

NAM TAI ELECTRONICS INC  
Form 20-F  
March 14, 2014  
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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, 2013**

**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.**

**(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)**

**Kenneth Lau, Group Financial Controller**

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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>
<b>Common shares, \$0.01 par value per share</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act.</b>	

**None.**

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

**None.**

**As of December 31, 2013 there were 45,272,735 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

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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**CERTIFICATION PURSUANT TO SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION PURSUANT TO RULE 13a-14(b) AND 18 U.S.C. SECTION 1350**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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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, going forward, intend, ought to, plan, potential, probably, could, would, should, will, is likely to and the negative forms of these words and other similar expressions 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;

Board and Board of Directors refers to the board of directors of our Company;

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;

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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, 2013 and the consolidated balance sheets data as of December 31, 2012 and 2013 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, 2009 and 2010 and the consolidated balance sheets data as of December 31, 2009, 2010 and 2011 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 71.

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<b>Consolidated statements of comprehensive income data<sup>(1)</sup>:</b>	<b>Year ended December 31,</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(in thousands, except per share data)</b>				
Net sales	\$ 339,002	\$ 444,642	\$ 509,124	\$ 678,113	\$ 855,847
Cost of sales	(303,977)	(394,698)	(479,037)	(609,875)	(788,212)
Gross profit	35,025	49,944	30,087	68,238	67,635
Operating expenses:					
General and administrative expenses <sup>(2)</sup>	(22,133)	(19,244)	(16,779)	(20,739)	(33,317)
Selling expenses	(3,728)	(3,187)	(2,886)	(1,483)	(462)
Research and development expenses	(5,216)	(4,024)	(1,709)	(716)	
Impairment loss on goodwill			(2,951)		
Total operating expenses	(31,077)	(26,455)	(24,325)	(22,938)	(33,779)
Other operating income					1,609
Income from operations	3,948	23,489	5,762	45,300	35,465
Other (expenses) income net	(239)	3,295	7,366	5,283	11,955
Interest income	754	1,446	2,676	2,038	4,939
Income before income tax	4,463	28,230	15,804	52,621	52,359
Income tax expenses	(1,940)	(6,934)	(2,196)	(15,188)	(11,143)
Income from continuing operations	2,523	21,296	13,608	37,433	41,216
(Loss) income from discontinued operations	(3,058)	(6,290)	(13,103)	29,488	(40,919)
Consolidated net (loss) income	(535)	15,006	505	66,921	297
Net income from continuing operations attributable to noncontrolling interests	(1,671)				
Net loss from discontinued operations attributable to noncontrolling interests	3,858				
Net income from continuing operations attributable to Nam Tai shareholders	852	21,296	13,608	37,433	41,216
Net income (loss) from discontinued operations attributable to Nam Tai shareholders	800	(6,290)	(13,103)	29,488	(40,919)
Consolidated net income attributable to Nam Tai shareholders	1,652	15,006	505	66,921	297
Other comprehensive income					
Consolidated comprehensive income attributable to Nam Tai shareholders	1,652	15,006	505	66,921	297
Earnings per share:					
Basic earnings per share					
Basic earnings per share from continuing operations	\$ 0.02	\$ 0.47	\$ 0.30	\$ 0.83	\$ 0.91
Basic earnings (loss) per share from discontinued operations	\$ 0.02	\$ (0.14)	\$ (0.29)	\$ 0.66	\$ (0.90)
Basic earnings per share	\$ 0.04	\$ 0.33	\$ 0.01	\$ 1.49	\$ 0.01
Diluted earnings per share	\$ 0.02	\$ 0.47	\$ 0.30	\$ 0.83	\$ 0.90

Diluted earnings per share from continuing operations

Diluted earnings (loss) per share from discontinued operations	\$ 0.02	\$ (0.14)	\$ (0.29)	\$ 0.65	\$ (0.89)
Diluted net earnings per share	\$ 0.04	\$ 0.33	\$ 0.01	\$ 1.48	\$ 0.01

<b>Consolidated balance sheet data:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(in thousands, except per share data)</b>				
Cash and cash equivalents	182,722	228,067	118,510	157,838	68,707
Fixed deposits maturing over three months	12,903		34,825	49,824	201,565
Working capital <sup>(3)</sup>	266,539	282,927	264,883	278,157	298,269
Land use rights and property, plant and equipment, net	54,562	47,193	53,792	75,444	60,027
Current assets of discontinued operations	87,696	85,532	155,780	168,532	2,364
Total assets	403,924	450,780	457,743	636,044	494,419
Short-term debts				395	
Current liabilities of discontinued operations	16,706	20,137	38,254	67,209	234
Total Nam Tai shareholders' equity <sup>(4)</sup>	326,410	334,134	322,206	362,792	363,390
Common shares	448	448	448	448	453
Total dividend per share <sup>(5)</sup>		0.20	0.28	0.60	0.08
Total number of common shares issued	44,804	44,804	44,804	44,804	45,273

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- (1) The Company's consolidated statements of comprehensive income from 2009 to 2012 have been restated according to the reclassified profit and loss resulting from discontinued operations.
- (2) General and administrative expenses for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 included employee severance benefits of \$3.9 million, \$0.7 million, \$0.2 million, \$1.9 million and \$14.0 million, respectively.
- (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.
- (5) For 2010, 2011, 2012 and 2013, the Company declared a dividend payable quarterly in 2011, 2012, 2013 and 2014, respectively. See the table entitled Dividends declared for 2014 in ITEM 8. Financial Information Dividends on page 55 of this Report for the schedule of dividend payments for 2014.

**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 may encounter difficulties in transforming our core business, which could adversely affect our growth and business prospects.**

In 2013, as a result of the high level of competition and the weak consumer market, orders placed by our major customers were significantly lower than the customers' original forecast. Due to the lack of new orders, we were forced to discontinue our production operations of Flexible Printed Circuit ( FPC ) and Liquid Crystal Display Modules ( LCM ) for tablets at our Wuxi manufacturing facilities in March 2013 and June 2013, respectively. As for the high-resolution LCMs for smartphones, we received orders from a customer to extend the production throughout the third and fourth quarters of 2013, however, the production of these orders had substantially completed by December 2013 and the shipment was completed in January 2014. Except for a few minor LCM orders for automobile applications requested by another customer, which would allow us to extend a small amount of production up to the end of April 2014, we currently have no more orders for any LCM production. As a result, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter. We estimate that the aforesaid final orders will only generate net sales of approximately \$52.5 million in the first half of 2014 and there is a strong likelihood that no reasonable profit margin can be gained anymore from our remaining final orders. Unless market conditions change in a way that we are able to obtain a sufficient number of orders from our customers, we expect our operating results in future periods to fall below the expectations of public market analysts and investors, which could cause the trading price of our common shares to decline.

Upon the cessation of our core business of LCM production by the end of April 2014, our management intends to thoroughly focus our efforts on developing two parcels of property in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, by converting these two parcels of land into high-end commercial complexes. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes and, as a result of which, our core business will be transformed from the engineering manufacturing services (EMS) industry to property development and management. We project that the development of these two properties will each take approximately four years to complete following our Board's approval, which is scheduled in July 2014. During this development period, all overheads expenses, development costs and dividend will be funded from interest income together with our cash on hand and bank facilities, which we believe is sufficient. However, the development of these real estate projects is subject to significant risks and uncertainties, including without limitation the following:

we do not currently have strong brand recognition or relationships in the real estate development and management business as we enjoy in the EMS business;

we may not be able to obtain all necessary government approvals for our property development projects in a timely manner;

we face intense competition from real estate developers that are already in the business for years;

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our experience and expertise gained from EMS business may not be highly relevant or applicable to real estate development and management business; and

we may not be able to generate enough revenues to offset our costs in our real estate development and management business.

If we are not successful in development of our two property development projects, our growth, business, financial condition and results of operations could be adversely affected.

**We may not have adequate financing, whether through bank loans or other arrangements, to fund our property developments, and such capital resources may not be available on commercially reasonable terms, or at all.**

As we transform our core business from EMS industry to property development and management, we must make significant investments in property developments. Property development is capital intensive. We plan to finance our property developments with interest income together with our cash on hand and bank facilities. We cannot assure you that we will be able to generate sufficient interest income or that banks or other lenders will grant us sufficient financings in the future as we expect. There are certain PRC laws and regulations which govern financing policies on PRC financial institutions for the property development sector and tighten the criteria for banks to provide loans to property development enterprises. The PRC government may further tighten financing policies on PRC financial institutions for the property development sector. These property-related financing policies may limit our ability and flexibility to use bank borrowings to finance our property development projects and therefore may require us to maintain a relatively high level of internally generated cash.

**We may fail to obtain, or experience material delays in obtaining, requisite certificates, licenses, permits or governmental approvals for our property developments, and as a result our development plans, business, results of operations and financial condition may be materially and adversely affected.**

Currently, we have two properties planned for development, including: (i) the land of our existing Shenzhen manufacturing facilities in Gushu of approximately 0.6 million square feet; and (ii) the raw land of approximately 1.2 million square feet in the Guangming Hi-Tech Industrial Park. We plan to develop these two parcels of properties into high-end commercial complexes. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes and, as a result of which, our core business will be transformed from the EMS industry to property development and management. We project that the development of these two properties will each take approximately four years to complete following our Board's approval, which is scheduled in July 2014.

The property development in the PRC is heavily regulated. During various stages of our property development projects, we are required to obtain and maintain various certificates, licenses, permits, certificates and governmental approvals, including but not limited to qualification certificates, land use rights certificates, construction land planning permits, construction works planning permits, construction works commencement permits, pre-sale permits and completion certificates. Before the government authorities issue any certificate, license or permit, we must also meet specific conditions. We cannot assure you that we will be able to adapt to new PRC land policies that may come into effect from time to time with respect to the property development industry or that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain all necessary certificates, licenses or permits for our property developments in a timely manner, or at all, in the future. If we fail to obtain or encounter significant delays in obtaining the necessary certificates, licenses or permits we will not be able to continue with our development plans, and our business, results of operations and financial condition may be adversely affected.

**We may be required to write down our long-lived assets and assets held for sale, as a result of which we could record a significant impairment charge that would adversely affect our operating results.**

At December 31, 2013, we had \$60.0 million in long-lived assets and \$45.4 million in assets held for sale on our balance sheet. The valuation of our long-lived assets and assets held for sale requires us to make assumptions about future interest income. 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.

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**We expect to incur high costs under the PRC's labor law due to workforce reductions, which could have a material adverse effect on our financial results and financial condition.**

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. Due to the lack of new orders, we were forced to discontinue our production operations of FPC and LCMs for tablets at our Wuxi manufacturing facilities in March 2013 and June 2013, respectively. We also expect to formally cease our core business of LCM production at our Shenzhen manufacturing facilities by the end of April 2014. As a result, we have incurred and expect to incur additional costs of employee severance benefits under China's labor laws and such costs could have a material adverse effect on our financial results and financial condition.

**We are dependent on a few large customers, the loss of which has substantially harmed our business and operating results. Unless market conditions change in a way that we are able to obtain a sufficient number of orders from our customers, we expect our operating results in future periods to fall below the expectations of public market analysts and investors made based on our historical projection, which could cause the trading price of our common shares to decline.**

Historically, a substantial percentage of our sales have been made to a small number of customers. During the years ended December 31, 2011, 2012 and 2013, sales to customers who account for 10% or more of our net sales totaled approximately 96.3%, 84.1% and 92.5% of our net sales, respectively. During these same years, sales to our seven largest customers accounted for 99.1%, 99.0% and 100.0% of our net sales, respectively, and sales to our largest customer accounted for 72.5%, 84.1% and 92.5% of our net sales during the same periods, respectively. As a result, we have depended on a relatively small number of customers for a significant percentage of our net revenue. In early 2014, upon losing our largest customer, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter.

In addition, we generate significant accounts receivable 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.

**Economic uncertainty had adversely affected 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, 2012 and 2013, 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;

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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.

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

Our quarterly and annual operating results are affected by a wide variety 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;

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.

**Competition has had an adverse effect on our gross margins in the past.**

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 each of the five years ended December 31, 2009, 2010, 2011, 2012 and 2013 are shown in the chart below.

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(1) The gross margin percentages during each of the four years ended December 31, 2009, 2010, 2011 and 2012 were calculated based on the Company's consolidated statements of comprehensive income from 2009 to 2012, which have been restated according to the reclassified profit and loss resulting from discontinued operations. During 2013, our gross profit margin decreased to 7.9% from 10.1% in 2012. We may also 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.

**Our business has been characterized by a rapidly changing mix of products and customers. Cancellations or delays in orders could materially and adversely affect our gross margins and operating results.**

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. As a result, 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 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 could experience increased inventory levels or possible write-offs of obsolete inventory, write-downs of raw materials inventory or the underutilization of our manufacturing capacity.

**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.

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.

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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.

**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 2.5% in January 2014 from the level in January 2013. The wages we pay our employees also increased substantially in 2013. At December 31, 2013, the average wage level of our direct labor workforce was approximately 9.2% higher than that at December 31, 2012. China's overall economy and the average wage in the PRC are expected to continue to grow.

**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.

**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 performance. In addition, 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.

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

As of December 31, 2013, approximately 91.9% 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 and China. 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;

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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 adversely affected if we fail to comply with applicable environmental related laws and regulations, as well as international accords and new regulatory initiatives in the United States to which we are subject.**

Our manufacturing process involves the use and disposal of chemicals, minerals and materials that are subject to environmental related, and conflict-free sourcing laws and regulations issued worldwide.

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.

In addition, the U.S. SEC implemented the final rule mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act to require companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo (DRC) or an adjoining country. The final rule on conflict minerals imposes substantial supply chain verification requirements in the event that conflict minerals originates from the Democratic Republic of the Congo, adjoining countries or any geographic territory that may be specified by the relevant authorities at a future date. These new rules and verification requirements, which apply to our activities in calendar 2013 and beyond, impose additional costs on us and on our suppliers and may limit the sources or increase the prices

of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers that place us at a significant competitive disadvantage, and our goodwill and reputation may be irreparably damaged. Often times, our customers have imposed upon us conditions on sourcing conflict minerals that exceed those imposed under relevant legal requirements. Any failure on our part to comply with such customer-imposed conditions may result in us suffering significant competitive harms that will likely have a material adverse impact on our financial statements.

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

In our EMS 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.



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**Our insurance coverage may not be sufficient to cover our potential liability or losses and as a result our business, results of operations and financial condition may be materially and adversely affected.**

We face various risks in connection with our existing core businesses of LCM production and will continue to face risks during our transition to the property development and management business. Although we currently maintain property all risk insurance for our buildings in the PRC and public liability insurance for our Shenzhen manufacturing facilities and our Wuxi manufacturing facilities, these insurances may not be adequate for either our existing core business or the business we plan to enter into in the future. In the event 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, as a result of which our business, results of operations and financial condition may be materially and adversely affected.

**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. 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.

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**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.

**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 since 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 2013, please see the table in ITEM 5. Operating and Financial Review and Prospects on page 30 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. According to Circular of the State Administration of Taxation on Issues Related to the End of Various Preferential Tax Policies for Foreign and Foreign-Invested Enterprises (STA [2008] No. 23) published by the State Administration of Taxation of the PRC) on February 27, 2008, a FIE may be required to pay back the taxes previously exempted as a result of the preferential tax treatment enjoyed in accordance with the Income Tax Law of People's Republic of China for Foreign Investment Enterprises and Foreign Enterprise, if such FIE no longer meets the conditions for preferential tax treatment after 2008 due to change in its nature of business or the term of its business operation to be less than ten years since its inception. As we plan to cease our production operations at all our manufacturing facilities and transform from the engineering manufacturing services (EMS) industry to property development and management, our tax position may be subject to review by relevant taxing authorities, and we cannot determine in advance whether, or the extent to which such tax policy may require us to pay taxes or make payments in lieu of taxes.

**We believe we were not a passive foreign investment company for 2013 but we may be a passive foreign investment company for 2014, 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) our market capitalization plus total liabilities may be considered a proxy for our 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 2009, 2010 and 2011 but not for 2012 and 2013. 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 and 2013. 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, 2013 or currently in 2014, and we cannot anticipate our market capitalization for 2014. Accordingly, we may be treated as a PFIC for 2014. 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 2013 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.

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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 60 of this Report.

### **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 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 during each of our three fiscal years ended December 31 as indicated in the following chart:

(1) The Company's consolidated statements of comprehensive income for 2011 and 2012, have been restated according to the reclassified profit and loss resulting from discontinued operations.

We sell most of our products in U.S. dollars and pay our expenses in U.S. dollars, 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 material purchases we make, in U.S. dollars or RMB.

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 12%, 10% and 5% of our total costs and expenses and 6%, 1% and 1% of our material costs were in RMB during the years ended December 31, 2011, 2012 and 2013, respectively.



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If we pass the effect of increases in the RMB relative to the U.S. dollar 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. dollar, our margins and profitability could suffer.

**Our declaration and payment of dividends is not assured. We declared no dividends for 2010. Although our Board has resumed dividends for 2011, 2012, 2013 and 2014, 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, \$0.15 and \$0.02 per share for 2011, 2012, 2013 and 2014, respectively. The payment of dividends in 2011, 2012, 2013 and 2014 does not necessarily mean that dividend payments will continue thereafter. Whether future dividends after 2014 will be declared will depend on our future growth and earnings at each relevant period, of which there can be no assurance, and our cash flow needs for business transformation. Accordingly, there can be no assurance that cash dividends on the Company's common shares will be declared beyond those declared for 2014, 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 2014 and historically, please see ITEM 8. Dividends on page 55 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.

**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.



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**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, 2014, members of our senior management and our Board of Directors as a group beneficially owned approximately 27.3% 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 our 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 us. 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 (Acting) 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.

**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.

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**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.

**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.

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**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 46 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.

**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, of McNamara Chambers, 2<sup>nd</sup> Floor, 116 Main Street, 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 2013 to Date**

During 2013, the following major events took place:

We discontinued our production operations of FPC and LCMs for tablets located primarily in our Wuxi manufacturing facilities at the end of March 2013 and June 2013, respectively, due to a lack of customer orders. The production operations at our Wuxi manufacturing facilities ceased entirely in June 2013;

We have decided to formally cease our core business of LCM production by the end of April 2014, due to a major customer's repeated and continuous changes in its formal purchasing orders without suitable commitment and, as a result, a strong likelihood that no reasonable profit margin can be gained anymore from continuing production. We plan to sell all of our machinery and production lines in all our facilities thereafter and expect the sales will be finalized around the end of July 2014;

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Upon the cessation of our core business of LCM production, our management intends to thoroughly focus our efforts on developing two parcels of property in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, by converting these two parcels of land into high-end commercial complexes. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes and, as a result of which, our core business will be transformed from the EMS industry to property development and management. We project that the development of these two properties will each take approximately four years to complete following our Board's approval, which is scheduled in July 2014. During this development period, all overheads expenses, development costs and dividend will be funded from interest income together with our cash on hand and bank facilities, which we believe is sufficient.

**Organizational Structure**

The chart as below and on the next page shows our organizational structure of our principal subsidiaries at December 31, 2013.

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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:

(1) The figures of our principal capital expenditures and divestitures during each of the two years ended December 31, 2011 and 2012 were derived from the Company's consolidated statements of comprehensive income for 2011 and 2012, respectively, which have been restated according to the reclassified profit and loss resulting from discontinued operations.

Currently, there are no capital expenditures that have been planned for 2014, subject to our Board's decision to develop two parcels of land in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, which board meeting is scheduled in July 2014.

Our major capital expenditures in 2013 included:

\$0.3 million for machinery and leasehold improvements for a LCD module assembly.

Our major capital expenditures in 2012 included:

\$29.5 million for machinery and leasehold improvements for a LCD module assembly.

Our major capital expenditures in 2011 included:

\$7.5 million for machinery and leasehold improvements for a LCD module assembly; and

\$4.6 million for commercial property in Hong Kong.

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.

**Table of Contents****Historical Business Overview**

Up to the complete cessation of our EMS business around April 2014, we continue to be 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, 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 2013 net sales came from customers we provided services to in 2012. While we seek to diversify our customer base, a small number of customers currently generate a significant portion of our sales. Sales to our seven largest customers accounted for 99.1%, 99.0% and 100.0% of our net sales during the years ended December 31, 2011, 2012 and 2013, respectively and sales to our largest customer accounted for 72.5%, 84.1% and 92.5% of our net sales during the same periods, respectively. In early 2014, upon losing our remaining largest customer, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter. Sales to customers accounting for 10% or more of our net sales in the years ended December 31, 2011, 2012 or 2013 (listed in order of our net sales during 2013) were as follows:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Customer A <sup>(1)</sup>	72.5%	84.1%	92.5%
Customer B	11.5%	*	*
Customer C	12.3%	*	*

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

(1) Two of our largest customers, each accounting for 10% or more of our net sales in the years ended December 2011 and 2012, respectively, were reorganized into Customer A in 2012.

Our OEM customers based on net sales during 2013 were the following (listed alphabetically):

**Customer****Products**

OEM 1	Digital Pen
OEM 2	Digital Pen
OEM 3	Mobile phone accessories
OEM 4	LCD modules
OEM 5	Auto electronic products
OEM 6	LCD modules, FPC subassemblies and PCB modules
OEM 7	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.

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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.

## **Our Products**

Prior to year 2010, we operated and presented three reportable segments, namely: telecommunication components assembly ( TCA ), consumer electronics and communication products ( CECP ) and LCD products ( LCDP ). In 2010 and 2011, 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.

In 2013, we operate and present only one business segment, TCA, because the FPC segment has been discontinued since the first quarter of 2013. The segment information in 2011 and 2012 has been restated in order to conform to the change in segment reporting in 2013 in accordance with FASB ASC 280-10-50-34.

Please refer to Note 20 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.

The TCA segment is focused on subassemblies of components such as LCD modules, front light panels and back light panels for box-built products such as mobile phone accessories, entertainment devices, educational products and optical devices. Below is a detailed description of our products in the TCA segment:

### *Telecommunication Component Assembly*

We manufacture the following subassemblies and components:

Color LCD modules to display information as part of telecommunication products such as 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, automotive products and digital cameras;

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.

**Table of Contents****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, 2013, Zastron Shenzhen and Wuxi Zastron-Flex had a total of 24 sets of COG machines, and is capable of bonding 9.2 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.
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, 2013, 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.
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, 2013, we had 5 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 200 million resistor capacitor chips 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, 2013, 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 COF, COG and Chip Scale Package capabilities for CMOS sensor modules, electronic calculators, digital camera accessories, 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.

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*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.

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 facilities in Shenzhen to vertically integrate this process by producing FPC boards internally. Our Wuxi factory began manufacturing pilot runs of FPC boards and moved to large scale manufacturing in 2010. However, after the final evaluation on the viability of our FPC business based on its performance in the third quarter of 2012, we have discontinued our FPC business at 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 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.

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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:

Integrated circuits or chips, most of which we purchase presently from three Japan based electronic components manufacturers, of which one ranks among top ten in the industry, and one U.S based electronic component manufacturer that ranks among top ten in the industry and certain of their affiliates;

LCD panels, which are available from many manufacturers. Since 2007, we have purchased LCD panels from two Japan based internationally reputable LCD panels manufacturers that each ranks among the top manufactures in the industry;

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 two Japan based internationally reputable FCP manufacturers that each ranks among the top manufactures the industry; 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 one Japan based internationally reputable LCD manufacturer that ranks among the top manufactures in the industry.

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.

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### **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.

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, 2011, 2012 or 2013.

## **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.

**Table of Contents****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.

**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	Lite-on Technology Corporation Logitech International S.A The Primax Group Goer Tek, Inc.
Mobile phone accessories	Celestica, Inc. Flextronics International Ltd. Foxlink Group Merry Electronics Co., Ltd. WKK 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

FPC Boards/FPC Subassemblies<sup>(1)</sup>

Ichia Technologies Inc.  
Nitto Denko (HK) Ltd.  
NOK Corporation  
Sumitomo Chemical Co., Ltd.  
Fujikura Ltd.

(1) We have discontinued our FPC production operations in March 2013.

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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.

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 business and our operating results as a whole.

In 2013, as a result of the high level of competition and the weak consumer market, orders placed by our major customers were significantly lower than the customers' original forecast. Due to the lack of new orders, we were forced to discontinue our production operations of FPC and LCMs for tablets at our Wuxi manufacturing facilities in March 2013 and June 2013, respectively. As for the high-resolution LCMs for smartphones, we received orders from a customer to extend the production throughout the third and fourth quarters of 2013, however, the production of these orders had substantially completed by December 2013 and the shipment was completed in January 2014. Except for a few minor LCM orders for automobile applications requested by another customer, which would allow us to extend a small amount of production up to the end of April 2014, we currently have no more orders for any LCM production. As a result, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter.

## **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. 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. In response to the adverse market conditions in 2013, our management has decided to halt capital investment into technology platforms that cannot produce steady income streams in order to minimize potential losses resulting from cancellation and fluctuation of orders by 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, 2<sup>nd</sup> Floor, 116 Main Street, P.O. Box 3342, Road Town, Tortola, British Virgin Islands. 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, 2013:



<b>Location</b>	<b>Approximate</b>		<b>Owned<sup>(1)</sup> or lease expiration date</b>
	<b>Square Footage</b>	<b>Principal or Presently Contemplated Use</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>			
Guangming, Shenzhen, China	1,270,160		2057 <sup>(4)</sup>
Wuxi, Jiangsu Province, China	476,553		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 adjacent land of 0.3 million square feet and 0.3 million square feet, respectively, with 50-year land leases that we acquired in 1993 and 1999, respectively. We plan to develop and convert this parcel of land of a total of approximately 0.6 million square feet into high-end commercial complexes.
- (3) Construction was completed in 2009 and mass production at this factory began in 2010 and operation ceased in June 2013.
- (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. We plan to develop and convert this parcel of land into high-end commercial complexes.
- (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. We have decided to cease our core business of LCM production at our Shenzhen manufacturing facilities by the end of April 2014, due to a major customer's repeated and continuous changes in its formal purchasing orders without suitable commitment and, as a result, a strong likelihood that no reasonable profit margin can be gained anymore from continuing production. We plan to sell all of our machinery and production lines at our Shenzhen manufacturing facilities and expect the sales will be finalized around the end of July 2014. We plan to develop and convert the parcel of land of approximately 0.6 million square feet that our Shenzhen principal manufacturing facilities currently occupy, into high-end commercial complexes in the next four years.

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### **Wuxi, China**

We began construction of our Wuxi manufacturing facilities 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. However, in 2013, after the final evaluation on the viability of our business of FPC and LCM production, we discontinued our production operations of FPC and LCMs for tablets located primarily in our Wuxi manufacturing facilities at the end of March 2013 and June 2013, respectively, due to a lack of customer orders. The production operations at our Wuxi manufacturing facilities ceased entirely in June 2013. We plan to sell all of our machinery and production lines and sell or rent all the buildings at our Wuxi manufacturing facilities and expect the disposition and sales will be finalized around the end of July 2014.

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 facilities. 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.

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 facilities. The land use right certificate in respect of the land in Wuxi with carrying amount of \$3.8 million has been issued by the relevant government authority in the PRC on March 4, 2014.

### **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", "forward", "intend", "ought to", "plan", "potential", "project", "seek", "may", "might", "could", "would", "should", and the negative forms of these words 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*

In 2013, as a result of the high level of competition and the weak consumer market, orders placed by our major customers were significantly lower than the customers' original forecast. Due to the lack of new orders, we were forced to discontinue our production operations of FPC and LCM for tablets at our Wuxi manufacturing facilities in March 2013 and June 2013, respectively. As for the high-resolution LCMs for smartphones, we received orders from a customer to extend the production throughout the third and fourth quarters of 2013, however, the production of these orders had substantially completed by December 2013 and the shipment was completed in January 2014. Except for a few minor LCM orders for automobile applications requested by another customer, which would allow us to extend a small amount of production up to the end of April 2014, we currently have no more orders for any LCM production. As a result, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter. We estimate that the aforesaid final orders will only generate net sales of approximately \$52.5 million in the first half of 2014 and there is a strong likelihood that no reasonable profit margin can be gained anymore from our remaining final orders. Unless market conditions change in a way that we are able to obtain a sufficient number of orders from our customers, we expect our operating results in future periods to fall below the expectations of public market analysts and investors, which could cause the trading price of our common shares to decline.

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Upon the cessation of our core business of LCM production by the end of April 2014, our management intends to thoroughly focus our efforts on developing two parcels of property in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, by converting these two parcels of land into high-end commercial complexes. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes and, as a result of which, our core business will be transformed from the EMS industry to property development and management. We project that the development of these two properties will each take approximately four years to complete following our Board's approval, which is scheduled in July 2014.

Up to the complete cessation of our EMS business around April 2014, we continue to be 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, TFT display modules, RF modules, DAB modules, CMOS imaging 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 and electronic toys. We also manufacture finished products, including entertainment devices, mobile phone accessories 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 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 facilities. These new products generally have relatively higher gross margins with stable expenses.

*Impact of Foreign Currency Fluctuations*

We sell most of our products in U.S. dollars and pay our expenses in U.S. dollars, 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, 2013.

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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 12%, 10% and 5% of our total costs and expenses and 6%, 1% and 1% of our material costs were in RMB during the years ended December 31, 2011, 2012 and 2013, 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>2011</b>		<b>2012</b>		<b>2013</b>	
<b>Exchange Rate to US\$1.00</b>	<b>Percent change<sup>(2)</sup></b>	<b>Exchange Rate to US\$1.00</b>	<b>Percent change<sup>(2)</sup></b>	<b>Exchange Rate to US\$1.00</b>	<b>Percent change<sup>(2)</sup></b>
6.306	4.48%	6.231	1.19%	6.054	2.84%

- (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 4.48%, 1.19% and 2.84% during 2011, 2012 and 2013, respectively.

*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.



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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 2011, 2012 and 2013. 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 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:

<b>Tax Year</b>	<b>Rate under EIT for enterprises previously subject to 15% tax rate</b>	<b>Rate under EIT for enterprises previously subject to 24% tax rate</b>
2009	20%	25%
2010	22%	25%
2011	24%	25%
2012	25%	25%
2013	25%	25%

Our effective tax rates were 14%, 29% and 21% for each of the three years ended December 31, 2011, 2012 and 2013, respectively. The significant factors that caused our effective tax rates to differ from the applicable statutory rates were as follows:

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Applicable statutory tax rates	24%	25%	25%
Effect of difference between Hong Kong and PRC tax rates applied to Hong Kong income	1%		1%
Effect of change in tax law	(1)%		
Change in valuation allowance	3%	8%	6%
Reversal of deferred tax liability on withholding tax on undistributed profits of PRC subsidiaries			(3)%
Effect of loss/income for which no income tax benefit/expense is receivable/payable	(5)%		(4)%
Over provision of income tax expense in prior years	(9)%		
Withholding tax		(3)%	(2)%
Other items	1%	(1)%	(2)%

Effective tax rates	14%	29%	21%
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**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.

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### **Allowance for Doubtful Accounts**

Our accounts receivable balance is recorded net of allowances for amounts not expected to be collected from customers. Because our accounts receivable are typically unsecured, we periodically evaluate 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, we analyze 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 us, 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.

An allowance of \$2.1 million was made against our accounts receivable at December 31, 2013, compared to nil at December 31, 2012 and nil at December 31, 2011, respectively, primarily due to one of our customers not being able to make the payment within the credit term.

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

*Long-lived assets.* We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

We assess 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, we estimate 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. We estimate 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, we record an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. We determine 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 obtaining 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 2011, our stock price remained below the aggregate book value of our assets, however, the continuing improvement of our 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 our Shenzhen manufacturing 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 our Wuxi manufacturing facilities, we assessed the impairment of our long-lived assets used in the Wuxi manufacturing facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated that the carrying amounts of our long-lived assets as of December 31, 2011 were less than the undiscounted cash flows.

In 2012, our management assessed and determined that there were no events or changes in circumstances to indicate that the carrying amount of long-lived assets in our Shenzhen manufacturing 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, we assessed the impairment of its long-lived assets used in the Wuxi manufacturing facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated the carrying amounts of our long-lived assets as of December 31, 2012 were less than the undiscounted cash flows.

From the forgoing, we concluded that the carrying amounts of our long-lived assets were not impaired at December 31, 2011 and 2012.

In 2013, in view of the cessation of the core business of LCM production in Shenzhen by the end of April 2014, we assessed the impairment of our long-lived assets used in the Shenzhen facilities, by comparing the undiscounted cash flows with the carrying amounts of the assets. The results indicated the carrying amounts of our long-lived assets at December 31, 2013 were less than the undiscounted cash flows. Therefore, no impairment was recognized in respect of our long-lived asset for the year ended December 31, 2013. However, due to the reclassification of the long-lived assets at our Wuxi manufacturing facility as assets held for sales following the cessation of our Wuxi manufacturing facilities, a loss of \$35.0 million was recognized to write down the assets held for sale to their fair values in 2013.

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*Goodwill.* To assess goodwill for impairment, we perform an assessment of the carrying value of our 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 our reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, we would perform the second step in our 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. We estimate the fair value of our 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 year ended December 31, 2011, we determined that full impairment loss was required and recognized in 2011. The carrying value of goodwill has been zero since December 31, 2011.

Our 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 our ongoing strategic review of its business and operations. Therefore, future changes in our strategy and other changes (including the discount rate and expected long-term growth rate) in our operations could impact the projected future operating results that are inherent in our estimates of fair value, resulting in impairments in the future.

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

We make 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, we make provisions based on information from legal counsel and management's best estimation. We assess 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 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.

## **Workforce Reduction**

In 2011, 2012 and 2013, we have incurred employee severance payment of approximately \$0.2 million, \$1.9 million and \$14.0 million, respectively. We ceased production operations in Wuxi entirely in June 2013. In addition, after the final evaluation on the viability of our core operations of LCM production, we have decided to discontinue our core business of LCM production at our Shenzhen manufacturing facilities by the end of April 2014 due to a major customer's repeated and continuous changes in its formal purchasing orders without suitable commitment. Accordingly, we accrued \$14.0 million in lay-off costs for employee severance benefits of which \$3.0 million was paid in the last quarter of 2013. For a breakdown of these severance expenses by operating segment and additional information, see Note 21 of Consolidated Financial Statements.

**Table of Contents****Summary of Results**

We sustained a year-over-year revenue growth of 26% for 2013 when compared with 2012 because we have identified significant revenue growth opportunities assembling telecommunication product LCD modules for Japanese multinational corporations (MNCs) that supply global customers. However, despite the growth in revenue in 2013, as a result of the high level of competition and the weak consumer market, orders placed by the our major customers were significantly lower than the customers' original forecast in 2013. Due to the lack of new orders, we were forced to discontinue our production operations of FPC and LCMs for tablets at our Wuxi manufacturing facilities in March 2013 and June 2013, respectively. As for the high-resolution LCMs for smartphones, we received orders from a customer to extend the production throughout the third and fourth quarters of 2013, however, the production of these orders had substantially completed by December 2013 and the shipment was completed in January 2014. Except for a few minor LCM orders for automobile applications requested by another customer, which would allow us to extend a small amount of production up to the end of April 2014, we currently have no more orders for any LCM production. As a result, we have decided to formally cease our core business of LCM production by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter. We estimate that the aforesaid final orders will only generate net sales of approximately \$52.5 million in the first half of 2014 and there is a strong likelihood that no reasonable profit margin can be gained anymore from our remaining final orders. The following table sets forth key operating results (in thousands, except per share data) for the years ended December 31, 2011, 2012 and 2013:

	Year Ended December 31,			% increase/(decrease)	
	2011	2012	2013	2012 vs 2011	2013 vs 2012
Net sales	\$ 509,124	\$ 678,113	\$ 855,847	33.2%	26.2%
Gross profit	\$ 30,087	\$ 68,238	\$ 67,635	126.8%	(0.88)%
Income from operations	\$ 5,762	\$ 45,300	\$ 35,465	686.2%	(21.7)%
Income from continuing operations, net of income tax	\$ 13,608	\$ 37,433	\$ 41,216	175.1%	10.1%
(Loss) income from discontinued operations, net of income tax	\$ (13,103)	\$ 29,488	\$ (40,919)	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Consolidated net income	\$ 505	\$ 66,921	\$ 297	13,151.7%	(99.6)%
Basic earnings per share from continuing operations	\$ 0.30	\$ 0.83	\$ 0.91	176.7%	9.6%
Basic (loss) earnings per share from discontinued operations	\$ (0.29)	\$ 0.66	\$ (0.90)	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Basic earnings per share	\$ 0.01	\$ 1.49	\$ 0.01	14,800.0%	(99.3)%
Diluted earnings per share from continuing operations	\$ 0.30	\$ 0.83	\$ 0.90	176.7%	8.4%
Diluted (loss) earnings per share from discontinued operations	\$ (0.29)	\$ 0.65	\$ (0.89)	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Diluted earnings per share	\$ 0.01	\$ 1.48	\$ 0.01	14,700.0%	(99.3)%

(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, 2013, 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.

<b>Days in:</b>	<b>2012</b>				<b>2013</b>			
	<b>Mar. 31</b>	<b>Jun. 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>	<b>Mar. 31</b>	<b>Jun. 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>
Sales cycle <sup>(1)</sup>	10	(19)	(10)	(2)	3	4	1	0
Inventory turnover <sup>(2)</sup>	24	19	64	28	17	24	17	14
Accounts receivable <sup>(3)</sup>	50	38	70	55	39	35	41	30
Accounts payable <sup>(4)</sup>	64	76	144	85	53	55	57	44

<b>Days in</b>	<b>March 31</b>		<b>June 30</b>		<b>September 30</b>		<b>December 31</b>	
	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
Sales cycle <sup>(1)</sup>	10	3	(19)	4	(10)	1	(2)	0
Inventory turnover <sup>(2)</sup>	24	17	19	24	64	17	28	14
Accounts receivable <sup>(3)</sup>	50	39	38	35	70	41	55	30
Accounts payable <sup>(4)</sup>	64	53	76	55	144	57	85	44

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- (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.

**Results of Operations**

The following table presents selected consolidated financial information stated as a percentage of net sales for the years ended December 31, 2011, 2012 and 2013.

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net sales	100.0%	100.0%	100.0%
Cost of sales	(94.1)%	(89.9)%	(92.1)%
Gross profit	5.9%	10.1%	7.9%
General and administrative expenses <sup>(1)</sup>	(3.3)%	(3.1)%	(3.9)%
Selling expenses	(0.6)%	(0.2)%	(0.1)%
Research and development expenses	(0.3)%	(0.1)%	
Impairment loss on goodwill	(0.6)%		
Other operating income			0.2%
Income from operations	1.1%	6.7%	4.1%
Other income, net	1.5%	0.8%	1.4%
Interest income	0.5%	0.3%	0.6%
Income before income tax	3.1%	7.8%	6.1%
Income tax expenses	(0.4)%	(2.3)%	(1.3)%
Income from continuing operations, net of income tax	2.7%	5.5%	4.8%
(Loss) income from discontinued operations, net of income tax	(2.6)%	4.4%	(4.8)%
Consolidated comprehensive income attributable to Nam Tai shareholders	0.1%	9.9%	

- (1) General and administrative expenses include employee severance benefits of \$0.2 million, \$1.9 million and \$14.0 million for the years ended December 31, 2011, 2012 and 2013, respectively.

*Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*



*Net Sales.* Our net sales increased by 26.2% to \$855.8 million for 2013, up from \$678.1 million in 2012. Sales of the TCA segment increased by 26.2%. This significant revenue increase was attributable to the beginning of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facilities in September 2012 and throughout 2013.

In 2013, we operate and present only one business segment, TCA, because the FPC segment has been discontinued since the first quarter of 2013.

Our overall sales increased by 26.2%. This was driven primarily by an increase of 35.0% or \$216.0 million, in sales of LCD modules.

*Gross Profit.* In terms of dollar value, our gross profit for 2013 decreased by \$0.6 million compared to 2012. Our gross margin decreased to 7.9% in 2013 from 10.1% in 2012 mainly due to: (i) a decrease by \$3.6 million in our sample sales to one of our major customers with lower corresponding materials costs because most of materials were consigned to us free of charge by such customer during the sample production; (ii) the decrease by \$7.9 million in the compensation that we charged such customer for being not able to meet the agreed production level per quotation in 2013; and (iii) a change in our product mix in 2013.

*General and Administrative Expenses.* Our general and administrative expenses increased to \$33.3 million or 3.9% of net sales, in 2013, from \$20.7 million or 3.1% of net sales in 2012. The \$12.6 million increase was mainly attributable to increases of \$12.1 million of employee severance benefits.

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*Selling Expenses.* Our selling expenses in 2013 decreased to \$0.5 million from \$1.5 million in 2012 accounting for 0.1% and 0.2% of net sales for 2013 and 2012, respectively. The \$1.0 million decrease was mainly attributable to the reduction in headcount of our marketing department.

*Research and Development Expenses.* Our research and development expenses in 2013 decreased to nil from \$0.7 million in 2012. The decrease was attributable to the reduction in headcount of the research and development department.

*Other Income, Net.* During 2013, our other income was \$12.0 million compared to \$5.3 million in 2012. The increase was mainly attributable to the gain on exchange difference due to the appreciation of the RMB.

*Interest Income.* Our interest income was \$4.9 million, which increased by \$2.9 million from \$2.0 million in 2012. The increase was primarily the result of more RMB term deposits with higher interest rate in 2013 than in 2012.

*Income Tax Expenses.* Our income tax expense represented income tax provision of \$10.3 million recognized during 2013 compared to \$13.1 million recognized during 2012 and deferred tax expenses of \$0.8 million recognized during 2013 compared to our deferred tax expenses of \$2.1 million recognized during 2012. The decrease of income tax expenses was attributable to the decrease of income before income tax due to increases of \$12.1 million of employee severance benefits and the reversal of deferred tax liabilities of \$1.4 million because management decided to retain the undistributed earnings in our subsidiaries in the PRC for the change of core business.

*Income from continuing operations.* Our income from continuing operations increased to \$41.2 million in 2013 from \$37.4 million in 2012.

*(Loss) income from discontinued operations.* Our net loss from discontinued operations amounted to net loss of \$40.9 million in 2013 (2012: net income of \$29.5 million). In 2013, after the final evaluation on the viability of our business of FPC and LCM production, we discontinued our production operations of FPC and LCMs for tablets located primarily in our Wuxi manufacturing facilities at the end of March 2013 and June 2013, respectively, due to a lack of customer orders. The production operations at our Wuxi manufacturing facilities ceased entirely in June 2013. The decrease of income from discontinued operations was attributable to the decrease of \$446.9 million of sales.

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:

	2012		Year ended December 31, 2013		2013 vs. 2012 Percent
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	
	TCA	\$ 38,706	103.4%	\$ 38,412	93.2%
Corporate	\$ (1,273)	(3.4)%	\$ 2,804	6.8%	n/a <sup>(1)</sup>
Net income from continuing operations	\$ 37,433	100.0%	\$ 41,216	100.0%	10.1%

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

In the TCA segment, net income was \$38.4 million in 2013 compared to net income of \$38.7 million in 2012. This decrease was principally due to a change of our product mix in 2013.

In the corporate segment, net income was \$2.8 million in 2013 compared to net loss of \$1.3 million in 2012. This increase by \$4.1 million was mainly due to legal liability provision on legal case reversal of \$1.0 million, income from sanctioned payment of \$1.1 million upon the resolution of a legal dispute and interest income of \$1.4 million.

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

*Net Sales.* Our net sales increased by 33.2% to \$678.1 million for 2012, up from \$509.1 million in 2011. Sales of the TCA segment increased by 33.2%.

In 2013, we operate and present only one business segment, TCA, because the FPC segment has been discontinued since the first quarter of 2013.

Overall sales increased by 33.2%. This was driven primarily by an increase of \$240.7 million or 63.8% in sales of LCD modules.

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*Gross Profit.* In terms of dollar value, our gross profit for 2012 increased by \$38.2 million compared to 2011. Our gross margin increased to 10.1% in 2012 from 5.9% in 2011 mainly due to two factors. First, our gross margin increased because our sales increased significantly by 33.2% as a result of the beginning of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facilities in September 2012, while our overall overhead costs remained stable. Second, we changed our product mix by discontinuing certain sales orders that have had poor performance.

*General and Administrative Expenses.* Our general and administrative expenses increased to \$20.7 million, or 3.1% of net sales, in 2012, from \$16.8 million or 3.3% of net sales in 2011. The \$3.9 million increase was mainly attributable to increases of \$1.7 million of employee severance benefits and \$0.4 million of salaries and benefit.

*Selling Expenses.* Our selling expenses in 2012 decreased to \$1.5 million from \$2.9 million in 2011 accounting for 0.2% and 0.6% of net sales for 2012 and 2011, respectively. The \$1.4 million decrease was mainly attributable to the reduction in headcount of our marketing department.

*Research and Development Expenses.* Our research and development expenses in 2012 decreased to \$0.7 million from \$1.7 million in 2011 accounting for 0.1% and 0.3% of net sales for 2012 and 2011. The decrease was attributable to the reduction in headcount of the research and development department.

*Other Income, Net.* During 2012, our other income was \$5.3 million compared to \$7.4 million in 2011. The decrease was mainly attributable to less exchange gain in 2012 due to the degree of the appreciation of RMB was lower as compared to 2011.

*Interest Income.* Our interest income was \$2.0 million, which decreased by \$0.7 million from \$2.7 million in 2011. The decrease was primarily due to the bank deposit interest rates of 2012 was lower than 2011.

*Income Tax Expenses.* We had an effective tax rate of about 29% and 14% on income before income taxes in 2012 and 2011 respectively. The increase of effective tax rate and income tax expenses was attributable to the increase of income before income tax.

*Net Income.* Net income increased to \$37.4 million in 2012 from \$13.6 million in 2011 as result of the increase in sales by 33.2% due to the beginning of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facilities in September 2012, while our overall overhead costs remained stable, in addition, changed our product mix by discontinuing certain sales orders that have had poor performance.

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,				2012 vs. 2011 Percent
	2011		2012		
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	
TCA	\$ 17,465	128.3%	\$ 38,706	103.4%	121.6%
Corporate	\$ (3,857)	(28.3)%	\$ (1,273)	(3.4)%	n/a <sup>(1)</sup>
Net income from continuing operations	\$ 13,608	100.0%	\$ 37,433	100.0%	175.1%

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

In the TCA segment, net income was \$38.7 million in 2012 compared to \$17.5 million in 2011. This increase was principally due to a significant increase in sales by 33.2% as a result of the commencement of mass production of high-resolution LCMs for smartphones at our Shenzhen manufacturing facilities in September 2012, while the overall overhead costs remained stable. In addition, we changed our product mix by discontinuing certain sales orders due to a lack of customer orders.

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

**Table of Contents****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 our machinery and production lines in all our facilities we owned in 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 and to fund increases in inventory and accounts receivable in years when our sales, inventories or accounts receivable have increased.

We had net working capital of \$298.3 million at December 31, 2013 compared to net working capital of \$278.2 million at December 31, 2012. The principal components of our working capital at December 31, 2013 and December 31, 2012 consisted of cash and cash equivalents, accounts receivables, inventories and assets held for sale. The increases in these components at December 31, 2013 from levels at December 31, 2012, primarily resulted from the increase in cash and time deposit by \$62.6 million in 2013.

We currently believe that during 2014, our capital expenditures will be nil, subject to our Board's decision to develop two parcels of land in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, which board meeting is scheduled in July 2014. 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, and our working capital requirements is sufficient to maintain our business operations 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.

The following table sets forth, for the years ended December 31, 2011, 2012 and 2013, selected consolidated cash flow information (\$ in thousands):

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net cash (used in) provided by operating activities	\$ (5,320)	\$ 109,771	\$ 82,042
Net cash used in investing activities	\$ (99,410)	\$ (66,928)	\$ (140,383)
Net cash used in financing activities	\$ (8,961)	\$ (4,163)	\$ (32,877)
Net (decrease) increase in cash and cash equivalents	\$ (113,691)	\$ 38,680	\$ (91,218)

Net cash provided by operating activities for 2013 was \$82.0 million. This consisted primarily of a \$0.3 million consolidated net income, and \$21.4 million of non-cash item depreciation and amortization and \$35.0 million of impairment loss on fixed asset and land use right, a decrease in accounts receivable of \$82.6 million, a decrease in inventories of \$25.7 million, a decrease in prepaid expenses and other receivables of \$21.7 million, and a decrease in net deferred tax asset of \$4.5 million. Net cash provided by operating activities was partially offset by a decrease in accounts payable of \$92.1 million and a decrease in accrued expenses and other payables of \$8.9 million.

Net cash used in investing activities was \$140.4 million for 2013, consisting primarily \$3.7 million in capital expenditures, which were used mainly to expand our manufacturing capacity and purchase equipment and an increase of fixed deposits of \$151.7 million maturing over three months.

Net cash used in financing activities was \$32.9 million for 2013, representing a dividend payment to shareholders of the Company of \$27.1 million, a decrease in bank loans of \$4.8 million and a decrease in trust receipt loans of \$3.6 million. Net cash used in financing activities was partially offset by \$2.6 million proceeds from shares issued pursuant to an exercise of options.

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 \$25.1 million, and an increase in prepaid expenses and other receivables of \$10.0 million.

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Net cash used in investing activities was \$66.9 million for 2012, consisting primarily of a \$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 of a \$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.

For the years ended December 31, 2011, 2012 and 2013, we had no guaranteed loans.

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, 2013, we had \$68.7 million in cash and cash equivalents and short-term deposits and \$201.6 million of fixed deposits maturing over three months, compared with \$157.8 million in cash and cash equivalents and short-term deposits and \$49.8 million of fixed deposits maturing over three months, as of December 31, 2012.

As of December 31, 2013, we had in place \$49.5 million of general banking facilities with financial institutions. The banking facility at December 31, 2013 will mature in April 2014. These banking facilities (which are not considered guaranteed loans) are secured by cross guarantee given by NTISZ together with Zastron Shenzhen or alone. As of December 31, 2013, we had \$68.7 million in cash and cash equivalents and short-term deposits, \$201.6 million of fixed deposits maturing over three months and available unused credit facilities of \$49.5 million, which are sufficient to meet our business operations needs for the next 12 months.

As of December 31 2013, we had no long-term bank loans.

Our contractual obligations, including purchase obligations as of December 31, 2013 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.



<b>Contractual Obligations</b>	<b>Payments (in thousands) due by period</b>				
	<b>Total</b>	<b>2014</b>	<b>2015 to 2016</b>	<b>2017 to 2018</b>	<b>After 2019</b>
Other purchase obligations	22,461	22,461			
Total	\$ 22,461	\$ 22,461	\$	\$	\$

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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 2.5% in January 2014 from the level in January 2013. The wages we pay our employees also increased substantially in 2013. At December 31, 2013, the average wage level of our direct labor workforce was approximately 9.2% higher than that at December 31, 2012. 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 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.

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

In March 2013, the FASB issued Accounting Standards Update (ASU) 2013-05, *Foreign Currency Matters (Topic 830)*. The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company believes that its adoption of this Update will not have any material impact on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-07, *Presentation of Financial Statements (Topic 205), Liquidation of Accounting*. The amendments of this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis so accounting. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP except investment companies that are regulated under the Investment Company Act of 1940. The amendments are effective for entities that determine liquidation imminent during annual reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this Update will have material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The current practice Topic 740, Income Taxes does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The objective of this Update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits. This accounting standard update is effective for fiscal years, and interim within those years, beginning after December 15, 2013, early adoption is permitted. The Company believes that its adoption of this Update 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, 2011, 2012 and 2013 we incurred research and development expenses of approximately \$1.7 million, \$0.7 million and nil, respectively. In response to the adverse market conditions in 2013, our management has decided to halt capital investment into technology platforms that cannot produce steady income streams in order to minimize potential losses resulting from cancellation and fluctuation of orders by our customers.

**Table of Contents****Trend Information**

In 2013, we discontinued our production operations of FPC and LCMs for tablets located primarily in our Wuxi manufacturing facilities at the end of March 2013 and June 2013, respectively, due to a lack of customer orders. In addition, due to a customer's repeated and continuous changes in its formal purchasing orders without suitable commitment, there is a strong likelihood that no reasonable profit margin can be gained anymore from continuing LCM production. After the final evaluation on the viability of our core business of LCM production, we have decided to formally cease our core business of LCM production at our Shenzhen manufacturing facilities by the end of April 2014 and sell all of our machinery and production lines in all our facilities thereafter. We expect the sales will be finalized around end of July 2014.

Upon the cessation of our core business of LCM production, our management intends to thoroughly focus our efforts on developing two parcels of property in Gushu, Shenzhen, and Guangming, Shenzhen, respectively, by converting these two parcels of land into high-end commercial complexes. Upon the completion of development of these two parcels of land, we will become the landlord and manager of the commercial complexes and, as a result of which, our core business will be transformed from the EMS industry to property development and management. We project that the development of these two properties will each take approximately four years to complete following our board's approval, which is scheduled in July 2014. During this development period, all overheads expenses, development costs and dividend will be funded from interest income together with our cash on hand and bank facilities, which we believe is sufficient.

**Off-balance Sheet Arrangements**

For 2013, 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.

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

Our current directors and senior management, and their ages as of March 1, 2014, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with Nam Tai or its Subsidiaries</b>
Koo Ming Kown	69	Nam Tai's Executive Chairman, Chief Financial Officer
Liu Pi Hao <sup>(1)</sup>	50	Nam Tai's Chief Executive Officer (Acting)
Wang Shi Ping	60	Senior Operations President of Shenzhen Manufacturing
Peter R. Kellogg	71	Member of the Board of Directors
Dr. Wing Yan (William) Lo	53	Member of the Board of Directors
Charles Chu	57	Member of the Board of Directors
Mark Waslen	53	Member of the Board of Directors

(1) Mr. Wang Lu Ping, the former Chief Executive Officer of Nam Tai resigned and Mr. Liu Pi Hao was appointed as the Chief Executive Officer (Acting) of Nam Tai effective on March 1, 2014.

***Koo Ming Kown.*** (Year of Birth: 1944). Mr. Koo, a founder of the Nam Tai Group, currently serves as executive Chairman and Chief Financial Officer of Nam Tai. He has served in various senior executive and management positions of Nam Tai Group from our inception, including responsibilities for corporate strategy, finance and administration. He is also Chairman & Legal Representative of various PRC subsidiaries of Nam Tai. Mr. Koo received his Bachelor of Laws degree from National Taiwan University in 1970. Mr. Koo also received the Honorary Degree of Doctor of Social Science from the City University of Hong Kong in November 2013.

***Liu Pi Hao.*** (Year of Birth: 1963). Mr. Liu currently serves as the Chief Executive Officer (Acting) of Nam Tai. He joined Nam Tai as a Production Assistant General Manager in Operations Department on November 15, 1999. During his 14 years tenure with Nam Tai, 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 22 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.

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**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 MFC Industrial 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 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.

**Charles Chu.** (*Year of Birth: 1957*). Mr. Chu originally served on our Board of Directors 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.

**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, 2013 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 \$4.0 million.

During the year ended December 31, 2013, 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 \$7.5 per share. The exercise price of the shares covered by the options granted during 2013 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, May 31, 2013, was \$7.5, as reported on the NYSE. The options granted during 2013 expire on the third anniversary of their grant date in 2016.

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During 2012, a director (Mr. Koo) and our 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 April 30, 2016 and April 26, 2015, respectively. The options granted to Mr. Koo became exercisable in April 2013. Of the options granted to our senior management, 50% would become exercisable in 2013 and the remaining 50% will become exercisable after 2013. In January 2013, our senior management received the option certificates for the options that became exercisable.

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. In addition, members of our senior management are eligible to elect to receive stock options from our Stock Option Plans instead of receiving cash incentives. As mentioned above, during 2012, our management were granted options to purchase 831,000 shares of the Company and 50% of such options would become exercisable in 2013 and the remaining 50% will become exercisable after 2013. Members of our senior management have elected to receive the options granted to them in January 2013 and forfeited the cash incentives for year 2012, and have indicated their willingness to forfeit the cash incentives for year 2013 and receive the remaining options granted to them when such options become exercisable after 2013.

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.

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 14%. 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.

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. 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 \$2.3 million, \$3.9 million and \$2.5 million for the years ended December 31, 2011, 2012 and 2013, respectively.

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

The following table presents the total compensation paid to each of our non-management directors during 2013:



Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
Peter R. Kellogg	52,200	28,200		80,400
Charles Chu	57,500	28,200		85,700
Dr. Wing Yan (William) Lo	55,500	28,200		83,700
Mark Waslen	55,700	28,200		83,900

- (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.

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\* 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 2014 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, 2013**

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 May 2013, 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 \$7.5 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 2013 to Mr. Koo and our three other highest paid executive officers during 2013 who were serving at December 31, 2013.

**Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)<sup>(1)</sup></b>	<b>Other comp. and benefits (\$)<sup>(2)</sup></b>	<b>Total (\$)</b>
<b>Koo Ming Kown</b>	2013	1,666,672 <sup>(3)</sup>	1,135,632 <sup>(4)</sup>	2,802,304
<i>Nam Tai's Executive Chairman, Chief Financial Officer</i>	2012	850,528 <sup>(3)</sup>	607,756 <sup>(4)</sup>	1,458,284
	2011	851,625 <sup>(3)</sup>	318,287 <sup>(4)</sup>	1,169,912

<b>Wang Lu Ping<sup>(5)</sup></b>	2013	291,395	71,359	362,754
<i>Former Chief Executive Officer of Nam Tai</i>	2012	286,206	35,512	321,718
	2011	93,453	31,556	125,009
<b>Liu Pi Hao<sup>(6)</sup></b>	2013	194,263	52,717	246,980
<i>Chief Executive Officer (Acting) of Nam Tai</i>	2012	172,042	21,575	193,617
	2011	150,468	2,047	152,515
<b>Wang Shi Ping</b>	2013	198,252	36,564	234,816
<i>Senior Operations President of Shenzhen</i>	2012	184,946	16,278	201,224
<i>Manufacturing</i>	2011	170,460	41,187	211,647

- (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\$ and RMB, respectively and for purposes of the presentation in the above table have been converted into US\$ at a conversion rate \$1.00:HK\$7.75, \$1.00:RMB6.18 for 2013 and \$1.00:HK\$7.76 and \$1.00:RMB6.30 for 2012, \$1.00:HK\$7.75 and \$1.00:RMB6.43 for 2011 respectively.

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- (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 \$1.7 million in 2013 and \$0.9 million in 2012 and 2011.
- (4) All other compensation and benefits for 2013 includes fees for annual physical examination, \$0.9 million share options to purchase an aggregate of 600,000 of our common shares at an exercise price of \$6.66 per share, which became vested in April 2013 and \$0.2 million which Nam Tai has accrued as a bonus to Mr. Koo for services in 2013, but was paid to Mr. Koo in January 2014. 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.
- (5) Rejoined in September 2011 and resigned from the position of Chief Executive Officer of Nam Tai effective on March 1, 2014.
- (6) Appointed as Chief Executive Officer (Acting) of Nam Tai effective on March 1, 2014.

**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 Service	Value at December 31, 2013 of Accumulated Benefits (\$)	Company Payments During 2013 (\$)
Koo Ming Kown	39.0 <sup>(1)</sup>	N/A	N/A
Wang Lu Ping <sup>(2)</sup>	12.3	N/A	N/A
Liu Pi Hao <sup>(3)</sup>	14.1	N/A	N/A
Wang Shi Ping	22.6	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 and resigned from the position of Chief Executive Officer of Nam Tai effective on March 1, 2014.
- (3) Appointed as Chief Executive Officer (Acting) of Nam Tai effective on March 1, 2014.

**Options Held by Executive Officers at January 31, 2014**

*Stock Options of Directors and Management*

The following table provides information concerning the options owned by our current management and directors as of January 31, 2014.

Name	Number of common shares subject to option	Exercise price (\$)	Expiration Date
Koo Ming Kown	600,000	6.66	April 30, 2016

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### **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).

### **Corporate Governance Guidelines**

We have adopted a set of corporate governance guidelines which are available on our website at [http://www.namtai.com/investors#investors/corporate\\_governance.htm](http://www.namtai.com/investors#investors/corporate_governance.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:

Kenneth Lau, Group Financial Controller

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, we are 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 our 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.

We have adopted the directors' independence criteria as established by NYSE Corporate Governance Rules Section 303A.02.

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 \$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;

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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 our 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.

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 our Compensation Committee are to recommend (1) the compensation of the our 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 2013: Messrs. Chu, Waslen, Kellogg and Dr. Lo. Mr. Chu serves as the Chairman of the Compensation Committee.

### *Nominating/Corporate Governance Committee*

The primary duties of our 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 2013, 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 remaining balance of the 86,500 options granted in 2011 and 2012 but not yet exercised by our directors (a total of 146,500) were outstanding and held by our directors as of January 31, 2014. The options granted in 2011 are exercisable at \$5.92 per share, and will lapse on June 9, 2014. With the exception of Mr. Koo's options, which will expire on April 30, 2016, the options granted in 2012 are exercisable at \$5.34 per share and will lapse on June 5, 2015. The options granted in 2013 are exercisable at \$7.5 per share and will lapse on May 31, 2016.

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During 2012, a director (Mr. Koo) and our 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 April 30, 2016 and April 26, 2015, respectively. The options granted to Mr. Koo to purchase 600,000 shares of the Company became exercisable in April 2013. Of the options granted to our senior management, 50% would become exercisable in 2013 and the remaining 50% will become exercisable after 2013. In January 2013, our senior management received the option certificates for the options that became exercisable.

**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**

We have two stock option plans, our amended 2001 stock option plan and our 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 our 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 Directors 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, 2014, we had options outstanding to purchase 146,500 shares, 1,025,500 shares and 12,000 shares held by four non-employee directors, one director and management and, one external consultant, respectively. Under our existing stock option plans, options to purchase 1,101,869 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.

**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, 2011, 2012 and 2013.

Geographic Location	Main Activity	At December 31,		
		2011	2012	2013
Shenzhen, PRC	Manufacturing	2,910	4,565	2,662
	Research and development	63	17	8
	Quality control	252	337	250

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	Engineering	119	157	109
	Administration	297	194	119
	Marketing	51	18	6
	Support <sup>(1)</sup>	134	186	121
	<b>Total Shenzhen</b>	<b>3,826</b>	<b>5,474</b>	<b>3,275</b>
Wuxi, PRC				
	Manufacturing	886	893	
	Research and development	26	4	
	Quality control	197	207	
	Engineering	72	81	3
	Administration	70	118	21
	Marketing	18	7	
	Support <sup>(1)</sup>	105	101	
	<b>Total Wuxi</b>	<b>1,374</b>	<b>1,411</b>	<b>24</b>
Hong Kong				
	Administration	6	8	6
	<b>Total Hong Kong</b>	<b>6</b>	<b>8</b>	<b>6</b>
	<b>Total Employees</b>	<b>5,206</b>	<b>6,893</b>	<b>3,305</b>

- (1) Employees categorized in support include personnel engaged in procurement, customs, shipping and warehouse services.

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The following table sets forth certain information known to us regarding the beneficial ownership of our common shares as of January 31, 2014, 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:

Name	Shares beneficially owned <sup>(1)</sup>	
	Number	Percent
Peter R. Kellogg	6,495,000 <sup>(2)</sup>	14.3%
I.A.T. Reinsurance Syndicate Ltd.	5,774,800 <sup>(2)</sup>	12.8%
Koo Ming Kown	5,842,786 <sup>(3)</sup>	12.7%
Charles Chu	29,000 <sup>(4)</sup>	*
Wing Yan (William) Lo	30,000 <sup>(5)</sup>	*
Mark Waslen	55,000 <sup>(6)</sup>	*

\* Less than 1%.

- (1) Percentage of ownership is based on 45,272,735 common shares outstanding as of January 31, 2014. In accordance with Rule 13d-3(d)(1) under the Exchange Act, options which are exercisable within 60 days of January 31, 2014 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 2011, 2012 and 2013 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. Mr. Koo also holds options to purchase 600,000 shares.
- (4) Includes options to purchase 26,500 shares.
- (5) Represents options to purchase 30,000 shares.
- (6) Includes options to purchase 45,000 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, 2014.

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, 2014, there were approximately 577 holders of record of our common shares. According to information provided to us by our transfer agent, 564 holders of record with addresses in the United States held 39,977,322 of our common shares at January 31, 2014.

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

	Percentage Ownership <sup>(1)</sup>		
	2012	2013	2014
Peter R. Kellogg <sup>(2)</sup>	13.3%	14.4%	14.3%
I.A.T. Reinsurance Syndicate Ltd.	11.7%	12.9%	12.8%
Koo Ming Kown	11.7%	11.7%	12.7%
Kahn Brothers LLC	5.5% <sup>(3)</sup>	6.4%	6.1%

- (1) Based on 45,272,735 common shares outstanding on January 31, 2014. In accordance with Rule 13d-3(d)(1) under the Exchange Act, options which are exercisable within 60 days of January 31, 2014 have been considered outstanding for the purpose of computing the percentage of our 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.

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- (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 2011, 2012 and 2013 as a director of Nam Tai.
- (3) Based on a Schedule 13G filed with the SEC by the beneficial holder on February 11, 2013 for its shareholding during the year ended December 31, 2012.

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**

During 2012, Mr. Koo was granted options to purchase 600,000 shares of the Company at an exercise price of \$6.66 per share. According to the option certificates, the options granted to Mr. Koo during 2012 will expire on April 30, 2016.

During the year ended December 31, 2013, we paid tax of \$2.3 million on behalf of a director of the Company and a former director of a subsidiary. The amount was recorded as other receivables. For more information, please refer to ITEM 8. Financial Information Legal Proceedings Notices of Alleged Personal Liability for Additional Taxes Against Former Directors and Officers for Signing NTTC s Tax Returns .

**ITEM 8. FINANCIAL INFORMATION**

**Financial Statements**

Our consolidated financial statements are included this Form 20-F in the F pages following page 71.

**Legal Proceedings**

On May 17, 2013, a class action lawsuit was filed in the United States District Court for the Southern District of New York by several shareholders of Nam Tai against Nam Tai and two of its executives. The class action lawsuit, however, was voluntarily dismissed by the plaintiffs, with prejudice in January 2014. No payment or consideration of any kind was made by neither Nam tai or any of its directors in connection with the dismissal. We are not currently 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 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, (the HKIRD ), the income tax authority of the Hong Kong Government. These disputes are discussed sequentially below.

*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.

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 \$3.0 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.

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(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 Court upon the application of the Registrar of Companies issued a Summons to NTGM dated December 28, 2012 (which was 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. NTGM pleaded guilty to the charge and was fined approximately \$258, which was duly paid on April 19, 2013.

*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 \$5,008 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.

*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.

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(ii) The taxation process is completed. The total taxed costs as certified by the Registrar are approximately \$4,859 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. On January 14, 2014, NTT received a letter from the HKIRD demanding payment of the judgment debt referred to in paragraph 3(b) above, plus costs and interest.

*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 operations 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 operations 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.

*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 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.

On April 26, 2013, the Commissioner issued three Notices of Assessment and Demand for Additional Tax against the two former directors in the total amount of approximately \$2.3 million (the Assessment Notices ), assessing one of them to additional tax by way of penalty in the sum of approximately \$1.6 million (approximately \$0.8 million in respect of the year 1996/1997 and approximately \$0.8 million in respect of the year 1999/2000) and assessing the other former director to additional tax by way of penalty in the sum of approximately \$0.7 million in respect of the year 1997/1998.

The two former directors lodged an appeal to the Board of Review of the HKIRD against the Assessment Notices (the BOR Appeal ) on May 24, 2013. The BOR Appeal is scheduled to be heard from January 26, 2015 to January 30, 2015.

On May 27, 2013, the Company paid on behalf of the two former directors the additional tax as required under the Assessment Notices.

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On July 22, 2013, the two former directors filed a notice of application for leave to apply for judicial review with the Court of First Instance ( CFI ) in respect of the Commissioner s decision to issue the Assessment Notices ( Decision ). The CFI declined the application on 21 August 2013.

On September 2, 2013, the two former directors filed a notice of appeal with the Court of Appeal to apply for an order that the Decision be quashed on the basis that it was ultra vires the Commissioner s powers under the Inland Revenue Ordinance and, alternatively, for an order that leave be granted to apply for judicial review of the Decision. The hearing before the Court of Appeal is scheduled to take place on May 30, 2014.

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. After the Additional Assessment Notices had been issued, the Insurers were informed of the same. The Insurers refused to reimburse for the additional tax under the Additional Assessment Notices and the associated legal costs and expenses incurred in both the BOR Appeal and the CA Appeal. Therefore, NTEI and the two former directors have commenced arbitration against the Insurers under the Policy on October 18, 2013 by issuing a Notice of Arbitration to claim for reimbursement of the additional tax and the legal costs and expenses of both the BOR Appeal and the CA Appeal. The insurers filed their Response to Notice of Arbitration on December 24, 2013. The parties are now in the process of appointing the arbitrators.

NTEI took out a new Directors and Officers Liability Insurance Policy with a new insurer for the year 2013.

**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, 2011, 2012 and 2013:

Geographic Areas	Year Ended December 31,		
	2011	2012	2013
Japan	73%	86%	92%
Hong Kong	14%	11%	7%
Europe	6%	2%	1%
United States	6%		
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.

As announced on November 5, 2012, the Company set payment of quarterly dividends for 2013 of \$0.15 per quarter. All quarterly dividends scheduled for payment in 2013 were paid as scheduled.

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On November 4, 2013, following its review of our financial results for the first nine months of 2013, 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 2014 according to the Schedule set forth below:

<b>Dividends declared for 2014</b>			
<b>Quarterly Payment</b>	<b>Record Date</b>	<b>Period Scheduled</b>	<b>Dividend per share</b>
Q1 2014	December 31, 2013	before January 31, 2014 <sup>(1)</sup>	\$ 0.02
Q2 2014	March 31, 2014	before April 30, 2014	0.02
Q3 2014	June 30, 2014	before July 31, 2014	0.02
Q4 2014	September 30, 2014	before October 31, 2014	0.02
<b>Total for full year 2014</b>			<b>\$ 0.08</b>

(1) Dividends for Q1 2014 were paid on January 17, 2014.

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.

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:

	<b>Year ended December 31,</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total dividends declared (in thousands)	\$	\$ 8,961	\$ 12,545	\$ 26,882	\$ 3,622
Regular dividends per share	\$	\$ 0.20	\$ 0.28	\$ 0.60	\$ 0.08
Total dividends per share	\$	\$ 0.20	\$ 0.28	\$ 0.60	\$ 0.08

**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 year period ended December 31:

	2011			2012			2013		
	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	\$ 8.08	\$ 6.21	112,281	\$ 6.75	\$ 4.86	105,690	\$ 16.01	\$ 11.60	678,237
2 <sup>nd</sup> Quarter	6.55	5.21	91,990	6.05	4.75	97,033	13.76	5.55	704,297
3 <sup>rd</sup> Quarter	6.01	4.75	57,100	11.47	5.77	647,651	8.79	5.57	640,439
4 <sup>th</sup> Quarter	6.29	4.50	109,284	16.37	10.00	704,163	8.69	6.79	484,561

(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 years ended December 31:

Year ended December 31,	High	Low	Average Daily Trading Volume <sup>(1)</sup>
2009	\$ 6.16	\$ 2.83	174,327
2010	6.82	4.07	113,831
2011	8.08	4.50	92,445
2012	16.37	4.75	388,504
2013	16.01	5.55	626,068

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(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, 2014:

<b>Month ended</b>	<b>High</b>	<b>Low</b>	<b>Average Daily Trading Volume<sup>(1)</sup></b>
September 30, 2013	\$ 8.70	\$ 7.61	547,365
October 31, 2013	8.19	6.84	333,496
November 30, 2013	8.69	6.99	611,400
December 31, 2013	7.60	6.79	529,214
January 31, 2014	7.78	5.30	559,710
February 28, 2014	6.19	5.47	310,216

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

**ITEM 10. ADDITIONAL INFORMATION****Share Capital**

Our authorized capital consists of 200,000,000 common shares, \$0.01 par value per share. As of January 31, 2014, we had 45,272,735 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 Company's 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.

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.

## **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 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 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.

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On April 3, 2013, 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 (replacing the Bank Facilities Letters entered into between Zastron Electronic (Shenzhen) Co., Ltd and China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch on January 13, 2012).

On April 3, 2013, 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 which was guaranteed by Namtai Investment (Shenzhen) Co., Ltd (replacing the 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 which was guaranteed by Namtai Investment (Shenzhen) Co., Ltd on December 11, 2012 and March 29, 2012).

On April 3, 2013, 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. (replacing a guaranty signed 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 January 13, 2012).

## **Exchange Controls**

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 10% 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.

## **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;

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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;

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.

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 our common shares will generally depend on the status of the partner and the activities of the partnership. Partners in a partnership investing in our common 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 requirement (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.

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We believe we were not a PFIC for 2013 and, based on our current operations, assets and market conditions for our shares, which we cannot anticipate, we may be a PFIC for 2014 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 2014.

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 are required 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.

## **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 2010, 2011, 2012 and 2013 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) our market capitalization plus total liabilities may be considered a proxy for our 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 2010 and 2011 but not for 2012 and 2013. As a result, we believe we were a PFIC for U.S. federal income tax purposes for 2010 and 2011 but not for 2012 and 2013. 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 2010, 2011, 2012, 2013 or currently in 2014, 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.

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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.

If during any taxable year of a U.S. Holder ending on or after December 31, 2013 such U.S. Holder owns our common shares and we are a PFIC in such year, the U.S. Holder generally will be required to file an IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with respect to the Company (generally with the U.S. Holder's federal income tax return for that year), unless a *de minimis* exception applies. U.S. Holders are urged to consult their tax advisors regarding their annual filing requirements.

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

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

## **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.

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**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.

Generally, a U.S. shareholder in a PFIC must file IRS Form 8621 for each tax year in which that shareholder owns shares in the PFIC, including such information as is required concerning (1) recognition of gain on a direct or indirect disposition of a PFIC stock; (2) receipt of certain distributions from a PFIC; or (3) the making of 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.

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**

We are subject to the information requirements of the Exchange Act, and, in accordance with the Exchange Act, we file annual reports on Form 20-F within four months of our 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, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

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**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 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) and 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.

*Chinese Renminbi*

Approximately 5% of our total costs and expenses and 1% of our material costs in 2013 were in RMB. The appreciation of the RMB against U.S. dollars in 2013 has increased our costs when translated into U.S. dollars and could adversely affect our margin. The following chart shows the percentage of our total costs and expenses paid in RMB during the years ended December 31, 2011, 2012 and 2013, respectively:

In 2009, the exchange rate of the RMB to U.S. dollars was relatively stable. 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. At the end of 2013, the RMB had further appreciated by 2.8% as compared to the year end of 2012.



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If the RMB had been 1% and 5% less valuable against the U.S. dollar than the actual rate as of December 31, 2013, which was used in preparing our audited consolidated financial statements as of and for the year ended December 31, 2013, our net asset value, as presented in U.S. dollars, would have been reduced by \$2.9 million and \$14.3 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 \$2.9 million and \$14.3 million, respectively. Had rates of the RMB been 10% higher relative to the U.S. dollar during 2013, our operating expenses would have increased \$3.6 million as a result of net assets denominated in RMB as of December 31, 2013. 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.

*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.

During 2013, 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 2013. 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, 2012 and 2013:

<b>Currencies included in cash and cash equivalents and fixed deposits maturing over three months</b>	<b>As of December 31</b>	
	<b>2012</b>	<b>2013</b>
	<b>(In thousands)</b>	
United States dollars	\$ 103,991	\$ 14,354
Chinese renminbi	77,768	255,863
Japanese yen	521	1
Hong Kong dollars	25,382	54
<b>Total US\$ equivalent</b>	<b>\$ 207,662</b>	<b>\$ 270,272</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 \$255.3 million as of December 31, 2013 was invested in term deposits. As such, interest income will fluctuate with changes in interest rates. During 2013, we had \$4.9 million in interest income.

As of December 31, 2012 and 2013, we had utilized approximately \$14.5 million and nil of our credit facilities, including \$4.9 million and nil in short term notes payable, \$4.8 million and nil in short-term bank borrowings, \$3.6 million and nil in short term Trust Receipt loans, \$1.2 million and nil in foreign currency forward contracts, respectively, resulting in minimal interest rate risk.

As of December 31, 2012 and 2013, 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, our management, with the participation of its Chief Executive Officer (Acting) 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 our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer (Acting) 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 our management, including our Chief Executive Officer (Acting) and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our Chief Executive Officer (Acting) 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.

Our management, including its Chief Executive Officer (Acting) and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth in the Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on the assessment, our management, including its Chief Executive Officer (Acting) and Chief Financial Officer, concluded that, as of December 31, 2013,

our internal control over financial reporting was effective based on these criteria.

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

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Moore Stephens, an independent registered public accounting firm. The related report to our shareholders and the Board of Directors 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, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2013 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 14, 2014 expressed an unqualified opinion thereon.

/s/ Moore Stephens

Moore Stephens

Certified Public Accountants

Hong Kong

March 14, 2014

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**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting during the year ended December 31, 2013, the period covered by this Report on Form 20-F, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**ITEM 16. [RESERVED]**

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

Our 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**

We have adopted a Code of Ethics for the Chief Executive Officer and Chief Financial Officer, which also applies to our 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/investors#investors/corporate\\_governance.htm](http://www.namtai.com/investors#investors/corporate_governance.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:

Kenneth Lau, Group Financial Controller

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, 2012 and 2013, 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 2014 and that our Board of Directors will propose at the Annual Meeting of Shareholders to be held in 2014 that Moore Stephens be ratified as our independent registered public accounting firm for 2014.

The following table presents the aggregate fees for professional services and other services rendered by Moore Stephens to us in 2012 and 2013, respectively (dollars in thousands).

	<b>Year ended December 31</b>	
	<b>2012</b>	<b>2013</b>
Audit Fees <sup>(1)</sup>	\$ 479	\$ 418
Audit-related Fees <sup>(2)</sup>		
Tax Fees <sup>(3)</sup>	2	4
All other fees <sup>(4)</sup>		
<b>Total</b>	<b>\$ 481</b>	<b>\$ 422</b>



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- (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.
- (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 2012 and 2013, 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**

**Index to Consolidated Financial Statements**

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2012 and 2013</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2012 and 2013</u>	F-3
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2011, 2012 and 2013</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2012 and 2013</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-7
<u>Schedule 1 Nam Tai Electronics, Inc. Statements of Comprehensive Income</u>	F-34
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<u>Schedule 1 Nam Tai Electronics, Inc. Statements of Changes in Shareholders' Equity</u>	F-36
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<u>Schedule 1 Nam Tai Electronics, Inc. Note to Schedule 1</u>	F-38

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, 2012 and 2013, 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, 2013. 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, 2012 and 2013, and the results of its operations and its cash flows for each of three years in the period ended December 31, 2013, 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, 2013, based on the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ Moore Stephens

Moore Stephens  
Certified Public Accountants  
Hong Kong  
March 14, 2014

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net sales <sup>(1)</sup>	\$ 509,124	\$ 678,113	\$ 855,847
Cost of sales	(479,037)	(609,875)	(788,212)
<b>Gross profit</b>	<b>30,087</b>	<b>68,238</b>	<b>67,635</b>
General and administrative expenses <sup>(2)</sup>	(16,779)	(20,739)	(33,317)
Selling expenses	(2,886)	(1,483)	(462)
Research and development expenses	(1,709)	(716)	
Impairment loss on goodwill	(2,951)		
<b>Total operating expenses</b>	<b>(24,325)</b>	<b>(22,938)</b>	<b>(33,779)</b>
<b>Other operating income</b>			<b>1,609</b>
Income from operations	5,762	45,300	35,465
Other income, net	7,366	5,283	11,955
Interest income	2,676	2,038	4,939
<b>Income before income tax</b>	<b>15,804</b>	<b>52,621</b>	<b>52,359</b>
Income tax expense	(2,196)	(15,188)	(11,143)
<b>Income from continuing operations, net of income tax</b>	<b>13,608</b>	<b>37,433</b>	<b>41,216</b>
(Loss) income from discontinued operations, net of income tax	(13,103)	29,488	(40,919)
<b>Consolidated net income attributable to Nam Tai<sup>(3)</sup> shareholders</b>	<b>505</b>	<b>66,921</b>	<b>297</b>
Other comprehensive income			
<b>Consolidated comprehensive income attributable to Nam Tai<sup>(3)</sup> shareholders</b>	<b>\$ 505</b>	<b>\$ 66,921</b>	<b>\$ 297</b>
Basic earnings per share:			
Basic earnings per share from continuing operations	\$ 0.30	\$ 0.83	\$ 0.91
Basic (loss) earnings per share from discontinued operations	\$ (0.29)	\$ 0.66	\$ (0.90)
<b>Basic earnings per share</b>	<b>\$ 0.01</b>	<b>\$ 1.49</b>	<b>\$ 0.01</b>

Diluted earnings per share:

Diluted earnings per share from continuing operations	\$	0.30	\$	0.83	\$	0.90
Diluted (loss) earnings per share from discontinued operations	\$	(0.29)	\$	0.65	\$	(0.89)
Diluted earnings per share	\$	0.01	\$	1.48	\$	0.01

- (1) The net sales have excluded the sales from the discontinued operations of \$93,193, \$493,997 and \$47,086 for the years ended December 31, 2011, 2012 and 2013, respectively.
  - (2) General and administrative expenses include employee severance benefits of \$180, \$1,877 and \$14,017 for the years ended December 31, 2011, 2012 and 2013, respectively.
  - (3) Nam Tai refers to Nam Tai Electronics, Inc.
- See accompanying notes to consolidated financial statements.

**Table of Contents****NAM TAI ELECTRONICS, INC.****CONSOLIDATED BALANCE SHEETS**

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 157,838	\$ 68,707
Fixed deposits maturing over three months	49,824	201,565
Accounts receivable, less allowance for doubtful accounts of nil and \$2,119 at December 31, 2012 and 2013, respectively	101,666	70,917
Derivative financial instrument	99	
Inventories	46,732	30,493
Prepaid expenses and other receivables	21,143	5,908
Finance lease receivable - current	3,583	3,921
Deferred tax assets - current	444	
Income tax recoverable	169	
Assets held for sale		45,423
Current assets of discontinued operations	168,532	2,364
<b>Total current assets</b>	<b>550,030</b>	<b>429,298</b>
Property, plant and equipment, net	64,226	49,076
Finance lease receivable - non current	8,553	4,987
Land use rights	11,218	10,951
Deferred tax assets - non current	1,690	
Other assets	327	107
<b>Total assets</b>	<b>\$ 636,044</b>	<b>\$ 494,419</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable	\$ 395	
Accounts payable	141,271	95,303
Accrued expenses and other payables	33,428	28,860
Dividend payable	26,882	3,622
Income tax payable	2,688	3,010
Current liabilities of discontinued operations	67,209	234
<b>Total current liabilities</b>	<b>271,873</b>	<b>131,029</b>
Deferred tax liabilities - non current	1,379	

Total liabilities	273,252	131,029
Equity:		
Common shares (\$0.01 par value authorized 200,000,000 shares, issued and outstanding 44,803,735 and 45,272,735 shares as at December 31, 2012 and 2013, respectively)	448	453
Additional paid-in capital	287,602	291,731
Retained earnings	74,750	71,214
Accumulated other comprehensive loss	(8)	(8)
Total Nam Tai shareholders equity	362,792	363,390
Total liabilities and equity	\$ 636,044	\$ 494,419

Commitments and contingencies (Note 19)

See accompanying notes to consolidated financial statements.



**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)

	<b>Common Shares Outstanding</b>	<b>Common Shares Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensiv Loss</b>	<b>Total Shareholders Equity</b>
Balance at January 1, 2011	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 declared (\$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 declared (\$0.60 per share)				(26,882)		(26,882)
Balance at December 31, 2012	44,803,735	\$ 448	\$ 287,602	\$ 74,750	\$ (8)	\$ 362,792
Shares issued on exercise of options	469,000	5	2,593			2,598
Equity-settled share-based payment			1,536			1,536
Consolidated net income				297		297
Cash dividends declared (\$0.08 per share)				(3,622)		(3,622)
Cash dividend paid				(211)		(211)
Balance at December 31, 2013	45,272,735	\$ 453	\$ 291,731	\$ 71,214	\$ (8)	\$ 363,390

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)**

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>			
Consolidated net income	\$ 505	\$ 66,921	\$ 297
<b>Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:</b>			
Depreciation and amortization	16,068	26,133	21,355
Impairment loss on goodwill	2,951		
Allowance (reversal) for inventories	83	1,282	(526)
Provision (reversal) for goods return		402	(402)
Allowance for doubtful accounts	5	45	2,158
Loss (gain) on disposal of property, plant and equipment	231	(810)	(3,096)
Gain on disposal of idle property, plant and equipment			(1,352)
Loss on disposal of other assets			366
Impairment loss on fixed assets and land use rights			34,955
Loss (gain) on derivative financial instruments		57	(580)
Share-based compensation expenses	112	547	1,536
Loss on liquidation of a subsidiary			235
Unrealized exchange gain	(4,134)	(648)	(2,087)
(Increase) decrease in deferred income taxes	(2,538)	5,460	4,498
<b>Changes in current assets and liabilities:</b>			
(Increase) decrease in accounts receivable	(298)	(81,245)	82,633
(Increase) decrease in inventories	(2,881)	(25,064)	25,671
(Increase) decrease in prepaid expenses and other receivables	(14,207)	(10,030)	21,656
Decrease (increase) in income tax recoverable	105	(169)	169
Increase (decrease) in notes payable	268	4,005	(4,273)
(Decrease) increase in accounts payable	(1,535)	104,385	(92,137)
Increase (decrease) in accrued expenses and other payables	4,173	15,340	(8,891)
(Decrease) increase in income tax payable	(4,228)	3,160	(143)
<b>Total adjustments</b>	<b>(5,825)</b>	<b>42,850</b>	<b>81,745</b>
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (5,320)</b>	<b>\$ 109,771</b>	<b>\$ 82,042</b>

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

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and land use rights	\$ (59,858)	\$ (58,444)	\$ (3,653)
(Increase) decrease in deposits for purchase of property, plant and equipment	(4,066)	4,543	
Increase in other assets	(713)		
(Payments for) cash received from derivative financial instruments		(156)	679
Proceeds from disposal of property, plant and equipment and other assets	52	264	9,752
Proceeds from disposal of idle property, plant and equipment			1,352
Cash received from finance lease receivable		1,864	3,228
Increase in fixed deposits maturing over three months	(34,825)	(14,999)	(151,741)
<b>Net cash used in investing activities</b>	<b>\$ (99,410)</b>	<b>\$ (66,928)</b>	<b>\$ (140,383)</b>
<b>Cash flows from financing activities:</b>			
Cash dividends paid	\$ (8,961)	\$ (12,545)	\$ (27,093)
Proceeds from shares issued on exercise of options			2,598
Proceeds from (repayment of) Trust Receipt loans		3,558	(3,558)
Proceeds from (repayment of) bank loans		4,824	(4,824)
<b>Net cash used in financing activities</b>	<b>\$ (8,961)</b>	<b>\$ (4,163)</b>	<b>\$ (32,877)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (113,691)</b>	<b>\$ 38,680</b>	<b>\$ (91,218)</b>
Cash and cash equivalents at beginning of year	228,067	118,510	157,838
Effect of exchange rate changes on cash and cash equivalents	4,134	648	2,087
<b>Cash and cash equivalents at end of year</b>	<b>\$ 118,510</b>	<b>\$ 157,838</b>	<b>\$ 68,707</b>
<b>Supplemental schedule of cash flow information:</b>			
Interest paid	\$	\$ 278	\$ 97
Income taxes paid	\$ 7,136	\$ 8,464	\$ 10,232
<b>Non-cash investing activities:</b>			
Increase (decrease) in construction cost funded through accrued expenses and other payables	\$ 16,629	\$ (12,296)	\$ (3,342)
See accompanying notes to consolidated financial statements			

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**Table of Contents****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, Thin Film Transistor display (TFT-LCD) modules, image sensors modules and printed circuit board assemblies. These components, modules and subassemblies are used in numerous electronic products including mobile phones, digital cameras, electronic toys, and automobile. The Company also manufactures finished products, including mobile phone accessories and home entertainment products.

The Company was founded in 1975 and moved its manufacturing facilities to the People's Republic of China ( 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.

In 2011, the Company operated in two reportable segments Telecommunication Components Assembly ( TCA ) and Consumer Electronics and Communication Products ( CECP ).

In 2012, the CECP segment fell below the threshold and it was combined with the TCA segment. The Company's business was then separated into TCA and Flexible Printed Circuit ( FPC ) segments. Since the first quarter of 2013, the FPC segment has been discontinued and only one TCA segment still existed.

**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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**(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 either 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 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.

**(f) Finance lease receivable**

Finance lease receivable is derived from sales of property, plant and equipment and is 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%.



**Table of Contents****(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, 2011, 2012 and 2013, interest of \$13, nil and nil was capitalized, respectively. The cost of 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.

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 are 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. The land use right certificate in respect of the land in Wuxi with carrying amount of \$3,834 has been issued by the relevant government authority in the PRC on March 4, 2014.

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. In 2011, the Company operated in two reporting units, which are its reportable segments of TCA and CECF. If business conditions or other factors cause the profitability and cash flows of a segment 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 Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( 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.

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**Table of Contents****(h) Goodwill continued**

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 \$2,951 was identified and recognized in 2011. Goodwill has been fully impaired since December 31, 2011.

**(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 2011 and our resulting market capitalization throughout 2011 at a level below our recorded book value at December 31, 2011, 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 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. However, 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.

In 2013, in view of the cessation of the core business of Liquid Crystal Display Modules ( LCM ) production in Shenzhen, which is classified as TCA segment, by the end of April 2014, the Company assessed the impairment of its long-lived assets used in the Shenzhen 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, 2013 were less than the undiscounted cash flows.

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No impairment was recognized in respect of the Company's long-lived assets for the years ended December 31, 2011, 2012 and 2013.

A loss of \$34,955 was recognized to write down the long-lived assets to their fair values upon reclassification to assets held for sale.

**(j) Assets held for sale**

Long-lived assets or asset groups that are part of a disposal group that meets the criteria to be classified as held for sale are not assessed for impairment but rather if fair value, less cost to sell, of the disposal group is less than its carrying value a loss is recorded against the disposal group.

**(k) 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 is settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency is settled for an amount that is less than our estimate, a future credit to income would result.

**(l) Revenue recognition**

The Company recognizes revenue when all of the following conditions are met:

Persuasive evidence of an arrangement exists;

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.

**(m) 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, 2011, 2012 and 2013, shipping and handling costs classified as costs of sales were \$366, \$227 and \$14, respectively. During the years ended December 31, 2011, 2012 and 2013, shipping and handling costs classified as selling expenses were \$428, \$301 and \$104, respectively.

**(n) 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.

**(o) Advertising expenses**

The Company expenses advertising costs as incurred. Advertising expenses were nil, \$348 and \$1 for the year ended December 31, 2011, 2012 and 2013, respectively.

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**(p) Staff retirement plan costs**

The Company's costs related to the staff retirement plans (see Note 16) are charged to the consolidated statement of comprehensive income as incurred.

**(q) 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 or the expected date of reversal of the timing differences. 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.

**(r) 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.

The functional currencies of the Company and its subsidiaries include the U.S. dollar and 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.

**(s) 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.

**(t) Stock options**

The Company has two stock-based employee compensation plans, as more fully described in Note 14(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.

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**(u) 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.

**(v) Comprehensive loss**

Accumulated other comprehensive loss represents principally foreign currency translation adjustments and is included in the consolidated statement of changes in equity.

**(w) Fair value of financial instruments**

The Company follows 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:

*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, 2012 and 2013, 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.

**(x) 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.



**(y) Recent changes in accounting standards**

In March 2013, the FASB issued Accounting Standards Update ( ASU ) 2013-05, *Foreign Currency Matters (Topic 830)* . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company believes that its adoption of this Update will not have any material impact on its consolidated financial statements.

**Table of Contents****(y) Recent changes in accounting standards continued**

In April 2013, the FASB issued ASU 2013-07, *Presentation of Financial Statements (Topic 205), Liquidation of Accounting*. The amendments of this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis so accounting. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP except investment companies that are regulated under the Investment Company Act of 1940. The amendments are effective for entities that determine liquidation imminent during annual reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this Update will have material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The current practice in FASB ASC 740, *Income Taxes* does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The objective of this Update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits. This accounting standard update is effective for fiscal years, and interim within those years, beginning after December 15, 2013. Early adoption is permitted. The Company believes that its adoption of this Update will not have any material impact on its consolidated financial statements.

**3. Inventories**

Inventories consist of the following:

<b>At December 31,</b>	<b>2012</b>	<b>2013</b>
Raw materials	\$ 30,914	\$ 20,580
Work-in-progress	11,189	8,647
Finished goods	4,629	1,266
	\$ 46,732	\$ 30,493

**4. Derivative Financial Instrument**

Starting from 2012, 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 and 2013. No foreign currency forward contract was outstanding as of December 31, 2013.

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 and 2013.

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**Table of Contents****4. Derivative Financial Instrument continued**

	2012		
	Notional principal	Credit risk amount	Fair value of derivatives not designated as hedge instrument
Instruments not designated as accounting hedge:			
Foreign currency forward contract <sup>(1)</sup>	\$ 12,200	\$ 99	\$ 99

  

	2013		
	Notional principal	Credit risk amount	Fair value of derivatives not designated as hedge instrument
Instruments not designated as accounting hedge:			
Foreign currency forward contract <sup>(1)</sup>	\$	\$	\$

(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
2014	\$ 3,921
2015	3,939
2016	1,048

**Total** **\$ 8,908**

#### **6. Assets Held for Sale**

The Company has fully discontinued its production in Wuxi by the end of June 2013 due to sustained losses generated from FPC production and a lack of customers for LCM for tablets. Hence, management intends to sell all long-lived assets in Wuxi plant and thus reclassified these long lived assets as assets held for sale with carrying value of \$43,385. The sales are expected to be finalized in 2014. In addition, a subsidiary of the Company has entered into sales and purchase contracts with third parties mainly in November 2013 for assets with a carrying value of \$2,038. The sales are expected to be finalized by the end of March 2014. Assets held for sale comprise the following:

<b>At December 31,</b>	<b>2013</b>
At net book value:	
Land	\$ 4,215
Buildings	18,784
Machinery and equipment	19,625
Leasehold improvements	2,429
Others	370
<b>Total</b>	<b>\$ 45,423</b>

**Table of Contents****7. Property, Plant and Equipment, net**

Property, plant and equipment, net consist of the following:

<b>At December 31,</b>	<b>2012</b>	<b>2013</b>
At cost:		
Buildings	\$ 55,156	\$ 54,557
Machinery and equipment	41,239	41,338
Leasehold improvements	13,044	16,821
Furniture and fixtures	3,782	506
Automobiles	288	179
Tools and molds	111	120
 Total	 113,620	 113,521
Less: accumulated depreciation	(76,698)	(64,479)
	36,922	49,042
Construction in progress	27,304	34
 Net book value	 \$ 64,226	 \$ 49,076

Depreciation expenses were \$5,240, \$7,929 and \$12,781 for the years ended December 31, 2011, 2012 and 2013, respectively.

**8. Goodwill**

A summary of the changes in the carrying value of goodwill, by reporting unit, is as follows:

	CECP reporting unit
At January 1, 2011	\$ 2,951
Impairment loss recognized during the year	(2,951)
 At December 31, 2011, 2012 and 2013	

In 2011, the Company performed an 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 was 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 was zero, an impairment loss of \$2,951 was recognized in 2011. Goodwill has been fully impaired since December 31, 2011.



**Table of Contents****9. Investments in Subsidiaries**

Subsidiaries	Place of Incorporation	Principal activity	Percentage of Ownership as at December 31,	
			2012	2013
<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 ) <sup>(1)</sup>	Hong Kong	In liquidation	100%	
J.I.C. Enterprises (HK) Ltd. ( JICE) <sup>(2)</sup>	Hong Kong	Inactive	100%	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%

- (1) NTTC is in liquidation and the Joint and Several Liquidators confirmed that all assets of NTTC have been taken over by the Joint and Several Receivers in January 2013.
- (2) 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's issued share capital amounted to HK\$500,000, which is made up of 500,000 ordinary shares of HK\$1 each. The primary reason for the acquisition was for re-organization.

**10. 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 17 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 \$350,256 and \$353,270 as of December 31, 2012 and 2013, respectively. However, the Company believes that such restrictions will not have a material effect on the Company's liquidity or cash flows.

**Table of Contents****11. Accrued Expenses and Other Payables**

Accrued expenses and other payables consisted of the following:

<b>At December 31,</b>	<b>2012</b>	<b>2013</b>
Accrued salaries	\$ 3,404	\$ 13,821
Accrued bonus	3,346	221
Accrued tooling and equipment charges	865	141
Accrued professional fees	2,287	1,262
Construction payable	4,850	319
Advance received from customers	16,644	10,821
Others	2,032	2,275
	\$ 33,428	\$ 28,860

**12. Bank Loans and Banking Facilities**

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, 2012 and 2013, these facilities totaled \$176,256 and \$49,505, of which \$161,794 and \$49,505 were unused at December 31, 2012 and 2013, respectively. The banking facility at December 31, 2013 will mature in April 2014. 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 cross guarantee given by NTISZ together with Zastron Shenzhen or alone.

**13. Discontinued Operations**

In 2012, the Company decided to exit its LCDP ( Liquid Crystal Display Product ) business which produced LCD modules. The operation of this LCDP business ceased in December 2012.

In 2013, after the final evaluation on the viability of its core business of LCM and FPC production, the Company decided to exit its FPC operation by the end of March 2013 as it has been generating losses since initial production, and production operation of LCMs for tablets by the end of June 2013 due to a lack of customer orders. These productions were located primarily in Wuxi.

Assets of \$43,385 have been classified as assets held for sale (Note 6) and are expected to be sold within 2014.

**Table of Contents****13. Discontinued Operations continued**

Summarized financial information for our discontinued operations is as follows:

	2011	2012	2013
Net sales	93,193	493,997	47,086
(Loss) income before income tax	(14,767)	31,315	(37,259)
Income tax credit (expense)	1,664	(1,827)	(3,660)
(Loss) income from discontinued operations, net of income tax	(13,103)	29,488	(40,919)
Accounts receivable		54,003	
Inventories		8,906	
Prepaid expense and other receivables		8,813	2,364
Deferred tax assets		3,743	
Property, plant and equipment, net		87,329	
Land use rights		5,314	
Other assets		424	
Total assets		168,532	2,364
Notes payable		3,878	
Accounts payable		46,169	
Trust Receipt loans		3,558	
Accrued expenses and other payables		8,304	234
Short term bank borrowings		4,824	
Income tax payable		476	
Total liabilities		67,209	234
Net assets of discontinued operations		101,323	2,130

**14. 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.

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 a 6% to 10% return on total shareholders' equity as at December 31, 2011 in the 12 month period from April 1, 2012 to March 31, 2013.

**Table of Contents****14. Equity continued****(b) Stock Options continued**

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 a 6% to 10% return on total shareholders' equity as at December 31, 2011 in the 9 month 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, 2013 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, 2011	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	
Granted	60,000	\$ 7.50	\$ 1.88	
Exercised	(469,000)	\$ 5.54	\$ 1.13	
Expired	(30,000)	\$ 4.45	\$ 1.58	
Outstanding and exercisable at December 31, 2013	1,184,000	\$ 6.26	\$ 1.62	\$ 1,046
Exercisable at December 31, 2013				\$ 419
Expected to vest after December 31, 2013				\$ 627

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 2011, 2012 and 2013 are as follows:

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Number of options granted	Vesting period	Exercise price	Exercisable period	Weighted remaining contractual life in months
<b>In 2011</b>				
60,000	100% vested at date of grant	\$ 5.92	June 10, 2011 to June 9, 2014	5.3
<b>In 2012</b>				
600,000	100% vested in April 2013	\$ 6.66	April 1, 2013 to April 30, 2016*	28.0
831,000	50% vested in January 2013 and 50% will vest after 2013 at the time when the option certificates are issued to the grantees	\$ 5.63	January 1, 2013 to April 26, 2015	15.9
60,000	100% vested at date of grant	\$ 5.34	June 6, 2012 to June 5, 2015	17.2
12,000	1,000 shares monthly from August 1, 2012	\$ 5.95	August 1, 2012 to July 31, 2014	7.0
<b>In 2013</b>				
60,000	100% vested at date of grant	\$ 7.50	May 31, 2013 to May 31, 2016	29.0

\* Exercisable period modified in 2013

**Table of Contents****14. Equity continued****(b) Stock Options continued**

There was approximately nil, \$1,340 and \$201, respectively, of unrecognized compensation expense related to non-vested stock options granted under the Company's option plan at December 31, 2011, 2012 and 2013. The total amount of recognized compensation expenses in 2011, 2012 and 2013 was \$112, \$547 and \$1,536, respectively.

The above summarizes information about stock options outstanding at December 31, 2013. 768,500 stock options are exercisable as of December 31, 2013.

The total fair value of shares vested during fiscal years ended December 31, 2011, 2012 and 2013 was \$112, \$66 and \$1,765, respectively.

The weighted average remaining contractual life of the stock options outstanding at December 31, 2011, 2012 and 2013 was approximately 17, 26 and 22 months, respectively. The weighted average fair value of options granted during 2011, 2012 and 2013 was \$1.87, \$1.26 and \$1.88, respectively, using the Black-Scholes option-pricing model based on the following assumptions:

Year ended December 31,	2011	2012	2013
Risk-free interest rate	0.75%	0.30% to 0.39%	0.52%
Expected life	3 years	2 years to 4.2 years	3 years
Expected volatility	50.99%	38.57 % to 48.23%	52.36%
Expected dividend yield	1.69%	3.30% to 4.49%	5.87%

**(c) Share Buy-back**

No share was repurchased during the years ended December 31, 2011, 2012 and 2013.

**Table of Contents****15. Earnings Per Share**

The calculations of basic earnings per share and diluted earnings per share are computed as follows:

	Income (loss)	Weighted average number of shares	Per share amount
<b>Year ended December 31, 2011</b>			
Basic earnings per share from continuing operations	\$ 13,608	44,803,735	\$ 0.30
Basic loss per share from discontinued operations	\$ (13,103)	44,803,735	\$ (0.29)
Basic earnings per share	\$ 505	44,803,735	\$ 0.01
Effect of dilutive securities		37,467	
Diluted earnings per share from continuing operations	\$ 13,608	44,841,202	\$ 0.30
Diluted loss per share from discontinued operations	\$ (13,103)	44,841,202	\$ (0.29)
Diluted earnings per share	\$ 505	44,841,202	\$ 0.01
<b>Year ended December 31, 2012</b>			
Basic earnings per share from continuing operations	\$ 37,433	44,803,735	\$ 0.83
Basic earnings per share from discontinued operations	\$ 29,488	44,803,735	\$ 0.66
Basic earnings per share	\$ 66,921	44,803,735	\$ 1.49
Effect of dilutive securities		541,518	
Diluted earnings per share from continuing operations	\$ 37,433	45,345,253	\$ 0.83
Diluted earnings per share from discontinued operations	\$ 29,488	45,345,253	\$ 0.65
Diluted earnings per share	\$ 66,921	45,345,253	\$ 1.48
	Income (loss)	Weighted average number of shares	Per share amount



**Year ended December 31, 2013**

Basic earnings per share from continuing operations	\$ 41,216	45,222,532	\$ 0.91
Basic loss per share from discontinued operations	\$ (40,919)	45,222,532	\$ (0.90)
Basic earnings per share	\$ 297	45,222,532	\$ 0.01
Effect of dilutive securities	Stock options	470,318	
Diluted earnings per share from continuing operations	\$ 41,216	45,692,850	\$ 0.90
Diluted loss per share from discontinued operations	\$ (40,919)	45,692,850	\$ (0.89)
Diluted earnings per share	\$ 297	45,692,850	\$ 0.01

**Table of Contents****16. 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 of 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 purposes per employee is \$3 per month. Eligible 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 13%-14% and 20% of the stipulated salary set by the local governments 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.

The cost of the Company's contribution to the staff retirement plans in Hong Kong and the PRC amounted to \$2,317, \$3,863 and \$2,545 for the years ended December 31, 2011, 2012 and 2013, respectively.

**17. Income Taxes**

The components of income before income tax are as follows:

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
PRC, excluding Hong Kong	\$ 22,169	\$ 55,211	\$ 53,556
Hong Kong and other jurisdictions	(6,365)	(2,590)	(1,197)
	\$ 15,804	\$ 52,621	\$ 52,359

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 operations in the Cayman Islands. However, it may be subject to Hong Kong income taxes as described below if it has income earned in or derived from Hong Kong.

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, 2011, 2012 and 2013 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 20%, 22%, 24% and 25% for years ended December 31, 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.

Our subsidiary in Wuxi, China, 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, from January 2013, Wuxi Zastron-Flex will have one uniform tax rate of 25%.

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**Table of Contents****17. Income Taxes continued**

The Company, which has subsidiaries that are tax resident in the PRC, will be subject to the PRC dividend withholding tax of 5%, commencing on January 1, 2008, 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. For the years ended December 31, 2011, 2012 and 2013, there was no income tax expense for the 5% dividend withholding tax on the balance of distributable earnings that arose on or after January 1, 2008 within its PRC subsidiaries. In line with management's decision to change the core business, management decided to retain the undistributed earnings in the PRC. As such, the deferred tax liabilities of \$1,379 made in previous years have been reversed during the year.

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 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, 2011, 2012 and 2013, 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 Hong Kong tax authorities as described below, the tax positions for the years 2011 to 2013 may be subject to examination by the PRC and Hong Kong tax authorities.

*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.

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**17. Income Taxes continued**

(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.

The Shatin Magistrates' Court upon the application of the Registrar of Companies issued a Summons to NTGM dated December 28, 2012 (which was 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. NTGM pleaded guilty to the charge and was fined approximately \$0.3, which was duly paid on April 19, 2013.

(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.

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**17. Income Taxes continued**

(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. On January 14, 2014, NTT received a letter from the HKIRD demanding payment of the judgment debt referred to in paragraph 3(b) above, plus costs and interest.

(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 operationses 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 operations 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 NTT'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.

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**17. Income Taxes continued**

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.

On April 26, 2013, the Commissioner issued three Notices of Assessment and Demand for Additional Tax against the two former directors in the total amount of approximately \$2,323 (the Assessment Notices ), assessing one of them to additional tax by way of penalty in the sum of approximately \$1,626 (approximately \$826 in respect of the year 1996/1997 and approximately \$800 in respect of the year 1999/2000) and assessing the other former director to additional tax by way of penalty in the sum of approximately \$697 in respect of the year 1997/1998.

The two former directors lodged an appeal to the Board of Review of the HKIRD against the Assessment Notices (the BOR Appeal ) on May 24, 2013. The BOR Appeal is scheduled to be heard from January 26, 2015 to January 30, 2015.

On May 27, 2013, the Company paid on behalf of the two former directors the additional tax as required under the Assessment Notices.

On July 22, 2013, the two former directors filed a notice of application for leave to apply for judicial review with the Court of First Instance ( CFI ) in respect of the Commissioner 's decision to issue the Assessment Notices ( Decision ). The CFI declined the application on 21 August 2013.

On September 2, 2013, the two former directors filed a notice of appeal with the Court of Appeal to apply for an order that the Decision be quashed on the basis that it was ultra vires the Commissioner 's powers under the Inland Revenue Ordinance and, alternatively, for an order that leave be granted to apply for judicial review of the Decision. The hearing before the Court of Appeal is scheduled to take place on May 30, 2014.

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 T(1)ai for the legal costs and other expenses incurred by Nam Tai for defending the Notices. After the Additional Assessment Notices had been issued, the Insurers were informed of the same. The Insurers refused to reimburse for the additional tax under the Additional Assessment Notices and the associated legal costs and expenses incurred in both the BOR Appeal and the CA Appeal. Therefore, NTEI and the two former directors have commenced arbitration against the

Insurers under the Policy on October 18, 2013 by issuing a Notice of Arbitration to claim for reimbursement of the additional tax and the legal costs and expenses of both the BOR Appeal and the CA Appeal. The insurers filed their Response to Notice of Arbitration on December 24, 2013. The parties are now in the process of appointing the arbitrators.

NTEI took out a new Directors and Officers Liability Insurance Policy with a new insurer for the year 2013.

Accordingly, no provision has been made regarding these assessments in Nam Tai's consolidated financial statements.

**Table of Contents****17. Income Taxes continued**

The current and deferred components of the income tax expense appearing in the consolidated statements of income are as follows:

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Current tax	\$ (3,672)	\$ (13,123)	\$ (10,370)
Deferred tax	1,476	(2,065)	(773)
	\$ (2,196)	\$ (15,188)	\$ (11,143)

The Company's deferred tax assets and liabilities as of December 31, 2012 and 2013 are attributable to the following:

<b>December 31,</b>	<b>2012</b>	<b>2013</b>
Net operating losses	\$ 5,316	\$ 5,960
Obsolete inventories	343	
Allowance for doubtful accounts		539
Provision for goods return	101	
Property, plant and equipment	1,690	2,123
Total deferred tax assets	7,450	8,622
Less: valuation allowance	(5,316)	(8,622)
Deferred tax assets	2,134	
Deferred tax liability arising from withholding tax on undistributed earnings of PRC subsidiaries	(1,379)	
Net deferred tax assets	\$ 755	\$

Movement of valuation allowance:

<b>December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
At beginning of the year	\$ 916	\$ 1,344	\$ 5,316
Current year addition	428	3,972	3,306
At end of the year	\$ 1,344	\$ 5,316	\$ 8,622

The valuation allowance as of December 31, 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, 2013, the valuation allowance was fully provided for the deferred tax assets because management considered that it is more likely than not that all of deferred tax assets will not be realized.

As of December 31, 2011, 2012 and 2013 the Company had net operating losses of \$8,147, \$10,316 and \$23,285 respectively, which may be carried forward indefinitely. As of December 31, 2013, the Company had net operating losses of \$4,081 and \$4,389, which will expire in the year ending December 31, 2016 and 2017, respectively.

**Table of Contents****17. Income Taxes continued**

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 comprehensive income is as follows:

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Income before income taxes	\$ 15,804	\$ 52,621	\$ 52,359
PRC tax rate	24%	25%	25%
Income tax expense at PRC tax rate on income before income tax	\$ (3,793)	\$ (13,155)	\$ (13,090)
Effect of difference between Hong Kong and PRC tax rates applied to Hong Kong income	(221)	(258)	(487)
Effect of change in tax law	142		
Change in valuation allowance	(428)	(3,972)	(3,306)
Reversal of deferred tax liability on withholding tax on undistributed profits of PRC subsidiaries			1,378
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	1,574	49	2,292
Over provision of income tax expense in prior years	1,369	185	
Withholding tax		1,510	1,192
Others	(131)	453	878
Income tax expense	\$ (2,196)	\$ (15,188)	\$ (11,143)

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

**18. 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, 2013, the largest two customers' trade receivables accounted for 91% and 8% of total accounts receivable, respectively.

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 nil and \$2,119 as of December 31, 2012 and 2013, respectively.



**Table of Contents****19. Commitments and Contingencies****(a) Commitments**

Our contractual obligations, including purchase commitments under non-cancelable arrangements as of December 31, 2013, are summarized below. We do not participate in, or secure financing for, any unconsolidated limited purpose entities.

	Payments (in thousands) due by period			
	Total	2014	2015	2016
Contractual Obligation				
Other purchase obligations	22,461	22,461		
<b>Total</b>	<b>\$ 22,461</b>	<b>\$ 22,461</b>	<b>\$</b>	<b>\$</b>

**(b) Significant legal proceedings**

Save as disclosed in Note 17, there is no other significant legal proceeding as of December 31, 2013.

**20. Segment Information**

The Chief Operating Decision Makers are 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.

In 2011, the Company's business was separated into two segments, TCA and CECP.

In 2012, the CECP segment fell below the threshold and it was combined with the TCA segment. The Company's business was then separated into TCA and FPC segments. Since the first quarter of 2013, the FPC segment has been discontinued and only one TCA segment still existed.

The segment information in 2011 and 2012 has been restated in order to conform with the change in segment reporting in 2013 in accordance with FASB ASC 280-10-50-34.

**Year ended December 31, 2011**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 509,124	\$	\$ 509,124
Cost of sales	(479,037)		(479,037)
Gross profit	30,087		30,087
General and administrative expenses	(9,662)	(7,117)	(16,779)
Selling expenses	(2,886)		(2,886)
Research and development expenses	(1,709)		(1,709)



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Impairment loss on goodwill		(2,951)	(2,951)
Other income, net	3,659	3,707	7,366
Interest income	172	2,504	2,676
Income (loss) before income tax	19,661	(3,857)	15,804
Income tax expenses	(2,196)		(2,196)
Net income (loss) from continuing operations	\$ 17,465	\$ (3,857)	\$ 13,608

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**Table of Contents****20. Segment Information continued****Year ended December 31, 2012**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 678,113	\$	\$ 678,113
Cost of sales	(609,875)		(609,875)
Gross profit	68,238		68,238
General and administrative expenses	(16,328)	(4,411)	(20,739)
Selling expenses	(1,483)		(1,483)
Research and development expenses	(716)		(716)
Other income, net	4,016	1,267	5,283
Interest income	167	1,871	2,038
Income (loss) before income tax	53,894	(1,273)	52,621
Income tax expenses	(15,188)		(15,188)
Net income (loss) from continuing operations	\$ 38,706	\$ (1,273)	\$ 37,433

**Year ended December 31, 2013**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Net sales	\$ 855,847	\$	\$ 855,847
Cost of sales	(788,212)		(788,212)
Gross profit	67,635		67,635
General and administrative expenses	(26,045)	(7,272)	(33,317)
Selling expenses	(462)		(462)
Other operating income	1,609		1,609
Other income, net	6,573	5,382	11,955
Interest income	1,624	3,315	4,939
Income before income tax	50,934	1,425	52,359
Income tax (expenses) credit	(12,522)	1,379	(11,143)
Net income from continuing operations	\$ 38,412	\$ 2,804	\$ 41,216

There were no material inter-segment sales for the years ended December 31, 2011, 2012 and 2013. 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.

**Year ended December 31, 2011**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 5,252	\$ 260	\$ 5,512
Capital expenditures	\$ 7,424	\$ 4,723	\$ 12,147
Total assets	\$ 169,048	\$ 132,915	\$ 301,963

**Year ended December 31, 2012**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 7,909	\$ 293	\$ 8,202
Capital expenditures	\$ 29,488	\$	\$ 29,488
Total assets	\$ 321,575	\$ 145,937	\$ 467,512

**Table of Contents****20. Segment Information continued****Year ended December 31, 2013**

	<b>TCA</b>	<b>Corporate</b>	<b>Total</b>
Depreciation and amortization	\$ 12,761	\$ 290	\$ 13,051
Capital expenditures	\$ 277	\$ 34	\$ 311
Total assets	\$ 355,000	\$ 137,055	\$ 492,055

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>2011</b>	<b>2012</b>	<b>2013</b>
Net sales from operations within:			
- PRC, excluding Hong Kong:	\$ 509,124	\$ 678,113	\$ 855,847
Net income (loss) attributable to Nam Tai shareholders within:			
- PRC, excluding Hong Kong	\$ 19,973	\$ 40,023	\$ 43,602
- Hong Kong	(6,365)	(2,590)	(2,386)
Total net income attributable to Nam Tai shareholders	\$ 13,608	\$ 37,433	\$ 41,216

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net sales to customers by geographical area:			
- Hong Kong	\$ 69,135	\$ 72,498	\$ 58,045
- Europe	30,282	14,400	6,496
- United States	32,332	3,021	
- PRC (excluding Hong Kong)	793	1,316	
- Japan	374,129	583,280	791,299
- Others	2,453	3,598	7
Total net sales	\$ 509,124	\$ 678,113	\$ 855,847

**Table of Contents****20. Segment Information continued**

<b>As of December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Long-lived assets by geographical area:			
- PRC, excluding Hong Kong	\$ 49,206	\$ 71,151	\$ 56,060
- Hong Kong	4,586	4,293	3,967
Total long-lived assets	\$ 53,792	\$ 75,444	\$ 60,027

The Company's customers which accounted for 10% or more of its sales are as follows:

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
A <sup>(1)</sup>	\$ 369,105	\$ 570,246	\$ 791,256
B	58,527	N/A	N/A
C	62,894	N/A	N/A
	\$ 490,526	\$ 570,246	\$ 791,256

- (1) Two of our largest customers, each accounting for 10% or more of our net sales in the years ended December 2011 and 2012 respectively, were reorganized into Customer A in 2012.

The Company's suppliers which accounted for 10% or more of its purchases are as follows:

<b>Year ended December 31,</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
A	\$ 160,274	\$ 511,923	\$ 808,144
B	114,322	108,340	
	\$ 274,596	\$ 620,263	\$ 808,144

**21. Employee Severance Benefits**

After the final evaluation on the viability of its core operations of LCM production, the Company has decided to discontinue its core business of LCM production in Shenzhen by the end of April 2014 due to a major customer's repeated and continuous changes in its formal purchasing orders without suitable commitment. The employee severance benefits in 2013 amounted to \$14,017 (2012: \$1,877), which were recorded as general and administrative expenses. The employee severance benefits by segment were as follows:

	<b>2012</b>	<b>2013</b>
Expenses incurred:		

TCA	\$ 1,877	\$ 14,017
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	<b>2012</b>	<b>2013</b>
Provision for employee severance benefits:		
Balance at January 1	\$	\$ 300
Provision for the year	1,877	14,017
Payments during the year	(1,577)	(3,314)
Balance at December 31	\$ 300	\$ 11,003

## 22. Related Party Transactions

During the year ended December 31, 2013, the Company paid additional tax of \$2,323 on behalf of a director of the Company and a former director of a subsidiary (See Note 17). The amount was recorded as other receivables.

**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>2011</b>	<b>2012</b>	<b>2013</b>
General and administrative expenses*	\$ (2,374)	\$ (1,729)	\$ (2,073)
Other income, net	1,186	15,165	12,215
Interest income on loan to a subsidiary	7,721	4,818	5,005
Interest income	725	1,421	2,626
Income before income tax	7,258	19,675	17,773
Income tax expenses			
Income before share of net profits of subsidiaries, net of income tax	7,258	19,675	17,773
Share of net (losses) profits of subsidiaries, net of income tax	(6,753)	47,246	(17,476)
Net income attributable to Nam Tai shareholders	\$ 505	\$ 66,921	\$ 297
Other comprehensive income			
Comprehensive income attributable to Nam Tai shareholders	\$ 505	\$ 66,921	\$ 297
* Amount of share-based compensation expense included in general and administrative expenses	\$ 112	\$ 547	\$ 1,536

**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****BALANCE SHEETS****(In thousands of U.S. dollars)**

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,568	\$ 40,535
Fixed deposits maturing over three months	49,182	64,975
Prepaid expenses and other receivables	276	2,829
Amounts due from subsidiaries	29,566	33,392
Total current assets	147,592	141,731
Property, plant and equipment, net	4,221	3,967
Loan to a subsidiary non current	93,108	93,108
Investments in subsidiaries	146,191	128,715
Total assets	\$ 391,112	\$ 367,521
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accrued expenses and other payables	\$ 1,438	\$ 509
Dividend payable	26,882	3,622
Total liabilities	28,320	4,131
Shareholders' equity:		
Common shares (\$0.01 par value authorized 200,000,000 shares, issued and outstanding 44,803,735 and 45,272,735 shares as at December 31, 2012 and 2013)	448	453
Additional paid-in capital	287,602	291,731
Retained earnings	74,750	71,214
Accumulated other comprehensive loss	(8)	(8)
Total shareholders' equity	362,792	363,390
Total liabilities and shareholders' equity	\$ 391,112	\$ 367,521



**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 Comprehensiv Loss</b>	<b>Total Shareholders Equity</b>
Balance at January 1, 2011	44,803,735	\$ 448	\$ 286,943	\$ 46,751	\$ (8)	\$ 334,134
Equity-settled share-based payment			112			112
Net income				505		505
Cash dividends declared (\$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 declared (\$0.60 per share)				(26,882)		(26,882)
Balance at December 31, 2012	44,803,735	\$ 448	\$ 287,602	\$ 74,750	\$ (8)	\$ 362,792
Shares issued on exercise of options	469,000	5	2,593			2,598
Equity-settled share-based payment			1,536			1,536
Net income				297		297
Cash dividends declared (\$0.08 per share)				(3,622)		(3,622)
Cash dividends paid				(211)		(211)
Balance at December 31, 2013	45,272,735	\$ 453	\$ 291,731	\$ 71,214	\$ (8)	\$ 363,390

**Table of Contents****SCHEDULE 1****NAM TAI ELECTRONICS, INC.****STATEMENTS OF CASH FLOWS****(In thousands of U.S. dollars)**

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>			
Net income attributable to Nam Tai shareholders	\$ 505	\$ 66,921	\$ 297
<b>Adjustments to reconcile net income attributable to Nam Tai shareholders to net cash provided by operating activities:</b>			
Share of net losses (profits) of subsidiaries, net of taxes	6,753	(47,246)	17,476
Depreciation	221	266	111
Share-based compensation expenses	112	547	1,536
<b>Changes in current assets and liabilities:</b>			
(Increase) decrease in prepaid expenses and other receivables	(371)	228	(2,553)
Increase (decrease) in accrued expenses and other payables	231	(443)	(929)
Net cash provided by operating activities	\$ 7,451	\$ 20,273	\$ 15,938
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(4,708)		
Decrease in deposit for purchase of property, plant and equipment	433		
Increase in fixed deposits maturing over three months	(34,825)	(14,357)	(15,793)
(Increase) decrease in amounts due from subsidiaries	(5,682)	8,979	(3,683)
Net cash used in investing activities	\$ (44,782)	\$ (5,378)	\$ (19,476)
<b>Cash flows from financing activities:</b>			
Decrease in amounts due to subsidiaries	(11,194)		
Proceeds from loan to a subsidiary	35,371		
Dividend paid	(8,961)	(12,545)	(27,093)
Proceeds from shares issued on exercise of options			2,598
Net cash provided by (used in) financing activities	\$ 15,216	\$ (12,545)	\$ (24,495)
Net (decrease) increase in cash and cash equivalents	(22,115)	2,350	(28,033)
Cash and cash equivalents at beginning of year	88,333	66,218	68,568
Cash and cash equivalents at end of year	\$ 66,218	\$ 68,568	\$ 40,535



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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, 2013, \$353,270 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, 2011, 2012 and 2013.

During the years ended December 31, 2011, 2012 and 2013, no cash dividend was declared and paid by subsidiaries to the Company.

**Table of Contents****ITEM 19. EXHIBITS**

The following exhibits are filed as part of this Report:

**Exhibit**

<b>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	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).
4.6	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).
4.7	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).
4.8*	Banking Facilities Letter between Zastron Electronic (Shenzhen) Co., Ltd. and China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, dated April 3, 2013 for Zastron Electronic (Shenzhen) Co., Ltd. to receive banking facilities of up to RMB300 million.
4.9*	Supplemental Agreement and Guarantee Related Banking Facilities Letter dated April 3, 2013, entered between Zastron Electronic (Shenzhen) Co., Ltd. and 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 which was guaranteed by Namtai Investment (Shenzhen) Co., Ltd.
- 4.10\* Forward Contract Related Banking Facilities Letter dated December 10, 2012, entered between Zastron Electronic (Shenzhen) Co., Ltd. and 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.
- 4.11\* 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.
- 4.12\* Guaranty by Namtai Investment (Shenzhen) Co., Ltd. in favor of China Merchants Bank Co., Ltd., Shenzhen Jinzhonghuan Sub-branch, dated April 3, 2013, in relation to the RMB300 million banking facilities granted to Zastron Electronic (Shenzhen) Co., Ltd.
- 8.1 Diagram of Company's subsidiaries at December 31, 2013. See the diagram following page 18 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.

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- 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 14, 2014