NAM TAI ELECTRONICS INC
Form F-3/A
May 16, 2003

As Filed with the Securities and Exchange Commission on May 16, 2003

Registration No. 333-103547

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to

Form F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Nam Tai Electronics, Inc.

(Exact Name of Registrant as Specified in its Charter)

British Virgin Islands	**None**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

116 Main Street
2nd Floor
Road Town, Tortola
British Virgin Islands
(284) 494-7752
(Address and telephone number of Registrant s principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of securities to be registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Shares, $.01 par value per share	3,450,000 shares	$26.05	$89,872,500	$7,271*

(1) Includes 450,000 shares that may be issued pursuant to the underwriters over-allotment option.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices reported on the New York Stock Exchange on February 24, 2003.

* Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

(Subject to Completion, dated May 16, 2003)

PROSPECTUS

3,000,000 shares

Common Shares

This is a public offering of 3,000,000 common shares of Nam Tai Electronics, Inc. We are selling 2,000,000 of the common shares offered under this prospectus and certain of our shareholders, referred to in this prospectus as the selling shareholders, are selling the remaining 1,000,000 shares.

Our common shares are listed on the New York Stock Exchange under the symbol NTE. The last reported sale price of our common shares on May 15, 2003, was $29.25 per share.

See Risk Factors beginning on page 8 to read about certain risks you should consider before buying our common shares.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, Before expenses to us	$	$
Proceeds, Before expenses to the selling shareholders	$	$

We have granted the underwriters a 30-day option to purchase up to 450,000 additional common shares to cover any over-allotments.

Delivery of shares will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

The date of this Prospectus is , 2003

Our Advanced Manufacturing Facilities and Equipment

Below: Ultra Sonic Cleaning Machines for LCD Panels

[Picture of worker standing in front of Ultra Sonic Cleaning Machines for LCD Panels.]

Below: Testing of Graphic Calculators

[Close-up picture of gloved hands testing of Graphic Calculator.]

Below: Fully Automatic Assembly Machines for STN LCD Panels

[Picture of factory workers in front of Fully Automated Assembly Machines for STN LCD Panels.]

Below: Semi-automated Fine Pitch Heat Seal Machine

[Close-up picture of Semi-automated Fine Pitch Heat Seal Machine.]

Below: Factory Workers in Clean Room Environment

[Picture of a row of factory workers wearing protective suits and masks in clean room environment working in front of factory machines.]

Below: Semi-automated Chip on Glass Machine

[Close-up picture of work being done on Semi-automated Chip on Glass Machine.]

Below: Semi-automated Chip on Board Assembly Line

[Picture of several rows of factory workers sitting in front of Semi-automatic Chip on Board Assembly Line wearing protective suits.]

Below: Tape Automated Bonding with Anisotropic Conductive Film Machine

[Picture of Tape Automated Bonding with Anisotropic Conductive Film Machine.]

PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before buying our common shares in this offering. You should read this entire prospectus carefully, including Risk Factors and our consolidated financial statements and the related notes included in this prospectus, before deciding to invest in our common shares.

Nam Tai Electronics, Inc.

Our Business

We are an electronics manufacturing and design services provider to a select group of the world s leading original equipment manufacturers, or OEMs, of telecommunications and consumer electronic products. Our largest customers include Epson Precision (HK) Ltd., Sony Ericsson Mobile Communications AB and Texas Instruments Incorporated. We were founded in 1975 as an electronic products trading company based in Hong Kong and shifted our focus to manufacturing of electronic products in 1978. We moved our manufacturing facilities to China in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates.

Through our electronics manufacturing services, or EMS, operations, we manufacture electronic components and subassemblies, including liquid crystal display, or LCD, panels, transformers, LCD modules and radio frequency, or RF, modules. These components are used in numerous electronic products, including cellular phones, laptop computers, digital cameras, copiers, fax machines, electronic toys, handheld video game devices and microwave ovens. We also manufacture finished products, including palm-sized PC s, personal digital assistants, electronic dictionaries, calculators and digital camera accessories for use with cellular phones.

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 hardware and software design, component purchasing, assembly into finished products or electronic subassemblies and post-assembly testing. 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 original design manufacturing, or ODM, services, in which we design and develop proprietary products that are sold by our OEM customers using their brand name.

Our Strategy

We are focused on expanding our position as a China-based provider of electronic manufacturing services to major OEMs. To achieve this objective, we intend to continue to pursue the following strategies.

Maintain low-cost manufacturing in China. Our manufacturing facilities are all in China and have been there since 1980. We believe that our history and experience in China well position us to take advantage of the trend of shifting production of electronic products to China.

Focus on Asian OEMs. We have strong relationships with OEMs throughout Asia, particularly those in Japan and China. These OEMs produce a large portion of the electronic products used worldwide and, we believe, represent a significant opportunity for future outsourcing growth.

Manufacture small form factor consumer products. We focus on providing OEMs with services for small form factor electronic products. These products and their key components and subassemblies are easy to ship globally, thereby negating the need for regional manufacturing and sophisticated logistics support.

Produce high value-added electronic components and subassemblies. We produce components and subassemblies, like LCD modules and RF modules, which are central to several types of electronic products. As a result, we are able to maintain relatively high gross profit margins in comparison with those of other EMS providers of electronic products.

Apply advanced manufacturing technologies. Our manufacturing and assembly processes apply advanced bonding and other sophisticated technologies, including using a clean room manufacturing environment. We believe that relatively few of our competitors possess our level of clean room manufacturing capability in their China-based facilities.

Develop improved production techniques. We focus on collaborating with our customers to refine and improve the production methods employed for complex, yet proven production technologies. These relationships allow us to focus our research and development efforts on process improvement and help limit our risks associated with new product introductions.

Produce high quality products at low cost. We seek to manufacture the highest-quality products at a low cost to our customers. Our location in China allows us to access one of the lowest cost engineering and production work forces in the world.

Invest strategically in key technology partners. We have made and will continue to make strategic investments in targeted and existing customers and providers of critical component technologies. We believe that such investments foster new or enhance existing customer and supplier relationships.

Our Risks

Our business is subject to risk and uncertainty. We are dependent on a few large customers. The electronics industry in which we participate is highly competitive, and we are subject to continuing pressure on our margins. Our operating results fluctuate and lack predictability. Because our operations are primarily located in China and Hong Kong, we are subject to risks arising from governmental policies, taxation, trade regulation, and currency exchange. As a foreign private issuer, we are not subject to the same regulation that applies to issuers domiciled in the U.S. We also are currently subject to pending litigation that may adversely affect us.

Our Headquarters And Website

We were incorporated as an International Business Company in the British Virgin Islands in 1987. Our principal executive offices are located in the British Virgin Islands at 116 Main Street, 2nd Floor, Road Town, Tortola, British Virgin Islands and our telephone and fax numbers are (284) 494-7752 and (284) 494-4957, respectively. We maintain the following toll-free telephone number for United States investor relations: (800) 661-8831, and our Internet website address is www.namtai.com. The information found on our website is not part of this prospectus.

References to Dollars

All dollar amounts in this prospectus are expressed in United States dollars, except where we state otherwise. In this prospectus, unless we state otherwise, all references to U.S.$ or $ are to U.S. dollars.

References to China

The People s Republic of China resumed sovereignty over Hong Kong effective July 1, 1997 and politically Hong Kong is an integral part of China. However, for the purposes of this prospectus and as a matter of definition only, our references to China or the PRC in this prospectus means the People s Republic of China and all of its territories excluding Hong Kong.

The Offering

Common shares offered:	
by us	2,000,000 shares
by the selling shareholders	1,000,000 shares
Common shares to be outstanding after this offering	14,130,668 shares
New York Stock Exchange Symbol	NTE
Use of Proceeds	We are raising funds in this offering primarily to increase our production capacity by using approximately $40.0 million to construct and equip a new factory adjacent to our principal manufacturing facilities in Shenzhen, China. We intend to use the balance of the net proceeds for working capital and other general corporate purposes. We will not receive any proceeds from the sale of common shares by the selling shareholders.
Risk Factors	Investing in our common shares involves certain risks, which are described under the heading Risk Factors , beginning on page 8 of this prospectus.

The number of shares of our common stock that will be outstanding after this offering is based on our shares outstanding as of March 31, 2003. The number of shares that will be outstanding after this offering excludes:

372,000 common shares issuable upon exercise of stock options outstanding as of March 31, 2003;

602,233 common shares available as of March 31, 2003 for future issuance under our stock option plans; and

450,000 common shares that we may issue upon exercise of the underwriters over-allotment option.

Summary Consolidated Financial Information

We derived the statements of income data presented below for the years ended December 31, 2000, 2001 and 2002 and the balance sheet data as of December 31, 2001 and 2002 presented below from our audited consolidated financial statements. We derived the statements of income data presented below for the three months ended March 31, 2002 and 2003 and the balance sheet data as of March 31, 2003 presented below from our unaudited consolidated financial statements. You should read this summary consolidated financial information with the Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included elsewhere in this prospectus. The as adjusted balance sheet data gives effect to the proceeds to be received by us from our sale of 2,000,000 common shares in this offering at an assumed offering price of $29.25 per share, after payment of estimated underwriting discounts and commissions and other estimated offering expenses payable by us, and the application of such proceeds to our cash and cash equivalents, working capital, total assets and shareholders equity.

	Year ended December 31,			Three Months ended March 31,	
	2000	2001	2002	2002	2003
	(in thousands except per share data)				
Consolidated statements of income data:					
Net sales third parties	$207,456	$212,934	$228,167	$46,121	$85,050
Net sales related party	6,232	21,072	7,849	5,096	2,931
Total net sales	213,688	234,006	236,016	51,217	87,981
Cost of sales	182,096	203,974	197,956	43,466	72,835
Gross profit	31,592	30,032	38,060	7,751	15,146
Operating costs and expenses:					
Selling, general and administrative	17,646	21,974	17,983	3,952	5,471
Research and development	3,489	2,954	2,686	665	811
Impairment of goodwill			339		
Income from operations	10,457	5,104	17,052	3,134	8,864
Equity in (loss) income of affiliated companies	(189)	1,867	10,741	1,135	75
Other income (expense) net	13,853	2,709	(6,043)	358	2,305
Interest expense	(165)	(178)	(790)	(186)	(37)
Income before income taxes and minority interests	23,956	9,502	20,960	4,441	11,207
Income taxes benefit (expense)	33	(227)	(773)	(165)	(384)
Income before minority interests	23,989	9,275	20,187	4,276	10,823
Minority interests	12	(230)	(164)	(101)	(613)
Net income	$ 24,001	$ 9,045	$ 20,023	$ 4,175	$10,210
Earnings per share:					
Basic	$ 2.63	$ 0.88	$ 1.89	$ 0.41	$ 0.84
Diluted	$ 2.56	$ 0.87	$ 1.86	$ 0.40	$ 0.83
Weighted average shares:					
Basic	9,114	10,274	10,571	10,306	12,117
Diluted	9,375	10,393	10,736	10,476	12,266

	At December 31,		At March 31, 2003	
	2001	2002	Actual	As adjusted
Consolidated balance sheet data:				
Cash and cash equivalents	$ 58,676	$ 82,477	$ 61,114	$115,212
Working capital	83,982	87,408	88,892	142,990
Property, plant and equipment net	70,414	75,914	75,145	75,145
Total assets	224,573	275,086	288,725	342,823
Total debt	16,547	17,782	5,686	5,686
Shareholders equity	169,351	202,128	212,565	266,663

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This prospectus and the documents and information incorporated by reference in this prospectus, such as from Management s Discussion and Analysis of Financial Condition and Results of Operations and Business in this prospectus and Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2002, include forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include the information concerning our possible or assumed future operating results, business strategies, financing plans, competitive position, industry environment, the anticipated impact on our business and financial results of recent and future acquisitions, the effects of competition, our ability to produce new products in a cost-effective manner and projections relating to our and our industry s market share. Forward-looking statements may be identified by the use of words like believes, considers, intends, expects, may, will, should, forecast, or anticipates, or the negative equivalents of those words or comparable ter by discussions of strategies that involve risks and uncertainties.

Actual results may differ materially from those expressed or implied by forward-looking statements for a number of reasons, including those appearing elsewhere in this prospectus under the heading Risk Factors. In addition, we base forward-looking statements on assumptions about future events, which may not prove to be accurate. In light of these risks, uncertainties and assumptions, you should be aware that the forward-looking events described in this prospectus and the documents incorporated by reference in this prospectus may not occur.

RISK FACTORS

An investment in our common shares involves a substantial risk of loss. You should carefully consider the risks described below and the other information in this prospectus, including our financial statements and the related notes, before you purchase any of our common shares. If any such risks actually occur, our business and operating results could be materially and adversely affected. In such case, the trading price of our common shares could decline and you may lose all or part of your investment.

Risks Related to Our Business

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

Historically, a substantial percentage of our sales have been to a small number of customers. During the years ended December 31, 2000, 2001 and 2002, sales to our customers accounting for 10% or more of our net sales aggregated approximately 72.4%, 44.1% and 60.2% respectively, of our net sales. The loss of Epson Precision (HK) Ltd., Sony Ericsson Mobile Communications AB or Texas Instruments Incorporated, each of which accounted for more than 10% of our net sales during 2002, or a substantial reduction in orders from any of them would materially and adversely impact our business and operating results.

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

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

- the timing, cancellation or postponement of orders,
- the type of product and related margins,
- our customers announcement and introduction of new products or new generations of products,
- the life cycles of our customers products,
- our timing of expenditures in anticipation of future orders,
- our effectiveness in managing manufacturing processes, including, interruptions or slowdowns in production and changes in cost and availability of components, and
- the mix of orders filled.

The volume and timing of orders received during a quarter are difficult to forecast. From time to time, our customers encounter uncertain and changing demand for their products. Customers generally order based on their forecasts. If demand falls below such forecasts or if customers do not control inventories effectively, they may reduce, cancel or postpone shipments of orders.

As a consequence of any of the above factors, results of operations in any period should not be considered indicative of results to be expected in any future period, and fluctuations in operating results may also result in fluctuations in the market price of our common shares. Our results of operations in future periods may fall below the expectations of public market analysts and investors. This failure to meet expectations could cause the trading price of our common shares to decline substantially.

Cancellations or delays in orders could materially and adversely affect our gross margins and operating income.

Sales to our OEM customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments. Although it is our general practice to purchase raw

materials only upon receiving a purchase order, for certain customers we will occasionally purchase raw materials based on such customers rolling forecasts. Further, during times of potential component shortages we have purchased, and may continue to purchase, raw materials and component parts in the expectation of receiving purchase orders for products that use these components. In the event actual purchase orders are delayed, are not received or are cancelled, we would experience increased inventory levels or possible write-downs of raw material inventory that could materially and adversely affect our business and operating results. In 2001, we made an inventory provision of $3.8 million for slow-moving raw materials relating to cancelled, reduced or delayed orders. Subsequently, we were able to use some of these raw materials in production or we received compensation for the unused raw materials from certain of our customers, resulting in a partial reversal of $2.0 million of the provision in 2002. Of the remaining $1.8 million of slow-moving inventory, $1.2 million was scrapped and $600,000 will be scrapped in the next six months.

If we are unable to produce our new products in a high quality and cost-effective manner, our gross margins and business and operating results could be materially and adversely affected.

We have experienced increased costs associated with developing advanced manufacturing techniques to produce our complex products on a mass scale and at a low cost. This has negatively impacted our gross margins. For example, our initial production runs of liquid crystal display, or LCD, modules experienced low production yields and other inefficiencies. We have currently commenced production of radio frequency, or RF, modules, thin film transistor, or TFT, modules and color LCD modules, in relation to which we have limited manufacturing experience. We expect that a substantial portion of our growth will come from our manufacture of these products. While we expect and plan for such increased costs in our new product manufacturing cycle, we cannot precisely predict the time and expense required to overcome initial problems and to ensure reliability and high quality at an acceptable cost. The increased costs and other difficulties associated with manufacturing RF modules, TFT modules and color LCD modules and other new products could have a negative impact on our future gross margins. In addition, even if we develop capabilities to manufacture new products, there can be no guarantee that a market will exist for such products or that such products will adequately respond to market trends. If we invest resources to develop capabilities to manufacture new products, like the investment in our new factory, for which a market does not develop, our business and operating results would be seriously harmed. Even if the market for our services grows, it may not grow at an adequate pace.

Our inability to utilize capacity at our new factory could materially and adversely affect our business and operating results.

In order to expand production capacity, we intend to use approximately $40 million of our net proceeds to construct and equip a new factory consisting of approximately 250,000 square feet on land adjacent to our principal manufacturing facilities in Shenzhen, China. Once our new factory is complete, we will have committed substantial expenditures and resources to constructing and equipping this factory, but cannot guarantee that we will fully utilize such additional capacity. Our factory utilization is dependent on our success in providing manufacturing services for new or other products that we intend to produce at that factory, including RF modules, TFT and color LCD modules, and handset assemblies for cellular phones, at a price and volume sufficient to absorb our increased overhead expenses. Demand for contract manufacturing of these products may not be as high as we expect, and we may fail to realize the expected benefit from our investment in our new factory.

We face increasing competition, which has had an adverse effect on our margins.

Competition in the EMS industry is intense and is characterized by price erosion, rapid technological change, and competition from major international companies. This intense competition has resulted in pricing pressures, lower sales and reduced margins. Over the last several years our margins have declined substantially, from 24.3% in 1998 to approximately 15.3% in 2002, as adjusted to take into account a

$2.0 million partial reversal of a provision we made in 2001. Continuing competitive pressures could materially and adversely affect our business and operating results.

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

The electronics manufacturing services we provide are available from many independent sources as well as from our current and potential customers with in-house manufacturing capabilities. Our EMS competitors include Celestica, Inc., Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation. Our principal competitors in the manufacture of our traditional product lines of calculators, personal organizers and linguistic products include Kinpo Electronics, Inc. and Inventec Co. Ltd. We have numerous competitors in the telecommunication, subassemblies and components product lines, including Philips, Samsung and Varitronix. Many of our competitors have greater financial, technical, marketing, manufacturing, regional shipping capabilities and logistics support and personnel resources than we do. As a result, we may be unable to compete successfully with these organizations in the future.

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

We operate in rapidly changing industries. Technological advances, the introduction of new products, and new manufacturing and design techniques could materially and adversely affect our business unless we are able to adapt to those changing conditions. As a result, we are continually required to commit substantial funds for, and significant resources to, engage additional engineering and other technical personnel and to purchase advanced design, production and test equipment.

Our future operating results will depend to a significant extent on our ability to continue to provide new manufacturing solutions that compare favorably on the basis of time to introduction, cost, and performance with the manufacturing capabilities of OEMs and competitive third-party suppliers. Our success in attracting new customers and developing new business depends on various factors, including:

utilization of advances in technology;

development of new or improved manufacturing processes for our customer s products;

delivery of efficient and cost-effective services; and

timely completion of the manufacture of new products.

We generally have no written agreements with suppliers to obtain components and our margins and operating results could suffer from increases in component prices.

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

Our business and operating results would be materially and adversely affected if our suppliers of needed components fail to meet our needs.

At various times, we have and continue to experience shortages of some of the electronic components that we use, and suppliers of some components 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 of the components that we use in our business. For example, we purchase most of our integrated circuits from Toshiba Corporation and Sharp Corporation and certain of their affiliates. If we were unable to continue to purchase components from these limited source suppliers, our business and operating results would be materially and adversely affected.

Factors affecting the electronics industry in general and our customers in particular could harm our operations.

Most of our sales are to customers in the electronics industry, which is subject to rapid technological change, product obsolescence and short product life cycles and has suffered from an industry-wide slowdown since 2000. The factors affecting the electronics industry in general, or any of our major customers or competitors in particular, could have a material adverse effect on our business and operating results. Our success will depend to a significant extent on the success achieved by our customers in developing and marketing their products, including their products that use RF modules and color STN modules and TFT modules, some of which may be new and untested. If our customers products become obsolete, fail to gain widespread commercial acceptance or become the subject of intellectual property disputes, this could harm our business and operating results.

Future acquisitions or strategic investments may not be successful and may harm our operating results.

An important element of our strategy is to review prospects for acquisition or strategic investments that would complement our existing companies and products, augment our market coverage and distribution ability or enhance our technological capabilities.

Future acquisitions or strategic investments could have a material adverse effect on our business and operating results because of:

possible charges to operating results for purchased technology, restructuring or impairment charges related to goodwill or amortization expenses associated with intangible assets,

potential increase in our expenses and working capital requirements and the incurrence of debt and contingent liabilities,

difficulties in successfully integrating any acquired operations, technologies, customers products and businesses with our operations,

diversion of our capital and management s attention to other business concerns,

risks of entering markets or geographic areas in which we have limited prior experience, or

potential loss of key employees of acquired organizations or inability to hire key employees necessary for expansion.

For example, in 1998, we made a provision for, and subsequently wrote-off, our entire $10.0 million investment in Albatronics.

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

Typically, we sell our products F.O.B. Hong Kong and our customers are responsible for the transportation of products from Hong Kong to their final destinations. Our customers rely on a variety of carriers for product transportation through various world ports. A work stoppage, strike or shutdown of one or more major ports or airports could result in shipping delays materially and adversely affecting our customers, which in turn could have a material adverse effect on our business and operating results. Similarly, an increase in freight surcharges due to rising fuel costs or general price increases could materially and adversely affect our business and operating results.

Because our operations are international, we are subject to significant worldwide political, economic, legal and other uncertainties.

We are incorporated in the British Virgin Islands and have subsidiaries incorporated in the British Virgin Islands, the Cayman Islands, Hong Kong and China. Our executive and administrative offices are located in Hong Kong. We manufacture all of our products in China. As of December 31, 2002, approximately 72% of the net book value of our total fixed assets is located in China. We sell our products to customers in Hong Kong, North America, Europe, Japan, China and Southeast Asia. Our international operations may be 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,

difficulties in managing or overseeing foreign operations, and

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

The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and decrease the profitability of our operations in that region.

Our operating results could be negatively impacted by seasonality.

Historically, our sales and operating results have been affected by seasonality. Sales of calculators, personal organizers and linguistic products are typically higher during the second and third quarters in anticipation of the start of the school year and the Christmas buying season. Similarly, our consumer services for electronics products have historically been lower in the first quarter from both the closing of our factories in China for the Chinese New Year holidays and the general reduction in sales following the holiday season. These sales patterns may not be indicative of future sales performance.

Our results could be harmed if we have to comply with new environmental regulations.

Our operations create some environmentally sensitive waste that may increase in the future depending on the nature of our manufacturing operations. The general issue of the disposal of hazardous waste has received increasing attention from the PRC national and local governments and foreign governments and agencies and has been subject to increasing regulation. Our business and operating results could be materially and adversely affected if we were to increase expenditures to comply with environmental regulations affecting our operations.

If there is an adverse outcome in class action litigation that has been filed against us, our business could be seriously harmed.

On March 11, 2003, we were served with a complaint in an action captioned Michael Rocco v. Nam Tai, et al., 03 Civ. 1148 (S.D.N.Y.) (the Rocco Action). Plaintiff in the Rocco Action purports to represent a putative class of persons who purchased the common stock of Nam Tai from July 29, 2002 through February 14, 2003. In addition to Nam Tai, certain directors are named as defendants. On or about April 9, 2003, a second complaint was filed in an action captioned A.J. & Celine Steigler v. Nam Tai, et al., 03 Civ. 2462 (S.D.N.Y.) (the Steigler Action) (together with the Rocco Action, the Actions). We have not yet been served in the Steigler Action. Plaintiff in the Steigler Action purports to represent a putative class of persons who purchased Nam Tai s common stock during the period December 13, 2002 through February 14, 2003. One director is also named as a defendant in the Steigler Action. Plaintiffs in the Actions assert claims under Section 10(b) of the Securities Exchange Act of 1934 and allege that misrepresentations and/or omissions were made during the alleged class periods concerning an accounting charge related to Nam Tai s JIC unit. The plaintiff in the Rocco Action also appears to allege that Nam Tai failed to make timely disclosures concerning certain pending litigation related to a British Virgin Islands company known as Tele-Art. The Actions are in their preliminary stages, Nam Tai believes it has meritorious defenses and it intends to defend vigorously. Nam Tai is aware of no other actions that have been filed which relate to these matters. The ultimate outcome of this litigation cannot be presently determined. However, this litigation could be very costly and divert our management s attention and resources. In addition, we have no insurance covering our liability, if any, or that of our officers and directors, and we will have to pay the costs of defense. Any adverse determination in this litigation could also subject us to significant liabilities, any or all of which could materially and adversely affect our business and operating results.

We are dependent on certain members of our senior management.

We are substantially dependent upon the services of Mr. Tadao Murakami, our Chairman of the Board of Directors, Mr. Joseph Li, our Chief Executive Officer, and, Mr. M. K. Koo, our Chief Financial Officer. We have employment agreements with each of Mr. Murakami and Mr. Koo. Mr Murakami s employment may be terminated immediately and, pursuant to Mr. Koo s agreement, his employment may be terminated upon short notice. We also have entered into a Services Agreement with Mr. Li, which expires in October 2003. Mr. Li s Services Agreement provides that he may not compete with our business nor solicit customers or employees for a period of 36 months following termination for any reason under the Services Agreement. Neither Mr. Koo s nor Mr. Murakami s agreement has comparable provisions, and once Mr. Li s Service Agreement expires, and, if not renewed, Mr. Li will not be subject to the non-competition and non-solicitation provisions. Accordingly, each officer may engage in a business that is in competition with us after his termination, which may have a material adverse effect on our business and operating results. We