power shortage, particularly if that power shortage is over a sustained period of time and/or we are not given advance notice of it. Any power shortage, brownout or blackout for a significant period of time may disrupt our manufacturing, and as a result, may have an adverse impact on our business.

### **Our insurance coverage may not be sufficient to cover the risks to our manufacturing facilities or related to our operations.**

We have not experienced any major accident in the course of our operations that has caused significant property damage or personal injuries. However, we cannot assure you that major accidents will not occur in the future. Although we have insurance against various risks, including a business interruption or losses or damages to our buildings, machinery, equipment and inventories, the occurrence of certain incidents such as major earthquakes, hurricanes, tsunamis, war, acts of terrorism, pandemics and flood, and their consequences, we may not be covered adequately, or at all, by our insurance. In the event of a major earthquake or other disaster affecting our manufacturing facilities, our operations and management information systems, which control our worldwide procurement, inventory management and shipping and billing activities, could be significantly disrupted. Such events could also delay or prevent product manufacturing and shipment for the time required to transfer production or repair, rebuild or replace the affected manufacturing facilities. This time frame could be lengthy and result in significant expenses for repair and related costs. Any extended inability to continue our operations at affected facilities following such an event would reduce our revenue and potentially damage our reputation as a reliable supplier.

We also face exposure to product liability claims in the event that any of our products are alleged to have resulted in property damage, bodily injury or other adverse effects. We have limited product liability insurance covering only some of our products. Losses incurred or payments we may be required to make in excess of applicable insurance coverage or for uninsured events or any material claim for which insurance coverage is denied, limited or is not available could have a material adverse effect on our business, operating results or financial condition.



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### **We could become involved in intellectual property disputes.**

We do not have any patents, licenses, or trademarks material to our business. Instead, we rely on trade secrets, industry expertise and our customers sharing their intellectual property with us. However, we cannot assure you that the intellectual property of our customers is their intellectual property. We may be notified that we are infringing patents, copyrights or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of money to develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. Any litigation, even without merit, could result in substantial costs and the diversion of resources and could materially and adversely affect our business and operating results.

### **We depend on our executive officers and skilled personnel and, if we are unable to attract or retain personnel necessary to operate our business, our ability to perform our services and manufacture and market our products successfully could be harmed.**

Our success depends largely upon the continued services of our executive officers as well as upon our ability to attract and retain qualified technical, manufacturing and marketing personnel. Generally, we have entered into employment agreements or non-competition agreements with our executive officers. However, we cannot assure you that we will be able retain our executive officers and we could be seriously harmed by the loss of any of our executive officers. The loss of service of any of these officers or key management personnel could have a material adverse effect on our business growth and operating results. Although we maintain key personal life insurance for our executive officers, such coverage may not be adequate to protect us in the event of loss of such personnel. As our operations grow, we also need to recruit and retain additional skilled management personnel and if we are not able to do so, our business and our ability to grow could be harmed.

We have experienced high management and employee turnover at our manufacturing facilities in China, and are experiencing increased difficulty in recruiting employees for these facilities. In addition, we are noting the early signs of wage inflation, labor unrest and increased unionization in China and expect these to be ongoing trends for the foreseeable future, which could cause employee issues, including work stoppages, excessive wage increases and the formation of more active labor unions, at our China facilities. Virtually all of our employees work at our facilities in China, and the costs associated with hiring and retaining these employees has increased over the past several years and particularly during the last two years. The high turnover rate, our difficulty in recruiting and retaining qualified employees and the labor trends in China have resulted in an increase in our employee expenses. A continuation of any of these trends could result in even higher costs and production disruptions or delays, which may result in order cancellations and the imposition of customer penalties. If we were unable to perform manufacturing services and deliver our products on time, it could have a negative impact on our net sales and profitability.

### **The PRC legal system has inherent uncertainties that could materially and adversely impact our ability to enforce the agreements governing our factories and to do business.**

We occupy our manufacturing facilities under China land use agreements with agencies of the PRC government and we occupy other facilities under lease agreements with the relevant landlord. Our operations depend on our relationship with the local governments in the regions which our facilities are located and our landlords. Our operations and prospects could be materially and adversely affected by the failure of the local government to honor these agreements or an adverse change in the law governing them. In the event of a dispute, enforcement of these agreements could be difficult in China. Unlike the United States, China has a civil law system based on written statutes in which judicial decisions have limited precedential value. The government of China has enacted laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, its experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes in China is unpredictable. These matters may be subject to the exercise of considerable discretion by agencies of the PRC government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination.

### **Political or trade controversies between China and the United States could harm our operating results or depress our stock price.**

The United States and PRC governments continue to disagree on some political issues. These occasional controversies could materially and adversely affect our business and operations. Political or trade friction between the two countries could also materially and adversely affect the market price of our shares, whether or not they adversely affect our business.

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**Political or geographical dispute between the PRC and Japan could harm our operating results or depress our stock price.**

On more than one occasion, the PRC and Japanese governments have disputed the extent of each of their territory and the effect of certain political policies and historical events. Tension between the PRC and Japan appeared to increase in 2012 as a result of increasing attention on each country's territorial claims over the Diaoyu/Senkaku islands. These occasional controversies could adversely affect the demand of consumer products made or branded by companies in either country. As a result, deterioration in relation between the two countries could adversely affect our financial conditions and results of operations as well as the market price and liquidity of our shares, notwithstanding it has no direct effect on our business.

**Changes to PRC tax laws and heightened efforts by the PRC's tax authorities to increase revenues have subjected us to greater taxes.**

Under PRC law before 2008, we were afforded a number of tax concessions by, and tax refunds from, China's tax authorities on a substantial portion of our operations in China by reinvesting all or part of the profits attributable to our PRC manufacturing operations. However, on March 16, 2007, the PRC government enacted a unified enterprise income tax law or EIT, which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or FIE, located in Shenzhen, China, our PRC subsidiaries enjoyed a national income tax rate of 15% and were exempted from the 3% local income tax. The preferential tax treatment given to our subsidiaries in the PRC as a result of reinvesting their profits earned in previous years in the PRC also expired on January 1, 2008. Under the EIT, most domestic enterprises and FIEs will be subject to a single PRC enterprise income tax rate of 25% in 2012 and afterward. For information on the EIT rates as announced by the PRC's State Council for the transition period until year 2012, please see the table in ITEM 5. Operating and Financial Review and Prospects on page 35 of this Report. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various administrative regions and countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes.

**We believe we were not a passive foreign investment company for 2012 but we may be a passive foreign investment company for 2013, which could result in adverse U.S. federal income tax consequences for U.S. investors.**

The determination of whether we are a passive foreign investment company, or PFIC, in any taxable year is made on an annual basis after the close of that year and depends on the composition of our income and the nature and value of our assets, including goodwill. Specifically, we will be classified as a PFIC if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of our gross income for such taxable year is passive income, or (ii) 50% or more of the value of our assets (based on an average of the quarterly values of the assets during such year) is attributable to assets that either produce passive income or are held for the production of passive income (the PFIC asset test).

On the assumption that (i) cash and cash equivalents are passive assets and (ii) the market capitalization plus total liabilities of a company may be considered a proxy for the company's total assets, a calculation based on the average quarter-end book values of our cash and cash equivalents to our market capitalization plus total book liabilities indicates that we exceeded the 50% passive asset threshold for 2008, 2009, 2010 and 2011 but not for 2012. As a result, we believe we were a PFIC for U.S. federal income tax purposes for 2008, 2009, 2010 and 2011 but not for 2012. However, the PFIC asset test requires a determination of the fair market value of each asset and a determination of whether such asset produces or is held for the production of passive income and involves complex legal issues. We have not made a determination of the fair market value of our assets for 2008, 2009, 2010, 2011, 2012 or currently in 2013, and we cannot anticipate the market capitalization of our shares for 2013. Accordingly, we may be treated as a PFIC for 2013. Our characterization as a PFIC during any year could result in adverse U.S. federal income tax consequences for U.S. investors. For example, if we were a PFIC in 2012 or in any other taxable year, U.S. investors who owned our common shares generally would be subject to increased U.S. tax liabilities and reporting requirements.

Given the complexity of the issues regarding our classification as a PFIC, U.S. investors are urged to consult their own tax advisors for guidance as to our PFIC status. For further discussion of the adverse U.S. federal income tax consequences arising from the classification as a PFIC see "Taxation - United States Federal Income Tax Consequences" beginning on page 66 of this Report.

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### **Changes in foreign exchange regulations of China could adversely affect our operating results.**

Some of our earnings are denominated in yuan, the base unit of the RMB. The People's Bank of China and the State Administration of Foreign Exchange (SAFE) regulate the conversion of RMB into foreign currencies. Under the current unified floating exchange rate system, the People's Bank of China publishes a daily exchange rate for RMB based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions may enter into foreign exchange transactions at exchange rates within an authorized range above or below the exchange rate published by the People's Bank of China according to the market conditions. Since 1996, the PRC government has issued a number of rules, regulations and notices regarding foreign exchange control designed to provide for greater convertibility of RMB. Under such regulations, any FIE must establish a current account and a capital account with a bank authorized to deal in foreign exchange. Currently, FIEs are able to exchange RMB into foreign exchange currencies at designated foreign exchange banks for settlement of current account transactions, which include payment of dividends based on the board resolutions authorizing the distribution of profits or dividends of the company concerned, without the approval of SAFE. Conversion of RMB into foreign currencies for capital account transactions, which include the receipt and payment of foreign currencies for loans and capital contributions, continues to be subject to limitations and requires the approval of SAFE. There can be no assurance that we will be able to obtain sufficient foreign currencies to make relevant payments or satisfy other foreign currency requirements in the future.

### **Changes in currency exchange rates involving the Japanese yen or RMB have and could continue to significantly affect our financial results.**

Our financial results have been affected by currency fluctuations, resulting in total foreign exchange gains or losses during each of our three fiscal years ended December 31 as indicated in the following chart:

Our operating costs and financial results have been adversely affected by the appreciation of the RMB to the U.S. dollar because operating costs, which include labor costs, are denominated in RMB. Future appreciation of the RMB against the U.S. dollar would increase our costs and could adversely affect our margins and financial results.

We sell most of our products in U.S. dollars and pay our expenses in U.S. dollars, Japanese yen, Hong Kong dollars and RMB. While we face a variety of risks associated with changes among the relative value of these currencies, we believe the most significant exchange risk presently results from the costs and expenses we pay in RMB and Japanese yen, and material purchases we make, in Japanese yen.

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The appreciation and depreciation of the RMB compared to the U.S. dollar increases and decreases our costs and expenses to the extent paid in RMB, respectively. Approximately 11%, 13% and 8% of our total costs and expenses and 5%, 7% and 2% of our material costs were in RMB during the years ended December 31, 2010, 2011 and 2012, respectively.

Similarly, the appreciation and depreciation of the Japanese yen as compared to the U.S. dollar increases and decreases our costs and expenses to the extent paid in yen, respectively. Approximately 23%, 4% and nil of our total costs and expenses and 28%, 5% and nil of our material costs were in Japanese yen during the years ended December 31, 2010, 2011 and 2012, respectively. However, we make slight sales denominated in Japanese yen, which mitigates the effects of fluctuations in the yen-U.S. dollar exchange ratio on our financial results. Approximately 28%, 6% and nil of our total net sales were made in Japanese yen during the years ended December 31, 2010, 2011 and 2012, respectively.

If we pass the effect of increases in the RMB relative to the U.S. dollars to our customers through price increases it would make our products more expensive. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those we offer in lower-cost regions of the world. If we did not increase our prices to pass on the effect of increases in the RMB relative to the U.S. dollars, our margins and profitability could suffer.

**Nam Tai's declaration and payment of dividends is not assured. We declared no dividends for 2009 and 2010. Although our Board has resumed dividends for 2011, 2012 and 2013, we may not declare or pay dividends thereafter.**

Before 2009, we had a long history of paying dividend. In February 2009, our board of directors decided not to declare a dividend. In February 2010, our board of directors also decided not to declare a dividend. The board of directors decided not to declare a dividend in 2009 and 2010 in order to maintain our cash reserves during a period of global economic turmoil. Subsequently, we resumed the payment of quarterly dividends of \$0.05, \$0.07 and \$0.15 per share for 2011, 2012 and 2013, respectively. The payment of dividends in 2011, 2012 and 2013 does not necessarily mean that dividend payments will continue thereafter. Whether future dividends will be declared will depend on our future growth and earnings and our cash flow needs for future expansion. Our growth, earning or cash flow needs may be adversely affected by one or more of the factors discussed in this section of our Report or by other factors. There can be no assurance that cash dividends on the Company's shares will be declared for years after 2013, what the amounts of such dividends will be or whether such dividends, once declared for a specific period, will continue for any future period, or at all. For additional information on the dividends we have declared for 2013 and historically, please see ITEM 8. Dividends on page 61 of this Report.

**Payment of dividends by our subsidiaries in the PRC to our subsidiaries outside of the PRC and to us, as the ultimate parent, is subject to restrictions under PRC law. If we determine to continue our payment of dividends to our shareholders, the PRC tax law could force us to reduce the amount of dividends we have historically paid to our shareholders or possibly eliminate our ability to pay any dividends at all.**

Under PRC law, dividends may only be paid out of distributable profits. Distributable profits with respect to our subsidiaries in the PRC refers to after-tax profits as determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ( PRC GAAP ) less any recovery of accumulated losses and allocations to statutory funds that we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many respects from the calculation under U.S. GAAP. As a result, our subsidiaries in PRC may not be able to pay a dividend in a given year as determined under U.S. GAAP. China's tax authorities may also change the determination of income which would limit our PRC subsidiaries' ability to pay dividends and make other distributions.

Prior to the EIT law, which became effective on January 1, 2008, PRC-organized companies were exempt from withholding taxes with respect to earnings distributions, or dividends, paid to shareholders of PRC companies outside the PRC. However, under the new EIT Law, dividends payable to foreign investors which are derived from sources within the PRC will be subject to income tax at the rate of 5% to 15% by way of withholding unless the foreign investors are companies incorporated in countries which have tax treaty agreements with the PRC and then the rate agreed by both parties will be applied. For example, under the terms of the tax treaty between Hong Kong and the PRC, which became effective in December 2006, distributions from our PRC subsidiaries to our Hong Kong subsidiary, will be subject to a withholding tax at a rate ranging from 5% to 10%, depending on the extent of ownership of equity interests held by our Hong Kong subsidiary in our PRC enterprises. As a result of this new PRC withholding tax, amounts available to us in earnings distributions from our PRC enterprises will be reduced. Since we derive most of our profits from our subsidiaries in PRC, the reduction in amounts available for distribution from our PRC enterprises could, depending on the income generated by our PRC subsidiaries, force us to reduce, or possibly eliminate, the dividends we have paid to our shareholders historically. For this reason, or other factors, we may decide not to declare dividends in the future. If we do pay dividends, we will determine the amounts when they are declared and even if we do declare dividends in the future, we may not continue them in any future period.



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### **The market price of our shares will likely be subject to substantial price and volume fluctuations.**

The markets for equity securities have been volatile and the price of our common shares has been and could continue to be subject to wide fluctuations in response to variations in our operating results, news announcements, trading volume, sales of common shares by our officers, directors and our principal shareholders, customers, suppliers or other publicly traded companies, general market trends both domestically and internationally, currency movements and interest rate fluctuations. Other events, such as the issuance of common shares upon the exercise of our outstanding stock options could also materially and adversely affect the prevailing market price of our common shares.

Further, the stock markets have often experienced extreme price and volume fluctuations that have affected the market prices of the equity securities of many companies and that have been unrelated or disproportionate to the operating performance of such companies. These fluctuations may materially and adversely affect the market price of our common shares.

### **Our senior management owns a large portion of our common stock allowing them to control or substantially influence the outcome of matters requiring shareholder approval.**

On January 31, 2013, members of our senior management and board of directors as a group beneficially owned approximately 26.1% of our common shares. As a result, acting together, they may be able to control and substantially influence the outcome of all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This ability may have the effect of delaying or preventing a change in control of Nam Tai, or causing a change in control of Nam Tai that may not be favored by our other shareholders.

### **Regulatory initiatives in the United States, such as the Dodd-Frank Act and the Sarbanes-Oxley Act have increased, and may continue to increase the time and costs of being a U.S. public company and any further changes would likely continue to increase our costs.**

In the United States, changes in corporate governance practices due to the Dodd-Frank Act and the Sarbanes-Oxley Act, changes in the continued listing rules of the New York Stock Exchange, new accounting pronouncements and new regulatory legislation, rules or accounting changes have increased the cost of being a U.S. public company and may have an adverse impact on our future financial position and operating results. These regulatory changes and other legislative initiatives have made some activities more time-consuming and have increased financial compliance and administrative costs for public companies, including foreign private issuers like Nam Tai. In addition, any future changes in regulatory legislation, rules or accounting may cause our legal and accounting costs to further increase. In addition, these new rules and regulations require increasing time commitments and resource commitments from our company, including from senior management. This increased cost could negatively impact our earnings and have a material adverse effect on our financial position results of operations.

### **Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors or fraud, or in informing management of all material information in a timely manner.**

Our management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that our disclosure controls and internal controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur or may not be detected.



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**There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. GAAP. Any changes in estimates, judgments and assumptions could have a material adverse effect on our business, financial position and results of operations.**

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to changes in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operation.

**It may be difficult to serve us with legal process or enforce judgments against our management or us.**

We are a British Virgin Islands holding corporation with subsidiaries in Hong Kong and China. Substantially, all of our assets are located in the PRC. In addition, most of our directors and executive officers reside within the PRC or Hong Kong, and substantially all of the assets of these persons are located within the PRC or Hong Kong. It may not be possible to effect service of process within the United States or elsewhere outside the PRC or Hong Kong upon our directors, or executive officers, including effecting service of process with respect to matters arising under United States federal securities laws or applicable state securities laws. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in the United States or many other jurisdictions in relation to any matter, including securities laws, may be difficult or impossible. An original action may be brought against our assets and our subsidiaries, our directors and executive officers in the PRC only if the actions are not required to be arbitrated by PRC law and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

No treaty exists between Hong Kong or the British Virgin Islands and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Hong Kong and the British Virgin Islands are generally prepared to accept a foreign judgment as evidence of a debt due. An action may then be commenced in Hong Kong or the British Virgin Islands for recovery of this debt. A Hong Kong or British Virgin Islands court will only accept a foreign judgment as evidence of a debt due if:

the judgment is for a liquidated amount in a civil matter;

the judgment is final and conclusive;

the judgment is not, directly or indirectly, for the payment of foreign taxes, penalties, fines or charges of a like nature (in this regard, a Hong Kong court is unlikely to accept a judgment for an amount obtained by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained by the person in whose favor the judgment was given);

the judgment was not obtained by actual or constructive fraud or duress;

the foreign court has taken jurisdiction on grounds that are recognized by the common law rules as to conflict of laws in Hong Kong or the British Virgin Islands;

the proceedings in which the judgment was obtained were not contrary to natural justice (i.e. the concept of fair adjudication);

the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of Hong Kong or the British Virgin Islands;

the person against whom the judgment is given is subject to the jurisdiction of a foreign court; and

the judgment is not on a claim for contribution in respect of damages awarded by a judgment, which fall under Section 7 of the Protection of Trading Interests Ordinance, Chapter 7 of the Laws of Hong Kong.

Enforcement of a foreign judgment in Hong Kong or the British Virgin Islands may also be limited or affected by applicable bankruptcy, insolvency, liquidation, arrangement and moratorium, or similar laws relating to or affecting creditors' rights generally, and will be subject to a statutory limitation of time within which proceedings may be brought.

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**Future issuances of preference shares could materially and adversely affect the holders of our common shares or delay or prevent a change of control.**

Our Board of Directors may amend our Memorandum and Articles of Association without shareholder approval to create from time to time, and issue, one or more classes of preference shares (which are analogous to preferred stock of corporations organized in the United States). While we have never issued any preference shares and we have none outstanding, we could issue preference shares in the future. Future issuance of preference shares could materially and adversely affect the rights of the holders of our common shares, or delay or prevent a change of control.

**We incurred substantial expenses and costs in privatizing Nam Tai Electronic & Electrical Products Limited. It may require a number of years to realize the benefits from owning 100% of NTEEP.**

In November 2009, we successfully completed the privatization of Nam Tai Electronic & Electrical Products Limited, or NTEEP, by tendering for and acquiring the 25.12% of NTEEP that we did not previously own. As a result of the acquisition, NTEEP became our wholly owned subsidiary. During the year ended December 31, 2009, we expended approximately \$44.3 million to acquire NTEEP's noncontrolling shares, including approximately \$0.9 million in professional fees and related expenses. We financed these expenditures with internally generated funds.

Although our acquisition of NTEEP has resulted in cost savings and the elimination of profit sharing with NTEEP's noncontrolling shareholders, which improved our financial results during the years ended December 31, 2010, 2011 and 2012, we will only benefit from this acquisition to the extent NTEEP's operations remain profitable. Even if NTEEP's future operating results remain profitable, it may take a number of years before NTEEP's net income that was attributable to the noncontrolling interests and the overhead costs saved from NTEEP's privatization equal the costs and expenses of acquiring that interest.

**Our status as a foreign private issuer in the United States exempts us from certain of the reporting requirements under the Securities Exchange Act of 1934 and corporate governance standards of the New York Stock Exchange, or NYSE limiting the protections and information afforded to investors.**

We are a foreign private issuer within the meaning of the rules promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). As such, we are exempt from certain provisions applicable to public companies in the United States, including:

the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q, current reports on Form 8-K or annual reports on Form 10-K;

the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act or disclosures required in a proxy statement in accordance with rules therefor promulgated under the Exchange Act;

the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; 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 less than six months).

In addition, because the Company is a foreign private issuer, certain corporate governance standards of the NYSE that are applied to domestic companies listed on that exchange may not be applicable to us. For information regarding whether our corporate governance standards differ from those applied to US domestic issuers, see the discussion under "NYSE listed Company Manual Disclosure" in ITEM 6. Directors and Senior Management of this Report.

Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States or traded on the NYSE. See footnote \* on page 51 of this Report under the heading "Compensation on an Individual Basis" for information and risks associated with disclosures we have made in this Report or may make in our proxy statements regarding compensation we have paid to our directors and senior managers on an individual basis.



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### **Product quality issues could adversely affect our reputation and could impact our operating results.**

The market for our products is characterized by rapidly changing technology and evolving industry standards. To remain competitive, we must continually introduce new manufacturing solutions. The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. We cannot assure you we will be able to detect and remedy all defects in the products we sell. Failure to do so could result in product recalls, product redesign efforts, lost revenue, loss of reputation, and significant warranty and other expenses to remedy.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **Corporate Information**

Nam Tai Electronics, Inc. was founded in 1975 and moved its manufacturing facilities to China in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates available. We relocated to Shenzhen, China in order to capitalize on the significant opportunities offered in southern China. We were reincorporated as a limited liability International Business Company under the laws of the British Virgin Islands in August 1987 (which was amended in 2004 as The British Virgin Islands Business Companies Act, 2004). Our PRC headquarters and our principal manufacturing and design operations are currently based in Shenzhen, China, approximately 30 miles from Hong Kong. Certain of our subsidiaries' offices are located in Hong Kong, which provide us access to Hong Kong's infrastructure of communication and banking facilities. Our corporate administrative matters are conducted in the British Virgin Islands through our registered agent, McNamara Corporate Services Limited, McNamara Chambers, P.O. Box 3342, Road Town, Tortola, British Virgin Islands. In 1978, Mr. Koo, the founder of the Company, began recruiting operating executives from the Japanese electronics industry. These executives brought years of experience in Japanese manufacturing methods, which emphasize quality, precision, and efficiency in manufacturing. A large portion of our senior and middle management currently includes Japanese professionals who provide technical expertise and work closely with both our Japanese component suppliers and customers.

### **Major Events during 2012 to Date**

During 2012, the following major events took place:

We discontinued our liquid crystal display products (LCDP) business in April 2012 after the final evaluation on the viability of our LCDP business based on its performance in the first quarter of 2012;

We commenced production of high-resolution LCMs for tablets in June 2012 at our Wuxi manufacturing facility and continued to ramp up its production throughout 2012. During 2012, our Wuxi operations focused on developing manufacturing processes, evaluations and qualifications by our customers and resources planning in preparation for ramping up manufacturing at these facilities;

Based on a strategic development agreement, Wuxi Zastron Precision-Flex Co., Ltd. (Wuxi Zastron-Flex) was recapitalized with an injection of \$17.7 million by Namtai Investment (Shenzhen) Co., Ltd (NTISZ) in June and August 2012;

We began mass production of high-resolution LCMs for smartphones in September 2012 at our Shenzhen manufacturing facility. During 2012, our Shenzhen operations focused on developing manufacturing processes, evaluations and qualifications by our customers and resources planning in preparation for ramping up manufacturing at these facilities; and

We have decided to discontinue our Flexible Printed Circuit (FPC) business by the end of March 2013, because the FPC business has been generating losses since its initial production. We will not disclose the FPC segment information separately starting from the first quarter of 2013 as it will be classified as discontinued business.



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**Organizational Structure**

The chart as below and on the next page shows our organizational structure of our principal subsidiaries at December 31, 2012.

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**Capital Expenditures**

The following chart illustrates the amounts of our principal capital expenditures and divestitures (in thousands of dollars) during each of the past three years ended December 31:

**Expenditures on property, plant and equipment**

The following are capital expenditures we currently have planned for 2013:

\$5.8 million for machinery and leasehold improvements for a LCD module assembly; and

\$0.3 million for other capital equipment.

Our major capital expenditures in 2012 included:

\$33.9 million for machinery and leasehold improvements for a LCD module assembly;

\$3.8 million for machinery used for FPC boards and assemblies;

\$4.9 million for land use right in Wuxi; and

\$0.8 million for other capital equipment.

Our major capital expenditures in 2011 included:

\$54.4 million for machinery and leasehold improvements for a LCD module assembly;

\$6.9 million for machinery used for FPC boards and assemblies; and

\$4.6 million for commercial property in Hong Kong.

Our major capital expenditures in 2010 included:

\$2.4 million for machinery used mainly for the production of LCD and FPC Modules;

\$0.9 million for leasehold improvements as a result of two of our subsidiaries merging; and

\$0.5 million for other capital equipment.

Our plans for capital expenditures are subject to change from time to time and could result from, among other things, our consummation of any significant acquisition or strategic investment opportunities, which we regularly explore, and prevailing economic conditions.

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### **Business Overview**

We are an electronics manufacturing and design services provider to a select group of the world's leading telecommunications and consumer electronic products OEMs. Through our EMS operations, we manufacture electronic components and subassemblies, including FPC boards, FPC board subassemblies, LCD panels, LCD modules, TFT display modules, RF modules, DAB modules, internet radio subassemblies, CMOS imaging sensor modules and PCB subassemblies. The components, modules and subassemblies are used in numerous electronic products, including mobile phones, IP phones, notebook computers, digital cameras, electronic toys, handheld video game devices and learning devices. We also manufacture finished products, including mobile phone accessories, home entertainment products and educational products. We assist our OEM customers in the design and development of their products and furnish full turnkey manufacturing services that utilize advanced manufacturing processes and production technologies.

Our services include software, firmware, and hardware development, mechanical design, parts and components source and purchasing, product industrialization, and assembly into finished products or electronic subassemblies with full quality testing and assurance. These services are value-added and assist us in obtaining new business but do not represent a material component of our revenues. We also provide early supplier involvement in design service to develop proprietary products that are sold by our OEM customers using their brand name.

### **Our Customers**

Historically, we have had substantial recurring sales from our existing customers. Approximately 100% of our 2012 net sales came from customers we provided services to in 2011. While we seek to diversify our customer base, a small number of customers currently generate a significant portion of our sales. Sales to our 10 largest customers accounted for 98.6%, 99.4% and 99.5% of our net sales during the years ended December 31, 2010, 2011 and 2012, respectively. Sales to customers accounting for 10% or more of our net sales in the years ended December 31, 2010, 2011 or 2012 (listed in order of our net sales during 2012) were as follows:

	Year ended December 31,		
	2010	2011	2012
Japan Display Inc. <sup>(1)</sup>	49.2%	72.4%	51.2%
Sharp Corporation	14.2%	11.8%	43.7%
Sony Computer Entertainment Europe Ltd.	21.2%	11.9%	*

\* Less than 10% of total net sales during the year indicated.

<sup>(1)</sup> Toshiba Mobile Display and Sony Mobile Display Corporation were reorganized into Japan Display Inc. in 2012.

Our 10 largest OEM customers based on net sales during 2012 were the following (listed alphabetically):

Customer	Products
Anoto Group AB	Digital Pen
C Technologies AB	Digital Pen
Frontier Silicon Limited	Mobile phone accessories
Japan Display Inc.	LCD modules, FPC subassemblies
Mobileye Technologies Limited	Auto electronic products
Omron Precision Technology (Suzhou) Co., Ltd.	FPC subassemblies
Panasonic Liquid Crystal Display Co., Ltd.	LCD modules
Qualcomm Mems Technologies Inc.	LCD modules
Sharp Corporation	LCD modules, FPC subassemblies and PCB modules
Sony Computer Entertainment Europe Ltd.	Home entertainment products

At any given time, different customers account for a significant portion of our business. Percentages of net sales to customers vary from quarter to quarter and from year to year and fluctuate depending on the timing of production cycles for particular products.

Sales to our OEM customers are based primarily on purchase orders we receive from time to time rather than fixed, long-term purchase commitments from our customers. Although it is our general practice to purchase raw materials only upon receiving a purchase order, for certain customers we will occasionally purchase raw materials based on such customers' rolling forecasts. Uncertain economic conditions and our

general lack of long-term purchase commitments with our customers make it difficult for us to predict revenue accurately long term. Even in those cases where customers are contractually obligated to purchase products from us or repurchase unused inventory from us, we may elect not to enforce our contractual rights immediately because of the long-term relationships and for other business reasons. Instead we may negotiate accommodations with customers regarding particular situations.

**Table of Contents****Our Products**

In 2008 and 2009, we managed our business using three reportable segments: telecommunication components assembly ( TCA ), consumer electronics and communication products ( CECP ) and LCD products ( LCDP ). In 2010, we reclassified the TCA and LCDP segments into the TCA segment to accurately reflect the nature and management of our operations. In 2012, the CECP segment fell below the threshold prescribed under FASB ASC 280-10-50-12 and the CECP segment was combined with the TCA segment. The net loss from the FPC segment was above the threshold prescribed under FASB ASC 280-10-50-12 and the FPC segment was separated from the TCA segment in 2012. Currently, we operate and present two business segments: TCA and FPC. The segment information in 2010 and 2011 has been restated in order to conform to the change in segment reporting in 2012 in accordance with FASB ASC 280-10-50-34.

The TCA segment is focused on subassemblies of components such as LCD modules, radio frequency modules, digital audio broadcast modules, front light panels and back light panels for handheld video game devices, box-built products such as mobile phone accessories, entertainment devices, educational products and optical devices. The FPC segment is focused on the manufacturing of FPC boards and FPC subassemblies.

Our net sales by reportable segments were as follows (\$ in thousands):

	Year ended December 31,					
	2010		2011		2012	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
TCA	444,642	99%	509,124	97%	1,118,196	97%
FPC	3,671	1%	15,953	3%	29,727	3%
Total net sales from continuing business	448,313	100%	525,077	100%	1,147,923	100%

Please refer to Note 19 Segment Information of our consolidated financial statements and ITEM 8. Financial Information Export Sales which sets forth the information of net sales to customers by geographical area.

*Telecommunication Component Assembly*

We manufacture the following subassemblies and components:

Color and monochrome LCD modules to display information as part of telecommunication products such as PDA phones, smartphones and traditional mobile phones and telephone systems. These modules are also used in most other hand-held consumer electronic devices, such as electronic games, MP3 players, automotive products and digital cameras;

RF modules for integration into mobile phones. RF modules are partially finished circuits that can be incorporated into larger products or components. Each module includes receivers, transmitters, and transceivers, and can be manufactured for use in hand-held consumer electronic products, such as PDAs, laptop computers and other products with wireless connectivity;

DAB modules are digital audio broadcasting components that are used in digital radio products such as home tuners, kitchen radios, in-car receivers, CD players, clock radios, boom boxes, midi-systems and handheld portable devices;

Front light panels for handheld video game devices;

Back light panels for handheld video game devices;

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1.9 high-frequency cordless telephones and home feature phones;

Super high contrast monochrome vertical aligned Twisted Nematic LCD for applications in automotive parts and major appliances;

Wide temperature monochrome Super-Twisted Nematic ( STN ) LCD for application in major appliances;

Mobile phone accessories such as headsets containing Bluetooth wireless technology, snap-on portable music speakers, phone cradles, snap-on FM radio adaptors, and snap-on GPS adaptors;

Entertainment devices such as USB webcams for interactive games, USB microphone and converter boxes for karaoke, and a buzzer device for quiz games, both in wire and wireless designs with an infrared solution;

Educational products such as digital pens, calculators and electronic dictionaries; and

Optical devices such as CMOS imaging sensor modules for notebook computers, portable media players and recording cameras for the automotive industry.

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*FPC Boards and FPC Subassemblies*

We manufacture the following subassemblies and components:

FPC subassemblies for integration into various LCD modules and electronic devices; and

FPC board manufacturing for vertical integration to the FPC subassembly business, which is used for mobile phones, PDAs, office automation, laptop computers and other products that require a portable product design.

**Our Manufacturing and Assembly Capabilities**

We utilize the following production techniques:

Chip on Glass, or COG	a process that connects integrated circuits directly to LCD panels without the need for wire bonding. We apply this technology to produce advanced LCD modules for high-end electronic products, such as cellular phones, tablet, automobile dashboard and PDAs. These machines provide an LCD with a length of up to 320 millimeters by a width of up to 240 millimeters by a height of up to 0.35 millimeters. During 2005, our subsidiary, Jetup also started manufacturing COG LCD modules. During 2010, Jetup was merged into Zastron Shenzhen. During the third quarter of 2011, Wuxi Zastron-Flex also expanded LCD module assembly and set up state of the art COG machines. As of December 31, 2012, Zastron Shenzhen and Wuxi Zastron-Flex had a total of 47 sets of COG machines, and is capable of bonding 12 million units (calculates base on single chip) of COG LCD modules per month with a pin pitch fine to 25 micrometers within an accuracy of 5 microns tolerance, in a cycle time of 4.5~9 seconds per unit.
Chip on Board, or COB	a technology that utilizes wire bonding to connect large-scale integrated circuits directly to printed circuit boards. As of December 31, 2012, we had 11 COB aluminum bonding machines which provide a high speed chip bonding time of 0.25 second per 2 millimeters wire, a bond pad fine to 75 micrometers and a total production capacity of up to 0.5 million (150 wires/board) per month. We use COB aluminum bonding in the assembly of consumer products such as digital pens, calculators, electronic dictionaries and audio products. We also had three COB gold ball bonding machines, which provide a high speed chip bonding time of 0.072 second per 2 millimeters wire, a bond pad fine to 50 micrometers and a total production capacity of up to 0.5 million (150 wires/board) per month. We use COB gold ball bonding in CMOS camera modules, which are incorporated into USB cameras, notebook computers, mobile phones and digital pens.
Tape Automated Bonding With Anisotropic Conductive Film, or TAB With ACF	an advanced heat sealing technology that connects a liquid crystal display component with an integrated circuit in very small LCD modules, such as those used in cellular phones and pagers. As of December 31, 2012, Zastron Shenzhen had 47 systems of TAB with ACF machines. The machines provide a process time of 7 to 9 seconds per component, a pin pitch fine up to 200 micrometers and a total production capacity of up to 12 million components per month. Zastron Shenzhen is able to bond LCD panels with a length of up to 320 millimeters by a width of up to 200 millimeters and a height of up to 0.35 millimeters, with an accuracy of 5 microns tolerance in a cycle time of 4.5 to 9 seconds per piece.
Fine Pitch Heat Seal Technology, or FPHS Technology	allows us to connect LCD displays to PCBs produced by COB and outer lead bonding that enables very thin connections. This method is highly specialized and is used in the production of finished products such as PDAs. As of December 31, 2012, we had eight machines utilizing FPHS technology. The machines provide a pin pitch fine to 260 micrometers and a total production capacity of up to 1 million units per month.
Surface Mount Technology, or SMT	a process by which electronic components are mounted directly on both sides of a printed circuit board, increasing board capacity, facilitating product miniaturization and enabling advanced automation of production. We use SMT for products such as mobile display modules and

electronic linguistic devices. As of December 31, 2012, we had 30 SMT productions lines. The production time per chip ranges from 0.055 second per chip to 0.8 second per chip and high precision ranging from +/-0.05 millimeter to +/-0.1 millimeter. The components size ranges from 0.4 millimeter long by 0.2 millimeter wide to 55 millimeters long by 55 millimeters wide. Ball grid array, or BGA, ball pitch is 0.4 millimeter and ball diameter is 0.2 millimeter. Flip Chip, our smallest lead/bump pitch, is 250/240UM and our smallest components spacing is 0.15 micrometers. The total production capacity is over 1 billion resistor capacitor chips per month.



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**Super-Twisted Nematic, or STN, Displays** a type of monochrome passive matrix LCD capable of providing higher information content to display systems. STN Displays are typically found in applications such as cordless phones, mobile phones, MP3 players, pocket games and PDAs. Our subsidiary, Zastron Shenzhen, through its predecessor, Jetup, began producing STN LCDs in 2002. Since 2005, our two existing twisted nematic, or TN type, LCD lines have been upgraded to STN LCD lines. TN displays rotate the director of the liquid crystal by 90 degrees, but STN LCD displays employ up to a 270 degree rotation. This extra rotation gives the crystal a much steeper voltage-brightness response curve and also widens the angle at which the display can be viewed before losing much contrast. As of December 31, 2012, Zastron Shenzhen was using two automated STN lines capable of producing both TN and STN type LCDs with capacity of 100,000 pairs of glass (each sheet of glass of 360 millimeters by 400 millimeters in size) panels per month.

**LCD Back-End** a main manufacturing process for LCD panels, and is regarded as part of the process for its finished product LCD modules. It includes the precise pure water cleaning process, scribing of LCD glass, liquid crystal insertion, sealing process and breaking process, then turns the LCD mother glass into LCD panels. Our machines can cope with 0.2 millimeters + 0.2 millimeters LCD mother glass up to dimension of 920 millimeters by 730 millimeters, with cutting tolerance +/-0.1 millimeters.

A clean room is an environment, typically used in manufacturing or scientific research, which has a low level of environmental pollutants such as dust, airborne microbes, aerosol particles and chemical vapors. In other words, a clean room has a controlled level of contamination which is specified by the number of particles per cubic meter at a specified particle size.

As of December 31, 2012, we had total 13 clean rooms with 284,608 square feet manufacture area, 3 were class 10,000 and 10 were class 5,000 clean rooms at our manufacturing facilities, which housed COB, COF, COG and Chip Scale Package capabilities for CMOS sensor modules, electronic calculators, digital camera accessories, LCD panels, LCD modules manufacturing and FPC manufacturing.

### **FPC Boards and FPC Subassemblies**

*Flexible Printed Circuit Subassemblies.* We began manufacturing FPC subassemblies in March 2003 for integration into various LCD modules. FPC subassemblies are FPC boards enhanced by attaching electronic components, such as connectors, switches, resistors, capacitors, light emitting devices, integrated circuits, cameras and optical sensors, to the circuit. The reliability of FPC component assemblies is dependent upon proper assembly design and the use of appropriate fixtures to protect the flex-to-connector interface. Connector selection is also important in determining the signal integrity of the overall assembly and is very important to devices that rely upon high system speed to function properly.

*Flexible Printed Circuits.* Flexible printed circuits, which consist of copper conductive patterns that have been etched or printed while affixed to flexible substrate materials such as polyimide or polyester, are used to provide connections between electronic components and as a substrate to support these electronic devices. The circuits are manufactured by subjecting the base materials to multiple processes, such as drilling, screening, photo imaging, etching, plating and finishing. Single-sided flexible printed circuits, which have an etched conductive pattern on one side of the substrate, are normally less costly and more flexible than double-sided flexible printed circuits because their construction consists of a single patterned conductor layer. Double-sided flexible printed circuits, which have conductive patterns or materials on both sides of the substrate that are interconnected by a drilled or copper-plated hole, can provide either more functionality than a single-sided flexible printed circuit by containing conductive patterns on both sides, or greater shielding of components against electromagnetic interference than a single-sided flexible printed circuit by covering one side of the circuit with a shielding material rather than a circuit pattern.

*FPC Boards.* Flexible printed circuit boards or FPC Boards are applied to various electronic devices because of their mechanical characteristics and are indispensable to electronic devices requiring system miniaturization, weight reduction and multi-functionality. FPCs are employed in a wide variety of applications due to the nature of their characteristics. Examples of applications for FPCs include cell-phone liquid crystal display enclosures, hinge parts, keypads, battery enclosures and interface components. FPCs fall into three broad categories: single-sided flexible printed wiring boards, double-sided flexible printed wiring boards and multilayer flexible printed boards. Single sided and double sided FPCs are widely employed for personal computers, hard disk drives and cell phones.

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We buy a portion of the FPC boards that we use in the manufacturing of our products from suppliers and attach electronic components to the purchased FPC boards in accordance with our customer’s specifications and produce FPC subassemblies. Since 2007, we also began manufacturing these devices at our existing facility in Shenzhen to vertically integrate this process by producing FPC boards internally. Our Wuxi factory began manufacturing pilot runs of FPC boards and is moving to large scale manufacturing in 2010. In addition, after the final evaluation on the viability of our FPC business based on its performance in the third quarter of 2012, we have decided to discontinue our FPC business by the end of March 2013, as this business has been generating losses since its initial production.

**Quality Control**

We maintain strict quality control programs for our products, including the use of total quality management systems and advanced testing and calibration equipment. Our quality control personnel test the quality of incoming raw materials and components. During the production stage, our quality control personnel also test the quality of our work-in-progress at several points in the production process. Finally, after the assembly stage, we conduct testing of finished products. In addition, we provide office space at our principal manufacturing facilities for representatives of our major customers to permit them to monitor production of their products and we provide them with direct access to our manufacturing personnel.

All of our existing manufacturing facilities are certified under ISO 9001 quality standards, the International Organization for Standardization, or ISO’s, highest standards. The ISO is a Geneva-based organization dedicated to the development of worldwide standards for quality management guidelines and quality assurance. Our certifications under an ISO 9001 quality standard demonstrate that our manufacturing operations meet the most demanding ISO standards. All of our manufacturing facilities are also certified under an ISO 14001 environmental management standard, which was published in 2004 to provide a structured basis for environmental management control.

After the consolidation of our Shenzhen operations under Zastron Shenzhen in 2010, our quality assurance personnel embarked to integrate all management systems in Shenzhen into that single company. At the end of February 2013, Zastron Shenzhen has passed the following certifications:

ISO 9001:2008	Basic Quality Management System
ISO 14001:2004	Environmental Management System
QC080000:2005	Hazardous Substance Process Management System
OHASA18001:2007	Occupational Health & Safety Management System
TS16949:2009	Quality Management System specific for Automotive Products

In December 2009, our new factory in Wuxi was audited for compliance of ISO 9001 and TS16949. We received both certifications in March 2010. During 2010, we applied for other certifications for this plant, including QC08000 and ISO 14001, which we received in April and May 2010, respectively.

We employ the Six Sigma approach in various projects that we run each year. In 2004, our principal manufacturing facilities in Shenzhen were recognized by the PRC Government as a National Advanced Enterprise for the Promotion of Six Sigma. Six Sigma is an internationally recognized approach that uses facts and data to develop better solutions, thereby reducing defects and production times, and improving customer satisfaction. This approach allows us to lower our costs by minimizing manufacturing defects. Our use of Six Sigma has resulted in improved profit margins and higher competitiveness.

**Our Suppliers**

We purchase thousands of different component parts from numerous suppliers, which we have approved based on their quality, cost and services. For some components, we have chosen, for strategic reasons, to rely on a single supplier. We purchase components from suppliers located in Japan, China and other countries. Our general practice is to purchase components upon receipt of purchase orders from customers and pursuant to the customer’s authorization in order to minimizing our inventory risk. However, we may occasionally purchase raw materials or request suppliers to maintain buffer stock of certain supplies for particular customers based on such customer’s rolling forecasts in order to shorten the lead-time for key materials.

The major component parts we purchase include the following:

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Integrated circuits or chips, most of which we purchase presently from Rohm Electronics (HK) Co., Ltd., Renesas Electronics Corporation, Omnivision Technologies (HK) Co., Ltd., Asahi Kasei Microsystems Co., Ltd. and certain of their affiliates;

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LCD panels, which are available from many manufacturers. Since 2007, we have purchased LCD panels from Japan Display Central Inc., Japan Display West Inc. and Sharp Corporation;

FPC boards, which consist of copper conductive patterns that have been etched or printed while affixed to flexible substrate materials such as polyimide or polyester, are mainly used to provide connections for electronic components and as a substrate to support these electronic devices. Since 2007, we have purchased FPC boards mainly from Nitto Denko (HK) Co., Ltd. and Mektec Corporation (HK) Ltd.; and

Light-emitting diodes, or LEDs, are semiconductor devices that emit incoherent narrow-spectrum light when electrically biased in the forward direction. This effect is a form of electroluminescence. LEDs are small extended sources with extra optics added to the chip, which emit a complex intensity spatial distribution. We purchase LEDs primarily from Nichia Corporation.

Whenever practical, we will consider using domestic PRC suppliers who are often able to provide their products at lower cost than overseas suppliers and with shorter lead times.

From time to time, there may be certain components subjected to limited allocation by certain of our suppliers due to industry-wide shortage as a result of fast growing global demand.

In some cases, supply shortages and delays in deliveries of particular components could result in curtailed production, or delays in production. These supply shortages have contributed to an increase in our inventory levels and reductions in our margins. We expect that occasional component shortages and delays in deliveries of some components will continue to occur. If we are unable to procure sufficient quantity components in a timely fashion, we may experience production delays, which could harm our relationships with current or prospective customers and reduce our sales.

The principal raw materials used by us are large scale integrated, or LSI, circuits, digital signal processors, or DSP, LCD driver IC semiconductors, FPC boards, LCD panels, TFT panels and batteries. At times, the pricing and availability of these raw materials can be volatile, attributable to numerous factors beyond our control, including general economic conditions, currency exchange rates, industry cycles, production levels or a supplier's tight supply. In the past, we have asked our customers to share the increased costs of raw materials where such increased costs would adversely affect our business, results of operations and financial condition. Our customers have generally agreed when so requested in the past. We cannot provide assurances, however, that our customers will agree to share costs in the future and that our business, results of operations and financial condition would not be adversely affected by increased volatility in the price or availability of raw materials.

## **Production Scheduling**

The typical cycle for a product to be designed, manufactured and sold to an OEM customer is one to two years, which includes the production period, the development period and the period for market research and data collection (which is undertaken primarily by our OEM customers). Initially, an OEM customer gathers data from its sales personnel on products for which there is market interest, including features and unit costs. The OEM customer then contacts us, and possibly other prospective manufacturers, with forecasted total production quantities and design specifications or renderings. From that information, we in turn contact our suppliers and determine estimated component and material costs. We later advise our OEM customer of the development costs, charges (including molds, tooling and software design, if applicable) and unit cost based on the forecasted production quantities desired during the expected production cycle.

Once we have agreed with the OEM customer on the quotation for the development costs and the unit cost, we begin the product development if we are engaged to do so. This development period typically lasts less than six months, but may be longer if software design is included. During this time, we complete all molds, tooling and software required to manufacture the product with the development costs generally borne by our customer. Upon completion of the molds, tooling and software, we produce samples of the product for the customer's quality testing, and, once approved, commence mass production of the product. We recover the development costs in relation to molds, tooling and software from our customers.

The production period usually lasts approximately six to twelve months. In some cases, our OEM customer handles all product design and development and engages us only at the point of initial production. Typically, more advanced products have shorter production runs. If total production quantities change, the OEM customer often provides only limited notice before discontinuing orders for a product. At any point in time we may be in different stages of the development and production periods for the various models under development or in production for our OEM customers.



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Generally, our production is based on purchase orders received from OEM customers. Purchase orders are often supported by letters of credit or written confirmation from the OEM customer and generally may not be cancelled once confirmed without the mutual consent of the parties. Even in those cases where customers are contractually obligated to purchase products from us or repurchase unused inventory from us, we may elect not to enforce our contractual rights immediately because of the long-term nature of our customer relationships and for other business reasons, and instead may negotiate accommodations with customers regarding particular situations.

In general, we plan for and purchase the materials and components that we will need to manufacture customers' products when we receive the purchase order and specifications from the customer. We are assisted in this process by our ERP software system which several of our manufacturing subsidiaries began installing during 2008 and 2009. Installation of our subsidiaries' ERP software system was completed in the first half of 2009. The ERP software system includes related integrated applications for managing worldwide procurement and logistics business processes, customer relationships, product life-cycle and supplier relationships and helps us and our customers assure that the materials and components needed to manufacture our customers' products arrive at our manufacturing facilities on time to meet production and product delivery schedules. Since our customers are involved in the procurement and delivery of the materials and components we use to manufacture their products, our customers assume the risk of delays or failures of delivery of such materials and components.

We did not suffer a material loss resulting from the cancellation of OEM customer orders for the years ended December 31, 2010, 2011 or 2012.

## **Sales and Marketing**

We focus on developing close relationships with our customers at the development and design phases and throughout all stages of production. We identify, develop and market new products and technologies that benefit our customers and position us as a strong EMS provider with the ability to design and develop products.

Sales and marketing operations are integrated processes involving direct salespersons, project managers and senior executives. We direct our sales resources and activities at several management and staff levels within our customers and prospective customers. We receive unsolicited inquiries resulting from word of mouth, from public relations activities, and through referrals from current customers. We evaluate these opportunities against our customer selection criteria and evaluation procedure. Upon approval, we assign a salesperson to the customer.

## **Seasonality**

Historically, our sales and operating results have often been affected by seasonality. Sales of products and components related to mobile phones have generally been lower in the first quarter after peaking in the fourth quarter. Similarly, consumer electronics products have historically been lower in the first quarter resulting from both the closing of our factories in China for the Lunar New Year holidays and the general reduction in sales following the holiday season.

The long, national seasonal breaks in the PRC, such as the Chinese Lunar New Year holidays occurring in the first quarter and the National Day Golden week occurring in the fourth quarter, typically adversely affects our ability to manufacture products, obtain components and materials from suppliers and receive and process orders from customers and accordingly our results of operations during these period can be expected to suffer.

## **Transportation**

Transportation of components and finished products to and from Shenzhen is by truck. Component parts purchased from Japan, Korea, Singapore and elsewhere of the world are generally shipped by air and delivered to our designated forwarders' warehouse located in Hong Kong. To date, we have not been materially impacted by any transportation problems. However, transportation difficulties affecting air cargo or shipping, such as an extended closure of ports that materially disrupt the flow of our customers' products into the United States, could significantly and adversely influence our sales and margins if, as a result, our customers delay or cancel orders or seek concessions to offset expediting charges they incur pending resolution of the problems causing the port closures.

**Table of Contents****Competition**

The electronic manufacturing services we provide are available from many independent sources as well as from our current and potential customers with internal manufacturing capabilities. The following table identifies those companies who we believe are our principal competitors (listed alphabetically) by category of products or services we provide.

<b>Product/Service</b>	<b>Competitor</b>
EMS	Celestica, Inc. Flextronics International Ltd. Hon Hai Precision Industry Co., Ltd. Jabil Circuit, Inc. Sanmina-SCI Corporation
Image capturing devices and their modules	Altus Technology Inc. (controlled by Foxconn) Lite-on Technology Corporation Logitech International S.A The Primax Group Goer Tek, Inc.
Mobile phone accessories	Balda-Thong Fook Solutions Sdn., Bhd. Celestica, Inc. Elcoteq Network Corporation Flextronics International Ltd. Foster Corporation Foxlink Group Merry Electronics Co., Ltd. WKK International (Holdings) Ltd.
Liquid crystal display, or LCD panels	Tianma Microelectronics Co., Ltd. Truly International Holdings Ltd. Varitronix International Ltd. Yeebo (International) Holdings Ltd.
Telecommunication subassemblies and components	Flextronics International Ltd. S-Tech Corporation Shin-Tech Electronic Co., Ltd. Varitronix International Ltd. Wuxi Sharp Electronic Components Wuxi Technology Corporation
Consumer electronic products (calculators, personal organizers and linguistic products)	Computime Limited Inventec Co., Ltd. Kinpo Electronics, Inc. VTech Holdings Limited
FPC Boards/FPC Subassemblies	Ichia Technologies Inc. Nitto Denko (HK) Ltd. NOK Corporation Sumitomo Chemical Co., Ltd. Fujikura Ltd.

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Many of our competitors have greater financial, technical, marketing, manufacturing, regional shipping capabilities and international logistics support and personnel resources than we do. As a result, we position ourselves as a competitive-priced EMS with niches in key product and technology categories focusing on advanced manufacturing technique and processes as well as design and development capabilities in these niche areas to compete successfully against with these organizations.

In addition to intense competition from large FPC board manufacturers located in Taiwan, China, Korea, Singapore, North America, Japan and Europe, such as those listed in the above table opposite FPC boards/FPC subassemblies, we also face such competition from large, established EMS providers that have acquired or, like we have, developed their own FPC manufacturing capabilities, and have extensive experience in electronics assembly. Furthermore, many companies in our target customer base are moving the design and manufacturing of their products to original engineering manufacturers, or OEMs, in Asia. These changes could create pressure on us to provide discounts or lower prices to gain or maintain market share, which could adversely affect our margins and the profitability of our FPC business and our operating results as a whole. In addition, after the final evaluation on the viability of our FPC business based on its performance in the third quarter of 2012, we have decided to discontinue our FPC business by the end of March 2013, as this business has been generating losses since its initial production.

### **Research and Development**

We invest in research and development for developing products, manufacturing and assembly technology that provide us with the potential to offer better and more technologically advanced services to our OEM customers or assist us in working with our OEM customers and in the design and development of future products. We plan to continue acquiring advanced design equipment and to enhance our technological expertise through continued training of our engineers and further hiring of qualified system engineers. These investments are intended to improve the speed, efficiency, costs and quality of our assembly processes.

Additionally, we are responsible for the design and development of new products specified by our customers. We sell these products to OEM customers to be marketed to end users under the customers' brand names. To date, we have successfully developed LCD modules, CMOS sensor camera modules, mobile phone accessories and game peripherals for our customers.

### **Patents, Licenses and Trademarks**

We do not have any patents, licenses or trademarks on which our business is substantially dependent. Instead, we rely on our industry expertise, knowledge of niche products and technology and strong long-term relationships with our customers and suppliers.

### **Property, Plant and Equipment**

Our registered office in the British Virgin Islands is located at McNamara Chambers, P.O. Box 3342, Road Town, Tortola. Corporate administrative matters in the British Virgin Islands are conducted at this office through our registered agent, McNamara Corporate Services Limited.

The table below lists the locations, square footage, principal use and the expiration dates of land use rights on the facilities used in our principal operations as of December 31, 2012:

<b>Location</b>	<b>Approximate Square Footage</b>	<b>Principal or Presently Contemplated Use</b>	<b>Owned<sup>(1)</sup> or lease expiration date</b>
<i>Principal Facilities</i>			
Hong Kong	2,200	Administration	Owned
Shenzhen, China	557,835	Principal manufacturing facilities	2043/2049 <sup>(2)</sup>
	87,460	Administration	2043/2049 <sup>(2)</sup>
	350,585	Dormitories	2043/2049 <sup>(2)</sup>
	41,530	Cafeteria	2043
	33,825	Recreational	2049
Wuxi, Jiangsu Province, China	470,360	FPC boards and FPC subassemblies, LCD modules and other products	2056 <sup>(3)</sup>
<i>Other property</i>			



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Guangming, Shenzhen, China	1,270,160	LCD modules and other products	2057 <sup>(4)</sup>
Wuxi, Jiangsu Province, China	476,553	LCD modules and other products	2062 <sup>(5)</sup>

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- (1) Only the PRC government and peasant collectives may own land in China. Our principal manufacturing facilities are located on land in which we have entered into a land lease agreement with the PRC government that gives us the right to use the land for 50 years. Similarly, the lands which we have acquired in Wuxi and Guangming Shenzhen will be by 50-year land leases. Our understanding of the practice as it exists today; at the expiration of the land lease, we may be given the right to renew the lease.
- (2) Our principal manufacturing facilities occupy two parcels of land with 50-year land leases that we acquired in 1993 and 1999, respectively.
- (3) Construction was completed in 2009 and mass production at this factory began in 2010.
- (4) Raw land. To meet the requirement of water environment renovation project, the Government planned to expropriate an area of 153,507 square feet, the consideration is based on mutually agreed price, details of which is to be further negotiated.
- (5) Raw land.

### **Hong Kong**

In October 2005, Nam Tai restructured its subsidiaries to focus its operations in China. We now only maintain a minimal workforce in Hong Kong.

In February 2011, we purchased a commercial property having approximately 2,200 square feet at Unit 1201, 12th Floor, Tower 1, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. These premises are located at the Eastern extension of the Hong Kong's Central Business District. The purchase price for the property was approximately \$4.6 million, which we paid in cash. We relocated our Hong Kong office to this location at the end of March 2011.

### **Shenzhen, China**

#### *Principal Manufacturing Facilities*

Our principal manufacturing facilities are located in Baoan County, Shenzhen, China. In December 1993, we acquired a 50-year lease for the land on which these facilities are located and initially built a manufacturing facility consisting of approximately 160,000 square feet of manufacturing space, 39,000 square feet of office space, 212,000 square feet of dormitories and 26,000 square feet of full service cafeteria, recreation facilities and a swimming pool. Over the years beginning in November 2000, we have made several additions to these facilities, including:

a five-story factory with approximately 138,000 square feet of production facilities, including one floor for assembling, one floor of office space, one floor for warehouse use and two floors of class 5,000 and 10,000 clean room facilities, totaling approximately 626,000 square feet of manufacturing space, when construction was completed in October 2002;

an additional factory, consisting of approximately 265,000 square feet of space, completing construction in December 2004 on vacant land of approximately 280,000 square feet (approximately 6.5 acres) bordering on our existing facilities that we purchased in July 1999; and

two additional blocks of dormitories, which we completed during 2005.

Currently, our principal manufacturing facilities in Shenzhen total approximately 557,835 square feet of manufacturing space, 87,460 square feet of offices, 350,585 square feet of dormitories and 41,530 square feet of cafeteria space, and include a full services recreational building of 33,825 square feet.

### **Wuxi, China**

We began construction of our new Wuxi manufacturing facility in January 2008 on approximately 470,000 square feet of land we acquired in December 2006. We completed construction in 2009 and by the end of 2009 we had installed machinery and equipment to manufacture FPC boards and FPC subassemblies, providing approximately 150,700 square feet of space to manufacture FPC Boards and FPC subassemblies. The Wuxi factory is first earmarked to manufacture FPC boards, followed by FPC subassemblies and then other electronic products assemblies such as LCD modules. We began manufacturing operations at this factory in 2010.

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We have acquired the land use rights in Wuxi; we also acquired similar rights to a second parcel of approximately 515,000 square feet of raw land situated approximately three miles from the first parcel we used for our manufacturing facility. In September 2010, we sold the second Wuxi parcel back to the Wuxi local government for approximately \$1.6 million, realizing a gain of approximately \$0.8 million on the second parcel.

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We have acquired the land use rights of another two parcels of raw land of approximately 476,553 square feet situated near the first parcel we used for our manufacturing facility. However, at December 31, 2012, the land use right certificates in respect of these lands in Wuxi with carrying amounts of \$4,833 has not been issued by the relevant government authority in the PRC.

### **Planned and Future Expansion**

Currently, we have two separate projects planned for expansion, both of which are dependent upon the prompt action and cooperation of local PRC governments.

The first project is the development of the Company's raw land in Guangming Hi-Tech Industrial Park, Shenzhen, PRC, approximately 30 minutes from its existing facilities in Gushu, Shenzhen and approximately one hour driving distance from Hong Kong. We acquired the land use rights to approximately 1.2 million square feet of land in 2005. We plan to develop this land into new manufacturing and support facilities to supplement our manufacturing capabilities in Shenzhen.

To accommodate Shenzhen government's city re-zoning plan, we plan to relocate our current production facility in Shenzhen City to Guangming Hi-Tech Industrial Park of approximately 1.2 million square feet (double the size of current facilities). We currently anticipate that it will take approximately three years to complete this relocation and expansion project.

Our second Wuxi phase II expansion project involves our acquisition of the land use rights of raw land adjacent to our manufacturing facility in Wuxi. On this, we plan to construct buildings that will support our operations such as a manufacturing plant, a canteen, a recreation centre, a research laboratory and testing and training centers. The land was split into 2 portions for acquisition as required by the local Wuxi government. On February 22, 2012, Wuxi Zastron-Flex entered into a Contract of Land Use Right Acquisition with the local Wuxi government for the first portion of the land of approximately 159,890 square feet for a consideration of approximately \$1.6 million (RMB 10.0 million). The second portion of the land of approximately 316,663 square feet was acquired on June 19, 2012 for a consideration of approximately \$3.3 million (RMB 20.5 million). However, as at December 31, 2012, the land use right certificates in respect of these raw land in Wuxi have not been issued by the relevant government authority in the PRC.

We currently expect to fund our planned and future expansion by using cash on hand and the excess cash generated from operations after reserving funds to maintain and replace machinery and equipment used at our existing facilities and for working capital. For information regarding our capital expenditures planned for 2013, please see ITEM 4. Information on the Company's Capital Expenditures on page 24 of this Report.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved Staff comments.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Except for statements of historical facts, this section contains forward-looking statements involving risks and uncertainties particularly statements found under the heading entitled "Trend Information". You can identify these forward-looking statements by words such as "aim", "anticipate", "believe", "continue", "estimate", "expect", "forecast", "intend", "plan", "project", "potential", "seek", "may", "might", "could", and other similar expressions. Forward-looking statements are not guarantees of our future performance or results and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in "Regarding Use of Forward Looking Statements" under the section of this Report entitled ITEM 3. Key Information - Risk Factors. This section should be read in conjunction with our consolidated financial statements included as ITEM 18. Financial Statements in this Report.

#### **Operating Results**

##### *Overview*

We are an electronics manufacturing and design services provider to a select group of the world's leading telecommunications and consumer electronic products OEMs. Through our EMS operations, we manufacture electronic components and subassemblies, including FPC boards, FPC subassemblies, LCD panels, LCD modules, TFT display modules, RF modules, DAB modules, internet radio subassemblies, CMOS imaging

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sensor modules and PCB subassemblies. These components, modules and subassemblies are used in numerous electronic products, including mobile phones, IP phones, notebook computers, digital cameras, electronic toys and handheld video game and learning devices. We also manufacture finished products, including entertainment devices, mobile phone accessories and educational products.

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We assist our OEM customers in the design and development of their products and furnish full turnkey manufacturing services that utilize advanced manufacturing processes and production technologies. Our services include software development services, firmware, and mechanical design, parts and components source and purchasing, product industrialization, and assembly into finished products, or electronic subassemblies with full quality testing and assurance. These services are value-added and assist us in obtaining new business but do not represent a material component of our revenue. We also provide early supplier involvement in design services to develop proprietary products specified by our OEM customers using their brand name.

### *Net Sales and Cost of Sales*

We derive our net sales principally from manufacturing services that we provide to OEMs of telecommunications and consumer electronic products. The market for the products we manufacture is generally characterized by declining unit prices and short product life cycles. Sales to our OEM customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments from our customers. We recognize sales, net of product returns and warranty costs, typically at the time of product shipment or, in some cases, as services are rendered.

Our production is typically based on purchase orders received from OEM customers. However, for certain customers, we will occasionally purchase raw materials based on such customers' rolling forecasts. Purchase orders are often supported by letters of credit or written confirmation from our OEM customers. We generally do not obtain firm, long-term commitments from our customers. Uncertain economic conditions and our general lack of long-term purchase commitments with our customers make it difficult for us to predict our revenues accurately over the longer term. Even in those cases where customers are contractually obligated to purchase products from us or to repurchase unused inventory from us, we may elect not to immediately enforce our contractual rights because of the long-term nature of our customer relationships and for other business reasons, and instead may negotiate accommodations with customers regarding particular situations.

### *Gross Margins*

It has been our strategy to focus on our new components subassembly business of high-resolution LCMs for smartphones in our Shenzhen manufacturing facility and high-resolution LCMs for tablets in our Wuxi manufacturing facility. These new products generally have relatively higher gross margins with stable expenses, and we have improved our gross margins by discontinuing certain sales orders that have had poor performance.

### *Impact of Foreign Currency Fluctuations*

We sell most of our products in U.S. dollars and pay our expenses in U.S. dollars, Japanese yen, Hong Kong dollars and RMB. Between 1994 and July 2005, the market and official RMB rates were unified and the value of the RMB was essentially pegged to the U.S. dollar and was relatively stable. On July 21, 2005, the People's Bank of China adjusted the exchange rate of the RMB to the U.S. dollar by linking the RMB to a basket of currencies and simultaneously setting the exchange rate of RMB to U.S. dollars, at 1:8.11, resulting in an approximate 1.9% appreciation in the value of the RMB against the U.S. dollars from July 2005 to the end of 2005. The following chart illustrates the fluctuations since the July 31, 2005 adjustment of the RMB to the U.S. dollar by showing the exchange ratio at the end of each year from December 31, 2005 to December 31, 2012.

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- (1) RMB to U.S. dollar data presented in this chart was derived from the historical currency converter available at <http://forex-history.net>.  
 (2) If the end of a year fell on a Saturday or Sunday, exchange rate information is provided as of the previous Friday.  
 The appreciation and depreciation of the RMB compared to the U.S. dollar increases and decreases our costs and expenses to the extent paid in RMB, respectively. Approximately 11%, 13% and 8% of our total costs and expenses and 5%, 7% and 2% of our material costs were in RMB during the years ended December 31, 2010, 2011 and 2012, respectively.

The following table shows the percentage fluctuation in the exchange rate of the RMB to the U.S. dollar during each of the past three years ending December 31:

<b>RMB Exchange Rate to US\$1.00 at December 31<sup>(1)</sup></b>					
<b>2010</b>		<b>2011</b>		<b>2012</b>	
<b>Exchange Rate</b>	<b>Percent</b>	<b>Exchange Rate</b>	<b>Percent</b>	<b>Exchange Rate</b>	<b>Percent</b>
<b>to US\$1.00</b>	<b>change<sup>(2)</sup></b>	<b>to US\$1.00</b>	<b>change<sup>(2)</sup></b>	<b>to US\$1.00</b>	<b>change<sup>(2)</sup></b>
6.602	3.30%	6.306	4.48%	6.231	1.19%

- (1) RMB to U.S. dollar data presented in this table were derived from the historical currency converter available at <http://forex-history.net>.  
 (2) From exchange rate at preceding December 31.  
 In mid-2008, the PRC government halted the appreciation of the RMB against the U.S. dollar as it did prior to July 21, 2005 because of concerns that a stronger RMB made PRC exports less competitive during a global recession. Accordingly, as shown in the above table, there was virtually no change in the exchange ratio of the RMB to the U.S. dollar during 2009. However, on June 19, 2010 China's central bank announced that it planned to introduce more flexibility in the management of its currency and since then the RMB has again begun to appreciate against the U.S. dollar, increasing approximately 3.30%, 4.48% and 1.19% during 2010, 2011 and 2012, respectively.

Similarly, the appreciation and depreciation of the Japanese yen as compared to the U.S. dollar increases and decreases our costs and expenses to the extent paid in yen, respectively. Approximately 23%, 4% and nil of our total costs and expenses and 28%, 5% and nil of our material costs were in Japanese yen during the years ended December 31, 2010, 2011 and 2012, respectively. However, we make slight sales denominated in Japanese yen, which mitigates the effects of fluctuations in the yen-U.S. dollar exchange ratio on our financial results. Approximately 28%, 6% and nil of our total net sales were made in Japanese yen during the years ended December 31, 2010, 2011 and 2012, respectively.

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The following table shows the percentage fluctuation in the exchange rate of the Japanese yen to the U.S. dollar during each of the past three years ended December 31:

2010		Yen Exchange Rate to US\$1.00 at December 31 <sup>(1)</sup> 2011		2012	
Exchange Rate to US\$1.00	Percent change <sup>(2)</sup>	Exchange Rate to US\$1.00	Percent change <sup>(2)</sup>	Exchange Rate to US\$1.00	Percent change <sup>(2)</sup>
81.313	12.03%	77.440	4.76%	86.107	-11.19%

(1) Yen to U.S. dollar data presented in this table were derived from the historical currency converter available at <http://forex-history.net>.

(2) From exchange rate at preceding December 31.

Fluctuations in the exchange rate of the Japanese yen to the U.S. dollar affect our gross margins and financial results, but the effect is mitigated by our yen denominated sales. For example, at December 31, 2011, the yen to U.S. dollar exchange rate appreciated by 4.76% compared to the rate at December 31, 2010. However at December 31, 2012, the yen to U.S. dollar exchange rate depreciated by 11.19% compared to the rate at December 31, 2011. These fluctuations resulted in an increase in our material costs and other costs and expenses paid in yen during 2010 and 2011. However, these fluctuations resulted in a decrease in our material costs and other costs and expenses paid in yen during 2012, although the fluctuation is very small and did not have a material impact on our financial results for 2012.

*Income Taxes*

Under current BVI law, our income is not subject to taxation. Subsidiaries operating in Hong Kong and China are subject to income taxes as described below.

Under current Cayman Islands law, NTEEP is not subject to any profit tax in the Cayman Islands because it has no business operations in the Cayman Islands. However, it may be subject to Hong Kong income taxes as described below since it is registered in Hong Kong.

Our subsidiaries operating in Hong Kong are subject to an income tax rate of 16.5% for the years ended 2010, 2011 and 2012. We calculate income tax provision by applying the income tax rate to our estimated taxable income earned in or derived from Hong Kong during the applicable period.

Efforts by the PRC government to increase tax revenues could result in decisions or interpretations of the tax laws by the China's tax authorities that are unfavorable to us and which increase our future tax liabilities, or deny us expected refunds. Changes in PRC tax laws or their interpretation or application may subject us to additional PRC taxation in the future. For example, following the implementation of the EIT Law effective January 1, 2008, the State Council announced the transition rules for preferential tax policies (Guofa [2007] No.39) of January 2, 2008, for eligible enterprises previously subject to a 15% tax rate or 24% tax rate. During the transitional period, the new enterprise income tax rates were/are:

Tax Year	Rate under EIT for enterprises previously subject to 15% tax rate	Rate under EIT for enterprises previously subject to 24% tax rate
2008	18%	25%
2009	20%	25%
2010	22%	25%
2011	24%	25%
2012	25%	25%



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Our effective tax rates were 27%, 174% and 20% for each of the three years ended December 31, 2010, 2011 and 2012, respectively. The significant factors that caused our effective tax rates to differ from the applicable statutory rates were as follows:

	Year Ended December 31,		
	2010	2011	2012
Applicable statutory tax rates	22%	24%	25%
Effect of difference between Hong Kong and PRC tax rates applied to Hong Kong income	1%	40%	
Effect of change in tax law	(1)%	(25)%	(4)%
Effect of tax exemption		273%	
Change in valuation allowance	(2)%	77%	5%
Deferred tax liability on withholding tax on undistributed profits of PRC subsidiaries	2%		
Effect of loss/income for which no income tax benefit/expense is receivable/payable	6%	(140)%	(2)%
Under (over) provision of income tax expense in prior years	1%	(245)%	
Increase in tax expense arising from temporary differences			(1)%
Withholding tax			(2)%
Other items	(2)%	170%	(1)%
Effective tax rates	27%	174%	20%

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

For more information on our significant accounting policies, refer to Note 2 Summary of Significant Accounting Policies of our consolidated financial statements.

**Allowance for Doubtful Accounts**

Our accounts receivable balance is recorded net of allowances for amounts not expected to be collected from customers. Because the Company's accounts receivable are typically unsecured, the Company periodically evaluates the collectability of accounts based on a combination of factors, including a particular customer's ability to pay as well as the age of the receivables. To evaluate a specific customer's ability to pay, the Company analyzes financial statements, payment history, third-party credit analysis reports and various information or disclosures by the customer or other publicly available information. In cases where the evidence suggests a customer may not be able to satisfy its obligation to the Company, we create a specific allowance that is determined to be appropriate for the perceived risk. If the financial condition of a customer deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

There have been no significant changes in our collection rates for our accounts receivable at December 31, 2012 as compared to December 31, 2011.

**Impairment of Long-lived Assets and Goodwill**

*Long-lived assets.* The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.



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The Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group). Next, the Company estimates the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology or obtains external appraisals from independent valuation firms. The undiscounted and discounted cash flow analyses are based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

In 2010 and 2011, the Company's stock price remained below the aggregate book value of its assets, however, the continuing improvement of the Company's results closed the gap on the difference. Management assessed and determined that there were no events or changes in circumstances to indicate that the carrying amounts of long-lived assets in Nam Tai's Shenzhen facilities were not recoverable and there were no impairment tests conducted with respect to those assets. In view of the continuous operating losses and negative cash flows in Nam Tai's Wuxi facilities, the Company assessed the impairment of its long-lived assets used in the Wuxi facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated that the carrying amounts of the Company's long-lived assets at December 31, 2010 and 2011 were less than the undiscounted cash flows.

In 2012, management assessed and determined that there were no events or changes in circumstances to indicate that the carrying amount of long-lived assets in Nam Tai's Shenzhen facilities were not recoverable and there were no impairment tests conducted with respect to those assets. In view of the fluctuations of future customer orders in Wuxi, the Company assessed the impairment of its long-lived assets used in the Wuxi facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated the carrying amounts of the company's long-lived assets at December 31, 2012 were less than the undiscounted cash flows.

From the forgoing, the Company concluded that the carrying amounts of Nam Tai's long-lived assets were not impaired at December 31, 2010, 2011 and 2012.

*Goodwill.* To assess goodwill for impairment, the Company performs an assessment of the carrying value of its reporting units at least on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of the Company's reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company would perform the second step in its assessment process and would recognize an impairment loss to earnings to the extent the carrying amount of the reporting unit's goodwill exceeds its implied fair value. The Company estimates the fair value of its reporting units using a discounted cash flow methodology. This valuation technique is based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rate, long-term growth rate and appropriate market comparables.

In performing the annual assessment of goodwill for impairment for the years ended December 31, 2010 and 2011, the Company assessed and determined that there was no impairment indication on goodwill in 2010, however, full impairment loss recognized in 2011. The carrying value of goodwill became zero since December 31, 2011.

The Company's assessments of impairment of long-lived assets, and its periodic review of the remaining useful lives of its long-lived assets are an integral part of the Company's ongoing strategic review of its business and operations. Therefore, future changes in the Company's strategy and other changes (including the discount rate and expected long-term growth rate) in the operations of the Company could impact the projected future operating results that are inherent in the Company's estimates of fair value, resulting in impairments in the future.

### **Accruals and Provisions for Loss Contingencies**

The Company makes provisions for all loss contingencies when information available prior to the issuance of the consolidated financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and the amount of loss can be reasonably estimated.

For provisions or accruals related to litigation, the Company makes provisions based on information from legal counsel and management's best estimation. The Company assesses the potential liability for the significant legal proceedings in accordance with FASB ASC 450 *Contingencies*. FASB ASC 450 requires a liability to be recorded if the contingency loss is probable and the amount of loss can be reasonably estimated. The actual resolution of the contingency may differ from the Company's estimates. If the contingency was settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency was settled for an amount that is less than our estimate, a future

credit to income would result.

**Table of Contents****Workforce Reduction**

In 2010, 2011 and 2012, we have incurred employee severance payment of approximately \$0.7 million \$0.2 million and \$3.5 million, respectively. For example, after the final evaluation on the viability of its FPC business based on its performance in the third quarter of 2012, the Company has decided to discontinue its FPC business by the end of March 2013, as this business has been generating losses since its initial production. Accordingly, the Company accrued \$1.6 million in lay-off costs for employee severance benefits of which \$0.1 million was paid in the last quarter of 2012. For a breakdown of these severance expenses by operating segment and additional information, see Note 20 of our Consolidated Financial Statements.

**Summary of Results**

The Company sustained a year-over-year revenue growth of 119% for 2012 when compared with 2011. The Company has identified significant revenue growth opportunities assembling telecommunication product LCD modules for Japanese multinational corporations (MNCs) that supply global customers. The Company is well-positioned to benefit from this expected trend in 2013.

The following table sets forth key operating results (in thousands, except per share data) for the years ended December 31, 2010, 2011 and 2012:

	Year Ended December 31,			% increase/(decrease)	
	2010	2011	2012	2011 vs 2010	2012 vs 2011
Net sales	\$ 448,313	\$ 525,077	\$ 1,147,923	17.1%	118.6%
Gross profit	\$ 38,996	\$ 19,252	\$ 105,777	(50.6)%	449.4%
Income (loss) from operations	\$ 8,199	\$ (11,354)	\$ 73,307	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Income (loss) from continuing business	\$ 9,866	\$ (414)	\$ 67,615	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Income (loss) from discontinued business	\$ 5,140	\$ 919	\$ (694)	(82.1)%	n/a <sup>(1)</sup>
Consolidated net income	\$ 15,006	\$ 505	\$ 66,921	(96.6)%	13,151.7%
Basic earnings (loss) per share from continuing business	\$ 0.22	\$ (0.01)	\$ 1.51	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Basic earnings (loss) per share from discontinued business	\$ 0.11	\$ 0.02	\$ (0.02)	(81.8)%	n/a <sup>(1)</sup>
Basic earnings per share	\$ 0.33	\$ 0.01	\$ 1.49	(97.0)%	14,800.0%
Diluted earnings (loss) per share from continuing business	\$ 0.22	\$ (0.01)	\$ 1.49	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Diluted earnings (loss) per share from discontinued business	\$ 0.11	\$ 0.02	\$ (0.01)	(81.8)%	n/a <sup>(1)</sup>
Diluted earnings per share	\$ 0.33	\$ 0.01	\$ 1.48	(97.0)%	14,700.0%

(1) Percentage change is presented as n/a if either of the two periods contains a loss.

**Key Performance Indicators**

The following tables set forth, for each of the quarters in the two year period ended December 31, 2012, certain of management's key financial performance indicators that management utilizes to assess the Company's operating results. The first table presents the results sequentially by quarter and the second table presents the results in quarterly comparisons by year.

Days in:	2011				2012			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Sales cycle <sup>(1)</sup>	9	10	7	11	16	0	3	2
Inventory turnover <sup>(2)</sup>	15	21	17	19	35	41	47	19
Accounts receivable <sup>(3)</sup>	48	42	39	46	50	68	63	49
Accounts payable <sup>(4)</sup>	54	53	49	54	69	109	107	66

Days in	March 31		June 30		September 30		December 31	
	2011	2012	2011	2012	2011	2012	2011	2012
Sales cycle <sup>(1)</sup>	9	16	10	0	7	3	11	2

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Inventory turnover <sup>(2)</sup>	15	35	21	41	17	47	19	19
Accounts receivable <sup>(3)</sup>	48	50	42	68	39	63	46	49
Accounts payable <sup>(4)</sup>	54	69	53	109	49	107	54	66

- (1) Sales cycle is calculated as the sum of days in accounts receivable and days in inventory, less the days in accounts payable.
- (2) Inventory turnover is calculated as the ratio of inventory, net, at period end divided by cumulative year to date average daily net cost of sales and multiplied by the cumulative number of days.
- (3) Days in accounts receivable is calculated as the ratio of accounts receivable, net, at period end divided by cumulative year to date average daily net sales and multiplied by the cumulative number of days.
- (4) Days in accounts payable is calculated as the ratio of accounts payable, net, at period end divided by cumulative year to date average daily net cost of sales and multiplied by the cumulative number of days.

**Table of Contents****Results of Operations**

The following table presents selected consolidated financial information stated as a percentage of net sales for the years ended December 31, 2010, 2011 and 2012.

	Year Ended December 31,		
	2010	2011	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	(91.3)%	(96.3)%	(90.8)%
Gross profit	8.7%	3.7%	9.2%
General and administrative expenses <sup>(1)</sup>	(5.0)%	(4.1)%	(2.5)%
Selling expenses	(0.8)%	(0.7)%	(0.2)%
Research and development expenses	(1.1)%	(0.4)%	(0.1)%
Impairment loss on goodwill		(0.6)%	
Income (loss) from operations	1.8%	(2.1)%	6.4%
Other income, net	0.9%	1.7%	0.9%
Interest income	0.3%	0.5%	0.2%
Interest expense			(0.1)%
Income before income tax	3.0%	0.1%	7.4%
Income tax expenses	(0.8)%	(0.2)%	(1.5)%
Income (loss) from continuing business	2.2%	(0.1)%	5.9%
Income (loss) from discontinued business	1.1%	0.2%	(0.1)%
Net income attributable to Nam Tai shareholders	3.3%	0.1%	5.8%

(1) General and administrative expenses include employee severance benefits of \$0.7 million, \$0.2 million and \$3.5 million for the years ended December 31, 2010, 2011 and 2012, respectively.

*Year Ended December 31, 2012 Compared to Year Ended December 31, 2011*

*Net Sales.* Our net sales increased by 118.6% to \$1.1 billion for 2012, up from \$525.1 million in 2011. Sales of the TCA segment and the FPC segment increased by 119.6% and 86.3%, respectively. This significant revenue increase was attributable to the commencement of the production of high-resolution LCMs for tablets at our Wuxi manufacturing facility in June 2012 and the beginning of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facility in September 2012.

The distribution of revenues across our reportable segments has fluctuated, and we expect it to continue to fluctuate, as a result of numerous factors, including but not limited to, increased business from new and existing customers, fluctuations in customer demand resulting from the economic recovery or otherwise and seasonality. The following table sets forth our net sales during the years ended December 31, 2011 and 2012 by reportable segment expressed as a dollar amount and as percentage of total net sales and shows the percentage difference in net sales by segment and in total between 2011 and 2012.

	Year ended December 31,				
	2011		2012		2012 vs. 2011
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	Percent

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TCA	\$ 509,124	97%	\$ 1,118,196	97%	119.6%
FPC	\$ 15,953	3%	\$ 29,727	3%	86.3%
<b>Total net sales from continuing business</b>	<b>\$ 525,077</b>	<b>100%</b>	<b>\$ 1,147,923</b>	<b>100%</b>	<b>118.6%</b>

In the TCA segment, overall sales increased by 119.6%. This was driven primarily by an increase of 180.5% or \$680.7 million, in sales of LCD modules. However, the increase was partially offset by a decrease of 54.3% or \$71.7 million in the sales of other products.

In the FPC segment, net sales increased by 86.3%. This was driven primarily by an increase of 86.3%, or \$13.8 million, in sales of FPC boards and FPC subassemblies.



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*Gross Profit.* In terms of dollar value, gross profit for 2012 increased by \$86.5 million compared to 2011. Gross margin increased to 9.2% of net sales in 2012 from 3.7% of net sales in 2011 mainly due to two factors. First, gross margin increased because our sales increased significantly by 118.6% as a result of the commencement of the production of high-resolution LCMs for tablets at our Wuxi manufacturing facility in June 2012 and the beginning of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facility in September 2012, while our overall overhead costs remained stable. Second, we changed our product mix by discontinuing certain sales orders that had poor performance.

*General and Administrative Expenses.* General and administrative expenses increased to \$28.4 million, but decreased to 2.5% of net sales, in 2012, from \$21.4 million or 4.1% of net sales in 2011. The \$7.0 million increase was mainly attributable to increases of \$3.3 million of employee severance benefits and \$1.9 million of salaries and benefit.

*Selling Expenses.* Selling expenses in 2012 decreased to \$2.7 million from \$3.9 million in 2011 accounting for 0.2% and 0.7% of net sales for 2012 and 2011, respectively. The \$1.2 million decrease was mainly attributable to the reduction in headcount of our marketing department.

*Research and Development Expenses.* Research and development expenses in 2012 decreased to \$1.4 million from \$2.3 million in 2011 accounting for 0.1% and 0.4% of net sales for 2012 and 2011, respectively. The decrease was attributable to the reduction in headcount of the research and development department.

*Other Income, Net.* During 2012, our other income was \$9.8 million compared to \$9.2 million in 2011.

*Interest Income.* Interest income was \$2.1 million, which decreased by \$0.6 million from \$2.7 million in 2011. The decrease was primarily the result of bank deposit interest rates of 2012 was lower than 2011.

*Income Tax Expenses.* Income tax expense represented income tax provision of \$13.6 million (2011: \$3.7 million) and deferred tax expenses of \$3.7 million (2011: deferred tax credit of \$2.7 million) recognized during the year. The increase of income tax expenses was attributable to the increase of income before income tax and decrease of the tax losses in Wuxi.

*Income (loss) from continuing business.* Income from continuing business increased to \$67.6 million in 2012 from net loss of \$0.4 million in 2011 as result of the foregoing.

*Income (loss) from discontinued business.* Net loss from discontinued business amounted to \$0.7 million in 2012 (2011: net income of \$0.9 million). After the final evaluation on the viability of its LCDP business based on its performance in the first quarter of 2012, the Company has decided to exit its LCDP business which products LCD modules by the end of March 2012. The operation of this LCDP business ceased in December 2012.

The following table sets forth, for the years indicated, net income (loss) by reportable segment expressed as a dollar amount and as a percentage of total net income.

	Year ended December 31,				
	2011		2012		2012 vs. 2011
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	Percent
TCA	\$ 17,465	(4,218.6)%	\$ 75,723	112.0%	333.6%
FPC	\$ (14,022)	3,387.0%	\$ (6,835)	(10.1)%	n/a <sup>(1)</sup>
Corporate	\$ (3,857)	931.6%	\$ (1,273)	(1.9)%	n/a <sup>(1)</sup>
Net (loss) income from continuing business	\$ (414)	100.0%	\$ 67,615	100.0%	n/a <sup>(1)</sup>

(1) Percentage change is presented as n/a if either of the two periods contains a loss.

In the TCA segment, net income was \$75.7 million in 2012 compared to net income of \$17.5 million in 2011. This increase was principally due to a significant increase in sales by 119.6% as a result of the ramp up of the production of high-resolution LCMs for tablets at our Wuxi facility in June 2012 and the commencement of mass production of high-resolution LCMs for smartphones at our Shenzhen facility in September 2012,

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while the overall overhead costs remained stable.

Net loss in the FPC segment decreased to \$6.8 million from \$14.0 million mainly because of an increase in sales of 86.3%.

Net income in the corporate segment is mainly represented by corporate expenses which were not allocated to segments.

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*Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*

*Net Sales.* Our net sales increased by 17.1% to \$525.1 million for 2011, up from \$448.3 million in 2010. Sales of the TCA segment and the FPC segment increased by 14.5% and 334.6%, respectively.

The distribution of revenues across our reportable segments has fluctuated, and we expect it to continue to fluctuate, as a result of numerous factors, including but not limited to, increased business from new and existing customers, fluctuations in customer demand resulting from the economic recovery or otherwise and seasonality. The following table sets forth our net sales during the years ended December 31, 2010 and 2011 by reportable segment expressed as a dollar amount and as percentage of total net sales and shows the percentage difference in net sales by segment and in total between 2010 and 2011.

	Year ended December 31,				
	2010		2011		2011 vs. 2010
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	Percent
TCA	\$ 444,642	99%	\$ 509,124	97%	14.5%
FPC	\$ 3,671	1%	\$ 15,953	3%	334.6%
Total net sales from continuing business	\$ 448,313	100%	\$ 525,077	100%	17.1%

In the TCA segment, overall sales increased by 14.5%. This was driven primarily by the increase of 52.7% or \$130.2 million in sales of LCD modules.

In the FPC segment, net sales increased by 334.6%. This was driven primarily by an increase of 334.6% or \$12.3 million in sales of FPC boards and sub-assemblies.

*Gross Profit.* In terms of dollar value, gross profit for 2011 decreased by \$19.7 million compared to 2010. Gross margin decreased to 3.7% of net sales in 2011 from 8.7% of net sales in 2010 mainly due to three factors. First, our gross margin decreased because we changed our product mix. We discontinued production of box-built products with higher gross margins, such as Bluetooth headsets and calculators. Consistent with our long-term business strategy, we narrowed our focus to higher-growth, lower-margin business opportunities, such as key component assembly for telecommunication products. Second, our labor costs continue to increase due to year on year wage inflation in China. Third, launch costs for new projects and operating losses at our facility in Wuxi continued to accrue although our Wuxi facility was completed in 2009 and began manufacturing pilot runs of FPC boards and moving to large scale manufacturing in 2010.

*General and Administrative Expenses.* General and administrative expenses decreased to \$21.4 million, or 4.1% of net sales, in 2011, from \$22.4 million or 5.0% of net sales in 2010. The \$1.0 million decrease was mainly attributable to a decrease in incentive bonus.

*Selling Expenses.* Selling expenses in 2011 increased slightly to \$3.9 million from \$3.7 million in 2010 accounting for 0.7% and 0.8% of net sales for 2011 and 2010, respectively.

*Research and Development Expenses.* Research and development expenses in 2011 decreased to \$2.3 million from \$4.7 million in 2010 accounting for 0.4% and 1.1% of net sales for 2011 and 2010, respectively, due to CECF business decline.

*Other Income, Net.* During 2011, we had other income of \$9.2 million, comprised primarily of a \$7.6 million (2010: \$2.3 million) foreign currency exchange gain, compared to \$3.9 million in 2010. The increase was mainly attributable to the appreciation of the renminbi against the U.S. dollar.

*Interest Income.* Interest income was \$2.7 million, which increased by \$1.2 million from \$1.5 million in 2010. The increase was primarily the result of greater RMB cash balances that were deposited in banks with higher interest rates than were available in 2010.

*Income Tax Expenses.* Income tax expenses represented income tax provision of \$3.7 million (2010: \$8.1 million) and deferred tax credit of \$2.7 million (2010: \$4.5 million) recognized during the year, which mainly arose from tax losses from our operation in Wuxi. However, the actual utilization of this deferred tax asset depends on future profit streams of our businesses.

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*Net Income.* Net income decreased to net loss of \$0.4 million in 2011 from net income of \$9.9 million in 2010 as result of the discontinued production of box-built products with higher gross margins, such as Bluetooth headsets and calculators, and our focus to higher-growth, lower-margin business opportunities, such as key component assembly for telecommunication products.

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The following table sets forth, for the years indicated, net income (loss) by reportable segment expressed as a dollar amount and as a percentage of total net income.

	Year ended December 31,				2011 vs. 2010
	2010		2011		
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	
TCA	\$ 26,876	272.4%	\$ 17,465	(4,218.6)%	(35.0)%
FPC	\$ (11,430)	(115.9)%	\$ (14,022)	3,387.0%	n/a <sup>(1)</sup>
Corporate	\$ (5,580)	(56.5)%	\$ (3,857)	931.6%	n/a <sup>(1)</sup>
Net income (loss) from continuing business	\$ 9,866	100.0%	\$ (414)	(100.0)%	n/a <sup>(1)</sup>

(1) Percentage change is presented as n/a if either of the two periods contains a loss.

In the TCA segment, net income was \$17.5 million in 2011 compared to \$26.9 million in 2010. The decrease mainly resulted from the discontinued production of box-built products with higher gross margins, such as Bluetooth headsets and calculators, and our focus to higher-growth, lower-margin business opportunities, such as key component assembly for telecommunication products.

Net loss in the FPC segment increased to \$14.0 million from \$11.4 million, mainly because FPC segment were still burdened with launch costs for new projects in our facility in Wuxi. Such increase in expenses was partially offset by the increase in sales.

Net income in the corporate segment is mainly represented by corporate expenses which were not allocated to segments.

**Liquidity and Capital Resources***Liquidity*

We have financed our operations and met our cash flow obligations primarily from internally generated funds, the proceeds from the sale of land we owned in Hong Kong and PRC, and by selling our common stock.

We do not have other off-balance sheet financing arrangements, such as securitized receivables or access to assets through special purpose entities, which could act as sources of liquidity. Our primary uses of cash during the past three years have been to fund expansions of and upgrades to our manufacturing facilities, to acquire the noncontrolling interests in NTEEP from its publicly traded minority shareholders and to fund increases in inventory and accounts receivable in years when our sales, inventories or accounts receivables have increased.

We had net working capital of \$181.4 million at December 31, 2012 compared to net working capital of \$163.1 million at December 31, 2011. The principal components of our working capital at December 31, 2012 and December 31, 2011 consisted of cash and cash equivalents, accounts receivables, and inventories. The increases in these components at December 31, 2012 from levels at December 31, 2011, was primarily resulted from the increase in cash and time deposit by \$54.3 million in 2012.

We expect our working capital requirements and capital expenditures to increase when we begin expanding our operations through the construction of new factories and machinery purchases. Future liquidity needs will also depend on fluctuations in levels of inventory and shipments, changes in customer order volumes and timing of expenditures for new equipment.

We currently believe that during 2013, our capital expenditures will be approximately \$6.1 million. For additional information concerning our planned capital expenditures during 2013, please see ITEM 4. Information on the Company Capital Expenditures on page 24 of this Report. We believe that our level of internal resources, which include cash and cash equivalents, fixed deposits maturing over three months, accounts receivable, and available borrowings under our credit facilities, will be adequate to fund these capital expenditures and our working capital requirements for at least the next twelve months. Should we desire to pursue acquisition opportunities or undertake additional significant expansion activities, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facilities or access public or private debt and equity markets. We cannot assure you that we would be successful in raising additional debt

or equity on terms that we would consider acceptable or at all.

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The following table sets forth, for the years ended December 31, 2010, 2011 and 2012, selected consolidated cash flow information (\$ in thousands):

	Year Ended December 31,		
	2010	2011	2012
Net cash provided by (used in) operating activities	\$ 34,893	\$ (5,320)	\$ 109,771
Net cash provided by (used in) investing activities	\$ 8,217	\$ (99,410)	\$ (66,928)
Net cash used in financing activities	\$	\$ (8,961)	\$ (4,163)
 Net increase (decrease) in cash and cash equivalents	 \$ 43,110	 \$ (113,691)	 \$ 38,680

Net cash provided by operating activities for 2012 was \$109.8 million. This consisted primarily of a \$66.9 million consolidated net income, and \$26.1 million of non-cash item depreciation and amortization, an increase in accounts payable of \$104.4 million and an increase in accrued expenses and other payables of \$15.3 million and a decrease in net deferred tax asset of \$5.5 million. Net cash provided by operating activities was partially offset by an increase in accounts receivable of \$81.2 million, an increase in inventories of \$23.8 million, an increase in prepaid expenses and other receivables of \$10.0 million.

Net cash used in investing activities was \$66.9 million for 2012, consisting primarily \$58.4 million in capital expenditures, which were used mainly to expand our manufacturing capacity and purchase equipment and land use right for our new manufacturing site in Wuxi and new project in Shenzhen and increase of fixed deposits of \$15.0 million maturing over three months.

Net cash used in financing activities was \$4.2 million for 2012, representing a dividend payment to shareholders of the Company of \$12.5 million. Net cash used in financing activities was partially offset by an increase in bank loans of \$4.8 million and an increase in trust receipt loans of \$3.6 million.

Net cash used in operating activities for 2011 was \$5.3 million. This consisted primarily of an increase in prepaid expenses and other receivables of \$14.2 million, an increase in deferred tax asset of \$2.5 million and a decrease in income tax payable of \$4.2 million. Net cash used in operating activities was partially offset by a \$0.5 million consolidated net income and \$16.1 million of non-cash depreciation and amortization.

Net cash used in investing activities was \$99.4 million for 2011, consisting primarily \$59.9 million in capital expenditures, which were used mainly to expand our manufacturing capacity and purchase equipment for our new manufacturing site in Wuxi, increase in fixed deposits of \$34.8 million maturing over three months and deposits paid for property, plant and equipment of \$4.1 million.

Net cash used in financing activities was \$9.0 million for 2011, representing a dividend payment to shareholders of the Company.

Net cash provided by operating activities for 2010 was \$34.9 million. This consisted primarily of a \$15.0 million consolidated net income, \$24.5 million of non-cash item depreciation and amortization, an increase in accounts payable of \$25.9 million and an increase in accrued expenses and other payables of \$4.4 million. Net cash provided by operating activities in 2010 was partially offset by an increase in accounts receivable of \$16.3 million, an increase in inventories of \$13.0 million, an increase in prepaid expenses and other receivables of \$2.4 million and increase in net deferred tax asset of \$2.6 million.

Net cash provided by investing activities was \$8.2 million for 2010 consisting primarily of a fixed deposit of \$12.9 million maturing over three months which matured in 2010 and \$2.0 million in proceeds from the disposal of property, plant and equipment and land use rights, offset by capital expenditures of \$6.3 million, which were used mainly to expand our manufacturing capacity and purchase equipment for our new manufacturing site in Wuxi, and deposits paid for property, plant and equipment of \$0.4 million.

There is no net cash used in or provided by financing activities during 2010.

For the years ended December 31, 2011 and 2012, we had no guaranteed loans.

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We had no material transactions, arrangements or relationships with unconsolidated affiliated entities that are reasonably likely to affect our liquidity.

*Capital Resources*

As of December 31, 2012, we had \$157.8 million in cash and cash equivalents and short-term deposits and \$49.8 million of fixed deposits maturing over three months, compared with \$118.5 million in cash and cash equivalents and short-term deposits and \$34.8 million of fixed deposits maturing over three months, as of December 31, 2011. We had short-term notes payable of \$4.3 million, short-term bank borrowings of \$4.8 million and trust receipt loans of \$3.6 million as of December 31, 2012.

As of December 31, 2012, we had in place \$176.3 million of general banking facilities with financial institutions. The maturity of these facilities is generally up to 180 days. These banking facilities (which are not considered guaranteed loans) are guaranteed by NTISZ and cross guarantee given by Zastron Shenzhen and Wuxi Zastron-Flex and there is an undertaking not to pledge any assets to any other banks without the prior consent of our bankers. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. Our facilities permit us to obtain letters of credit, import facilities, treasury products, trust receipt financing, revolving loans and overdrafts. No significant commitment fees are required to be paid for the banking facilities. These facilities are subject to annual review and approval. As of December 31, 2012, we had available unused credit facilities of \$161.8 million.

As of December 31 2012, we had short-term bank borrowings of \$4.8 million and short term trust receipt loans of \$3.6 million.

As of December 31 2012, we had no long-term bank loans.

Our contractual obligations, including capital expenditure, purchase obligations and future minimum lease payments under non-cancelable operating lease arrangements as of December 31, 2012 are summarized below. We do not participate in, or secure financing for, any unconsolidated limited purpose entities. Non-cancelable purchase commitments do not typically extend beyond the normal lead-time of several weeks at most. Purchase orders beyond this time frame are typically cancelable.

Contractual Obligations	Total	Payments (in thousands) due by period			
		2013	2014 to 2015	2016 to 2017	After 2017
Long-term debt obligations	\$	\$	\$	\$	\$
Capital (finance) lease obligations					
Operating lease obligations	42	42			
Purchase obligations:					
Capital commitments	1,631	1,631			
Other purchase obligations	99,466	99,466			
Other long-term liabilities reflected on the Company's balance sheet under US GAAP					
Total	\$ 101,139	\$ 101,139	\$	\$	\$

With the exception of a requirement for PRC subsidiaries that about 11% of profits after tax be reserved for future developments and staff welfare, there are no restrictions on the payment of dividends from the PRC once all taxes are paid and assessed and losses, if any, from previous years have been made good.

**Impact of Inflation**

Historically, inflation in China, where virtually all of our assets and employees are located, has had little impact on our business because we have been able to increase the price of our services and products to keep pace with inflation. However, in addition to the appreciation of the renminbi to the U.S. dollar, inflation in China has recently affected us significantly. China's consumer price index, the broadest measure of inflation, rose 2.0% in January 2013 from the level in January 2012. The wages we pay our employees also increased substantially in 2012. At December 31, 2012, the average wage level of our direct labor workforce was approximately 13.5% higher than that at December 31, 2011. China's overall economy and the average wage in the PRC are expected to continue to grow.



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Continuing inflation and material increases in the cost of labor could diminish our competitive advantage. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products and services, our profitability and results of operations could be materially and adversely affected.

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### **Recent Changes in Accounting Standards**

In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Asset and Liabilities*, which clarifies the scope of the offsetting disclosures of ASU 2011-11. Both ASUs are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. The Company believes that its adoption of these ASUs will not have any material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which provides companies an option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, as a result of the qualitative assessment, it is determined that it is not more likely than not that the indefinite-lived intangible assets is impaired, then the company is not required to take further action. ASU No. 2012-02 will be effective for the Company for impairment tests of indefinite-lived intangible assets performed in the fiscal year beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance will have no impact on the Company's consolidated financial position, results of operations and cash flows.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*, which makes certain technical corrections and conforming fair value amendments to the FASB Accounting Standards Codification. The amendments affect various codification topics and apply to all reporting entities within the scope of those topics. These provisions of the amendment are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The Company believes that its adoption of ASU 2012-04 will not have any material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The Company believes that its adoption of ASU 2013-02 will not have any material impact on its consolidated financial statements.

### **Research and Development**

Our research and development expenditures were mainly comprised of salaries and benefits paid to our research and development personnel and primarily for the development of advanced manufacturing techniques to produce complex products on a mass scale and at a low cost. We expense our research and development costs as incurred. For the years ended December 31, 2010, 2011 and 2012 we incurred research and development expenses of approximately \$4.7 million, \$2.3 million and \$1.4 million, respectively.

### **Trend Information**

In 2013, we continued to focus our business on manufacturing higher volume LCD modules geared toward applications in market segments that management perceives to be strong, such as telecommunications and automotive. In order to meet the demand from customers, we are considering significant expansion of production capacity for LCD modules and assemblies for smartphones and tablet applications in upcoming years. For the FPC business, after the final evaluation on the viability and based on its performance in the third quarter of 2012, we have decided to discontinue our FPC business by the end of March 2013, as this business has been generating losses since its initial production.

### **Off-balance Sheet Arrangements**

For 2012, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



**Table of Contents****ITEM 6. DIRECTORS AND SENIOR MANAGEMENT****Directors and Senior Managers**

Our current directors and senior management, and their ages as of March 1, 2013, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with Nam Tai or its Subsidiaries</b>
M. K. Koo	68	Nam Tai's Executive Chairman, Chief Financial Officer
Wang Lu Ping	57	Chief Executive Officer of Nam Tai
Liu Pi Hao	49	Vice Chief Executive Officer of Shenzhen Manufacturing
Wang Shi Ping	59	Senior Operations President of Shenzhen Manufacturing
Peter R. Kellogg	70	Member of the Board of Directors
Dr. Wing Yan (William) Lo	52	Member of the Board of Directors
Charles Chu	56	Member of the Board of Directors
Mark Waslen	52	Member of the Board of Directors

*M. K. Koo. (Year of Birth: 1944).* Mr. Koo, a founder of the Nam Tai Group, serves as Executive Chairman and Chief Financial Officer of Nam Tai. Mr. Koo has served Nam Tai in various senior executive and management positions since our inception, including responsibilities for corporate strategy, finance and administration. Mr. Koo received his Bachelor of Laws degree from National Taiwan University in 1970.

*Wang Lu Ping. (Year of Birth: 1956).* Mr. Wang, the Chief Executive Officer of Nam Tai. He has rejoined Nam Tai as Operations President of its manufacturing plant in Wuxi since September 2011. From 1997 to 2004, Mr. Wang was employed by Nam Tai in various capacities, including Engineering Manager, Assistant General Manager and Managing Director. From 2006 to 2009, Mr. Wang was re-employed as Chief Operating Officer and Chief Executive Officer of Zastron Electronic (Shenzhen) Co., Ltd. Before joining Nam Tai in 1997, Mr. Wang held several management positions in various companies in Taiwan and Malaysia. Mr. Wang graduated from Chinese Military Academy in Taiwan. He has over 28 years of managing experience in the field of electronics industry.

*Liu Pi Hao. (Year of Birth: 1963).* Mr. Liu, the Vice Chief Executive Officer of Shenzhen Manufacturing. He joined Nam Tai as a Production Assistant General Manager in Operations Department on November 15, 1999. During his 13 years, he served Nam Tai in various capacities, including Assistant General Manager of R&D, Assistant General Manager of Quality Department, Director & Vice General Manager of the GM Office, and Vice President of the Purchasing Department.

*Wang Shi Ping. (Year of Birth: 1954).* Mr. Wang is the Senior Operations President of Shenzhen Manufacturing. He joined Nam Tai as an engineer in the Engineering Department on June 10, 1991. During his 21 years service to Nam Tai, he sequentially served as the Manager of the Engineering Department, the Assistant Manager of the Production Department, the Vice General Manager of the General Management ( GM ) Office, the Directing Vice General Manager of the GM Office, the Operations Director of the GM Office, the Vice Operations President of the GM Office, and the Operations President of the Operations Department.

*Peter R. Kellogg. (Year of Birth: 1942).* Mr. Kellogg has served on our Board of Directors since June 2000. Mr. Kellogg was a Senior Managing Director of Spear, Leeds & Kellogg, a registered broker-dealer in the United States and a specialist firm on the NYSE until the firm merged with Goldman Sachs in 2000. Mr. Kellogg serves on our Compensation Committee and Nominating/Corporate Governance Committee. Mr. Kellogg is also a member of the Board of the Ziegler Companies and the U.S. Ski Team.

*Dr. Wing Yan (William) Lo, (Year of Birth: 1961).* Dr. Lo has served on our Board of Directors since July 8, 2003. From 1998 to 1999, Dr. Lo served as the Chief Executive Officer of Citibank's Global Consumer Banking business for Hong Kong. Prior to joining Citibank, Dr. Lo was the founding Managing Director of Hongkong Telecom IMS Ltd. From 2002 to 2006, Dr. Lo served as Executive Director and Vice President of China Unicom Ltd., a telecommunications operator in China that is listed on both the Hong Kong and New York Stock Exchanges. Until mid-2009, Dr. Lo served as Vice Chairman and Managing Director of I.T. Limited, a Hong Kong retailer in the fashion apparel market with stores in the PRC, Taiwan, Macao, Thailand and Middle East, listed on the Main Board of the Hong Kong Stock Exchange. Dr. Lo is currently the Vice-Chairman of South China Media Group, the largest publication company in Hong Kong on magazine publication and print media. As an industry leader, SCM publishes monthly and weekly magazines of diversified interests ranging from fashion, lifestyle, entertainment, current affairs, finance to family with titles such as Jessica, Capital, CarPlus, Marie Claire, Esquire etc. Dr. Lo holds an M. Phil. and Ph.D. degrees from Cambridge University, England. He also serves as an Adjunct Professor of The School of Business of Hong Kong Baptist University. He is also a governor of an independent school, the ISF Academy, as well as the Chairman of Junior Achievement Hong Kong. In 1998, Dr. Lo was appointed as a Hong Kong Justice of the Peace. In 2003, he was appointed as a Committee Member of Shantou People's Political Consultative Conference. Dr. Lo currently serves on the Nominating/Corporate Governance Committee acting as the Chairman and also serves on our Audit Committee and Compensation Committee.

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*Charles Chu. (Year of Birth: 1957).* Mr. Chu originally served as a Director of Nam Tai from November 1987 to September 1989. He was reappointed in November 1992 and has since served on our Board of Directors. Since July 1988, Mr. Chu has been engaged in the private practice of law in Hong Kong. Mr. Chu serves as Chairman of our Compensation Committee and on our Audit Committee and Nominating/Corporate Governance Committee. Mr. Chu received his Bachelor's of Laws degree and Post-Graduate Certificate of Law from the University of Hong Kong in 1980 and 1981, respectively.

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*Mark Waslen. (Year of Birth: 1960).* Mr. Waslen has served on our Board of Directors since July 2003 and serves as Chairman of our Audit Committee and on our Compensation Committee and Nominating/Corporate Governance Committee. From 1990 to 1995 and from June 1998 to October 1999, Mr. Waslen was employed by Nam Tai in various capacities, including Financial Controller, Secretary and Treasurer. Since June 1, 2010, Mr. Waslen is employed as a Partner with MNP LLP, a Canadian Chartered Accountant and business advisory firm. From 2001 to 2010, Mr. Waslen was employed by Berris Mangan Chartered Accountants, an accounting firm located in Vancouver, BC. Prior to joining Berris Mangan, Mr. Waslen has been employed by various other accounting firms, including Peat Marwick Thorne and Deloitte & Touche. Mr. Waslen is a CFA, CA and a CPA and received a Bachelor's of Commerce (Accounting Major) from University of Saskatchewan in 1982.

No family relationship exists among any of our directors or members of our senior management and no arrangement or understanding exists between any of our major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management. Directors are elected each year at our annual meeting of shareholders or serve until their respective successors take office or until their death, resignation or removal. Members of senior management serve at the pleasure of the Board of Directors.

### **Compensation of Directors and Management**

#### *Compensation on an Aggregate Basis*

The aggregate compensation, including benefits in kind granted, during the year ended December 31, 2012 that we or any of our subsidiaries paid to all directors and senior management as a group for their services in all capacities to the Company or any subsidiary was approximately \$2.5 million. That total includes an aggregate of \$0.3 million in stock compensation expense for options granted to the Company's non-employee directors and senior management.

During the year ended December 31, 2012, we granted to our directors, under our stock option plan, options to purchase an aggregate of 60,000 of our common shares at an exercise price of \$5.34 per share. The exercise price of the shares covered by the options granted during 2012 was equal to the fair market value of our shares on the date of grant. The closing price of our common stock on the date of grant, June 6, 2012, was \$5.34, as reported on the NYSE. The options granted during 2012 expire on the third anniversary of their grant date in 2015.

During the year ended December 31, 2012, we granted to a director and management, under our stock option plans, options to purchase an aggregate of 600,000 of our common shares at an exercise price of \$6.66 per share and 831,000 of our common shares at an exercise price of \$5.63 per share. The exercise price of the shares covered by the options granted during 2012 was equal to the fair market value of our shares on the date of grant. The closing price of our common stock on the date of grant, February 10, 2012, was \$6.66 and April 27, 2012, was \$5.63 as reported on the NYSE. The options granted during 2012 expire on the third anniversary of their grant date till 2015.

We pay our directors \$4,000 per month for their services as directors, and \$1,000 per meeting attended in person and \$700 per meeting attended by telephone. In addition, we reimburse our directors for all reasonable expenses incurred in connection with their services as a director and member of a board committee.

Members of our senior management were eligible for annual cash bonuses based on their performance and that of the subsidiaries in which they are assigned for the relevant period. Senior management is entitled to share up to 15% of the operating income, after tax, from the subsidiary in which they are employed for the year. During 2012, senior management was entitled to 5% or 15%. In addition to cash incentives, members of our senior management are eligible to receive stock options from our Stock Option Plans. However the key management agrees to cancel the cash incentive bonus when they accept Employee Stock Option Plan. For 2012, the former Chief Executive Officer and Chief Financial Officer were each entitled to 20%, of the incentive pools and the balance is to be shared by other operational senior management of the Company per above.

According to the local laws and regulations of Shenzhen, China, prior to July 2006, we were required to contribute 8% to 9% of the stipulated salaries of our staff that worked in Shenzhen to retirement benefit schemes to fund retirement benefits for our employees. After July 2006, the applicable percentages were adjusted to 10% to 11%. In Wuxi, we are required to contribute 20% of our staff's salaries to help fund retirement benefits for our employees. Our principal obligation with respect to these retirement benefit schemes is to make the required contributions under the scheme. No forfeited contributions may be used by us to reduce the existing level of contributions.

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Since December 2000, we have enrolled all of our eligible employees located in Hong Kong into the Mandatory Provident Fund, or MPF, scheme, a formal system of retirement protection that is mandated by the government of Hong Kong and provides the framework for the establishment of a system of privately managed, employment-related MPF schemes to accrue financial benefits for members of the Hong Kong workforce when they retire. The MPF is available to all employees aged 18 to 64 and with at least 60 days of service at Nam Tai in Hong Kong or Macao. We contribute 5% of the employee's income. The maximum income for contribution purposes per employee is \$3,000 per month. Staff members are entitled to 100% of the Company's contributions, together with accrued returns, irrespective of their length of service with us, but the benefits are required by law to be preserved until the retirement age of 65 for employees in Hong Kong at the end of employment contracts.

The cost of our contributions to the staff retirement plans in Hong Kong and China amounted to approximately \$1.7 million, \$2.3 million and \$3.9 million for the years ended December 31, 2010, 2011 and 2012, respectively.

**Compensation on an Individual Basis\****Directors Compensation*

The following table presents the total compensation paid to each of our non-management directors during 2012:

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
Peter R. Kellogg	52,900	15,300		68,200
Charles Chu	58,200	15,300		73,500
Dr. Wing Yan (William) Lo	56,700	15,300		72,000
Mark Waslen	56,400	15,300		71,700

- (1) Consists of the aggregate dollar amount of all fees earned or paid in cash for services as a director, including annual retainer fees and meeting fees.
- (2) Consists of the US\$ amount of option grants that Nam Tai recognized for financial statement reporting purposes in accordance with FASB ASC 718.

\* Under the rules of the SEC, foreign private issuers like us are not required to disclose compensation paid to our directors or senior managers on an individual basis unless individual disclosure is required in the foreign private issuer's home country and is not otherwise publicly disclosed by the company. Although we are not required by our home country (the British Virgin Islands, the jurisdiction in which we are organized), we are voluntarily providing disclosure of compensation we paid to our directors and senior managers on an individual basis in this Report and plan to do so in our proxy statement for our 2013 Annual Meeting of Shareholders (even though we are not subject to the sections of the Securities Exchange Act of 1934 regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Securities Exchange Act of 1934 or disclosures required in a proxy statement in accordance with rules therefore promulgated under the Securities Exchange Act of 1934). See ITEM 3. Key Information of this Report under the heading "Risk Factors". Our status as a foreign private issuer in the United States exempts us from certain of the reporting requirements under the Securities Exchange Act of 1934 and corporate governance standards of the New York Stock Exchange, or NYSE, limiting the protections and information afforded to investors. By providing disclosures of compensation we pay to our directors and senior managers on an individual basis in this Report or in our proxy statement, we are not undertaking any duty, and investors and others reviewing this Report should not expect, that we will continue to make such disclosures in any future Reports or in our proxy statements as long as we are exempt from doing so under the Securities Exchange Act of 1934. *We reserve the right to discontinue doing so at any time without prior notice.* Further, although the disclosures of compensation we paid to our directors and senior managers on an individual basis that we have provided in this Report may, in certain respects, appear comparable to similar disclosures made by companies organized in the U.S. that are required to file Annual Reports on Form 10-K or proxy statements under Regulation 14A under the Securities Exchange Act of 1934, such disclosures that we have made in this Report do not necessarily comply with the applicable requirements therefore under Form 10-K or Regulation 14A and this Report does not contain all disclosures required by ITEM 11 of Form 10-K or ITEM 8 of Schedule 14A of Regulation 14A.

**Options Granted During the Year and Held by Directors, at December 31, 2012**

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Our policy is to grant to non-employee directors on an annual basis, upon their election to the Board of Director at the annual shareholders meeting, options to purchase 15,000 shares at an exercise price equal to 100% of the fair market value of the common shares on the date of grant. Accordingly, in June 2012, each of our non-employee directors was granted options to purchase 15,000 shares (a total of 60,000 shares for all of our non-employee directors) at an exercise price of \$5.34 and they are exercisable immediately. These options lapse three years from the date of grant.

### *Compensation on an Individual Basis Executive Officers*

The following table sets forth a summary of the compensation which we (including our subsidiaries) paid during 2012 to Mr. Koo and our three other highest paid executive officers during 2012 who were serving at December 31, 2012.



**Table of Contents****Summary Compensation Table**

Name and Principal Position	Year	Salary (\$) <sup>(1)</sup>	Other comp. and benefits (\$) <sup>(2)</sup>	Total (\$)
<b>Koo Ming Kown</b>	2012	850,528 <sup>(3)</sup>	607,756 <sup>(4)</sup>	1,458,284
<i>Nam Tai's Executive Chairman, Chief Financial Officer</i>	2011	851,625 <sup>(3)</sup>	318,287 <sup>(4)</sup>	1,169,912
	2010	212,915 <sup>(3)</sup>	236,079 <sup>(4)</sup>	448,994
<b>Wang Lu Ping<sup>(5)</sup></b>	2012	286,206	35,512	321,718
<i>Chief Executive Officer of Nam Tai</i>	2011	93,453	31,556	125,009
<b>Liu Pi Hao</b>	2012	172,042	21,575	193,617
<i>Vice Chief Executive Officer of Shenzhen Manufacturing</i>	2011	150,468	2,047	152,515
	2010	130,899	1,172	132,071
<b>Wang Shi Ping</b>	2012	184,946	16,278	201,224
<i>Senior Operations President of Shenzhen Manufacturing</i>	2011	170,460	41,187	211,647
	2010	147,120	188,607	335,727

- (1) Consists of the basic salary earned by the named executive officers during the year indicated. Cash compensation included in the table was paid to Nam Tai's senior executives in HK\$, RMB and Japanese yen ( JPY ), respectively and for purposes of the presentation in the above table have been converted into US\$ at a conversion rate \$1.00:HK\$7.76, \$1.00:RMB6.30 and \$1.00:JPY79.33 for 2012, \$1.00:HK\$7.75, \$1.00:RMB6.43 and \$1.00:JPY79.39 for 2011 and \$1.00:HK\$7.75, \$1.00:RMB6.77 and \$1.00:JPY89.08 for 2010, respectively.
- (2) To the extent applicable to the named individual, consists of amounts paid for housing, golf club membership fees, mandatory provident fund, life, medical, travel, social security, unemployment compensation, welfare and accident insurance premiums, bonus and fees for annual physical examination. The value of stock options is not included.
- (3) Mr. Koo was appointed as Nam Tai's Chief Financial Officer effective March 1, 2009. Prior to March 1, 2009, Mr. Koo served on Nam Tai's Board of Directors as Non-executive Chairman of the Board and since March 1, 2009 has served as Executive Chairman of the Board. Mr. Koo's salary for serving as Nam Tai's Chief Financial Officer during 2010, 2011 and 2012 was \$1.00 per month. Effective October 1, 2010, in addition to his duties as Nam Tai's Chief Financial Officer, Mr. Koo was appointed as President of NTEEP, his salary for serving as Nam Tai's Chief Financial Officer was confirmed at \$1.00 per month and his salary for serving as President of NTEEP at approximately \$0.9 million annually. See ITEM 7. Major Shareholders and Related Party Transactions – Certain Relationships and Related Party Transactions.
- (4) All other compensation and benefits for 2012 includes insurance premiums and fees for annual physical examination, \$0.2 million in housing allowance provided for Mr. Koo, \$0.3 million share options to purchase an aggregate of 600,000 of our common shares at an exercise price of \$6.66 per share and \$0.1 million which Nam Tai has accrued as a bonus to Mr. Koo for services in 2012, but is payable to Mr. Koo in February 2013. All other compensation and benefits for 2011 includes insurance premiums and fees for annual physical examination, \$0.2 million in rent charges paid for housing provided for Mr. Koo and \$0.1 million which Nam Tai has accrued as a bonus to Mr. Koo for services in 2011, but is payable to Mr. Koo in February 2012. All other compensation and benefits for 2010 includes insurance premiums and golf membership expenses, \$0.1 million in rental charges paid for housing provided for Mr. Koo and \$0.03 million which Nam Tai has accrued as a bonus to Mr. Koo for services in 2010, but which is payable to Mr. Koo in March 2011. See ITEM 7. Major Shareholders and Related Party Transactions – Certain Relationships and Related Party Transactions for a discussion of the compensation payable and previously payable to Mr. Koo as Nam Tai's CFO. All other compensation and benefits in 2012, 2011 and 2010 also includes directors fees of nil, nil and \$0.04 million, respectively.
- (5) Rejoined in September 2011.

**Retirement Benefits**

Since December 2000, we have enrolled all of our eligible employees located in Hong Kong into the Mandatory Provident Fund. The following table provides amount of contributions that the Company has made for the Mandatory Provident Retirement Funds to the individuals named in the Summary Compensation Table above in accordance with Hong Kong law.

Name	Number of years of credited	Value at December 31, 2012 of Accumulated	Company Payments During
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	Service	Benefits (\$)	2012 (\$)
Koo Ming Kown	38.0 <sup>(1)</sup>	N/A	N/A
Wang Lu Ping <sup>(2)</sup>	11.3	N/A	N/A
Liu Pi Hao	13.1	N/A	N/A
Wang Shi Ping	21.6	N/A	N/A

- (1) Prior to October 2010, Mr. Koo's services as our employee were for Nam Tai Electronics, Inc., the ultimate parent, and as such he is not eligible under Hong Kong's Mandatory Provident Retirement Fund. Accordingly, no contributions have been made for Mr. Koo. Although he was appointed President of our subsidiary, NTEEP, effective October 1, 2010, contributions are not required for Mr. Koo under Hong Kong's Mandatory Provident Retirement Fund because he is over 65 years old.
- (2) Rejoined in September 2011.

**Table of Contents****Options Held by Executive Officers at January 31, 2013***Stock Options of Directors and Management*

The following table provides information concerning the options owned by our current Directors and Management as of January 31, 2013.

Name	Number of common shares subject to option	Exercise price (\$)	Expiration Date
Koo Ming Kown			
Wang Lu Ping	50,000	5.63	April 26, 2015
Liu Pi Hao	40,000	5.63	April 26, 2015
Wang Shi Ping	25,000	5.63	April 26, 2015

**Board Practices**

All directors hold office until our next annual meeting of shareholders, which generally is in the summer of each calendar year, or until their respective successors are duly elected and qualified or their positions are earlier vacated by resignation or otherwise. The full board committee appoints members and the chairman of the board committees, who serve at the pleasure of the Board. Nam Tai does not have any director service contracts providing for benefits upon termination of service as a director or employee (if employed). We previously had a contract with Mr. Koo related to his board service. For more information relating to the loss of office agreement with Mr. Koo and its termination, see ITEM 7. Major Shareholders and Related Party Transactions Certain Relationships and Related Party Transactions on page 57 of this Report.

**Corporate Governance Guidelines**

We have adopted a set of corporate governance guidelines which are available on our website at <http://www.namtai.com/corpgov/corpgov.htm>. The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Form 20-F. Stockholders also may request a free copy of our corporate governance guidelines in print form by making a request to:

Paul Lau, Corporate Secretary

Telephone: (852) 2341 0273

Facsimile: (852) 2263 1001

e-mail: [shareholder@namtai.com](mailto:shareholder@namtai.com)

**NYSE Listed Company Manual Disclosure**

As a foreign private issuer with shares listed on the NYSE, the Company is required by Section 303A.11 of the Listed Company Manual of the NYSE to disclose any significant ways in which its corporate governance practices differ from those followed by U.S. domestic companies under NYSE listing standards. Management believes that there are no significant ways in which Nam Tai's corporate governance standards differ from those followed by U.S. domestic companies under NYSE listing standards.

**Committee Charters and Independence**

The charters for our Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee are available on our website at <http://www.namtai.com/corpgov/corpgov.htm>. The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Report. Stockholders may request a copy of each of these charters from the address and phone number set forth above under Corporate Governance Guideline .

Each of the members of our Board of Directors serving on our Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee are independent as that term is defined in Corporate Governance Rules of the NYSE.

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Nam Tai has adopted the directors' independence criteria as established by NYSE Corporate Governance Rules Section 303A.02.

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An independent Non-Executive Director ( INED ) is an individual:

who has no material relationship with the Company as affirmatively determined by the Board;

who is not nor has been within the last three years immediately prior to the date of his appointment as an INED an employee of the Company, provided, however, employment as an interim Chairman of the Board or Chief Executive Officer or other executive officer of the Company shall not disqualify a director from being considered independent following that employment;

whose immediate family members<sup>(1)</sup> are not, nor have been within the last three years immediately prior to the date of his appointment as an INED, an executive officer of the Company;

who, or whose immediate family members<sup>(1)</sup>, have not received greater than US\$0.1 million in direct compensation from the Company, other than directors' and committees' fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continuous service), during any twelve-month period within the last three years immediately prior to the date of his appointment as an INED;

who is neither a partner nor an employee of the internal or external audit firm of the Company and within the last three years immediately prior to the date of his appointment as an INED was neither a partner nor an employee of such firm and personally worked on the Company's audit during that time;

none of whose immediate family members<sup>(1)</sup> is (a) a current partner of the internal or external audit firm of the Company or (b) a current employee of the internal or external audit firm of the Company and personally works on the Company's audit;

none of whose immediate family members<sup>(1)</sup> have been, within the last three years immediately prior to the date of his appointment as an INED, partners or employees of the internal or external audit firm and personally worked on the Company's audit during that time; and

who, or whose immediate family members<sup>(1)</sup>, are not, nor within the last three years immediately prior to the date of his appointment as an INED, employed as an executive officer of another company in which any of the Company's present executives at the same time serves or served on that company's compensation committee; and

who is not an employee of, or whose immediate family members<sup>(1)</sup> are not executive officers of, a company that has made payments to, or received payments from, the Company for property or services in an amount which in any of the three fiscal years prior to his appointment as an INED, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

(1) An immediate family member includes a person's spouse, parents, children, siblings, mothers- and father-in-law, sons-and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.

*Audit Committee*

The primary duties of Nam Tai's Audit Committee are reviewing, acting on and reporting to the Board of Directors with respect to various auditing and accounting matters, including the selection of independent registered public accounting firm, the scope of annual audits, the fees to be paid to the independent registered public accounting firm and the performance of the independent registered public accounting firm and accounting practices.

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Our Audit Committee consists of three independent non-executive directors, Messrs. Waslen and Chu and Dr. Lo. Mr. Waslen serves as the Chairman of the Audit Committee as a financial expert .

### *Compensation Committee*

The primary duties of Nam Tai 's Compensation Committee are to recommend (1) the compensation of the Company 's Board of Directors; (2) compensation of any directors who are executives of the Company and the chief executive officer with reference to achievement of corporate goals and objectives established in the previous year; (3) compensation of other senior management if required by the Board; and (4) equity-based and incentive compensation programs of the Company.

Our Compensation Committee consisted of four independent non-executive directors in 2012: Messrs. Chu, Waslen, Kellogg and Dr. Lo. Mr. Chu serves as the Chairman of the Compensation Committee.

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### *Nominating/Corporate Governance Committee*

The primary duties of Nam Tai's Nominating/Corporate Governance Committee consist of (1) assisting the Board by actively identifying individuals qualified to become Board members consistent with criteria approved by the Board; (2) recommending to the Board the director nominees for election at the next annual meeting of stockholders, the member nominees for the Audit Committee, Compensation Committee and the Nominating/Corporate Governance Committee on an annual basis; (3) reviewing and recommending to the Board whether it is appropriate for such director to continue to be a member of the Board in the event that there is a significant change in the circumstance of any director that would be considered detrimental to the Company's business or his/her ability to serve as a director or his/her independence; (4) reviewing the composition of the Board on an annual basis; (5) recommending to the Board a succession plan for the chief executive officer and directors, if necessary; (6) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies; (7) establishing criteria to be used in connection with the annual self-evaluation of the Nominating/Corporate Governance Committee; and (8) developing and recommending to the Board and administering the corporate governance guidelines of the Company.

Our Nominating/Corporate Governance Committee consists of four independent non-executive directors: Messrs. Chu, Waslen and Kellogg and Dr. Lo. Dr. Lo serves as the Chairman of the Nominating/Corporate Governance Committee.

### **Stock Options of Directors and Management**

During 2012, our non-employee directors were each granted options to purchase 15,000 shares of the Company. These options (a total of 60,000 options) and an aggregate of 120,000 options granted to our directors in 2010 and 2011 (a total of 180,000) were outstanding and held by our directors as of February 28, 2013. The options granted in 2010 are exercisable at \$4.45 per share and will lapse on June 2, 2013, the options granted in 2011 are exercisable at \$5.92 per share, and will lapse on June 9, 2014, and the options granted in 2012 are exercisable at \$5.34 per share and will lapse on June 5, 2015.

During 2012, a director and management were granted options to purchase 600,000 and 831,000 shares of the Company, respectively. These options granted in 2012 are exercisable at \$6.66 and \$5.63 per share, respectively, and will lapse on February 9, 2015 and April 26, 2015, respectively.

### **Share Ownership of Directors and Management**

For information regarding the numbers and percentage ownership of our shares, see ITEM 7. Major Shareholders and Related Party Transactions Shares and Options Ownership of Directors, Management and Principal Shareholders.

### **Employee Stock Option Plans**

Nam Tai has two stock option plans, its amended 2001 stock option plan and its 2006 stock option plan. The 2006 stock option plan was approved by the Board on February 10, 2006 and approved by shareholders at our 2006 Annual Meeting of Shareholders.

Under either the amended 2001 stock option plan or the 2006 stock option plan, the terms and conditions of individual grants may vary subject to the following: (1) the exercise price of incentive stock options may not normally be less than market value on the date of grant; (2) the term of incentive stock options may not exceed ten years from the date of grant; (3) the exercise price of an option cannot be altered once granted unless such action is approved by shareholders in a general meeting or results from adjustments to the Company's share capital and necessary to preserve the intrinsic value of the granted options; and (4) every non-employee director automatically receives on an annual basis upon their election to the Board of Director at the annual shareholders' meeting, options to purchase 15,000 common shares at an exercise price equal to 100% of the fair market value of the common shares on the date of grant.

At January 31, 2013, we had options outstanding to purchase 180,000 shares, 1,431,000 shares and 12,000 shares held by non-employee directors, a director and management, consultant, respectively. Under our existing stock option plans, options to purchase 1,161,869 shares were available for future grant.

The full text of our amended 2001 stock option plan, amended on July 30, 2004, was filed with the SEC as Exhibit 4.18 to our Annual Report on Form 20-F for the year ended December 31, 2004. The full text of our 2006 stock option plan was included as Exhibit 99.1 to our Form 6-K furnished to the SEC on June 12, 2006. Amendments to our stock options were included with our form 6-K furnished to the SEC on November 13, 2006.





**Table of Contents****Employees**

The following table provides information concerning the number of Nam Tai's employees, their geographic location and their main category of activity during the years ended December 31, 2010, 2011 and 2012.

Geographic Location	Main Activity	At December 31,		
		2010	2011	2012
<b>Shenzhen, PRC</b>				
	Manufacturing	4,153	2,910	4,565
	Research and development	96	63	17
	Quality control	297	252	337
	Engineering	158	119	157
	Administration	289	297	194
	Marketing	57	51	18
	Support <sup>(1)</sup>	155	134	186
	<b>Total Shenzhen</b>	<b>5,205</b>	<b>3,826</b>	<b>5,474</b>
<b>Wuxi, PRC</b>				
	Manufacturing	366	886	893
	Research and development	21	26	4
	Quality control	70	197	207
	Engineering	43	72	81
	Administration	81	70	118
	Marketing	11	18	7
	Support <sup>(1)</sup>	21	105	101
	<b>Total Wuxi</b>	<b>613</b>	<b>1,374</b>	<b>1,411</b>
<b>Hong Kong</b>				
	Administration	6	6	8
	<b>Total Hong Kong</b>	<b>6</b>	<b>6</b>	<b>8</b>
	<b>Total Employees</b>	<b>5,824</b>	<b>5,206</b>	<b>6,893</b>

(1) Employees categorized in support include personnel engaged in procurement, customs, shipping and warehouse services. Our subsidiaries in Shenzhen, China have entered into collective agreements with their respective trade unions. The collective agreements usually set out the minimum standard for wages, working hours and other benefits. The current collective agreement between our subsidiaries and its trade union was renewed on March 1, 2013 and we expect that it will be renewed on an annual basis thereafter.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**  
**Shares and Options Ownership of Directors, Senior Management and Principal Shareholders**

The following table sets forth certain information known to us regarding the beneficial ownership of our common shares as of January 31, 2013, by each person (or group within the meaning of Section 13(d)(3) of the Exchange Act) known by us to own beneficially 5% or more of our common shares; and each of our current directors and senior management.

Shares beneficially  
owned<sup>(1)</sup>

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Name	Number	Percent
Peter R. Kellogg	6,450,000 <sup>(2)</sup>	14.4%
I.A.T. Reinsurance Syndicate Ltd.	5,774,800 <sup>(2)</sup>	12.9%
M. K. Koo	5,242,786 <sup>(3)</sup>	11.7%
Charles Chu	47,500 <sup>(4)</sup>	*
Wing Yan (William) Lo	45,000 <sup>(4)</sup>	*
Mark Waslen	55,000 <sup>(4)</sup>	*
Wang Lu Ping	52,416 <sup>(5)</sup>	*
Wang Shi Ping	25,000 <sup>(6)</sup>	
Liu Pi Hao	40,000 <sup>(7)</sup>	

\* Less than 1%.

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- (1) Percentage of ownership is based on 44,803,735 common shares outstanding as of January 31, 2013. In accordance with Rule 13d-3(d)(1) under the Exchange Act, options which are exercisable within 60 days of January 31, 2013 have been considered outstanding for the purpose of computing the percentage of Nam Tai's outstanding shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of shares owned by any of the other listed persons.
- (2) Mr. Kellogg directly holds 6,450,000 common shares and indirectly, through I.A.T. Reinsurance Syndicate Ltd., holds 5,774,800 common shares. I.A.T. Reinsurance Syndicate Ltd. is a Bermuda corporation of which Mr. Kellogg is the sole holder of its voting stock. Mr. Kellogg disclaims beneficial ownership of the shares held by I.A.T. Reinsurance Syndicate Ltd. Mr. Kellogg also holds options to purchase 45,000 shares, which he received in 2010, 2011 and 2012 as a director of Nam Tai.
- (3) Mr. Koo beneficially owned 5,242,786 common shares jointly with Ms. Cho Sui Sin, Mr. Koo's wife.
- (4) Includes options to purchase 45,000 shares.
- (5) Includes 2,416 common shares held by Ms. Jean S. Tsai, Mr. Wang's wife, and options to purchase 50,000 shares.
- (6) Includes options to purchase 25,000 shares.
- (7) Includes options to purchase 40,000 shares.

To our knowledge, the Company is not directly or indirectly owned or controlled by another corporation or corporations, by any foreign government or by any other natural or legal person severally or jointly through January 31, 2013.

All of the holders of our common shares have equal voting rights with respect to the number of common shares held. As of January 31, 2013, there were approximately 596 holders of record of our common shares. According to information provided to us by our transfer agent, 580 holders of record with addresses in the United States held 39,499,122 of our common shares at January 31, 2013.

The following table reflects the percentage ownership of our common shares during the last three years ended January 31, 2013 by shareholders who beneficially owned 5% or more of our common shares during that period:

	Percentage Ownership <sup>(1)</sup>		
	2011	2012	2013
Peter R. Kellogg <sup>(2)</sup>	13.0%	13.3%	14.4%
I.A.T. Reinsurance Syndicate Ltd.	11.7%	11.7%	12.9%
M. K. Koo	11.7%	11.7%	11.7%
Kahn Brothers LLC	5.5% <sup>(3)</sup>	5.5% <sup>(3)(4)</sup>	6.4% <sup>(3)</sup>

- (1) Based on 44,803,735 common shares outstanding on January 31, 2013. In accordance with Rule 13d-3(d)(1) under the Exchange Act, options which are exercisable within 60 days of January 31, 2013 have been considered outstanding for the purpose of computing the percentage of Nam Tai's outstanding shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of shares owned by any of the other listed persons.
- (2) Includes shares registered in the name of I.A.T. Reinsurance Syndicate Ltd., of which Mr. Kellogg disclaims beneficial ownership. Mr. Kellogg also holds options to purchase 45,000 shares, which he received in 2010, 2011 and 2012 as a director of Nam Tai.
- (3) Based on a Schedule 13G filed with the SEC by the beneficial holder on February 7, 2011 and on February 11, 2013 for the year end December 31, 2012.
- (4) The holder did not make a filing with the SEC under Rule 13d-1 or 13d-2 of the Exchange Act for its holdings in 2012, the Company assumed the holder has no change from 2011.

The Company is not aware of any arrangements that may, at a subsequent date, result in a change of control of the Company.

**Certain Relationships and Related Party Transactions**

In connection with the appointment of Mr. Koo as Nam Tai's Chief Financial Officer in March 2009, Nam Tai and Mr. Koo agreed to the following compensation arrangements: (1) a salary of \$1.00 per month; (2) employment benefits comparable to those provided to other members of senior management, including insurance coverage, annual physical examination, golf club membership fees, and housing allowance for his apartment in Hong Kong of up to \$0.02 million per month, plus all miscellaneous fees; and (3) compensation in the amount of \$3.0 million after completion of three years' service with Nam Tai as Chief Financial Officer.

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The compensation payable to Mr. Koo for his three-years of service was not payable if Nam Tai replaced Mr. Koo with a suitable candidate within the three-year period ending February 28, 2012. In October 2010, Nam Tai appointed Joseph Li as Chief Financial Officer. In November 2010, as a consequence of his wife's health, Mr. Li resigned as Nam Tai's Chief Financial Officer and Mr. Koo again resumed in that position. However, despite his short tenure, Mr. Li's appointment as Nam Tai's Chief Financial Officer within the three-year period terminated the Company's obligation to pay Mr. Koo at the end of the three years. Accordingly, the approximately \$1.6 million we accrued since March 2009 for the potential payment to Mr. Koo at the end of his three years of service as the Chief Financial Officer was added to the Company's additional paid-in capital on Nam Tai's balance sheet at December 31, 2010 in accordance with the guidance under SAB Topics 1B.1 and 5T, and FASB ASC 718-10-15-4.

In view of Mr. Li's resignation, Mr. Koo resumed as Nam Tai's Chief Financial Officer and he and Nam Tai entered in an employment agreement effective October 1, 2010 regarding Mr. Koo's service as Nam Tai's CFO. Under this employment agreement, Mr. Koo's salary remains at \$1.00 per month, Mr. Koo is also entitled to receive perquisites consisting of (a) the same benefits as other members of the senior management enjoy, (b) reimbursement for any reasonable miscellaneous expenses including entertainment expenses and (c) reimbursement for the actual amount that Mr. Koo pays for the housing allowance of his residential apartment in the amount of approximately \$0.02 million monthly, and all monthly utilities charges, such as for water, electricity telephone etc. Under the employment agreement, in the event that (1) Nam Tai terminates Mr. Koo for any reason other than for his commission of a criminal act, Nam Tai has agreed to pay Mr. Koo an amount which is equal to 36 months of his basic monthly salary, all bonuses and allowances and so on that he is entitled to at the time of his termination and (2) Mr. Koo wishes to terminate his employment with Nam Tai, except in the case of illness or other health conditions that prevent him from working, he must provide Nam Tai with one year's prior written notice.

Effective at the same time as his above-described employment agreement with Nam Tai, Mr. Koo and Nam Tai's subsidiary, NTEEP, entered into an employment agreement for Mr. Koo's services as NTEEP's President (which are in addition to his duties as Nam Tai's Chief Financial Officer). Under his employment agreement with NTEEP, Mr. Koo is to receive (a) an annual salary of approximately \$0.9 million, (b) subject to the final decision of NTEEP, an annual bonus of approximately \$0.1 million, provided that Mr. Koo is an employee of the Company in February of the following financial year, (c) perquisites consisting of (1) the same benefits as other members of the senior management of NTEEP enjoy and (2) reimbursement for any reasonable miscellaneous expenses including entertainment expenses. Under his employment agreement with NTEEP, the provisions in the event of termination of employment with NTEEP are identical to the provisions described above in the event of termination of employment with Nam Tai.

During 2009, Mr. Koo was granted options to purchase 15,000 shares of the Company and, in 2010, Mr. Koo's options granted in 2009 were abandoned and lapsed. During 2012, Mr. Koo was granted options to purchase 600,000 shares of the Company at an exercise price of \$6.66 per share. The options granted during 2012 expire on the third anniversary of their grant date till 2015.

**ITEM 8. FINANCIAL INFORMATION****Financial Statements**

Our consolidated financial statements are included this Form 20-F in the F pages following page 77.

**Legal Proceedings**

We are not a party to any material legal proceedings other than routine litigation incidental to our business and we believe that there are no material legal proceedings pending that involve our property.

*Tax Dispute with Hong Kong Inland Revenue Department*

Since the fourth quarter of 2007, several of our inactive subsidiaries have been involved in tax disputes relating to tax years 1996 and later years with the Inland Revenue Department of Hong Kong, or HKIRD, the income tax authority of the Hong Kong Government. These disputes are discussed sequentially below.

(1) NTTC

(a) In October 2007, the HKIRD issued an assessment Determination against Nam Tai Trading Company Limited ( NTTC ), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. This assessment relates to four tax years from 1996/1997 to 1999/2000. The taxes assessed in this proceeding amount to approximately \$2.9 million.

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After consulting Hong Kong tax experts, Nam Tai believed that the position of the HKIRD for the years in question was incorrect as a matter of law and accordingly NTTC objected to the HKIRD's assessment and appealed it to the Hong Kong Board of Review, an independent body established under Hong Kong Inland Revenue Ordinance to hear appeals of HKIRD assessments. In December 2008, the Board of Review dismissed NTTC's appeal. According to advice from Senior Counsel in Hong Kong, the Court of Appeal in Hong Kong was unlikely to disturb the findings of the Board of Review. Therefore, NTTC decided not to pursue an appeal.

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(b) In addition to the assessment Determination of October 2007, in May 2008, the HKIRD issued a writ against NTTC claiming taxes in the amount of approximately \$3.0 million for the taxable years from 1997/1998 to 2000/2001, partially overlapping the taxes against NTTC assessed by HKIRD in its assessment Determination of October 2007. Nam Tai's defense was struck out by the District Court in Hong Kong. According to advice from Senior Counsel in Hong Kong, the Court of Appeal was unlikely to disturb the findings of the District Court. Therefore, NTTC decided not to pursue an appeal against the decision of the District Court.

(c) Furthermore, from May to November 2010, the HKIRD issued three separate writs against NTTC claiming taxes and interests on unpaid taxes, in the amount of approximately \$0.9 million, \$1.1 million and \$0.1 million for the taxable years from 1996/1997 to 2003/2004, from 1996/1997, 1998/1999 and 1999/2000, and from 1996/1997 to 1999/2000, respectively. NTTC did not contest these proceedings, judgments were thus entered against NTTC.

(d) As a result of the proceedings stated in paragraphs (b) – (c) above, the HKIRD petitioned to the High Court of Hong Kong for a winding-up order against NTTC for the overdue judgment sums on June 10, 2011. The petition was heard in the High Court of Hong Kong on March 13, 2012 before Deputy High Court Judge Tam, S.C. The Court handed down the Judgment and made a winding-up order on June 4, 2012 against NTTC.

The Statement of Affairs has been filed by the directors. The meetings of creditors' and contributories' were held in the Hong Kong Official Receiver's Office on August 16, 2012 and September 5, 2012 respectively. On both occasions, the creditors' meeting could not proceed due to a lack of quorum. Pursuant to the Order of the Court dated December 4, 2012, Mr. Ng Kwok Wai and Mr. Lui Chi Kit both of Eric Ng C.P.A. Limited have been appointed as the joint and several liquidators of NTTC. By the same Order, no committee of inspection would be formed.

Further, NTGM (as defined below) has on August 14, 2012 appointed Mr. John Robert Lees and Mr. Mat Ng of JLA Asia Limited (formerly known as John Lees Associates) as the Joint and Several Receivers (and Managers) (the Receivers) of all the properties charged by NTTC as chargor in favour of NTGM under the Debenture and the Mortgage both dated December 30, 2003. A Deed of Appointment of the Joint and Several Receivers (and Managers) (the Deed of Appointment) and a Deed of Indemnity, both dated August 14, 2012, have been executed accordingly. The Deed of Appointment has been registered in the Land Registry of Hong Kong against 13 plots of land which are charged by NTTC in favour of NTGM under the said Mortgage.

As requested by the Joint and Several Liquidators, an initial interview was held on January 31, 2013 between the directors of NTGM and the Joint and Several Liquidators, in which the Joint and Several Liquidators confirmed that all the assets of NTTC have been taken over by the Receivers.

The Shatin Magistrates' Courts upon the application of the Registrar of Companies issued a Summons to NTGM dated December 28, 2012 (which will be heard on April 16, 2013 at 2:30pm) due to the delay in the registration of the Notification of Mortgagee Entering into Possession of Property (Form M3) by the Receivers.

(2) **NTGM**

(a) The HKIRD has also made estimated assessments against Nam Tai Group Management Limited (NTGM), another wholly-owned subsidiary of Nam Tai, which has been inactive since 2005. This assessment, which relates to the tax years of 2001 and 2002, is in the amount of approximately \$0.2 million, including interest allegedly due thereon. On December 17, 2008, the Hong Kong tax authorities issued a Writ of Summons through the District Court in Hong Kong claiming against NTGM the amount of \$0.2 million as taxes allegedly due and payable, together with interest, to the Hong Kong tax authorities for the fiscal years 2001 to 2002. NTGM filed its defense on January 29, 2009, but on February 17, 2009, HKIRD filed papers seeking to strike out NTGM's defense. As NTGM's defense was similar to the defense of NTTC and Senior Counsel had advised that NTTC's defense was not arguable before the Court, NTGM accordingly agreed with HKIRD to allow Judgment to be entered against NTGM by consent.

(b) (i) On February 8, 2011, HKIRD issued a writ against NTGM claiming taxes in the amount of approximately \$0.9 million for the taxable years 2001/2002 to 2003/2004. NTGM filed a Defense to this action. The hearing of the action took place on September 6, 2011. The judgment was handed down on September 29, 2011 with the Defense being struck out and judgment was thus entered against NTGM.

(ii) The taxation process is completed. The total taxed costs as certified by the Registrar are approximately \$0.005 million plus post-judgment interest.

(c) NTGM has received demand letters from the HKIRD demanding payments of the judgment debts mentioned in paragraphs 2(a) and (b) above.



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(3) NTT

(a) On September 14, 2009, the HKIRD issued a writ against Nam Tai Telecom (Hong Kong) Company Limited ( NTT ), a dormant company of the Company, claiming taxes in the amount of approximately \$0.3 million for the taxable year 2002/2003. Judgment has been entered against NTT.

(b) (i) On February 17, 2011, HKIRD issued a writ against NTT claiming taxes in the amount of approximately \$0.03 million for the taxable year 2002/2003. NTT filed a Defense to this action. The hearing of this action was heard together with the case of NTGM as discussed in paragraph (2)(b) above on September 6, 2011. Similarly, the judgment was handed down on September 29, 2011 with the Defense being struck out and judgment was thus entered against NTT.

(ii) The taxation process is completed. The total taxed costs as certified by the Registrar are approximately \$0.005 million plus post-judgment interest.

(c) NTT has received demand letters from the HKIRD demanding payments of judgment debts mentioned in paragraphs 3(a) and (b) above.

(4) Expected Dispositions of Tax Disputes with Inactive or Dormant Subsidiaries

HKIRD has not accepted the explanations that it was necessary for these subsidiaries to perform their individual functions for the whole Nam Tai group and therefore the management fees paid by the Company by contract to support and finance all the necessary overhead expenses of these subsidiaries (not located in Hong Kong) to contribute to the businesses representing the administration and finance departmental functions from Vancouver, Canada for the whole group under the corporate structure at that time were not regarded as necessary expenses by HKIRD.

Since it is believed that it will be difficult for these subsidiaries to continue cooperating with HKIRD in the future, if the Company discontinues financing these subsidiaries, they will be forced to liquidate in due course. As these subsidiaries do not conduct any business and have been inactive or dormant for some time, and have either assets of limited book-value or no assets, Nam Tai believes that there should be no material impact from these proceeding on the Company's financial condition, liquidity or results of operations. Accordingly, no provision has been made regarding these assessments in Nam Tai's consolidated financial statements.

(5) Notices of Alleged Personal Liability for Additional Taxes Against Former Directors and Officers for Signing NTTC's Tax Returns

In addition to the legal cases against the inactive or dormant subsidiaries of the Company discussed above, in January 2011, the HKIRD issued two Notices of intention to assess additional taxes separately and personally against two former directors and officers of NTTC in the amounts of approximately \$1.5 million for the taxable years 1996/1997 and 1999/2000 and \$0.7 million for the taxable year 1997/1998 ( the Notices ). The taxable years involved in the controversy date from 13 to 15 years ago and initial advice received from the Company's tax advisor is that it is very rare for tax authorities to seek to attach personal liability on directors in this situation.

The two former directors and officers to whom the Notices have been directed signed the tax returns for and on behalf of NTTC and the HKIRD has by its Notices sought to hold them personally liable for additional taxes purportedly on the basis that the relevant tax returns of NTTC were incorrect and contained omissions and understatements in violation of the Inland Revenue Ordinance, the governing tax law of Hong Kong.

The Company denies that any of NTTC's tax return filings were incorrect or contained omissions and understatements in violation of the Inland Revenue Ordinance and believes that no incorrect tax return was ever filed.

The two former directors submitted various written representations in opposition to the issuance of the Notices, through their tax advisors, to the HKIRD since the issuance of the Notices. One of these former directors has commenced an action in the High Court of Hong Kong in November 2011 to seek an order from the Court that, inter alia, the Notice be withdrawn by the HKIRD.

The Department of Justice of Hong Kong (representing the Commissioner of Inland Revenue of Hong Kong ( the Commissioner )) sent to the solicitors representing the two former directors a letter dated December 31, 2012 stating that the Commissioner had considered all the written representations submitted by the two former directors and decided that there is no basis to withdraw the Notices. The Commissioner would proceed to assess the two former directors additional tax assessments under Section 82A of the Inland Revenue Ordinance. ECOVIS David Yeung Hong Kong is preparing further written representations to further explain why the Notices and the additional tax assessments should not be issued to two former directors for the Commissioner's reference.



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As advised by the tax advisers of the two former directors, the maximum amounts that the Commissioner can claim against the two former directors under the Notices are approximately \$4.6 million (for the taxable years 1996/1997 and 1999/2000) and \$2.0 million (for the taxable year 1997/1998) respectively. Such amounts represent 3 times of the additional taxes that have been allegedly undercharged because of the alleged incorrect tax returns. Such amounts do not include interest and possible legal costs.

The two former directors will defend the additional tax assessments when the same are issued by the Commissioner.

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At this time, Nam Tai is unable to assess the potential impact of these proceedings on the Company. However, the Company may be required to indemnify and defend this matter for the former directors and officers. If forced to defend, the Company plans to do so vigorously.

Nam Tai maintains a Directors' and Officers' Liability Insurance for certain claims or liabilities that may arise by reason of the status or service of its directors and officers (the Policy). Nam Tai has informed the insurance carriers of the Policy about the HKIRD's Notices against NTTC's two former directors. So far, the insurance carriers have raised no objection to the Notices constituting a claim under the terms of the Policy and have reimbursed Nam Tai for the legal costs and other expenses incurred by Nam Tai for defending the Notices. Nam Tai would continue to seek from the insurance carriers reimbursement of its legal costs and other expenses incurred in defending the Notices and/or the additional tax assessments (when the same are issued by the Commissioner).

**Export Sales**

The following table reflects the approximate percentages of our net sales to customers by geographic area, based upon product delivery location, for the years ended December 31, 2010, 2011 and 2012:

Geographic Areas	Year Ended December 31,		
	2010	2011	2012
Japan	55%	72%	58%
Hong Kong	18%	15%	8%
Europe	13%	6%	1%
United States	11%	6%	
China (excluding Hong Kong)	2%	1%	32%
Others	1%		1%
	100%	100%	100%

**Dividends**

Under our dividend policy, our Board of Directors determines and declares the amount of Nam Tai's dividend payable based on our operating income, current and estimated future cash, cash flow and capital expenditure requirements at the time of the yearly declaration and such other factors as Nam Tai's Board believes reasonable and appropriate to consider in the determination and plans to announce the declared amount of that dividend.

Before 2009, we had a long history of paying dividends. In 2009 and 2010 our board of directors decided not to declare dividends. The decision not to declare dividends in 2009 and 2010 was made in order to maintain our cash reserves during the global economic downturn.

As announced on November 1, 2010, the Company set payment of quarterly dividends for 2011 of \$0.05 per quarter. All quarterly dividends scheduled for payment in 2011 were paid as scheduled.

As announced on October 31, 2011, the Company set payment of quarterly dividends for 2012 of \$0.07 per quarter. All quarterly dividends scheduled for payment in 2012 were paid as scheduled.

On November 5, 2012, following its review of our financial results for the first nine months of 2012, our Board of Directors assessed our continuing improvement, the prevailing global economic conditions and the prospects of recovery, our operating income, current and estimated future cash, cash flow and capital expenditure requirements, and decided to pay quarterly dividends in 2013 according to the Schedule set forth below.

**Dividends declared for 2013**

Quarterly Payment	Record Date	Period Scheduled	Dividend per share
Q1 2013	December 31, 2012	January 18 - 31, 2013	\$ 0.15

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Q2 2013	March 31, 2013	April 20 - 30, 2013	0.15
Q3 2013	June 30, 2013	July 20 - 31, 2013	0.15
Q4 2013	September 30, 2013	October 20 -31, 2013	0.15
<b>Total for full year 2013</b>			<b>\$ 0.60</b>

Although the Company has resumed paying dividends, it does not necessarily mean that dividend payments will continue thereafter. Whether future dividends will be declared will depend upon Nam Tai's future growth and earnings, of which there can be no assurance, and the Company's cash flow needs for future expansion, which growth, earning or cash flow needs may be adversely affected by one or more of the factors discussed in ITEM 3. Key Information Risk Factors in this Report. There can be no assurance that future cash dividends will be declared, what the amounts of such dividends will be or whether such dividends, once declared for a specific period, will continue for any future period, or at all.

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The following table sets forth the total cash dividends and dividends per share we have declared during each of the five years ended December 31:

	Year ended December 31,				
	2008	2009	2010	2011	2012
Total dividends declared (in thousands)	\$ 39,427	\$	\$ 8,961	\$ 12,545	\$ 26,882
Regular dividends per share	\$ 0.88	\$	\$ 0.20	\$ 0.28	\$ 0.60
Total dividends per share	\$ 0.88	\$	\$ 0.20	\$ 0.28	\$ 0.60

**ITEM 9. THE LISTING**

Our shares are traded in the United States and have been listed on the New York Stock Exchange since January 2003 under the symbol NTE .

The following table sets forth the highest and lowest closing sales prices for our shares for each of the quarters in the three-year period ended December 31, 2012:

	2010			2011			2012		
	High	Low	Average Daily Trading Volume <sup>(1)</sup>	High	Low	Average Daily Trading Volume <sup>(1)</sup>	High	Low	Average Daily Trading Volume <sup>(1)</sup>
1 <sup>st</sup> Quarter	\$ 5.30	\$ 4.33	131,361	\$ 8.08	\$ 6.21	112,281	\$ 6.75	\$ 4.86	105,690
2 <sup>nd</sup> Quarter	5.04	4.12	81,622	6.55	5.21	91,990	6.05	4.75	97,033
3 <sup>rd</sup> Quarter	4.95	4.07	78,016	6.01	4.75	57,100	11.47	5.77	647,651
4 <sup>th</sup> Quarter	6.82	4.61	164,645	6.29	4.50	109,284	16.37	10.00	704,163

(1) Determined by dividing the sum of the reported daily volume for the quarter by the number of trading days in the quarter.

The following table sets forth the highest and lowest closing sale prices of our shares for the five year period ended December 31, 2012:

Year ended December 31,	High	Low	Average Daily Trading Volume <sup>(1)</sup>
2012	\$ 16.37	\$ 4.75	388,504
2011	8.08	4.50	92,445
2010	6.82	4.07	113,831
2009	6.16	2.83	174,327
2008	13.31	4.79	241,672

(1) Determined by dividing the sum of the reported daily volume for the year by the number of trading days in the year.

The following table sets forth the highest and lowest closing sale prices of our shares during each of the most recent six months in the period ending February 28, 2013:

Month ended	High	Low	Average Daily Trading Volume <sup>(1)</sup>
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February 28, 2013	\$ 14.69	\$ 12.55	665,889
January 31, 2013	16.01	11.60	1,032,686
December 31, 2012	16.37	12.65	540,910
November 30, 2012	15.85	10.63	1,105,276
October 31, 2012	11.95	10.00	458,529
September 30, 2012	11.47	9.30	979,421

(1) Determined by dividing the sum of the reported daily volume for the month by the number of trading days in the month.

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**ITEM 10. ADDITIONAL INFORMATION**

**Share Capital**

Our authorized capital consists of 200,000,000 common shares, \$0.01 par value per share. As of February 28, 2013, we had 44,803,735 common shares outstanding.

**Memorandum and Articles of Association**

On December 5, 2007, we filed with the Registrar of Corporate Affairs of the British Virgin Islands, our jurisdiction of organization, an amended Memorandum and Articles of Associations (collectively our Charter), the instruments governing a company organized under the law of the British Virgin Islands, which are comparable in purpose and effect to certificates or articles of incorporation and bylaws of corporations organized in a state of the United States. Our Charter, which became effective on December 5, 2007, amended and restated our Memorandum and Articles of Association. The purpose of amending our Charter was to:

1. Make our shares eligible for a direct registration system operated by a securities depository in accordance with Section 501.00 (B) of the rules of the New York Stock Exchange that became effective on January 1, 2008 as to companies, like us, having equity securities listed on the New York Stock Exchange prior to January 1, 2007;
2. Make various consequential amendments to our Memorandum and Articles of Association so as to make them consistent with the BVI Business Companies Act, 2004, as amended (the Act), which we became subject to on January 1, 2007;
3. Eliminate our authority to issue bearer shares that would otherwise be permitted under BVI law, which our directors believed to be inappropriate for a company with shares publicly traded in the United States;
4. Authorize our Chief Executive Officer, Chief Financial Officer and our other officers designated by the Chairman of the Board of Directors (or the directors in the absence of designation by the Chairman of the Board of Directors), to serve as the Chairman of all meetings of shareholders in the absence of the Chairman of the Board of Directors; and
5. Make certain other changes as are indicated in our Memorandum and Articles of Association.

Under our Charter, holders of our shares:

are entitled to one vote for each whole share a holder owns on all matters to be voted upon by shareholders, including the election of directors;

do not have cumulative voting rights in the election of directors;

are entitled to receive dividends if and when declared by our board of directors out of funds legally available under British Virgin Islands law; and

do not have preemptive rights to purchase any additional, unissued common shares.

Under our Charter or applicable BVI law:

all of common shares are equal to each other with respect to voting and dividend rights; and

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in the event of our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings.

Pursuant to our Charter and pursuant to the laws of the British Virgin Islands, our Board of Directors without shareholder approval, may amend our Memorandum and Articles of Association except:

to restrict the rights or powers of our shareholders to amend the Memorandum or the Articles;

to change the percentage of shareholders required to pass a resolution of shareholders to amend our Charter;

in circumstances where our Charter cannot be amended by the Shareholders;

to authorize the Company to issue, or authorize the issuance of, bearer shares of capital stock; or

The power of our Board of Directors to amend our Memorandum and Articles of Association continues to include amendments to increase or reduce our authorized capital stock. Our ability to amend our Memorandum and Articles of Association without shareholder approval in this fashion could have the effect of delaying, deterring or preventing our change in control, including one involving a tender offer to purchase our common shares or to engage in a business combination at a premium over the then current market price of our shares.

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We have never had any class of stock outstanding other than our common shares nor have we ever changed the voting rights with respect to our common shares.

Our registered office is at P.O. Box 3342, Road Town, Tortola, British Virgin Islands and we have been assigned company number 3805.

As set forth in Clause 4 of our Memorandum of Association included in our Charter, our object or purpose is to engage in any act or activity that is not prohibited under British Virgin Islands law.

The following summarizes certain of the Regulations from our Articles of Association, included in our Charter:

Regulation 53 provides that a director may be counted as part of the quorum with respect to any contract or arrangement in which the director is materially interested or makes with the Company.

Regulation 46 allows the directors to vote on their compensation for their service as directors.

Regulation 62 provides that the directors may by resolution exercise all of the Company's powers to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever we borrow money or as security for any of our debts, liabilities or obligations or those of any third party. These borrowing powers can be altered by an amendment to the Articles.

Regulation 78 allows us to deduct from any shareholder's dividends amounts owed to us by that shareholder.

Regulation 8(b) provides that we can redeem shares at fair market value from any shareholder against whom we have a judgment debt.

Regulation 5(a) provides that the Company's registered shares may be certificated or uncertificated and shall be entered in the register of members of the Company and registered as they are issued.

Regulation 7 provides that without prejudice to any special rights previously conferred on the holders of any existing shares, any of our shares may be issued with such preferred, deferred or other special rights or such restrictions, with respect to dividends, voting, return of capital or otherwise as the directors may from time to time determine.

Regulation 9 provides that if at any time our capital stock is divided into different classes or series of shares, the rights attached to any class or series may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of any other class or series of shares which may be affected by such variation.

Regulations 22 through 26 and under applicable BVI law provide that directors may convene meetings of our shareholders at such times and in such manner and places as the directors consider necessary or desirable, and they shall convene such a meeting upon the written request of shareholders holding more than 30% of the votes of our outstanding voting shares. Other than providing, if requested, reasonable proof of a holder's status as a holder of our shares as of the applicable record date, there is no condition to the admission of a shareholder or his or her proxy holder to our meetings of shareholders.

There is no provision in our Charter for the mandatory retirement of directors. Directors are not required to own our shares in order to serve as directors.



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British Virgin Islands law and our Charter impose no limitations on the right of nonresident or foreign owners to hold or vote our securities.

There are no provisions in our Charter governing the ownership threshold above which shareholder ownership must be disclosed.

We filed our Charter with the SEC as Exhibit 1.1 to Amendment No. 1 to Form 8-A on December 13, 2007 and the provisions of our Charter may be reviewed by examining that filing.

### **Transfer Agent**

Registrar and Transfer Agent Company, 10 Commerce Drive, Cranford, New Jersey 07016, U.S.A., serves as transfer agent and registrar for our shares in the United States.

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### **Material Contracts**

The following summarizes each material contract, other than contracts entered into in the ordinary course of business, to which Nam Tai or any subsidiary of Nam Tai is a party, for the year immediately preceding the filing of this report:

On January 12, 2012, Nam Tai's subsidiary, Wuxi Zastron Precision-Flex Co., Ltd. entered into a Banking Facilities Letter with China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, for Wuxi Zastron Precision-Flex Co., Ltd. to receive banking facilities of up to RMB50 million.

On January 16, 2012, Nam Tai's subsidiaries, Namtai Investment (Shenzhen) Co., Ltd. and Wuxi Zastron Precision-Flex Co., Ltd. signed a guaranty in favor of HSBC Bank (China) Company Limited, Shenzhen Branch with maximum liability of RMB370 million for the banking facilities granted to Zastron Electronic (Shenzhen) Co., Ltd.

On January 16, 2012, Nam Tai's subsidiaries, Namtai Investment (Shenzhen) Co., Ltd. and Zastron Electronic (Shenzhen) Co., Ltd. signed a guaranty in favor of HSBC Bank (China) Company Limited, Suzhou Branch with maximum liability of RMB370 million for the banking facilities granted to Wuxi Zastron Precision-Flex Co., Ltd.

On January 13, 2012, Nam Tai's subsidiary, Zastron Electronic (Shenzhen) Co., Ltd. entered into a Banking Facilities Letter with China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, for Zastron Electronic (Shenzhen) Co., Ltd. to receive banking facilities of up to RMB300 million.

On January 13, 2012, Nam Tai's subsidiary, Namtai Investment (Shenzhen) Co., Ltd. signed a guaranty in favor of China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch in relation to the RMB300 million banking facilities granted to Zastron Electronic (Shenzhen) Co., Ltd.

On February 3, 2012, Nam Tai's subsidiaries, Namtai Investment (Shenzhen) Co., Ltd. and Wuxi Zastron Precision-Flex Co., Ltd. signed a guaranty in favor of HSBC Bank (China) Company Limited, Shenzhen Branch with maximum liability of RMB370 million for the banking facilities granted to Zastron Electronic (Shenzhen) Co., Ltd. (replacing the Bank Facilities Letters entered into between Namtai Investment (Shenzhen) Co., Ltd., Wuxi Zastron Precision-Flex Co., Ltd. and HSBC Bank (China) Company Limited, Shenzhen Branch on January 13, 2012).

On February 3, 2012, Nam Tai's subsidiaries, Namtai Investment (Shenzhen) Co., Ltd. and Zastron Electronic (Shenzhen) Co., Ltd. signed a guaranty in favor of HSBC Bank (China) Company Limited, Suzhou Branch with maximum liability of RMB370 million for the banking facilities granted to Wuxi Zastron Precision-Flex Co., Ltd. (replacing the Bank Facilities Letters entered into between Namtai Investment (Shenzhen) Co., Ltd., Zastron Electronic (Shenzhen) Co., Ltd. and HSBC Bank (China) Company Limited, Suzhou Branch on January 13, 2012).

On March 22, 2012, Nam Tai's subsidiary, Zastron Electronic (Shenzhen) Co., Ltd. entered into a Banking Facilities Letter with China Construction Bank Corporation, Shenzhen Branch for Zastron Electronic (Shenzhen) Co., Ltd. to receive import facilities of up to RMB421 million.

On March 29, 2012, Nam Tai's subsidiary, Zastron Electronic (Shenzhen) Co., Ltd. entered into a supplemental agreement and guaranty related Banking Facilities with China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch for Zastron Electronic (Shenzhen) Co., Ltd. to change the purpose for bank loan of up to RMB300 million.

On December 11, 2012, Nam Tai's subsidiary, Zastron Electronic (Shenzhen) Co., Ltd. entered into a supplemental agreement and guaranty related Banking Facilities with China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch for Zastron Electronic (Shenzhen) Co., Ltd. to change the purpose for bank loan of up to RMB300 million.

On December 10, 2012, Nam Tai's subsidiary, Zastron Electronic (Shenzhen) Co., Ltd. entered into a forward contract related Banking Facilities with China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch for Zastron Electronic (Shenzhen) Co., Ltd. to change the purpose for bank loan of up to RMB300 million.

### **Exchange Controls**

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There are no exchange control restrictions on payments of dividends, interest, or other payments to nonresident holders of Nam Tai's securities or on the conduct of our operations in Hong Kong, Cayman Islands or the British Virgin Islands, where Nam Tai is incorporated. Other jurisdictions in which we conduct operations may have various exchange controls. With respect to our subsidiaries in China, with the exception of a requirement that 11% of profits be reserved for future developments and staff welfare, there are no restrictions on the payment of dividends and the removal of dividends from China once all taxes are paid and assessed and losses, if any, from previous years have been made good. We believe such restrictions will not have a material effect on our liquidity or cash flows.

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### **Taxation**

#### **United States Federal Income Tax Consequences**

The discussion below is for general information only and is not, and should not be interpreted to be, tax advice to any holder of our common shares. Each holder or a prospective holder of our common shares is urged to consult his, her or its own tax advisor.

#### *General*

This section is a general summary of the material United States federal income tax consequences to U.S. Holders, as defined below, of the ownership and disposition of our common shares as of the date of this report. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the applicable Treasury regulations promulgated and proposed thereunder, judicial decisions and current administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis. The summary applies to you only if you hold our common shares as a capital asset within the meaning of Section 1221 of the Code. In addition, this summary generally addresses certain U.S. federal income tax consequences to U.S. Holders if we were to be classified as a PFIC. The United States Internal Revenue Service, or the IRS, may challenge the tax consequences described below, and we have not requested, nor will we request, a ruling from the IRS or an opinion of counsel with respect to the United States federal income tax consequences of acquiring, holding or disposing of our common shares. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of our common shares. In particular, the discussion below does not cover tax consequences that depend upon your particular tax circumstances nor does it cover any state, local or foreign law, or the possible application of the United States federal estate or gift tax. You are urged to consult your own tax advisors regarding the application of the United States federal income tax laws to your particular situation as well as any state, local, foreign and United States federal estate and gift tax consequences of the ownership and disposition of the common shares. In addition, this summary does not take into account any special United States federal income tax rules that apply to a particular U.S. or Non-U.S. holder of our common shares, including, without limitation, the following:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;

a financial institution or a bank;

an insurance company;

a tax-exempt organization;

a person that holds our common shares in a hedging transaction or as part of a straddle or a conversion transaction;

a person whose functional currency for United States federal income tax purposes is not the U.S. dollar;

a person liable for alternative minimum tax;

a person that owns, or is treated as owning, 10% or more, by voting power or value, of our common shares;

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certain former U.S. citizens and residents who have expatriated;

persons holding shares through partnerships or other tax transparent entities; or

a person who receives our shares pursuant to the exercise of employee stock options or otherwise as compensation.

Investors should consult their tax advisors regarding the application of the U.S. federal tax rules to their particular circumstances as well as the state, local, non-U.S. and other tax consequences to them of the purchase, ownership and disposition of the shares.

### *U.S. Holders*

For purposes of the discussion below, you are a U.S. Holder if you are a beneficial owner of our common shares who or which is:

an individual United States citizen or resident alien of the United States (as specifically defined for United States federal income tax purposes);

a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any State or the District of Columbia;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust (x) if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (y) if it was in existence on August 20, 1996, was treated as a United States person prior to that date and has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

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The U.S. federal income tax treatment of a partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) that holds shares will generally depend on the status of the partner and the activities of the partnership. Partners in a partnership investing in shares should consult their tax advisors regarding the specific U.S. federal income tax consequences to them of the acquisition, ownership and disposition of the shares.

### **Distributions on Our Common Shares**

If you are a U.S. Holder of common shares in a taxable year in which we are a PFIC (and any subsequent taxable years), then this section generally may not apply to you instead, see [PFIC Considerations](#) below. Otherwise, generally, the gross amount of any cash distribution or the fair market value of any property distributed that you receive with respect to our common shares will be subject to tax as ordinary income to the extent such distribution does not exceed our current or accumulated earnings and profits, or E&P, as calculated for United States federal income tax purposes. Such income will be included in your gross income on the date of receipt. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, may be eligible for a reduced rate of taxation if we are a qualified foreign corporation for U.S. federal income tax purposes. A qualified foreign corporation includes (i) a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program, and (ii) a foreign corporation if its stock with respect to which a dividend is paid is readily tradable on an established securities market within the United States. We anticipate that each of requirements (i) and (ii) will be met here. A qualified foreign corporation for purposes of the reduced rate does not, however, include a PFIC. Thus, U.S. Holders should consult their tax advisors regarding the availability of the reduced rate of taxation applicable to any dividends the Company pays with respect to the shares. To the extent any distribution exceeds our E&P, such distribution will first be treated as a tax-free return of capital to the extent of your adjusted tax basis in our common shares and will be applied against and reduce such basis on a dollar-for-dollar basis (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such shares). To the extent that such distribution exceeds your adjusted tax basis in our common shares, the distribution will be treated as capital gain. Because we are not a United States corporation, a dividends-received deduction generally will not be allowed to corporations with respect to dividends paid by us.

We believe we were not a PFIC for 2012 and, based on our current operations, assets and market conditions for our shares, which we cannot anticipate, we may be a PFIC for 2013 see [PFIC Considerations](#) below and the discussion of certain PFIC issues in [Risk Factors](#) above. Therefore, the reduced rate of taxation available to U.S. Holders of a qualified foreign corporation may not be available for 2013.

For United States foreign tax credit limitation purposes, dividends received on our common shares will be treated as foreign source income and will generally be passive category income, or in the case of certain holders, general category income. You may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of foreign withholding taxes, if any, imposed on dividends paid on our common shares. The rules governing United States foreign tax credits are complex, and we recommend that you consult your tax advisor regarding the applicability of such rules to you.

### **Sale, Exchange or Other Disposition of Our Common Shares**

If you are a U.S. Holder of common shares in a taxable year in which we are a PFIC (and any subsequent taxable years), then this section will not apply to you instead, see [PFIC Considerations](#) below. Otherwise, generally, in connection with the sale, exchange or other taxable disposition of our common shares:

you will recognize capital gain or loss equal to the difference (if any) between:

the amount realized on such sale, exchange or other taxable disposition and your adjusted tax basis in such common shares (your adjusted tax basis in the shares you hold generally will equal your U.S. dollar cost of such shares);

such gain or loss will be long-term capital gain or loss if your holding period for our common shares is more than one year at the time of such sale or other disposition;

such gain or loss will generally be treated as United States source for United States foreign tax credit purposes; and

your ability to deduct capital losses is subject to limitations.

Certain U.S. Holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. Holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Company's shares.

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### **PFIC Considerations**

The determination of whether a corporation is a PFIC in any taxable year is made on an annual basis after the close of that year and depends on the composition of its income and the nature and value of its assets including goodwill. Specifically, a corporation will be classified as a PFIC if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of gross income for such taxable year is passive income, or (ii) 50% or more of the value of assets (based on an average of the quarterly values of the assets during such year) is attributable to assets that either produce passive income or are held for the production of passive income (the PFIC asset test). For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income.

A precise determination of the Company's PFIC status for 2009, 2010, 2011 and 2012 would require a valuation of all our assets at each quarter end during each of these years. On the assumption that (i) cash and cash equivalents are passive assets and (ii) the market capitalization plus total liabilities of a company may be considered a proxy for the company's total assets, a calculation based on the average quarter-end book values of our cash and cash equivalents to our market capitalization plus total book liabilities indicates that we exceeded the 50% passive asset threshold for each of 2009, 2010 and 2011 but not for 2012. As a result, we believe we were a PFIC for U.S. federal income tax purposes for 2009, 2010 and 2011 but not for 2012. However, the PFIC asset test requires a determination of the fair market value of each asset and a determination of whether such asset produces or is held for the production of passive income and involves complex legal issues. We have not made a determination of the fair market value of our assets for 2009, 2010, 2011, 2012 or currently in 2013, and we do not intend to make such a determination as we believe that our management and financial resources can be better deployed in other aspects of our business.

If we are classified a PFIC, a special tax regime would apply to both (a) any excess distribution by us (generally, the U.S. Holder's ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such U.S. Holder in the three preceding years or its holding period, if shorter) and (b) any gain recognized on the sale or other disposition of your ordinary shares. Under the PFIC regime, any excess distribution and recognized gain would be treated as ordinary income. The U.S. federal income tax on such ordinary income is determined under the following steps: (i) the amount of the excess distribution or gain is allocated ratably over the U.S. Holder's holding period for our ordinary shares; (ii) tax is determined for amounts allocated to the first year in the holding period in which we were classified as a PFIC and all subsequent years (except the year in which the excess distribution was received or the sale occurred) by applying the highest applicable tax rate in effect in the year to which the income was allocated; (iii) an interest charge is added to this tax calculated by applying the underpayment interest rate to the tax for each year determined under the preceding sentence from the due date of the income tax return for such year to the due date of the return for the year in which the excess distribution or sale occurs; and (iv) amounts allocated to a year prior to the first year in the U.S. Holder's holding period in which we were classified as a PFIC or the year in which the excess distribution or the disposition occurred are taxed as ordinary income and no interest charge applies.

If we were treated as a PFIC, a U.S. Holder of our shares would generally be subject to the PFIC rules described above with respect to distributions by us, and dispositions by us of the stock of, any direct or indirect subsidiaries of ours that are classified as PFICs under either the asset test or the income test, as if such holder received directly its pro-rata share of either the distribution or proceeds from such disposition.

A U.S. Holder may generally avoid the PFIC regime by making a qualified electing fund election which generally provides that, in lieu of the foregoing treatment, our earnings, on a pro rata basis, would be currently included in their gross income. However, we may be unable or unwilling to provide information to our U.S. Holders that would enable them to make a qualified electing fund election; thus, such election may not be available with respect to our shares.

In addition, U.S. Holders may generally avoid the PFIC regime by making the mark-to-market election with respect to our common shares. Although a U.S. Holder may be eligible to make a mark-to-market election with respect to our shares, no such election may be made with respect to the stock of any of our subsidiaries that a U.S. Holder is treated as owning, if such stock is not marketable. Hence, the mark-to-market election generally would not be effective to eliminate the interest charge described above with respect to deemed dispositions of a subsidiary PFIC stock or distributions from a subsidiary PFIC. Marking-to-market, in this context, means including in ordinary income each taxable year the excess, if any, of the fair market value of our common shares over your tax adjusted basis in such common shares as of the end of each year. This mark-to-market election generally enables U.S. Holders to avoid the deferred interest charge that would otherwise be imposed on them if we were to be classified as a PFIC.

An actual determination of PFIC status is factual in nature. Given the complexity of the issues regarding our classification as a PFIC, U.S. Holders are urged to consult their own tax advisors for guidance as to our PFIC status.

#### *Non-U.S. Holders*



If you are not a U.S. Holder, you are a Non-U.S. Holder .

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### **Distributions on Our Common Shares**

You generally will not be subject to U.S. federal income tax, including withholding tax, on distributions made on our common shares unless:

you conduct a trade or business in the United States and the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of income from our common shares, such distributions are attributable to a permanent establishment that you maintain in the United States).

If you meet the two tests above, you generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder, as described above. In addition, any effectively connected dividends received by a non-U.S. corporation may also, under certain circumstances, be subject to an additional branch profits tax at a 30 % rate or such lower rate as may be specified by an applicable income tax treaty.

### **Sale, Exchange or Other Disposition of Our Common Shares**

Generally, you will not be subject to U.S. federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our common shares unless:

your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of gain from the sale or other disposition of our common shares, such gain is attributable to a permanent establishment maintained by you in the United States); or

you are an individual Non-U.S. Holder and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and certain other conditions exist.

You will be subject to tax in respect of any gain effectively connected with your conduct of a trade or business in the United States generally in the same manner as a U.S. Holder, as described above. Effectively connected gains realized by a non-U.S. corporation may also, under certain circumstances, be subject to an additional branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

### **Backup Withholding and Information Reporting**

Payments, including dividends and proceeds of sales, in respect of our common shares that are made in the United States or by a United States related financial intermediary will be subject to United States information reporting rules. In addition, such payments may be subject to United States federal backup withholding tax. You will not be subject to backup withholding provided that:

you are a corporation or other exempt recipient; or

you provide your correct United States federal taxpayer identification number and certify, under penalties of perjury, that you are not subject to backup withholding.

Amounts withheld under the backup withholding rules may be credited against your United States federal income tax, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner.

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Generally, a U.S. shareholder in a PFIC must file IRS Form 8621 for each tax year in which that shareholder: (1) recognizes gain on a direct or indirect disposition of a PFIC stock; (2) receives certain distributions from a PFIC; or (3) makes reportable elections with regard to the PFIC. In addition, in connection with the 3.8% tax previously discussed, shareholders of a PFIC may be required to file information with the IRS with regard to their ownership of shares in the PFIC even in the absence of any of the above described gains, distributions, or elections.

A shareholder that owns 10% or more (taking certain attribution rules into account) of the shares of a non-U.S. corporation may be required to file an information return, Form 5471, containing certain disclosure with regard to itself, other shareholders and the corporation.

In addition, certain U.S. Holders who are individuals that hold certain foreign financial assets as defined in the Code (which may include shares) are required to report information relating to such assets, subject to certain exceptions. U.S. Holders are urged to consult their tax advisors regarding these and any other reporting requirements that may apply with respect to their shares.

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The discussion above is a general summary. It does not cover all tax matters that may be important to you. Investors should consult their tax advisors regarding the application of the U.S. federal tax rules to their particular circumstances as well as the state, local, non-U.S. and other tax consequences to them of the purchase, ownership and disposition of the shares.

## **Documents on Display**

Nam Tai is subject to the information requirements of the Exchange Act, and, in accordance with the Exchange Act, Nam Tai files annual reports on Form 20-F within four months of its fiscal year end, and submits other reports and information under cover of Form 6-K with the SEC. You may read and copy this information at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Recent filings and reports are also available free of charge through the EDGAR electronic filing system at [www.sec.gov](http://www.sec.gov). You can also request copies of the documents, upon payment of a duplicating fee, by writing to the public reference section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room or accessing documents through EDGAR. As a foreign private issuer, Nam Tai is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Currency Fluctuations and Foreign Exchange Risk**

Beginning on December 1, 1996, the RMB became fully convertible under the current accounts. There are no restrictions on trade-related foreign exchange receipts and disbursements in China. However, capital account foreign exchange receipts and disbursements are subject to control, and organizations in China are required to use designated banks for foreign currency transactions.

We sell a majority of our products in U.S. dollars and pay for our material components in Japanese yen, U.S. dollars, Hong Kong dollars, and RMB. We pay labor costs and overhead expenses in RMB, the currency of China (the basic unit of which is the yuan), Hong Kong dollars and Japanese yen.

#### *Hong Kong Dollar*

The exchange rate of Hong Kong dollars to U.S. dollars has been fixed by the Hong Kong government since 1983 at approximately HK\$7.80 to US\$1.00, through the currency-issuing banks in Hong Kong and, accordingly, has not in the past presented a currency exchange risk. This could change in the future.

#### *Japanese Yen*

We face the potential of a material foreign exchange risk resulting from our costs and expenses we pay in Japanese yen. The following chart shows the percentage of our total costs paid in yen and our total sales made in yen during the years ended December 31, 2010, 2011 and 2012.

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Our business and operating results could be materially and adversely affected in the event of a severe increase in the value of the Japanese yen to the U.S. dollar at a time when our sales made in Japanese yen are insufficient to cover our material purchases in Japanese yen. For further information regarding the historical effects on our financial results of fluctuations in the exchange rate of the yen to the U.S. dollar, please see discussion regarding the yen to U.S. dollar exchange rate in ITEM 5. Operating and Financial Review and Prospects Impact of Foreign Currency Fluctuations under the heading: Impact of Foreign Currency Fluctuations, beginning on page 36 of this Report.

*Chinese Renminbi*

Approximately 8% of our total costs and expenses and 2% of our material costs in 2012 were in RMB. The appreciation of the RMB against U.S. dollars in 2012 has increased our costs when translated into U.S. dollars and could adversely affect our margin.

In 2009, the exchange rate of the RMB to U.S. dollars was relatively stable. At the end of 2010, the RMB had appreciated by 3.3% as compared to the year end of 2009. At the end of 2011, the RMB had further appreciated by 4.5% as compared to the year end of 2010. At the end of 2012, the RMB had further appreciated by 1.2% as compared to the year end of 2011.

If the RMB had been 1% and 5% less valuable against the U.S. dollar than the actual rate as of December 31, 2012, which was used in preparing our audited consolidated financial statements as of and for the year ended December 31, 2012, our net asset value, as presented in U.S. dollars, would have been reduced by \$1.3 million and \$6.5 million, respectively. Conversely, if the RMB had been 1% and 5% more valuable against the U.S. dollars as of that date, then our net asset value would have increased by \$1.3 million and \$6.5 million, respectively. Had rates of the RMB been 10% higher relative to the U.S. dollar during 2012, our operating expenses would have increased \$13.1 million as a result of net assets denominated in RMB as of December 31, 2012. For additional information regarding the fluctuation of the exchange rate of the RMB to the U.S. dollar, please see the discussion regarding the RMB to U.S. dollar exchange rate in ITEM 5. Operating and Financial Review and Prospects Impact of Foreign Currency Fluctuations.

Our results of operations may be negatively impacted by fluctuations in the exchange rate between the U.S. dollars and the RMB. If the RMB continues to appreciate against the U.S. dollars, our operating expenses will increase and, consequently, our operating margins and net income will likely decline if we do not manufacture products that allow for greater margins than those we have experienced historically.

**Table of Contents***Currency Hedging*

We may elect to hedge our currency exchange risk when we judge that such action is required. In an attempt to lower the costs of expenditures in foreign currencies, we may enter into forward contracts or option contracts to buy or sell foreign currency (ies) against the U.S. dollar through one of our banks. As a result, we may suffer losses resulting from the fluctuation between the buy forward exchange rate and the sell forward exchange rate, or from the price of the option premium.

As of December 31, 2012, we entered into foreign currency forward contracts to partially offset the foreign currency exchange gains and losses for transactions denominated in non-functional currencies. The gain (loss) recognized in other income and expense for foreign currency forward contracts not designated as hedging instruments was not significant during 2012. We are continuing to review our hedging strategy and there can be no assurance that we will not suffer losses in the future as a result of hedging activities. See also ITEM 11. Quantitative and Qualitative Disclosures About Market Risk – Currency Fluctuations and Foreign Exchange Risks in this Report.

*Currencies included in Cash and Cash Equivalents and Fixed Deposits Maturing Over Three Months*

The following table provides the U.S. dollar equivalent of amounts of currencies included in cash and cash equivalents and fixed deposits maturing over three months on our balance sheets at December 31, 2011 and 2012:

Currencies included in cash and cash equivalents and fixed deposits maturing over three months	As of December 31	
	2011	2012
	(In thousands)	
United States dollars	\$ 74,712	\$ 103,991
Chinese renminbi	67,802	77,768
Japanese yen	1,484	521
Hong Kong dollars	9,337	25,382
<b>Total US\$ equivalent</b>	<b>\$ 153,335</b>	<b>\$ 207,662</b>

**Interest Rate Risk**

Our interest expenses and income are sensitive to changes in interest rates. All of our cash reserves, Trust Receipt loans and short-term borrowings are subject to interest rate changes. Cash on hand of \$157.5 million as of December 31, 2012 was invested in term deposits. As such, interest income will fluctuate with changes in interest rates. During 2012, we had \$2.1 million in interest income and \$0.3 million in interest expense.

As of December 31, 2011 and 2012, we had utilized approximately \$2.1 and \$14.5 million of our credit facilities, including \$2.1 and \$4.9 million in short term notes payable, nil and \$4.8 million in short term bank borrowings, nil and \$3.6 million in short term Trust Receipt loans, nil and \$1.2 million in foreign currency forward contracts, respectively, resulting in minimal interest rate risk.

As of December 31, 2011 and 2012, we had no long-term bank loan.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable to Nam Tai.

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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable to Nam Tai.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable to Nam Tai.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of the end of the period covered by this report, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation pursuant to Rule 13a-15 promulgated under the Exchange Act, of the effectiveness of the design and operation of Nam Tai's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and included controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Report of Management on Internal Control Over Financial Reporting**

Nam Tai's management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Nam Tai's management, including its Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on the assessment, Nam Tai's management, including its Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective based on these criteria.

**Attestation Report of Independent Registered Public Accounting Firm**

The effectiveness of Nam Tai's internal control over financial reporting as of December 31, 2012 has been audited by Moore Stephens, an independent registered public accounting firm. The related report to the shareholders and the Board of Directors of Nam Tai appears on the next page of this Report.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and the Shareholders of Nam Tai Electronics, Inc.:

We have audited the internal control over financial reporting of Nam Tai Electronics, Inc. and its subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's consolidated balance sheet as of December 31, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the financial statement schedules listed in Schedule 1, and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Moore Stephens

Moore Stephens

Certified Public Accountants

Hong Kong

March 15, 2013





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**Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal controls over financial reporting during the year ended December 31, 2012, the period covered by this Report on Form 20-F, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's Board of Directors has determined that one member of the Audit Committee, Mark Waslen, qualifies as an audit committee financial expert as defined by Item 407(d)(5)(ii) of Regulation S-K, adopted pursuant to the Exchange Act. For information concerning Mr. Waslen's education and experience by which he acquired the attributes qualifying him as an audit committee financial expert, please see the description of Mr. Waslen's background in ITEM 6. Directors and Senior Management Directors and Senior Managers of this Report.

Mr. Waslen is independent as that term is defined in the Listed Company Manual of the NYSE.

**ITEM 16 B. CODE OF ETHICS**

The Company has adopted a Code of Ethics for the Chief Executive Officer and Chief Financial Officer, which also applies to the Company's principal executive officers and to its principal financial and accounting officers. The Code of Ethics has been revised to apply to all employees as well. A copy of the revised Code of Ethics is attached as Exhibit 11.1 to this Report on Form 20-F. This code has been posted on our website, which is located at <http://www.namtai.com/corpgov/corpgov.htm>. The contents of this website address, other than the corporate governance guidelines, the code of ethics and committee charters, are not a part of this Form 20-F. Stockholders may request a free copy in print form from:

Paul Lau, Corporate Secretary

Unit 1201, 12th Floor, Tower 1, Lippo Centre

89 Queensway, Admiralty, Hong Kong  
Telephone: (852) 2341 0273

Facsimile: (852) 2263 1001

e-mail: [shareholder@namtai.com](mailto:shareholder@namtai.com)

**ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Moore Stephens has served as our independent registered public accounting firm for the years ended December 31, 2011 and 2012, for which audited consolidated financial statements appeared in this Report on Form 20-F. Each year our Audit Committee of the Board of Directors selects our independent registered public accounting firm and our Board of Directors annually directs us to submit the selection of our independent registered public accounting firm for ratification by shareholders at our annual meeting of shareholders. It is currently expected that the Audit Committee will select Moore Stephens as our independent registered public accounting firm for 2013 and that our Board of Directors will propose at the Annual Meeting of Shareholders to be held in 2013 that Moore Stephens be ratified as our independent registered public accounting firm for 2013.

The following table presents the aggregate fees for professional services and other services rendered by Moore Stephens to us in 2011 and 2012, respectively (dollars in thousands).

	<b>Year ended</b>	
	<b>December 31</b>	
	<b>2011</b>	<b>2012</b>
Audit Fees <sup>(1)</sup>	\$ 396	\$ 479
Audit-related Fees <sup>(2)</sup>		
Tax Fees <sup>(3)</sup>	5	2
All other fees <sup>(4)</sup>		
<b>Total</b>	<b>\$ 401</b>	<b>\$ 481</b>

- (1) Audit Fees consist of fees billed for the annual audit of our consolidated financial statements and the statutory financial statements of our subsidiaries. They also include fees billed for other audit services, which are those services that only the independent registered public accounting firm reasonably can provide, and include the provision of attestation services relating to the review of documents filed with the SEC.

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- (2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements.
- (3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns.
- (4) Includes all other products and services the independent public accounting firm provided to the Company.

**Audit Committee Pre-approval Policies and Procedures**

The Audit Committee of our Board of Directors is responsible, among other matters, for the oversight of the independent registered public accounting firm subject to the relevant regulations of the SEC and NYSE. The Audit Committee has adopted a policy, or the Policy, regarding pre-approval of audit and permissible non-audit services provided by our independent registered public accounting firm.

Under the Policy, the Chairman of the Audit Committee is delegated with the authority to grant pre-approvals in respect of all auditing services including non-audit service, but excluding those services stipulated in Section 201 Service Outside the Scope of Practice of Auditors . Moreover, if the Audit Committee approves an audit service within the scope of the engagement of the audit service, such audit service shall be deemed to have been pre-approved. The decisions of the Chairman of the Audit Committee made under delegated authority to pre-approve an activity shall be presented to the Audit Committee at each of its scheduled meetings.

Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both the independent registered public accounting firm and the Chief Financial Officer.

During 2011 and 2012, 100% and 100%, respectively, of the total audit fees, audit-related fees, tax fees and all other fees were approved by the Audit Committee pursuant to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16 D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable to Nam Tai.

**ITEM 16 E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable to Nam Tai.

**ITEM 16 F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT**

Not applicable to Nam Tai.

**ITEM 16 G. CORPORATE GOVERNANCE**

For information regarding whether our corporate governance standards differ from those applied to US domestic issuers, see the discussion under NYSE listed Company Manual Disclosure in ITEM 6. Directors and Senior Management of this Report.

**ITEM 16 H. MINE SAFETY DISCLOSURE**

Not applicable to Nam Tai.

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**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not Applicable to Nam Tai.

**ITEM 18. FINANCIAL STATEMENTS**

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<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2010, 2011 and 2012</u>	F-2
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The information required within the schedules for which provisions are made in the applicable accounting regulations of the SEC is either not applicable to Nam Tai or is included in the notes to our consolidated financial statements.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and the Shareholders of Nam Tai Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Nam Tai Electronics, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012. Our audit also included the financial statement schedules listed in Schedule 1. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the Company as of December 31, 2011 and 2012, and the results of its operations and its cash flows for each of three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedules listed in Schedule 1, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Moore Stephens

Moore Stephens

Certified Public Accountants

Hong Kong

March 15, 2013

**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands of U.S. dollars, except per share data)**

	Year Ended December 31,		
	2010	2011	2012
Net sales <sup>(1)</sup>	\$ 448,313	\$ 525,077	\$ 1,147,923
Cost of sales	(409,317)	(505,825)	(1,042,146)
Gross profit	38,996	19,252	105,777
General and administrative expenses <sup>(2)</sup>	(22,372)	(21,439)	(28,440)
Selling expenses	(3,702)	(3,919)	(2,666)
Research and development expenses	(4,723)	(2,297)	(1,364)
Impairment loss on goodwill		(2,951)	
Total operating expenses	(30,797)	(30,606)	(32,470)
Income (loss) from operations	8,199	(11,354)	73,307
Other income, net	3,877	9,184	9,787
Interest income	1,462	2,728	2,112
Interest expense			(292)
Income before income tax	13,538	558	84,914
Income tax expenses	(3,672)	(972)	(17,299)
Income (loss) from continuing business, net of income tax	9,866	(414)	67,615
Income (loss) from discontinued business, net of income tax	5,140	919	(694)
Consolidated net income attributable to Nam Tai <sup>(3)</sup> shareholders	15,006	505	66,921
Other comprehensive income			
Consolidated comprehensive income attributable to Nam Tai <sup>(3)</sup> shareholders	\$ 15,006	\$ 505	\$ 66,921
Basic earnings (loss) per share:			
Basic earnings (loss) per share from continuing business	\$ 0.22	\$ (0.01)	\$ 1.51
Basic earnings (loss) per share from discontinued business	\$ 0.11	\$ 0.02	\$ (0.02)
Basic earnings per share	\$ 0.33	\$ 0.01	\$ 1.49
Diluted earnings (loss) per share:			
Diluted earnings (loss) per share from continuing business	\$ 0.22	\$ (0.01)	\$ 1.49
Diluted earnings (loss) per share from discontinued business	\$ 0.11	\$ 0.02	\$ (0.01)
Diluted earnings per share	\$ 0.33	\$ 0.01	\$ 1.48

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- (1) The net sales have excluded the sales from the discontinued business of \$86,108, \$77,240 and \$24,187 for the years ended December 31, 2010, 2011 and 2012, respectively.
  - (2) General and administrative expenses include employee severance benefits of \$656, \$187 and \$3,504 for the years ended December 31, 2010, 2011 and 2012, respectively.
  - (3) Nam Tai refers to Nam Tai Electronics, Inc.
- See accompanying notes to consolidated financial statements.

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**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands of U.S. dollars, except share data)**

	December 31,	
	2011	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 118,510	\$ 157,838
Fixed deposits maturing over three months	34,825	49,824
Accounts receivable, less allowance for doubtful accounts of \$18 and nil at December 31, 2011 and 2012, respectively	65,754	155,557
Derivative financial instrument		99
Inventories	26,515	55,638
Prepaid expenses and other receivables	14,334	29,956
Finance lease receivable - current		3,583
Deferred tax assets - current	3,101	457
Income tax recoverable		169
Current assets from discontinued business	34,179	112
<b>Total current assets</b>	<b>297,218</b>	<b>453,233</b>
Property, plant and equipment, net	137,393	151,555
Finance lease receivable - non-current		8,553
Land use rights	11,981	16,532
Deposits for property, plant and equipment	4,247	
Deferred tax assets - non-current	5,922	5,420
Other assets	982	751
<b>Total assets</b>	<b>\$ 457,743</b>	<b>\$ 636,044</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable	\$ 268	\$ 4,273
Accounts payable	74,429	187,440
Trust Receipt loans		3,558
Accrued expenses and other payables	35,980	41,217
Short term bank borrowings		4,824
Dividend payable	12,545	26,882
Income taxes payable	656	3,164
Current liabilities from discontinued business	10,280	515
<b>Total current liabilities</b>	<b>134,158</b>	<b>271,873</b>
Deferred tax liability - non-current	1,379	1,379
<b>Total liabilities</b>	<b>135,537</b>	<b>273,252</b>
Equity:		
Common shares (\$0.01 par value - authorized 200,000,000 shares, issued and outstanding 44,803,735 shares as at December 31, 2011 and 2012)	448	448
Additional paid-in capital	287,055	287,602

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Retained earnings	34,711	74,750
Accumulated other comprehensive loss	(8)	(8)
<b>Total Nam Tai shareholders' equity</b>	<b>322,206</b>	<b>362,792</b>
Total liabilities and equity	\$ 457,743	\$ 636,044

Commitments and contingencies (Note 18)

See accompanying notes to consolidated financial statements.

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**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

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

	Common Shares Outstanding	Common Shares Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at January 1, 2010	44,803,735	\$ 448	\$ 285,264	\$ 40,706	\$ (8)	\$ 326,410
Equity-settled share-based payment			95			95
Deemed contribution of services			1,584			1,584
Consolidated net income				15,006		15,006
Cash dividends (\$0.20 per share)				(8,961)		(8,961)
Balance at December 31, 2010	44,803,735	\$ 448	\$ 286,943	\$ 46,751	\$ (8)	\$ 334,134
Equity-settled share-based payment			112			112
Consolidated net income				505		505
Cash dividends (\$0.28 per share)				(12,545)		(12,545)
Balance at December 31, 2011	44,803,735	\$ 448	\$ 287,055	\$ 34,711	\$ (8)	\$ 322,206
Equity-settled share-based payment			547			547
Consolidated net income				66,921		66,921
Cash dividends (\$0.60 per share)				(26,882)		(26,882)
Balance at December 31, 2012	44,803,735	\$ 448	\$ 287,602	\$ 74,750	\$ (8)	\$ 362,792

See accompanying notes to consolidated financial statements.

**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands of U.S. dollars)**

	Year ended December 31,		
	2010	2011	2012
Cash flows from operating activities:			
Consolidated net income	\$ 15,006	\$ 505	\$ 66,921
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	24,468	16,068	26,133
Impairment loss on goodwill		2,951	
(Reversal) allowance for inventories	(739)	83	1,282
Provision for goods return			402
(Reversal) allowance for doubtful accounts	(67)	5	45
(Gain) loss on disposal of property, plant and equipment and land use rights	(1,218)	231	(810)
Loss on derivative financial instrument			57
Share-based compensation expenses	95	112	547
Unrealized exchange gain	(2,235)	(4,134)	(648)
(Increase) decrease in deferred income taxes	(2,577)	(2,538)	5,460
Changes in current assets and liabilities:			
Increase in accounts receivable	(16,198)	(298)	(81,245)
Increase in inventories	(12,265)	(2,881)	(25,064)
Increase in prepaid expenses and other receivables	(2,434)	(14,207)	(10,030)
(Increase) decrease in income taxes recoverable	(105)	105	(169)
(Decrease) increase in notes payable	(691)	268	4,005
Increase (decrease) in accounts payable	25,923	(1,535)	104,385
Increase in accrued expenses and other payables	4,354	4,173	15,340
Increase (decrease) in income taxes payable	3,576	(4,228)	3,160
<b>Total adjustments</b>	<b>19,887</b>	<b>(5,825)</b>	<b>42,850</b>
Net cash provided by (used in) operating activities	\$ 34,893	\$ (5,320)	\$ 109,771

**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands of U.S. dollars)**

	Year ended December 31,		
	2010	2011	2012
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and land use rights	\$ (6,295)	\$ (59,858)	\$ (58,444)
(Increase) decrease in deposits for purchase of property, plant and equipment	(445)	(4,066)	4,543
Increase in other assets		(713)	
Payments for derivative financial instruments			(156)
Proceeds from disposal of property, plant and equipment and other assets	2,054	52	264
Cash received from finance lease receivable			1,864
Decrease (increase) in fixed deposits maturing over three months	12,903	(34,825)	(14,999)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 8,217</b>	<b>\$ (99,410)</b>	<b>\$ (66,928)</b>
<b>Cash flows from financing activities:</b>			
Cash dividends paid	\$	\$ (8,961)	\$ (12,545)
Proceeds from Trust Receipt loans			3,558
Proceeds from bank loans			4,824
<b>Net cash used in financing activities</b>	<b>\$</b>	<b>\$ (8,961)</b>	<b>\$ (4,163)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 43,110</b>	<b>\$ (113,691)</b>	<b>\$ 38,680</b>
Cash and cash equivalents at beginning of year	182,722	228,067	118,510
Effect of exchange rate changes on cash and cash equivalents	2,235	4,134	648
<b>Cash and cash equivalents at end of year</b>	<b>\$ 228,067</b>	<b>\$ 118,510</b>	<b>\$ 157,838</b>
<b>Supplemental schedule of cash flow information:</b>			
Interest paid	\$	\$	\$ 278
Income taxes paid	\$ 4,428	\$ 7,136	\$ 8,464
<b>Non-cash investing activities:</b>			
(Decrease) increase in construction cost funded through accrued expenses and other payables	\$ (1,683)	\$ 16,629	\$ (12,296)
<b>Non-cash financing activities:</b>			
Additional paid-in capital on compensation for loss of office	\$ 1,584	\$	\$
See accompanying notes to consolidated financial statements			

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**NAM TAI ELECTRONICS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Company Information**

Nam Tai Electronics, Inc. and subsidiaries (the Company or Nam Tai ) is an electronics manufacturing and design services provider to a selected group of the world's leading original equipment manufacturers, or OEMs, of telecommunication and consumer electronic products. Through its electronics manufacturing services operations, the Company manufactures electronic components and sub-assemblies, including flexible printed circuit board ( FPCB ), FPCB subassemblies, liquid crystal display ( LCD ) modules, LCD panels, thin film transistor display modules, radio frequency modules, digital audio broadcast modules, internet radio subassemblies, image sensors modules and printed circuit board assemblies. These components, modules and subassemblies are used in numerous electronic products including mobile phones, Internet Protocol phones, notebook computers, digital cameras, electronic toys, handheld video game devices and learning devices. The Company also manufactures finished products, including mobile phone accessories, home entertainment products and educational products.

The Company was founded in 1975 and moved its manufacturing facilities to PRC in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates available and subsequently relocated to Shenzhen, PRC in order to capitalize on opportunities offered in Southern PRC. The Company was reincorporated as a limited liability International Business Company under the laws of the British Virgin Islands ( BVI ) in August 1987 (which was amended in 2004 as The British Virgin Islands Business Companies Act, 2004). The Company's principal manufacturing and design operations are based in Shenzhen, approximately 30 miles from Hong Kong. Its PRC headquarters are located in Shenzhen. Some of the subsidiaries' offices are located in Hong Kong, which provide them access to Hong Kong's infrastructure of communication and banking facilities. The Company's principal manufacturing operations are conducted in the PRC. The PRC resumed sovereignty over Hong Kong effective July 1, 1997, and, politically, Hong Kong is an integral part of the PRC. However, for simplicity and as a matter of definition only, our references to PRC in these consolidated financial statements mean the PRC and all of its territories excluding Hong Kong.

Prior to fiscal year 2010, the Company operated in three reportable segments TCA, CECP and LCDP. In 2010 and 2011, the Company's business was consolidated into two segments, TCA and CECP.

In view of the similarity of the products, the Company has merged the LCDP segment into the TCA segment in 2011. In 2012, the Company has excluded the discontinued business of LCDP segment from the TCA segment and separated the TCA segment and FPC segment. Since the first quarter of 2012, the CECP segment fell below the threshold prescribed under FASB ASC 280-10-50-12 and the CECP segment was combined with the TCA segment. Also, since the net loss from the FPC segment was above the threshold prescribed under FASB ASC 280-10-50-12, the FPC segment was separated from the TCA segment.

Management will continue to evaluate the segmentation on an ongoing basis. The Company has decided to discontinue its FPC business by the end of March 2013, because the FPC business has been generating losses since its initial production. The Company will not disclose the FPC segment information separately starting from the first quarter of 2013 as it will be classified as discontinued business.

**2. Summary of Significant Accounting Policies**

**(a) Principles of consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. The Company consolidates companies in which it has controlling interest of over 50%. All significant intercompany accounts, transactions and cash flows have been eliminated on consolidation.

**(b) Cash and cash equivalents**

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

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**Table of Contents****2. Summary of Significant Accounting Policies continued****(c) Allowance for doubtful accounts**

Accounts receivable balance is recorded net of allowances for amounts not expected to be collected from customers. Because the accounts receivable are typically unsecured, the Company periodically evaluates the collectability of accounts based on a combination of factors, including a particular customer's ability to pay as well as the age of the receivables. To evaluate a specific customer's ability to pay, the Company analyzes financial statements, payment history, third-party credit analysis reports and various information or disclosures by the customer or other publicly available information. In cases where the evidence suggests a customer may not be able to satisfy its obligation to the Company, a specific allowance would be set up for the perceived risk. If the financial condition of customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

**(d) Derivative financial instrument**

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Derivative financial instruments are adopted to prudently manage foreign currency exchange rates and not for the purpose of creating speculative positions. Derivatives that we use are primarily foreign currency forward contracts which are either recorded as assets or liabilities at fair value. Any gains or losses derived from derivative financial instruments are recognized in the consolidated statement of comprehensive income.

**(e) Inventories**

Inventories are stated at the lower of cost or market value. Cost is determined on the first-in, first-out basis. The standard cost of work-in-progress and finished goods comprises direct materials, labor and manufacturing overheads. Write downs of potentially obsolete or slow-moving inventory are recorded based on management's analysis of inventory levels.

For the Company's FPC and TCA (excluding LCDP production) reporting units, the Company orders inventory from its suppliers based on firm customer orders for products that are unique to each customer. The inventory is utilized in production as soon as all the necessary components are received. The only reason that inventory would not be utilized within six months is if a specific customer deferred or canceled an order. As the inventory is typically unique to each customer's products, it is unusual for the Company to be able to utilize the inventory for other customers' products. Therefore, the Company's policy is to negotiate with the customer for the disposal of such inventory that remains unused for six months. The Company does not generally write down its inventories as usually, the customers are held to their purchase commitments. However, there are cases where customers are contractually obligated to purchase the unused inventory from the Company, but the Company may elect not to immediately enforce such contractual right for business reasons. In this connection, the Company will consider writing down these inventory items which remained unused for over six months at the Company's own cost. Prior to writing down, management would determine if the inventory can be utilized in other products.

For the Company's LCDP production, due to the nature of the business, the customers do not always place orders enough in advance to enable the Company to order inventory from suppliers based on firm customer orders. Nonetheless, management reviews its inventory balance on a regular basis and writes down all inventory over six months old if it is determined that the relevant inventory cannot be utilized in the foreseeable future.

**(f) Finance lease receivable**

Finance lease receivable derived from sales of property, plant and equipment comprised of the minimum lease payments due on the direct financial lease. From April 1, 2012, monthly interest income has been recognized in the consolidated statement of comprehensive income based on principal balance of \$14,000 at an annual interest rate of 10%.

**(g) Property, plant and equipment and land use rights**

Property, plant and equipment and land use rights are recorded at cost and include interest on funds borrowed to finance construction, if applicable. For the years ended December 31, 2010, 2011 and 2012, an interest of nil, \$13 and nil was capitalized, respectively. The cost of



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major improvements and betterments is capitalized whereas the cost of maintenance and repairs is expensed in the year incurred. Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use. Gains and losses from the disposal of property, plant and equipment and land use rights are included in the consolidated statement of comprehensive income.

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**Table of Contents****2. Summary of Significant Accounting Policies continued****(g) Property, plant and equipment and land use rights continued**

The majority of the land in Hong Kong is owned by the government of Hong Kong which leases the land at public auction to non-governmental entities. All of the Company's leasehold land in Hong Kong have leases of not more than 50 years from the respective balance sheet dates. The cost of such leasehold land is amortized on a straight-line basis over the respective terms of the leases.

All land in other regions of the PRC is owned by the PRC 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 leasehold land and classified as land use rights in the consolidated balance sheet. They are amortized on a straight-line basis over the respective term of the right to use the land. At December 31, 2012, the land use right certificates in respect of certain lands in Wuxi with carrying amounts of \$4,833 have not been issued by the relevant government authority in the PRC.

Since August 1, 2009, in order to reflect a more reasonable estimation on the useful lives of the property, plant and equipment, the Company computed depreciation expenses using the straight-line method at the following depreciation rates:

Classification	Prior to August 1, 2009	Years
Land use rights	50 years	50 years
Buildings	20 to 50 years	20 years
Machinery and equipment	4 to 12 years	4 years
Leasehold improvements	shorter of lease term or 7 years	shorter of lease term or 4 years
Furniture and fixtures	4 to 8 years	4 years
Automobiles	4 to 6 years	4 years
Tools and molds	4 to 6 years	2 years

**(h) Goodwill**

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized, but is tested for impairment at the reporting unit level at least on an annual basis at the balance sheet date or more frequently if certain indicators arise. For the years 2010 and 2011, the Company operated in two reporting units, which are its reportable segments of TCA and CECP. If business conditions or other factors cause the profitability and cash flows to decline, the Company may be required to record impairment charges for goodwill at that time. The goodwill impairment review is a two-step process in accordance with the FASB ASC 350-20

Goodwill. First step consists of a comparison of the fair value of a reporting unit with its carrying value. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows method. If the carrying amount of a reporting unit exceeds its fair value, second step requires the fair value of the reporting unit to be allocated to all of the assets and liabilities (including any unrecognized intangible assets) of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment loss is recognized which is equal to the excess of the carrying amount over the fair value.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment loss recognized. Discounted cash flow methodology is based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rate, long-term growth rate and appropriate market comparables.

Impairment loss on goodwill of the CECP reporting unit of nil and \$2,951, were identified and recognized in 2010 and 2011, respectively. Goodwill was fully impaired since December 31, 2011.

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**2. Summary of Significant Accounting Policies continued****(i) Impairment or disposal of long-lived assets**

Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In accordance with FASB ASC 360 *Property, Plant and Equipment* the

Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company recognizes an impairment loss to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology or obtains external appraisals from independent valuation firms. The undiscounted and discounted cash flow analyses based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

Long-lived assets to be disposed of are stated at the lower of fair value or carrying value. Expected future operating losses from discontinued operations are recorded in the periods in which the losses are incurred. In view of the sustained level of the Company's stock price during 2010 and 2011 and our resulting market capitalization throughout 2010 and 2011 at a level below our recorded book value at December 31, 2010 and 2011, respectively, in accordance with FASB ASC 360 *Property, Plant and Equipment*, the Company conducted a review of Nam Tai's long-lived assets for potential impairment.

In 2010 and 2011, management assessed and determined that there were no events or changes in circumstances to indicate that the carrying amounts of long-lived assets in Nam Tai's Shenzhen facilities were not recoverable and there were no impairment tests conducted with respect to those assets. In 2011, in view of the continuous operating losses and negative cash flows in Nam Tai's Wuxi facilities, the Company assessed the impairment of its long-lived assets used in the Wuxi facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated that the carrying amounts of the Company's long-lived assets at December 31, 2011 were less than the undiscounted cash flows.

In 2012, management assessed and determined that there were no events or changes in circumstances to indicate that the carrying amount of long-lived assets in Nam Tai's Shenzhen facilities were not recoverable and there were no impairment tests conducted with respect to those assets. In view of the fluctuations of future customer orders in Wuxi, the Company assessed the impairment of its long-lived assets used in the Wuxi facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated the carrying amounts of the company's long-lived assets at December 31, 2012 were less than the undiscounted cash flows.

No impairment was recognized in respect of the Company's long-lived assets for the years ended December 31, 2010, 2011 and 2012.

**(j) Accruals and provisions for loss contingencies**

The Company makes provisions for all loss contingencies when information available prior to the issuance of the consolidated financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and the amount of loss can be reasonably estimated.

For provisions or accruals related to litigation, the Company makes provisions based on information from legal counsels and the best estimation of management. The Company assesses the potential liability for the significant legal proceedings in accordance with FASB ASC 450

*Contingencies*. FASB ASC 450 requires a liability to be recorded if the contingency loss is probable and the amount of loss can be reasonably estimated. The actual resolution of the contingency may differ from the Company's estimates. If the contingency was settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency was settled for an amount that is less than our estimate, a future credit to income would result.

**(k) Revenue recognition**

The Company recognizes revenue when all of the following conditions are met:

Persuasive evidence of an arrangement exists;

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**2. Summary of Significant Accounting Policies continued**

**(k) Revenue recognition continued**

Delivery has occurred or services have been rendered;

Price to the customer is fixed or determinable; and

Collectability is reasonably assured.

Revenue from sales of products is recognized when the title is passed to customers upon shipment and when collectability is reasonably assured. The Company does not provide its customers with the right of return (except for quality), price protection, rebates or discounts. There are no customer acceptance provisions associated with the Company's products, except for quality. All sales are based on firm customer orders with fixed terms and conditions, which generally cannot be modified.

Certain of the Company's subsidiaries are subject to value-added tax of 17% on the revenue earned for goods and services sold in the PRC. The Company presents revenue net of such value-added tax which amounted to \$73, \$378 and \$411 for the years ended December 31, 2010, 2011 and 2012, respectively.

**(l) Shipping and handling costs**

Shipping and handling costs are classified as cost of sales for materials purchased and selling expenses for those costs incurred in the delivery of finished products. During the years ended December 31, 2010, 2011 and 2012, shipping and handling costs classified as costs of sales were \$258, \$499 and \$278, respectively. During the years ended December 31, 2010, 2011 and 2012, shipping and handling costs classified as selling expenses were \$318, \$530 and \$446, respectively.

**(m) Research and development costs**

Research and development costs are incurred in the development of new products and processes, including significant improvements and refinements to existing products and are expensed as incurred.

**(n) Advertising expenses**

The Company expenses advertising costs as incurred. No advertising expenses were recognized for the years ended December 31, 2010 and 2011, respectively. Advertising expenses was \$348 for the year ended December 31, 2012.

**(o) Staff retirement plan costs**

The Company's costs related to the staff retirement plans (see Note 15) are charged to the consolidated statement of comprehensive income as incurred.

**(p) Income taxes**

Deferred income taxes are provided using the asset and liability method in accordance with FASB ASC 740 *Income Taxes*. Under this method, deferred income taxes are recognized for all significant temporary differences at enacted rates and classified as current or non-current based upon the classification of the related asset or liability in the consolidated financial statements. A valuation allowance is provided to reduce the

amount of deferred tax assets if it is considered more likely than not that some portion of, or all, the deferred tax asset will not be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties from tax assessments, if any, are included in income taxes in the consolidated statement of comprehensive income.

**(q) Foreign currency transactions and translations**

All transactions in currencies other than functional currencies during the year are translated at the exchange rates prevailing on the respective transaction dates. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than functional currencies are remeasured at the exchange rates existing on that date. Exchange differences are recorded in the consolidated statement of comprehensive income.

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**2. Summary of Significant Accounting Policies continued**

**(q) Foreign currency transactions and translations continued**

The functional currencies of the Company and its subsidiaries include the U.S. dollar or the Hong Kong dollar. The financial statements of all subsidiaries are translated in accordance with FASB ASC 830 *Foreign Currency Matters*.

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. All exchange differences arising from the translation of subsidiaries' financial statements are recorded as a component of comprehensive income.

**(r) Earnings per share**

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the year. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

**(s) Stock options**

The Company has two stock-based employee compensation plans, as more fully described in Note 13(b). The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models. If the award is modified after the grant date, incremental compensation cost is recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

**(t) Use of estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(u) Comprehensive loss**

Accumulated other comprehensive loss represents principally foreign currency translation adjustments and is included in the consolidated statement of changes in equity.

**(v) Fair value of financial instruments**

The Company adopted FASB ASC 820 *Fair Value Measurements and Disclosures* to measure its assets and liabilities.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and based the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, fixed deposits maturing over three months, accounts receivable, other receivables, notes payable, accrued expenses and accounts payable, trust receipt loans, other payables, short term borrowings, and dividend payable approximate their fair values due to the short term nature of these instruments.

The fair value of the Company's derivative financial instruments is detailed in Note 4.

As of December 31, 2011 and 2012, the Company did not have any non financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements, at least annually, on a recurring basis.



**Table of Contents****2. Summary of Significant Accounting Policies continued****(w) Concentration of other risk**

The market for our products is characterized by rapidly changing technology and evolving industry standards. The Company's results of operations are affected by a wide variety of factors, including general economic conditions; manufacturing capacity; the ability to manufacture efficiently; demand for the Company's products; competition and intellectual property in a rapidly evolving market. As a result, the Company may experience substantial period-to-period fluctuations in future operating results due to the factors mentioned above.

**(x) Recent changes in accounting standards**

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Asset and Liabilities*, which clarifies the scope of the offsetting disclosures of ASU 2011-11. Both ASUs are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. The Company believes that its adoption of these ASUs will not have any material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which provides companies an option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, as a result of the qualitative assessment, it is determined that it is not more likely than not that the indefinite-lived intangible assets is impaired, then the Company is not required to take further action. ASU No. 2012-02 will be effective for the Company for impairment tests of indefinite-lived intangible assets performed in the fiscal year beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance will have no impact on the Company's consolidated financial position, results of operations and cash flows.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*, which makes certain technical corrections and conforming fair value amendments to the FASB Accounting Standards Codification. The amendments affect various codification topics and apply to all reporting entities within the scope of those topics. These provisions of the amendment are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The Company believes that its adoption of ASU 2012-04 will not have any material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The Company believes that its adoption of ASU 2013-02 will not have any material impact on its consolidated financial statements.

**3. Inventories**

Inventories consist of the following:

At December 31,	2011	2012
Raw materials	\$ 18,315	\$ 38,511
Work-in-progress	3,455	11,508

Finished goods	4,745	5,619
	\$ 26,515	\$ 55,638

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**Table of Contents****4. Derivative Financial Instrument**

The Company entered into foreign currency forward contracts to partially offset the foreign currency exchange gains and losses for transactions denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company's derivatives that are not designated as hedging instruments are adjusted to fair value through consolidated statement of comprehensive income to which the derivative relates. The gain (loss) recognized in other income and expense for foreign currency forward contracts not designated as hedging instruments was not significant during 2012. No foreign currency forward contract was outstanding as of December 31, 2010 and 2011.

The following table shows the notional principal amount of the Company's outstanding derivative instrument, its credit risk amount and its fair value associated with outstanding or unsettled derivative instrument as of December 31, 2012.

	2012		Fair value of derivatives not designated as hedge instrument
	Notional principal	Credit risk amount	
<b>Instruments not designated as accounting hedge:</b>			
Foreign currency forward contract <sup>(1)</sup>	\$ 12,200	\$ 99	\$ 99

(1) The fair value is measured using Level 2 fair value inputs and is recorded as current assets in the consolidated balance sheet. The notional principal amount for outstanding derivative instrument provides one measure of the transaction volume outstanding and does not represent the amount of the Company's exposure to credit or market loss. The credit risk amount represents the Company's gross exposure to potential accounting loss on derivative instrument that is outstanding or unsettled if the counterparty failed to perform according to the terms of the contract, based on then-current currency exchange rate at each respective date. The Company's exposure to credit loss and market risk will vary over time as a function of currency exchange rates. Although the table above reflects the notional principal and credit risk amount of the Company's foreign exchange instrument, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange instrument is intended to hedge. The amount ultimately realized upon settlement of the financial instrument, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instrument.

**5. Finance Lease Receivable**

Contractual maturities on finance lease receivable are as follows:

Years ending December 31,	Contractual maturities
2013	\$ 3,583
2014	3,566
2015	3,939
2016	1,048
<b>Total</b>	<b>\$ 12,136</b>

**Table of Contents****6 Property, Plant and Equipment, net**

Property, plant and equipment, net consist of the following:

At December 31,	2011	2012
At cost:		
Buildings	\$ 93,913	\$ 93,913
Machinery and equipment	92,202	121,070
Leasehold improvements	22,886	20,550
Furniture and fixtures	3,768	4,837
Automobiles	943	621
Tools and molds	337	752
 Total	 214,049	 241,743
Less: accumulated depreciation	(129,355)	(117,492)
 Construction in progress	 84,694	 124,251
	52,699	27,304
 Net book value	 \$ 137,393	 \$ 151,555

Depreciation expenses were \$17,265, \$13,082 and \$24,672 for the years ended December 31, 2010, 2011 and 2012, respectively.

**7. Goodwill**

A summary of the changes in the carrying value of goodwill, by reporting unit, is as follows:

	CECP reporting unit
At December 31, 2010	\$ 2,951
Impairment loss recognized during the year	(2,951)
At December 31, 2011 and 2012	

In 2010, the fair value of the CECP reporting unit was determined using a discounted cash flow methodology, based on a discount rate of 8.6% and expected future cash flows. The expected future cash flows were based on a five-year plan provided by management and with a reasonable growth rate covering the five-year period as well as the period beyond. The Company completed its annual impairment analysis for 2010 and concluded that the fair value of the CECP reporting unit exceeded its carrying value as of December 31, 2010. Therefore, no impairment loss was recognized in 2010.

In 2011, the Company performed impairment test for goodwill by comparing the fair value of the CECP reporting unit with its carrying amount, including goodwill. The fair value of the CECP reporting unit was determined using a discounted cash flow methodology, based on a discount rate of 8.17% and expected future cash flows provided by management. As there were only two customers left in the CECP segment, the future cash flows were significantly reduced, therefore, the fair value of the CECP reporting unit is less than its carrying value (including goodwill) as of December 31, 2011. The Company further performed step 2 of the impairment test and allocated the fair value of the CECP reporting unit to all assets and liabilities, and to any unrecognized intangibles, as if the CECP reporting unit had been acquired at December 31, 2011. As the implied fair value of goodwill is zero, an impairment loss of \$2,951 was recognized in 2011. Goodwill was fully impaired since December 31, 2011.

## 8. Investments in Subsidiaries

Subsidiaries	Place of Incorporation	Principal activity	Percentage of Ownership as at December 31,	
			2011	2012
<b>Consolidated principal subsidiaries:</b>				
Nam Tai Electronic & Electrical Products Limited ( NTEEP )	Cayman Islands	Investment holding	100%	100%
Nam Tai Holdings Limited ( NTHL )	BVI	Investment holding	100%	100%
Nam Tai Group Management Limited ( NTGM )	Hong Kong	Inactive	100%	100%
Nam Tai Telecom (Hong Kong) Company Limited ( NTT )	Hong Kong	Inactive	100%	100%
Nam Tai Trading Company Limited ( NTTC )	Hong Kong	In liquidation	100%	100%
Nam Tai Investment Limited ( NTIL )	Hong Kong	De-registered	100%	
J.I.C. Enterprises (HK) Ltd. ( JICE <sup>(1)</sup> )	Hong Kong	Inactive		100%
Namtai Investment (Shenzhen) Co., Ltd. ( NTISZ )	PRC	Investment holding	100%	100%
Zastron Electronic (Shenzhen) Co., Ltd. ( Zastron Shenzhen )	PRC	Manufacturing and trading	100%	100%
Wuxi Zastron Precision-Flex Co., Ltd. ( Wuxi Zastron-Flex )	PRC	Manufacturing and trading	100%	100%

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**Table of Contents****8. Investments in Subsidiaries continued**

- (1) NTHL acquired a 100% equity interest in JICE for a consideration of HK\$1.00 on August 2, 2012, which was incorporated in February 1983 in Hong Kong. JICE issued the share capital HK\$500,000 which is made up of 500,000 ordinary shares of HK\$1 each. The primary reason of acquisition is for re-organization.

**9. Retained Earnings and Reserves**

The Company's 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 payment of dividends and the distribution of dividends from the PRC. On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the New Law) by Order No. 63 of the President of the PRC. Please refer to Note 16 for further details of the New Law. The New Law became effective from January 1, 2008. Prior to the enactment of the New Law, when dividends were paid by the Company's PRC subsidiaries, such dividends would reduce the amount of reinvested profits and accordingly, the refund of taxes paid might be reduced to the extent of tax applicable to profits not reinvested. Subsequent to the enactment of the New Law, due to the removal of tax benefit related to reinvestment of capital in PRC subsidiaries, the Company may not reinvest the profits made by the PRC subsidiaries. Payment of dividends by PRC subsidiaries to foreign investors on profits earned subsequent to January 1, 2008 will also be subject to withholding tax under the New Law. In addition, pursuant to the relevant PRC regulations, a certain portion of the profits made by these subsidiaries must be set aside for future capital investment and are not distributable, and the registered capital of the Company's PRC subsidiaries are also restricted. These reserves and registered capital of the PRC subsidiaries amounted to \$327,697 and \$350,256 as of December 31, 2011 and 2012, respectively. However, the Company believes that such restrictions will not have a material effect on the Company's liquidity or cash flows.

**10. Accrued Expenses and Other Payables**

Accrued expenses and other payables consisted of the following:

At December 31,	2011	2012
Accrued salaries	\$ 3,003	\$ 6,142
Accrued bonus	1,967	3,833
Accrued tooling and equipment charges	3,485	865
Accrued professional fees	1,607	2,479
Construction payable	17,025	5,435
Advance received from a customer		16,644
Others	8,893	5,819
	\$ 35,980	\$ 41,217

**11. Bank Loans and Banking Facilities**

As at December 31, 2012, a subsidiary of the Company obtained an unsecured half-year term loan of \$4,815 at an interest rate of 6.44%. There were no restrictive financial covenants associated with this term loan.

The subsidiaries of the Company have credit facilities with various banks representing notes payable, trade acceptances, import facilities, revolving loans and overdrafts. At December 31, 2011 and 2012, these facilities totaled \$8,159 and \$176,256, of which \$6,012 and \$161,794 were unused at December 31, 2011 and 2012, respectively. The maturity of these facilities is generally up to 180 days. Interest rates are generally based on the banks' usual lending rates in Hong Kong or the PRC and the credit lines are normally subject to annual review. The banking facilities are secured by guarantee given by NTISZ and cross guarantee given by Zastron Shenzhen and Wuxi Zastron-Flex.



**Table of Contents****11. Bank Loans and Banking Facilities continued**

Total banking facilities utilized which are usance bills pending maturity may not agree to notes payable due to bank having not yet received the bills of goods from vendors as of the balance sheet date.

At December 31,	2011	2012
Short term bank borrowings	\$	\$ 4,824
Trust Receipt loans		3,558
Usance bills pending maturity	2,147	4,860
Foreign currency forward contract		1,220
<b>Total banking facilities utilized</b>	<b>2,147</b>	<b>14,462</b>
Less: Outstanding letters of credit	(1,879)	(587)
Less: Foreign currency forward contract		(1,220)
Notes payable, short term bank borrowings and Trust Receipt loans	\$ 268	\$ 12,655

The weighted average interest rate was 6.29% per annum.

**12. Discontinued Business**

After the final evaluation on the viability of its LCDP business based on its performance in the first quarter of 2012, the Company has decided to exit its LCDP business which produces LCD modules by the end of March 2012. The operation of this LCDP business ceased in December 2012.

Summarized financial information for our discontinued business related to LCDP is as follows:

	2010	2011	2012
Net sales	86,108	77,240	24,187
Income (loss) before income tax	6,719	479	(978)
Income tax (expenses) credit	(1,579)	440	284
Income (loss) from discontinued business, net of income tax	5,140	919	(694)
Accounts receivable		8,715	112
Inventories		5,341	
Prepaid expense and other receivables		5,592	
Deferred tax assets		2,314	
Property, plant and equipment, net		11,921	
Deposits for property, plant and equipment		296	
<b>Total assets</b>		<b>34,179</b>	<b>112</b>
Accounts payable		8,626	
Accrued expenses and other payables		2,306	515
Income taxes payable		(652)	



Total liabilities	10,280	515
Net assets (liabilities) of discontinued business	23,899	(403)

### 13. Equity

(a) The Company has only one class of common shares authorized, issued and outstanding.

#### (b) Stock Options

In May 2001 (and amended in July 2004 and in November 2006), the Board of Directors approved a stock option plan which allows for the grant of 15,000 options to each non-employee director of the Company elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of the Company or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan based on past performance and/or expected contributions to the Company. The maximum number of shares to be issued pursuant to the exercise of options granted was 3,300,000 shares. The options granted under this plan generally have a term of two to three years, subject to the discretion of the Board of Directors, but cannot exceed ten years.

**Table of Contents****13. Equity continued****(b) Stock Options continued**

In February 2006, the Board of Directors approved another stock option plan, which was subsequently approved by the shareholders at the 2006 annual general meeting of shareholders, with the same terms and conditions. However, the maximum number of shares to be issued pursuant to exercise of options granted was 2,000,000 shares.

In February 2012, the Board of Directors approved the grant of stock options to a director of the Company. The number of stock options to be granted will range from 200,000 to 600,000, which is determined by achievement of 6% to 10% of return on total shareholders' equity as at December 31, 2011 in the 12 months for the period from April 1, 2012 to March 31, 2013.

In April 2012, the Board of Directors approved the grant of stock options to employees of the Company. The number of stock options to be granted will range from 277,000 to 831,000, which is determined by achievement of 6% to 10% of return on total shareholders' equity as at December 31, 2011 in the 9 months for the period from April 1, 2012 to December 31, 2012.

In June 2012, a service contract was entered into with a consultant commencing from July 2, 2012, for a consideration of 12,000 share options for a term of two years.

A summary of stock option activity during the three years ended December 31, 2012 is as follows:

	Number of options	Weighted average exercise price	Weighted average fair value per option	Aggregate intrinsic value
Outstanding and exercisable at January 1, 2010	75,000	\$ 4.41	\$ 0.89	
Granted	60,000	\$ 4.45	\$ 1.58	
Surrendered	(15,000)	\$ 4.41	\$ 0.89	
Outstanding and exercisable at December 31, 2010	120,000	\$ 4.43	\$ 1.24	
Granted	60,000	\$ 5.92	\$ 1.87	
Outstanding and exercisable at December 31, 2011	180,000	\$ 4.93	\$ 1.45	
Granted	1,503,000	\$ 6.03	\$ 1.26	
Expired	(60,000)	\$ 4.41	\$ 0.89	
Outstanding and exercisable at December 31, 2012	1,623,000	\$ 5.97	\$ 1.29	\$ 12,741
Exercisable at December 31, 2012				\$ 1,584
Expected to vest after December 31, 2012				\$ 11,157

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable.

Details of the options granted by the Company in 2010, 2011 and 2012 are as follows:

Number of options granted	Vesting period	Exercise price	Exercisable period	Weighted remaining contractual life in months

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<b>In 2010</b>					
60,000	100% vested at date of grant	\$4.45	June 3, 2010 to June 2, 2013	5.0	
<b>In 2011</b>					
60,000	100% vested at date of grant	\$5.92	June 10, 2011 to June 9, 2014	17.3	
<b>In 2012</b>					
600,000	100% will vest in April 2013*	\$6.66	April 1, 2013 to February 9, 2015	25.3	
831,000	50% vested in January 2013 and 50% will vest in January 2014*	\$5.63	January 1, 2013 to April 26, 2015	27.9	
60,000	100% vested at date of grant	\$5.34	June 6, 2012 to June 5, 2015	29.2	
12,000	1,000 shares monthly from August 1, 2012	\$5.95	August 1, 2012 to July 31, 2014	19.0	

\* Subject to achievement of performance target.

There was approximately nil, nil and \$1,340 of unrecognized compensation expense related to non-vested stock options granted under the Company's option plan at December 31, 2010, 2011 and 2012. The total amount of recognized compensation expenses in 2010, 2011 and 2012 was \$95, \$112 and \$547, respectively.

The above summarizes information about stock options outstanding at December 31, 2012. 185,000 stock options are exercisable as of December 31, 2012.

The total fair value of shares vested during fiscal years ended December 31, 2010, 2011 and 2012 was \$95, \$112 and \$66, respectively.

**Table of Contents****13. Equity continued****(b) Stock Options continued**

The weighted average remaining contractual life of the stock options outstanding at December 31, 2010, 2011 and 2012 was approximately 23, 17 and 26 months, respectively. The weighted average fair value of options granted during 2010, 2011 and 2012 was \$1.58, \$1.87 and \$1.26, respectively, using the Black-Scholes option-pricing model based on the following assumptions:

Year ended December 31,	2010	2011	2012
Risk-free interest rate	1.25%	0.75%	0.30% to 0.39%
Expected life	3 years	3 years	2 years to 3 years
Expected volatility	51.23%	50.99%	38.57 % to 41.45%
Expected dividend yield		1.69%	3.30% to 4.49%

**(c) Share Buy-back**

No shares were repurchased during the years ended December 31, 2010, 2011 and 2012.

**(d) Share Redemptions and Reinstatement of Redeemed Shares**

On January 22, 1999, pursuant to its Articles of Association, the Company redeemed and canceled 415,500 shares of the Company registered in the name of Tele-Art Inc. ( Tele-Art ) at a price of \$3.73 per share for \$1,549.

On August 12, 2002, pursuant to its Articles of Association, the Company redeemed and canceled an additional 509,181 shares of the Company beneficially owned by Tele-Art at a price of \$6.14 per share for \$3,125.

No shares have been redeemed since August 12, 2002.

On November 20, 2006, judgment was rendered by the Lords of the Judicial Committee of the Privy Council of the United Kingdom (the Privy Council ), declaring that the redemptions by the Company of its common shares beneficially owned by Tele-Art on January 22, 1999 and August 12, 2002 were nullities and that the register of members of the Company (i.e. the Company's shareholders' register) should be rectified to reinstate the redeemed shares together with any other shares which have since accrued by way of exchange or dividend.

Following the November 20, 2006 judgment, the Company received the order from the Privy Council on January 9, 2007 to rectify the share register of Nam Tai by registering such 1,017,149 (after adjustment of the 1 for 10 stock dividend on November 7, 2003) shares (the Redeemed Shares ) in the name of Bank of China (Hong Kong) Limited ( Bank of China ). In March 2007, the Company issued the 1,017,149 common shares. However, as the court judgment was determined in 2006, the Company accounted for the obligation to reinstate the Redeemed Shares at their fair value (i.e. market closing price) on November 20, 2006, the date of the judgment.

**14. Earnings Per Share**

The calculations of basic earnings per share and diluted earnings per share are computed as follows:

Income	Weighted average number of shares	Per share amount
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**Year ended December 31, 2010**

Basic earnings per share from continuing business	\$ 9,866	44,803,735	\$ 0.22
Basic earnings per share from discontinued business	\$ 5,140	44,803,735	\$ 0.11
Basic earnings per share	\$ 15,006	44,803,735	\$ 0.33
Effect of dilutive securities	Stock options	18,025	
Diluted earnings per share from continuing business	\$ 9,866	44,821,760	\$ 0.22
Diluted earnings per share from discontinued business	\$ 5,140	44,821,760	\$ 0.11
Diluted earnings per share	\$ 15,006	44,821,760	\$ 0.33

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**Table of Contents****14. Earnings Per Share continued**

	Income (loss)	Weighted average number of shares	Per share amount
<b>Year ended December 31, 2011</b>			
Basic loss per share from continuing business	\$ (414)	44,803,735	\$ (0.01)
Basic earnings per share from discontinued business	\$ 919	44,803,735	\$ 0.02
Basic earnings per share	\$ 505	44,803,735	\$ 0.01
Effect of dilutive securities		37,467	
Stock options			
Diluted loss per share from continuing business	\$ (414)	44,841,202	\$ (0.01)
Diluted earnings per share from discontinued business	\$ 919	44,841,202	\$ 0.02
Diluted earnings per share	\$ 505	44,841,202	\$ 0.01
<b>Year ended December 31, 2012</b>			
Basic earnings per share from continuing business	\$ 67,615	44,803,735	\$ 1.51
Basic loss per share from discontinued business	\$ (694)	44,803,735	\$ (0.02)
Basic earnings per share	\$ 66,921	44,803,735	\$ 1.49
Effect of dilutive securities		541,518	
Stock options			
Diluted earnings per share from continuing business	\$ 67,615	45,345,253	\$ 1.49
Diluted loss per share from discontinued business	\$ (694)	45,345,253	\$ (0.01)
Diluted earnings per share	\$ 66,921	45,345,253	\$ 1.48

**15. Staff Retirement Plans**

The Company operates a Mandatory Provident Fund ( MPF ) scheme for all qualifying employees in Hong Kong. The MPF is defined contribution scheme and the assets of the scheme are managed by trustees independent to the Company.

The MPF is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Company in Hong Kong. Contributions are made by the Company at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose per employee is \$3 per month. Staff members are entitled to 100% of the Company's contributions together with accrued returns irrespective of their length of service with the Company, but the benefits are required by law to be preserved until the retirement age of 65 for employees in Hong Kong.

According to the applicable laws and regulations in the PRC, the Company is required to contribute 10%-11% and 20% of the stipulated salary set by the local government of Shenzhen and Wuxi, respectively. The principal obligation of the Company with respect to these retirement benefit schemes is to make the required contributions under the scheme. No forfeited contributions may be used by the employer to reduce the existing level of contributions.

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The cost of the Company's contribution to the staff retirement plans in Hong Kong and the PRC amounted to \$1,715, \$2,317 and \$3,863 for the years ended December 31, 2010, 2011 and 2012, respectively.

### 16. Income Taxes

The components of income before income tax are as follows:

<b>Year ended December 31,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
PRC, excluding Hong Kong	\$ 18,686	\$ 6,923	\$ 87,504
Hong Kong and other jurisdictions	(5,148)	(6,365)	(2,590)
	\$ 13,538	\$ 558	\$ 84,914

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**Table of Contents****16. Income Taxes continued**

The Company's income is not subject to taxation in BVI under the current BVI law. Subsidiaries operating in Hong Kong and the PRC are subject to income taxes as described below. Under the current Cayman Islands law, NTEEP is not subject to profit tax in the Cayman Islands as it has no business operations in the Cayman Islands. However, it may be subject to Hong Kong income taxes as described below if they have income earned in or derived from Hong Kong, if applicable.

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the rate of taxation of 16.5% for the years ended December 31, 2010, 2011 and 2012 to the estimated income earned in or derived from Hong Kong during the respective years, if applicable.

On March 16, 2007, the PRC promulgated the New PRC Tax Law. Under the New Law which became effective from January 1, 2008, inter alia, the tax refund to a Foreign Investment Enterprises ( FIEs ) whose foreign investor directly reinvests by way of capital injection its share of profits obtained from that FIE or another FIE owned by the same foreign investor in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years under the capital reinvestment scheme is removed. In addition, under the New Law, all enterprises (both domestic enterprises and FIEs) will have one uniform tax rate of 25%. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate from 15% to 18%, 20%, 22%, 24% and 25% for years ended December 31, 2008, 2009, 2010, 2011, 2012 and afterwards, respectively, for Shenzhen PRC subsidiaries. Moreover, under the New Law, there is no reduction in the tax rate for FIEs such as Zastron Shenzhen, which

export 70% or more of the production value of their products with effect from January 1, 2008. As such, the Shenzhen PRC subsidiaries do not have any further benefit since the implementation of the New Law in 2008.

For our subsidiary in Wuxi, China, it is granted a 5-year tax benefit. According to the PRC tax regulation, Guo Shui Fa (2007) No. 39 issued in 2007, Wuxi Zastron-Flex is entitled to full exemption for the first two years starting 2008 and 50% exemption for the following three years accordingly, and from January 2013, Wuxi Zastron-Flex will have one uniform tax rate of 25%.

The Company, which has subsidiaries that are tax resident in the PRC, will be subject to the PRC dividend withholding tax of 5% when and if undistributed earnings are declared to be paid as dividends commencing on January 1, 2008 to the extent those dividends are paid out of profits that arose on or after January 1, 2008.

The limitation of the Company's obligation for the 5% dividend withholding tax to only those dividends paid out of earnings that arose on or after January 1, 2008 is due to guidance issued by the PRC government in February 2008. As such, the Company's tax provision includes \$276, nil and nil of income tax expense for the 5%-10% dividend withholding tax on the balance of distributable earnings that arose on or after January 1, 2008 within its PRC subsidiaries as of December 31, 2010, 2011 and 2012, respectively.

Uncertainties exist with respect to how the PRC's current income tax law applies to the Company's overall operations, and more specifically, with regard to tax residency status. The New Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for PRC income tax purposes if their place of effective management or control is within PRC. The Implementation Rules to the New Law provide that non-resident legal entities will be considered PRC

residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. occurs within the PRC. Additional guidance is expected to be released by the PRC government in the near future that may clarify how to apply this standard to taxpayers. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that its legal entities organized outside of the PRC should be treated as residents for the New Law's purposes. If one or more of the Company's legal entities organized outside of the PRC were characterized as PRC tax residents, the impact would adversely affect the Company's results of operation.

The Company has made its assessment of each tax position (including the potential application of interest and penalties) based on the technical merits, and has measured the unrecognized tax benefits associated with the tax positions. Based on the evaluation by the Company, it is concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements. The Company classifies interest and/or penalties related to unrecognized tax benefits as a component of income tax provisions; however, during the years ended December 31, 2010, 2011 and 2012, there were no interest and penalties related to uncertain tax positions, and the Company had no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. The Company does not anticipate any significant increases or decreases to its liability for unrecognized tax benefit within the next twelve months. Other than the audit by the



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Hong Kong tax authorities as described below, the tax positions for the years 2010 to 2012 may be subject to examination by the PRC and Hong Kong tax authorities.

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**16. Income Taxes continued**

*Tax Disputes with Hong Kong Inland Revenue Department*

Since the fourth quarter of 2007, several of our inactive subsidiaries have been involved in tax disputes relating to tax years 1996 and later years with the Inland Revenue Department of Hong Kong, or HKIRD, the income tax authority of the Hong Kong Government. These disputes are discussed sequentially below.

(1) NTTC

(a) In October 2007, the HKIRD issued an assessment Determination against Nam Tai Trading Company Limited ( NTTC ), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company. This assessment relates to four tax years from 1996/1997 to 1999/2000. The taxes assessed in this proceeding amount to approximately \$2,900.

After consulting Hong Kong tax experts, Nam Tai believed that the position of the HKIRD for the years in question was incorrect as a matter of law and accordingly NTTC objected to the HKIRD's assessment and appealed it to the Hong Kong Board of Review, an independent body established under Hong Kong Inland Revenue Ordinance to hear appeals of HKIRD assessments. In December 2008, the Board of Review dismissed NTTC's appeal. According to advice from Senior Counsel in Hong Kong, the Court of Appeal in Hong Kong was unlikely to disturb the findings of the Board of Review. Therefore, NTTC decided not to pursue an appeal.

(b) In addition to the assessment Determination of October 2007, in May 2008, the HKIRD issued a writ against NTTC claiming taxes in the amount of approximately \$3,000 for the taxable years from 1997/1998 to 2000/2001, partially overlapping the taxes against NTTC assessed by HKIRD in its assessment Determination of October 2007. Nam Tai's defense was struck out by the District Court in Hong Kong. According to advice from Senior Counsel in Hong Kong, the Court of Appeal was unlikely to disturb the findings of the District Court. Therefore, NTTC decided not to pursue an appeal against the decision of the District Court.

(c) Furthermore, from May to November 2010, the HKIRD issued three separate writs against NTTC claiming taxes and interests on unpaid taxes, in the amount of approximately \$900, \$1,100 and \$120 for the taxable years from 1996/1997 to 2003/2004, from 1996/1997, 1998/1999 and 1999/2000, and from 1996/1997 to 1999/2000, respectively. NTTC did not contest these proceedings, judgments were thus entered against NTTC.

(d) As a result of the proceedings stated in paragraphs (b) – (c) above, the HKIRD petitioned to the High Court of Hong Kong for a winding-up order against NTTC for the overdue judgment sums on June 10, 2011. The petition was heard in the High Court of Hong Kong on March 13, 2012 before Deputy High Court Judge Tam, S.C. The Court handed down the Judgment and made a winding-up order on June 4, 2012 against NTTC.

The Statement of Affairs has been filed by the directors. The meetings of creditors' and contributories' were held in the Hong Kong Official Receiver's Office on August 16, 2012 and September 5, 2012, respectively. On both occasions, the creditors' meeting could not proceed due to a lack of quorum. Pursuant to the Order of the Court dated December 4, 2012, Mr. Ng Kwok Wai and Mr. Lui Chi Kit both of Eric Ng C.P.A. Limited have been appointed as the joint and several liquidators of NTTC. By the same Order, no committee of inspection would be formed.

Further, NTGM (as defined below) has on August 14, 2012 appointed Mr. John Robert Lees and Mr. Mat Ng of JLA Asia Limited (formerly known as John Lees Associates) as the Joint and Several Receivers (and Managers) ( the Receivers ) of all the properties charged by NTTC as chargor in favour of NTGM under the Debenture and the Mortgage both dated December 30, 2003. A Deed of Appointment of the Joint and Several Receivers (and Managers) ( the Deed of Appointment ) and a Deed of Indemnity, both dated August 14, 2012, have been executed accordingly. The Deed of Appointment has been registered in the Land Registry of Hong Kong against 13 plots of land which are charged by NTTC in favour of NTGM under the said Mortgage.

As requested by the Joint and Several Liquidators, an initial interview was held on January 31, 2013 between the directors of NTGM and the Joint and Several Liquidators, in which the Joint and Several Liquidators confirmed that all the assets of NTTC have been taken over by the Receivers.

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**16. Income Taxes continued**

The Shatin Magistrates Court upon the application of the Registrar of Companies issued a Summons to NTGM dated December 28, 2012 (which will be heard on April 16, 2013) due to the delay in the registration of the Notification of Mortgagee Entering into Possession of Property (Form M3) by the Receivers.

(2) NTGM

(a) The HKIRD has also made estimated assessments against Nam Tai Group Management Limited ( NTGM ), another wholly-owned subsidiary of Nam Tai, which has been inactive since 2005. This assessment, which relates to the tax years of 2001 and 2002, is in the amount of approximately \$172, including interest allegedly due thereon. On December 17, 2008, the Hong Kong tax authorities issued a Writ of Summons through the District Court in Hong Kong claiming against NTGM the amount of \$172 as taxes allegedly due and payable, together with interest, to the Hong Kong tax authorities for the fiscal years 2001 to 2002. NTGM filed its defense on January 29, 2009, but on February 17, 2009, HKIRD filed papers seeking to strike out NTGM's defense. As NTGM's defense was similar to the defense of NTTC and Senior Counsel had advised that NTTC's defense was not arguable before the Court, NTGM accordingly agreed with HKIRD to allow Judgment to be entered against NTGM by consent.

(b) (i) On February 8, 2011, HKIRD issued a writ against NTGM claiming taxes in the amount of approximately \$855 for the taxable years 2001/2002 to 2003/2004. NTGM filed a Defense to this action. The hearing of the action took place on September 6, 2011. The judgment was handed down on September 29, 2011 with the Defense being struck out and judgment was thus entered against NTGM.

(ii) The taxation process is completed. The total taxed costs as certified by the Registrar are approximately \$5 plus post-judgment interest.

(c) NTGM has received demand letters from the HKIRD demanding payments of the judgment debts mentioned in paragraphs 2(a) and (b) above.

(3) NTT

(a) On September 14, 2009, the HKIRD issued a writ against Nam Tai Telecom (Hong Kong) Company Limited ( NTT ), a dormant company of the Company, claiming taxes in the amount of approximately \$337 for the taxable year 2002/2003. Judgment has been entered against NTT.

(b) (i) On February 17, 2011, HKIRD issued a writ against NTT claiming taxes in the amount of approximately \$34 for the taxable year 2002/2003. NTT filed a Defense to this action. The hearing of this action was heard together with the case of NTGM as discussed in paragraph (2)(b) above on September 6, 2011. Similarly, the judgment was handed down on September 29, 2011 with the Defense being struck out and judgment was thus entered against NTT.

(ii) The taxation process is completed. The total taxed costs as certified by the Registrar are approximately \$5 plus post-judgment interest.

(c) NTT has received demand letters from the HKIRD demanding payments of judgment debts mentioned in paragraphs 3(a) and (b) above.

(4) Expected Dispositions of Tax Disputes with Inactive or Dormant Subsidiaries

HKIRD has not accepted the explanations that it was necessary for these subsidiaries to perform their individual functions for the whole Nam Tai group and therefore the management fees paid by the Company by contract to support and finance all the necessary overhead expenses of these subsidiaries (not located in Hong Kong) to contribute to the businesses representing the administration and finance departmental functions from Vancouver, Canada for the whole group under the corporate structure at that time were not regarded as necessary expenses by HKIRD.

Since it is believed that it will be difficult for these subsidiaries to continue cooperating with HKIRD in the future, if the Company discontinues financing these subsidiaries, they will be forced to liquidate in due course. As these subsidiaries do not conduct any business and have been inactive or dormant for some time, and have either assets of limited book-value or no assets, Nam Tai believes that there should be no material impact from these proceeding on the Company's financial condition, liquidity or results of operations. Accordingly, no provision has been made regarding these assessments in Nam Tai's consolidated financial statements.



**Table of Contents****16. Income Taxes continued****(5) Notices of Alleged Personal Liability for Additional Taxes Against Former Directors and Officers for Signing NTTC's Tax Returns**

In addition to the legal cases against the inactive or dormant subsidiaries of the Company discussed above, in January 2011, the HKIRD issued two Notices of intention to assess additional taxes separately and personally against two former directors and officers of NTTC in the amounts of approximately \$1,540 for the taxable years 1996/1997 and 1999/2000 and \$667 for the taxable year 1997/1998 (the Notices). The taxable years involved in the controversy date from 13 to 15 years ago and initial advice received from the Company's tax advisor is that it is very rare for tax authorities to seek to attach personal liability on directors in this situation.

The two former directors and officers to whom the Notices have been directed signed the tax returns for and on behalf of NTTC and the HKIRD has by its Notices sought to hold them personally liable for additional taxes purportedly on the basis that the relevant tax returns of NTTC were incorrect and contained omissions and understatements in violation of the Inland Revenue Ordinance, the governing tax law of Hong Kong.

The Company denies that any of NTTC's tax return filings were incorrect or contained omissions and understatements in violation of the Inland Revenue Ordinance and believes that no incorrect tax return was ever filed.

The two former directors submitted various written representations in opposition to the issuance of the Notices, through their tax advisors, to the HKIRD since the issuance of the Notices. One of these former directors has commenced an action in the High Court of Hong Kong in November 2011 to seek an order from the Court that, inter alia, the Notice be withdrawn by the HKIRD.

The Department of Justice of Hong Kong (representing the Commissioner of Inland Revenue of Hong Kong (the Commissioner)) sent to the solicitors representing the two former directors a letter dated December 31, 2012 stating that the Commissioner had considered all the written representations submitted by the two former directors and decided that there was no basis to withdraw the Notices. The Commissioner would proceed to assess the two former directors additional tax assessments under Section 82A of the Inland Revenue Ordinance.

As advised by the tax advisers of the two former directors, the maximum amounts that the Commissioner can claim against the two former directors under the Notices are approximately \$4,620 (for the taxable years 1996/1997 and 1999/2000) and \$2,001 (for the taxable year 1997/1998) respectively. Such amounts represent 3 times the additional taxes that have been allegedly undercharged because of the alleged incorrect tax returns. Such amounts do not include interest and possible legal costs.

The two former directors will defend the additional tax assessments when the same are issued by the Commissioner.

At this time, Nam Tai is unable to assess the potential impact of these proceedings on the Company. However, the Company may be required to indemnify and defend this matter for the former directors and officers. If forced to defend, the Company plans to do so vigorously.

Nam Tai maintains a Directors' and Officers' Liability Insurance for certain claims or liabilities that may arise by reason of the status or service of its directors and officers (the Policy). Nam Tai has informed the insurance carriers of the Policy about the HKIRD's Notices against NTTC's two former directors. So far, the insurance carriers have raised no objection to the Notices constituting a claim under the terms of the Policy and have reimbursed Nam Tai for the legal costs and other expenses incurred by Nam Tai for defending the Notices. Nam Tai will continue to seek from the insurance carriers reimbursement of its legal costs and other expenses incurred in defending the Notices and/or the additional tax assessments (when the same are issued by the Commissioner).

Accordingly, no provision has been made regarding these assessments in Nam Tai's consolidated financial statements.

The current and deferred components of the income tax expense appearing in the consolidated statements of income are as follows:

Year ended December 31,	2010	2011	2012
Current tax	\$ (8,135)	\$ (3,672)	\$ (13,593)
Deferred tax	4,463	2,700	(3,706)
	\$ (3,672)	\$ (972)	\$ (17,299)



**Table of Contents****16. Income Taxes continued**

The Company's deferred tax assets and liabilities as of December 31, 2011 and 2012 are attributable to the following:

<b>December 31,</b>	<b>2011</b>	<b>2012</b>
Net operating losses	\$ 6,199	\$ 5,316
Obsolete inventories	10	356
Allowance for doubtful accounts	2	
Allowance for doubtful payables		101
Property, plant and equipment	4,156	5,420
Total deferred tax assets	10,367	11,193
Less: valuation allowance	(1,344)	(5,316)
Deferred tax assets	9,023	5,877
Deferred tax liability arising from withholding tax on undistributed earnings of PRC subsidiaries	(1,379)	(1,379)
Net deferred tax assets	\$ 7,644	\$ 4,498

Movement of valuation allowance:

<b>December 31,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
At beginning of the year	\$ 1,223	\$ 916	\$ 1,344
Current year (reduction) addition	(307)	428	3,972
At end of the year	\$ 916	\$ 1,344	\$ 5,316

The valuation allowance as of December 31, 2010, 2011 and 2012 was related to net operating losses carried forward that, in the judgment of management, are more likely than not that the assets will not be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income in which those temporary differences become deductible.

As of December 31, 2010, 2011 and 2012, the Company had net operating losses of \$5,549, \$8,147 and \$10,316 respectively, which may be carried forward indefinitely. As of December 31, 2012, the Company had net operating losses of \$7,060 and \$7,395, which will expire in the year ending December 31, 2016 and 2017, respectively.

A reconciliation of the income tax expense to the amount computed by applying the current tax rate to the income before income taxes in the consolidated statements of income is as follows:

<b>Year ended December 31,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Income before income taxes	\$ 13,538	\$ 558	\$ 84,914
PRC tax rate	22%	24%	25%
Income tax expense at PRC tax rate on income before income tax	\$ (2,978)	\$ (134)	\$ (21,229)
Effect of difference between Hong Kong and PRC tax rates applied to Hong Kong income	(134)	(221)	(258)
Effect of tax exemption		(1,526)	

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Effect of change in tax law	134	142	3,502
Change in valuation allowance	307	(428)	(3,972)
Deferred tax liability on withholding tax on undistributed profits of PRC subsidiaries	(276)		
Tax benefit (expense) arising from items which are not assessable (deductible) for tax purposes:			
Non-deductible impairment loss on goodwill		(708)	
Non-deductible and non-taxable items	(770)	1,490	705
(Under) over-provision of income tax expense in prior years	(69)	1,369	185
Increase in tax expense arising from temporary differences			1,242
Withholding tax			1,772
Others	114	(956)	754
Income tax expense	\$ (3,672)	\$ (972)	\$ (17,299)

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

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### **17. Financial Instruments**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents and accounts receivable. As at December 31, 2012, the largest two customers' trade receivables accounted for 60% and 36% of total accounts receivable.

The Company's cash and cash equivalents are uninsured and they are placed at banks with high credit ratings. This investment policy limits the Company's exposure to credit risk.

The accounts receivable balances largely represent amounts due from the Company's principal customers who are international organizations with high credit ratings. Letters of credit are the principal security obtained to support lines of credit or negotiated contracts from a customer. As a consequence, credit risk is limited. Allowance for doubtful debts was \$18 and nil as of December 31, 2011 and 2012, respectively.

### **18. Commitments and Contingencies**

#### **(a) Commitments**

Our contractual obligations, including capital expenditures and future minimum lease payments under non-cancelable operating lease arrangements and purchase commitments under non-cancelable arrangements as of December 31, 2012, are summarized below. We do not participate in, or secure financing for, any unconsolidated limited purpose entities.

Contractual Obligation	Payments (in thousands) due by period			
	Total	2013	2014	2015
Operating leases <sup>(1)</sup>	\$ 42	\$ 42	\$	\$
Capital commitments	1,631	1,631		
Other purchase obligations	99,466	99,466		
Total	\$ 101,139	\$ 101,139	\$	\$

(1) The Company leases the staff quarters in Wuxi in 2013. The rental expenses for the staff quarters in Wuxi and house rental for Mr. Koo charged for the years ended December 31, 2010, 2011 and 2012 amounted to \$661, \$618 and \$819, respectively.

#### **(b) Significant legal proceedings**

Save as disclosed in Note 16, there is no other significant legal proceeding as of December 31, 2012.

### **19. Segment Information**

The Chief Operating Decision Maker is identified as the Chief Executive Officer and Chief Financial Officer. They review these segment results when making decisions about allocating resources and assessing the performance of the Company.

Prior to fiscal year 2010, the Company operated in three reportable segments – TCA, CECP and LCDP. In 2010 and 2011, the Company's business was consolidated into two segments, TCA and CECP.

In view of the similarity of the products, the Company has merged the LCDP segment into the TCA segment in 2011. In 2012, the Company has excluded the discontinued business of LCDP segment from the TCA segment and separated the TCA segment and FPC segment. Since the first quarter of 2012, the CECP segment fell below the threshold prescribed under FASB ASC 280-10-50-12 and the CECP segment was combined with the TCA segment. Also, since the net loss from the FPC segment was above the threshold prescribed under FASB ASC 280-10-50-12, the FPC segment was separated from the TCA segment.



**Table of Contents****19. Segment Information continued**

The segment information in 2010 and 2011 have been restated in order to conform with the change in segment reporting in 2012 in accordance with FASB ASC 280-10-50-34.

**Year ended December 31, 2010**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 444,642	\$ 3,671	\$	\$ 448,313
Cost of sales	(394,698)	(14,619)		(409,317)
Gross profit (loss)	49,944	(10,948)		38,996
General and administrative expenses	(12,229)	(3,128)	(7,015)	(22,372)
Selling expenses	(3,187)	(515)		(3,702)
Research and development expenses	(4,024)	(699)		(4,723)
Other income, net	2,467	582	828	3,877
Interest income	839	16	607	1,462
Income (loss) before income tax	33,810	(14,692)	(5,580)	13,538
Income tax (expenses) credit	(6,934)	3,262		(3,672)
Net income (loss) from continuing business	\$ 26,876	\$ (11,430)	\$ (5,580)	\$ 9,866

**Year ended December 31, 2011**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 509,124	\$ 15,953	\$	\$ 525,077
Cost of sales	(479,037)	(26,788)		(505,825)
Gross profit (loss)	30,087	(10,835)		19,252
General and administrative expenses	(9,662)	(4,660)	(7,117)	(21,439)
Selling expenses	(2,886)	(1,033)		(3,919)
Research and development expenses	(1,709)	(588)		(2,297)
Impairment loss on goodwill			(2,951)	(2,951)
Other income, net	3,660	1,817	3,707	9,184
Interest income	171	53	2,504	2,728
Income (loss) before income tax	19,661	(15,246)	(3,857)	558
Income tax (expenses) credit	(2,196)	1,224		(972)
Net income (loss) from continuing business	\$ 17,465	\$ (14,022)	\$ (3,857)	\$ (414)

**Year ended December 31, 2012**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 1,118,196	\$ 29,727	\$	\$ 1,147,923
Cost of sales	(1,008,844)	(33,302)		(1,042,146)

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Gross profit (loss)	109,352	(3,575)		105,777
General and administrative expenses	(20,808)	(3,221)	(4,411)	(28,440)
Selling expenses	(1,958)	(708)		(2,666)
Research and development expenses	(777)	(587)		(1,364)
Other income, net	6,565	1,955	1,267	9,787
Interest income	219	22	1,871	2,112
Interest expense	(204)	(88)		(292)
Income (loss) before income tax	92,389	(6,202)	(1,273)	84,914
Income tax expenses	(16,666)	(633)		(17,299)
Net income (loss) from continuing business	\$ 75,723	\$ (6,835)	\$ (1,273)	\$ 67,615

There were no material inter-segment sales for the years ended December 31, 2010, 2011 and 2012. Intercompany sales arise from the transfer of finished goods between subsidiaries operating in different areas. These sales are generally at prices consistent with what the Company would charge third parties for similar goods.

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**Table of Contents****19. Segment Information continued****Year ended December 31, 2010**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 8,610	\$ 8,666	\$ 495	\$ 17,771
Capital expenditures	\$ 1,796	\$ 1,973	\$ 80	\$ 3,849
Total assets	\$ 160,926	\$ 63,849	\$ 198,128	\$ 422,903

**Year ended December 31, 2011**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 5,252	\$ 7,853	\$ 260	\$ 13,365
Capital expenditures	\$ 54,251	\$ 6,938	\$ 4,723	\$ 65,912
Total assets	\$ 239,734	\$ 50,915	\$ 132,915	\$ 423,564

**Year ended December 31, 2012**

	<b>TCA</b>	<b>FPC</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 17,432	\$ 7,237	\$ 293	\$ 24,962
Capital expenditures	\$ 39,604	\$ 3,774	\$	\$ 43,378
Total assets	\$ 477,083	\$ 12,912	\$ 145,937	\$ 635,932

A summary of the percentage of net sales of each of the Company's product lines of each segment for the years ended December 31, 2010, 2011 and 2012, is as follows:

<b>Year ended December 31,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Product line</b>			
TCA	99%	97%	97%
FPC	1%	3%	3%
	100%	100%	100%

A summary of net sales, net income (loss) attributable to Nam Tai shareholders and long-lived assets by geographical areas is as follows:

By geographical area:

<b>Year ended December 31,</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Net sales from operations within:</b>			
- PRC, excluding Hong Kong:			
Unaffiliated customers	\$ 448,313	\$ 525,077	\$ 1,147,923
Intercompany sales	1,169	945	56,121
	\$ 449,482	\$ 526,022	\$ 1,204,044
- Intercompany eliminations	(1,169)	(945)	(56,121)

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Total net sales	\$ 448,313	\$ 525,077	\$ 1,147,923
Net income (loss) attributable to Nam Tai shareholders within:			
- PRC, excluding Hong Kong	\$ 15,014	\$ 5,951	\$ 70,205
- Hong Kong	(5,148)	(6,365)	(2,590)
Total net income (loss) attributable to Nam Tai shareholders	\$ 9,866	\$ (414)	\$ 67,615

Year ended December 31,	2010	2011	2012
Net sales to customers by geographical area:			
- Hong Kong	\$ 81,015	\$ 79,536	\$ 86,590
- Europe	57,226	30,283	14,446
- United States	47,518	32,332	3,021
- PRC (excluding Hong Kong)	9,970	2,540	371,376
- Japan	248,269	377,933	665,502
- Others	4,315	2,453	6,988
Total net sales	\$ 448,313	\$ 525,077	\$ 1,147,923

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**Table of Contents****19. Segment Information continued**

As of December 31,	2010	2011	2012
Long-lived assets by geographical area:			
- PRC, excluding Hong Kong	\$ 96,724	\$ 144,788	\$ 163,794
- Hong Kong	145	4,586	4,293
Total long-lived assets	\$ 96,869	\$ 149,374	\$ 168,087

The Company's sales to customers which accounted for 10% or more of its sales are as follows:

Year ended December 31,	2010	2011	2012
A	\$ 94,644	\$ 62,894	\$ 16,164
B	63,803	61,823	501,821
C	220,825	379,886	587,021
	\$ 379,272	\$ 504,603	\$ 1,105,006

The Company's purchase from suppliers which accounted for 10% or more of its purchases are as follows:

Year ended December 31,	2010	2011	2012
A	\$ 124,126	\$ 160,274	\$ 512,807
B	50,477	114,322	108,340
C	N/A	N/A	217,362
	\$ 174,603	\$ 274,596	\$ 838,509

**Table of Contents****20. Employee Severance Benefits**

After the final evaluation on the viability of its FPC business based on its performance in the third quarter of 2012, the Company has decided to discontinue its FPC business by the end of March 2013, as this business has been generating losses since its initial production. The employee severance benefits in 2012 amounted to \$3,504 (2011: \$187), which were recorded as general and administrative expenses. The employee severance benefits by segment were as follows:

	2011	2012
Expenses incurred:		
TCA	\$ 153	\$ 1,901
FPC	7	1,603
Corporate	27	
	\$ 187	\$ 3,504

	2011	2012
Provision for employee severance benefits:		
Balance at January 1	\$ 75	\$
Provision for the year	187	3,504
Payments during the year	(262)	(1,716)
Balance at December 31	\$	\$ 1,788

**21. Subsequent Events**

Discontinued business of FPC production line

After the final evaluation on the viability of our FPC business based on its performance in the third quarter of 2012, we have decided to discontinue our FPC business by the end of March 2013, as this business has been generating losses since its initial production.

On January 22, 2013, a subsidiary of the Company has entered into a sales and purchase contract for the assets with a third party at a consideration of \$5,138.



**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****STATEMENTS OF COMPREHENSIVE INCOME****(In thousands of U.S. dollars)**

	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
General and administrative expenses*	\$ (2,763)	\$ (2,374)	\$ (1,729)
Other income, net	23	1,186	15,165
Interest income on loan to a subsidiary	11,568	7,721	4,818
Interest income	233	725	1,421
Income before income tax	9,061	7,258	19,675
Income tax expenses			
Income before share of net profits of subsidiaries, net of taxes	9,061	7,258	19,675
Share of net profits (losses) of subsidiaries, net of taxes	5,945	(6,753)	47,246
Net income attributable to Nam Tai shareholders	\$ 15,006	\$ 505	\$ 66,921
Other comprehensive income			
Comprehensive income attributable to Nam Tai shareholders	\$ 15,006	\$ 505	\$ 66,921
* Amount of share-based compensation expense included in general and administrative expenses	\$ 95	\$ 112	\$ 547

**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****BALANCE SHEETS****(In thousands of U.S. dollars)**

	<b>December 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 66,218	\$ 68,568
Fixed deposits maturing over three months	34,825	49,182
Prepaid expenses and other receivables	504	276
Amounts due from subsidiaries	38,545	29,566
<b>Total current assets</b>	<b>140,092</b>	<b>147,592</b>
Property, plant and equipment, net	4,487	4,221
Loan to a subsidiary non-current	93,108	93,108
Investments in subsidiaries	98,945	146,191
<b>Total assets</b>	<b>\$ 336,632</b>	<b>\$ 391,112</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accrued expenses and other payables	\$ 1,881	\$ 1,438
Dividend payable	12,545	26,882
<b>Total liabilities</b>	<b>14,426</b>	<b>28,320</b>
Shareholders' equity:		
Common shares (\$0.01 par value authorized 200,000,000 shares, issued and outstanding 44,803,735 shares as at December 31, 2011 and 2012)	448	448
Additional paid-in capital	287,055	287,602
Retained earnings	34,711	74,750
Accumulated other comprehensive loss	(8)	(8)
<b>Total shareholders' equity</b>	<b>322,206</b>	<b>362,792</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 336,632</b>	<b>\$ 391,112</b>

**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

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

	<b>Common Shares Outstanding</b>	<b>Common Shares Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Shareholders Equity</b>
Balance at January 1, 2010	44,803,735	\$ 448	\$ 285,264	\$ 40,706	\$ (8)	\$ 326,410
Equity-settled share-based payment			95			95
Deemed contribution of services			1,584			1,584
Net income				15,006		15,006
Cash dividends (\$0.20 per share)				(8,961)		(8,961)
Balance at December 31, 2010	44,803,735	\$ 448	\$ 286,943	\$ 46,751	\$ (8)	\$ 334,134
Equity-settled share-based payment			112			112
Net income				505		505
Cash dividends (\$0.28 per share)				(12,545)		(12,545)
Balance at December 31, 2011	44,803,735	\$ 448	\$ 287,055	\$ 34,711	\$ (8)	\$ 322,206
Equity-settled share-based payment			547			547
Net income				66,921		66,921
Cash dividends (\$0.60 per share)				(26,882)		(26,882)
Balance at December 31, 2012	44,803,735	\$ 448	\$ 287,602	\$ 74,750	\$ (8)	\$ 362,792

**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****STATEMENTS OF CASH FLOWS****(In thousands of U.S. dollars)**

	Year ended December 31,		
	2010	2011	2012
<b>Cash flows from operating activities:</b>			
Net income attributable to Nam Tai shareholders	\$ 15,006	\$ 505	\$ 66,921
<b>Adjustments to reconcile net income attributable to Nam Tai shareholders to net cash provided by operating activities:</b>			
Share of net (profits) losses of subsidiaries, net of taxes	(5,945)	6,753	(47,246)
Depreciation		221	266
Loss on disposal of property, plant and equipment	1		
Share-based compensation expenses	95	112	547
<b>Changes in current assets and liabilities:</b>			
(Increase) decrease in prepaid expenses and other receivables	(133)	(371)	228
Increase (decrease) in accrued expenses and other payables	658	231	(443)
<b>Net cash provided by operating activities</b>	<b>\$ 9,682</b>	<b>\$ 7,451</b>	<b>\$ 20,273</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(4,708)	
(Increase) decrease in deposit for purchase of property, plant and equipment	(433)	433	
Decrease (increase) in fixed deposits maturing over three months	12,903	(34,825)	(14,357)
(Increase) decrease in amounts due from subsidiaries	(21,729)	(5,682)	8,979
<b>Net cash used in investing activities</b>	<b>\$ (9,259)</b>	<b>\$ (44,782)</b>	<b>\$ (5,378)</b>
<b>Cash flows from financing activities:</b>			
Decrease in amounts due to subsidiaries	(3,488)	(11,194)	
Proceeds from loan to a subsidiary		35,371	
Dividend paid		(8,961)	(12,545)
<b>Net cash (used in) provided by financing activities</b>	<b>\$ (3,488)</b>	<b>\$ 15,216</b>	<b>\$ (12,545)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,065)</b>	<b>(22,115)</b>	<b>2,350</b>
Cash and cash equivalents at beginning of year	91,398	88,333	66,218
<b>Cash and cash equivalents at end of year</b>	<b>\$ 88,333</b>	<b>\$ 66,218</b>	<b>\$ 68,568</b>

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**SCHEDULE 1**

**NAM TAI ELECTRONICS, INC.**

**NOTE TO SCHEDULE 1**

**(in thousands of U.S. dollars)**

Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results and operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries together exceed 25% of consolidated net assets as of end of the most recently completed fiscal year. As of December 31, 2012, \$350,256 of the restricted capital and reserves are not available for distribution, and as such, the condensed financial information of the Company has been presented for the years ended December 31, 2010, 2011 and 2012.

During the years ended December 31, 2010, 2011 and 2012, no cash dividend was declared and paid by subsidiaries to the Company.

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**ITEM 19. EXHIBITS**

The following exhibits are filed as part of this Report:

<b>Exhibit No.</b>	<b>Exhibit</b>
1.1	Memorandum and Articles of Association, as amended and restated effective on December 5, 2007 (incorporated by reference to Exhibit 1.1 to the Company's Form 8-A/A filed with the SEC on December 13, 2007).
4.1	2006 Stock Option Plan of Nam Tai Electronics, Inc., adopted February 10, 2006 and approved on June 9, 2006 (incorporated by reference to Exhibit A attached to Exhibit 99.1 of the Form 6-K furnished to the SEC on May 15, 2006).
4.2	Amendment to 2006 Stock Option Plan of Nam Tai Electronics, Inc. (incorporated by reference to Exhibit 4.1.1 to the Company's Registration Statement on Form S-8 File No. 333-136653 included with the Company Form 6-K furnished to the SEC on November 13, 2006).
4.3	Amended 2001 Option Plan of Nam Tai Electronics, Inc. dated July 30, 2004 (incorporated by reference to Exhibit 4.18 to the Company's Form 20-F for the year ended December 31, 2004 filed with the SEC on March 15, 2005).
4.4	Amendment to 2001 Stock Option Plan of Nam Tai Electronics, Inc. (incorporated by reference to Exhibit 4.1.1 to the Company's Registration Statement on Form S-8 File No. 333-76940 included with Company's Form 6-K furnished to the SEC on November 13, 2006).
4.5	[reserved]
4.6	[reserved]
4.7	Supplemental plant construction contractor's agreement (electrical engineering) dated July 10, 2009 between Nam Tai Subsidiary, Wuxi Zastron Precision-Flex Company Limited, and Yixing Building Engineering & Installation Co. Ltd. (incorporated by reference to Exhibit 4.17 to the Company's Form 20-F for the year ended December 31, 2009 filed with the SEC on March 16, 2010).
4.8	[reserved]
4.9	[reserved]
4.10	[reserved]
4.11	[reserved]
4.12	[reserved]
4.13	Employment (Letter) Agreement dated November 25, 2010 between Nam and M. K. Koo, effective on October 1, 2010, for Mr. Koo's services as Nam Tai's CFO (incorporated by reference to Exhibit 4.12 to the Company's Form 20-F for the year ended December 31, 2010 filed with the SEC on March 16, 2011).
4.14	Employment (Letter) Agreement dated November 25, 2010 between Nam Tai's subsidiary, Nam Tai Electronic & Electrical Products Limited, or NTEEP, and M. K. Koo, effective on October 1, 2010, for Mr. Koo's services as NTEEP's President (incorporated by reference to Exhibit 4.13 to the Company's Form 20-F for the year ended December 31, 2010 filed with the SEC on March 16, 2011).
4.15	[reserved]
4.16	[reserved]
4.17	[reserved]
4.18	[reserved]

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<b>Exhibit No.</b>	<b>Exhibit</b>
4.19	[reserved]
4.20	Joint Guaranty by Namtai Investment (Shenzhen) Co., Ltd. and Wuxi Zastron Precision-Flex Co., Ltd. in favour of HSBC Bank (China) Company Limited, Shenzhen Branch with maximum liability of approximately RMB 370 million for the banking facilities of Zastron Electronic (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.20 to the Company's Form 20-F for the year ended December 31, 2011 filed with the SEC on March 16, 2012).
4.21	[reserved]
4.22	Joint Guaranty by Namtai Investment (Shenzhen) Co., Ltd. and Zastron Electronic (Shenzhen) Co., Ltd. in favour of HSBC Bank (China) Company Limited, Suzhou Branch with maximum liability of approximately RMB 370 million for the banking facilities of Wuxi Zastron Precision-Flex Co., Ltd. (incorporated by reference to Exhibit 4.22 to the Company's Form 20-F for the year ended December 31, 2011 filed with the SEC on March 16, 2012).
4.23	[reserved]
4.24	[reserved]
4.25	[reserved]
4.26	Banking Facilities Letter between Zastron Electronic (Shenzhen) Co., Ltd. and China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, dated January 13, 2012 for Zastron Electronic (Shenzhen) Co., Ltd. to receive banking facilities of up to RMB300 million (incorporated by reference to Exhibit 4.26 to the Company's Form 20-F for the year ended December 31, 2011 filed with the SEC on March 16, 2012).
4.27	Guaranty by Namtai Investment (Shenzhen) Co., Ltd. in favor of China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, dated January 13, 2012, in relation to the RMB300 million banking facilities granted to Zastron Electronic (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.27 to the Company's Form 20-F for the year ended December 31, 2011 filed with the SEC on March 16, 2012).
4.28	Banking Facilities Letter between Zastron Electronic (Shenzhen) Co., Ltd. and China Construction Bank Corporation, Shenzhen Branch, dated March 22, 2012, for Zastron Electronic (Shenzhen) Co., Ltd. to receive banking facilities of up to RMB421 million.
8.1	Diagram of Company's subsidiaries at December 31, 2012. See the diagram following page 22 of this Report.
11.1	Code of Ethics (incorporated by reference to Exhibit 14.1 to the Company's Form 20-F for the year ended December 31, 2004 filed with the SEC on March 15, 2005).
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Independent Registered Public Accounting Firm Moore Stephens.

\* The agreement is written in Chinese and an English Translation is provided in accordance with Form 20-F Instructions to Exhibits and Rule 12b-12(d) under the Exchange Act).

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**SIGNATURE**

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

NAM TAI ELECTRONICS, INC.

By: /s/ M. K. Koo  
Koo Ming Kown  
Chief Financial Officer

Date: March 15, 2013