NAM TAI ELECTRONICS INC
Form 20-F
March 14, 2014
Table of Contents

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

þ **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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Tel: (852) 2341 0273; Fax (852) 2263 1001;

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of Each Class	**Name of each exchange on which registered**
Common shares, $0.01 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act.

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 þ 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 þ 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. þ 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). þ 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 Rule12b-2 of the Exchange Act (Check one):

Large accelerated ¨	Accelerated filer þ	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 þ	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 Rule12b-2 of the Exchange Act). ¨ Yes þ No

Table of Contents

NOTE REGARDING USE OF FORWARD LOOKING STATEMENTS		1
FINANCIAL STATEMENTS AND CURRENCY PRESENTATION		1
INTRODUCTION		1
PART I		2
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS	2
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	2
ITEM 3.	KEY INFORMATION	2
ITEM 4.	INFORMATION ON THE COMPANY	17
ITEM 4A.	UNRESOLVED STAFF COMMENTS	30
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	30
ITEM 6.	DIRECTORS AND SENIOR MANAGEMENT	43
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	51
ITEM 8.	FINANCIAL INFORMATION	52
ITEM 9.	THE LISTING	56
ITEM 10.	ADDITIONAL INFORMATION	57
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	65
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	66
PART II		67
ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	67
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	67
ITEM 15.	CONTROLS AND PROCEDURES	67
ITEM 16.	[RESERVED]	69
ITEM 16 A.	AUDIT COMMITTEE FINANCIAL EXPERT	69
ITEM 16 B.	CODE OF ETHICS	69
ITEM 16 C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	69
ITEM 16 D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	70
ITEM 16 E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	70
ITEM 16 F.	CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT	70
ITEM 16 G.	CORPORATE GOVERNANCE	70
ITEM 16 H.	MINE SAFETY DISCLOSURE	70
PART III		71
ITEM 17.	FINANCIAL STATEMENTS	71
ITEM 18.	FINANCIAL STATEMENTS	71
Index to Consolidated Financial Statements		71
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM		F-1
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME		F-2
CONSOLIDATED BALANCE SHEETS		F-3
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY		F-4
CONSOLIDATED STATEMENTS OF CASH FLOWS		F-5
ITEM 19.	EXHIBITS	
SIGNATURE		

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

Table of Contents

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 , pro 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 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;

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.

1

Table of Contents

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.

Table of Contents

Selected Financial Information

Consolidated statements of comprehensive income data[1]:	Year ended December 31, 2009	2010	2011	2012	2013
	(in thousands, except per share data)				
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 [2]	(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

Consolidated balance sheet data:	**2009**	**2010**	**2011**	**2012**	**2013**
		(in thousands, except per share data)			
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 (3)	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(4)	326,410	334,134	322,206	362,792	363,390
Common shares	448	448	448	448	453
Total dividend per share (5)		0.20	0.28	0.60	0.08
Total number of common shares issued	44,804	44,804	44,804	44,804	45,273

Table of Contents

(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;

- 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.

Table of Contents

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;

Table of Contents

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.

(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.

Table of Contents

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;

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.

Table of Contents

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.

Table of Contents

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.

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.

13

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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, 2nd 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;

Table of Contents

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.

Table of Contents

Table of Contents

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.

20

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:

	Year ended December 31,		
	2011	**2012**	**2013**
Customer A[1]	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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Product/Service	Competitor
EMS	Celestica, Inc. Flextronics International Ltd. Hon Hai Precision Industry Co., Ltd. Jabil Circuit, Inc. Sanmina-SCI Corporation
Image capturing devices and their modules	Lite-on Technology Corporation Logitech Internation S.A The Primax Group Goer Tek, Inc.
Mobile phone accessories	Celestica, Inc. Flextronics Internation Ltd. Foxlink Group Merry Electronics Co., Ltd. WKK International (Holdings) Ltd.

Telecommunication subassemblies and components	Flextronics Internation Ltd. S-Tech Corporation Shin-Tech Electronic Co., Ltd. Varitronix International Ltd. Wuxi Sharp Electronic Components Wuxi Technology Corporation
FPC Boards/FPC Subassemblies(1)	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.

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, 2nd 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:

Location	**Approximate Square Footage**	**Principal or Presently Contemplated Use**	**Owned[1] or lease expiration date**
Principal Facilities			
Hong Kong	2,200	Administration	Owned
Shenzhen, China	557,835	Principal manufacturing facilities	2043/2049[2]
	87,460	Administration	2043/2049[2]
	350,585	Dormitories	2043/2049[2]
	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[3]
Other property			
Guangming, Shenzhen, China	1,270,160		2057[4]
Wuxi, Jiangsu Province, China	476,553		2062[5]

(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.

Table of Contents

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 , v 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.

Table of Contents

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.

(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:

RMB Exchange Rate to US$1.00 at December 31(1)					
2011		2012		2013	
Exchange Rate to US$1.00	Percent change(2)	Exchange Rate to US$1.00	Percent change(2)	Exchange Rate to US$1.00	Percent change(2)
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.

Table of Contents

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:

Tax Year	**Rate under EIT for enterprises previously subject to 15% tax rate**	**Rate under EIT for enterprises previously subject to 24% tax rate**
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:

	Year Ended December 31,		
	2011	**2012**	**2013**
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%

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.

Table of Contents

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.

Table of Contents

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 of 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.

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(1)	n/a(1)
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(1)	n/a(1)
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(1)	n/a(1)
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.

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

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

Table of Contents

(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.

	Year Ended December 31,		
	2011	**2012**	**2013**
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(1)	(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.

Table of Contents

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:

	Year ended December 31,				
	2012		2013		2013 vs. 2012
	Dollars (in thousands)	Percent	Dollars (in thousands)	Percent	Percent
TCA	$ 38,706	103.4%	$ 38,412	93.2%	0.8%
Corporate	$ (1,273)	(3.4)%	$ 2,804	6.8%	n/a[1]
Net income from continuing operations	$ 37,433	100.0%	$ 41,216	100.0%	10.1%

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

In the TCA segment, net income was $38.4 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.

Table of Contents

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		**2012**		**2011**
	Dollars (in thousands)	**Percent**	**Dollars (in thousands)**	**Percent**	**Percent**
TCA	$ 17,465	128.3%	$ 38,706	103.4%	121.6%
Corporate	$ (3,857)	(28.3)%	$ (1,273)	(3.4)%	n/a[(1)]
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.

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):

	Year Ended December 31,		
	2011	**2012**	**2013**
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.

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.

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

41

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 inpractice 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:

Name	Age	Position with Nam Tai or its Subsidiaries
Koo Ming Kown	69	Nam Tai s Executive Chairman, Chief Financial Officer
Liu Pi Hao(1)	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.

Table of Contents

***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.

Table of Contents

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 ($)[(1)]	Option Awards ($)[(2)]	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.

Table of Contents

* 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

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

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