

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended December 31, 2012.

Principal Activities

The Company acts as an investment holding company.

The principal activities of the principal subsidiaries and associates are set out in Notes 53 and 54 to the financial statements, respectively.

Results and Appropriations

The results of the Group for the year ended December 31, 2012 are set out in the consolidated statement of comprehensive income on page 58.

An interim dividend of HK6.75 cents (approximately US0.87 cent) per share amounting to approximately USD15,838,000 was paid to the shareholders during the year.

The directors now recommend the payment of a final dividend of HK10.75 cents (approximately US1.38 cents) per share to the shareholders on the register of members on May 31, 2013, amounting to approximately USD25,306,000.

Property, Plant and Equipment

The Group continued to expand its business and during the year spent approximately USD15,681,000 on moulds and tooling and acquired office equipment, furniture and fixtures for approximately USD7,944,000 and plant and machinery for approximately USD8,549,000. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 16 to the financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 43 to the financial statements.

A total of 5,630,000 ordinary shares of HKD0.10 each were repurchased by the Company during the year at prices ranging from HKD7.93 to HKD14.68 per share. Among these repurchased shares, 4,330,000 shares were settled and cancelled during 2012 and 1,300,000 shares were settled and were cancelled in January 2013. The aggregate amount paid by the Company for such repurchases cancelled during 2012 amounting to USD5,653,000 was charged to the retained earnings.

The repurchased shares were cancelled and the issued share capital and the capital redemption reserve of the Company was reduced and increased respectively by the par value thereof.

The repurchase of the Company's shares during the year were effected by the Directors pursuant to the mandate received from shareholders at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Directors

The directors of the Company during the year and up to the date of this report were:

Group Executive Directors:

Mr Horst Julius Pudwill, *Chairman*
Mr Joseph Galli Jr, *Chief Executive Officer*
Mr Kin Wah Chan
Mr Chi Chung Chan
Mr Stephan Horst Pudwill

Non-executive Director:

Prof Roy Chi Ping Chung BBS JP

Independent Non-executive Directors:

Mr Joel Arthur Schleicher
Mr Christopher Patrick Langley OBE
Mr Manfred Kuhlmann
Mr Peter David Sullivan
Mr Vincent Ting Kau Cheung
(re-designated from Non-executive Director to Independent Non-executive Director with effect from March 30, 2012)

In accordance with Article 103 of the Company's Articles of Association, Messrs. Kin Wah Chan, Roy Chi Ping Chung BBS JP, Joel Arthur Schleicher and Christopher Patrick Langley OBE will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Terms of Office of Non-executive Directors and Independent Non-executive Directors

The term of office for each of the Non-executive Directors and Independent Non-executive Directors is the period up to his retirement by rotation in accordance with Article 103 of the Company's Articles of Association.

Directors' and Chief Executive's Interests

As at December 31, 2012, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and as adopted by the Company, were as follows:

Name of directors	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr Horst Julius Pudwill	Beneficial owner	145,361,000	1,770,000	401,050,794	21.93%
	Interests of spouse	760,000	—		
	Interests of controlled corporation	253,159,794 ⁽²⁾	—		
Mr Joseph Galli Jr	Beneficial owner	849,500	1,000,000	1,849,500	0.10%
Mr Kin Wah Chan	Beneficial owner	—	1,000,000	1,000,000	0.05%
Mr Chi Chung Chan	Beneficial owner	300,000	—	300,000	0.02%
Mr Stephan Horst Pudwill	Beneficial owner	4,859,500	1,000,000	5,859,500	0.32%
Prof Roy Chi Ping Chung BBS JP	Beneficial owner	51,405,948	600,000	89,080,978	4.87%
	Interests of controlled corporation	37,075,030 ⁽³⁾	—		
Mr Joel Arthur Schleicher	Beneficial owner	107,000	850,000	957,000	0.05%
Mr Christopher Patrick Langley OBE	Beneficial owner	1,000,000	450,000	1,450,000	0.08%
Mr Manfred Kuhlmann	Beneficial owner	—	350,000	350,000	0.02%
Mr Peter David Sullivan	Beneficial owner	—	850,000	850,000	0.05%
Mr Vincent Ting Kau Cheung	Beneficial owner	2,920,000	850,000	3,770,000	0.21%

Directors' and Chief Executive's Interests *(continued)*

Notes:

- (1) Interests in shares and underlying shares stated above represent long positions of the Company.

The interests of the directors of the Company in the underlying shares pursuant to equity derivatives, which were held as beneficial owner, represent share options granted to them respectively pursuant to the share option schemes adopted by the Company, details of which are separately disclosed in the section headed "Share Options" below. These share options are physically settled and unlisted.

- (2) These shares were held by the following companies in which Mr Horst Julius Pudwill has a beneficial interest:

	No. of shares
Sunning Inc.	216,084,764
Cordless Industries Company Limited *	37,075,030
	253,159,794

- (3) These shares were held by Cordless Industries Company Limited* in which Prof Roy Chi Ping Chung BBS JP has a beneficial interest.

* Cordless Industries Company Limited is owned as to 70% by Mr Horst Julius Pudwill and as to 30% by Prof Roy Chi Ping Chung BBS JP.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at December 31, 2012.

Share Options

Scheme adopted on March 28, 2002 ("Scheme C")

Scheme C was adopted pursuant to a resolution passed on March 28, 2002 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme expired on March 27, 2007. Under Scheme C, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) Non-executive Directors (including Independent Non-executive Directors); or
- (iii) suppliers or customers; or

- (iv) any person or entity that provides research, development or other technological support; or
- (v) shareholders.

Share options granted must be taken up within 21 days of the date of grant upon payment of HKD1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the fifth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

The maximum number of shares in respect of which share options may be granted under Scheme C is not permitted to exceed 30% of the issued share capital of the Company from time to time or 10% of shares in issue as at the adoption date of Scheme C. No person shall be granted an option which exceeds 1% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

Scheme adopted on May 29, 2007 ("Scheme D")

Following the termination of Scheme C, a new share option scheme was adopted pursuant to a resolution passed on May 29, 2007 for recognition of the contribution to the development and growth of the Group by the eligible persons. This scheme will expire on May 28, 2017. Under Scheme D, the Board of Directors of the Company may grant share options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

- (i) employees; or
- (ii) Non-executive Directors (including Independent Non-executive Directors or Officers); or
- (iii) secondees; or
- (iv) business partners, agents, consultants; or
- (v) suppliers or customers; or
- (vi) any person or entity that provides research, development or other technological support; or
- (vii) shareholders.

Share options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 in cash by way of consideration for the grant thereof. Share options may be exercised at any time, subject to vesting conditions from the date of grant to the tenth anniversary thereof. The subscription price is set at the highest of: the closing price of the shares on the date of offer of the share option; or the average closing price of shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer; or the nominal value of shares on the date of offer.

The maximum number of shares in respect of which share options may be granted under Scheme D is not permitted to exceed 30% of the issued share capital of the Company from time to time or 10% of shares in issue as at the adoption date of Scheme D. No person shall be granted an option which exceeds 1% of the shares in issue as at the date of offer in any 12-month period up to the date thereof.

The following table discloses movements in the Company's share options during the year:

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HKD	Exercise period
Directors									
Mr Horst Julius Pudwill	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 – 15.11.2019
	26.11.2010	D	600,000	—	—	—	600,000	8.310	26.11.2010 – 25.11.2020
	21.5.2012	D	—	570,000	—	—	570,000	8.742	21.5.2012 – 20.5.2022
Mr Joseph Galli Jr	6.3.2007	C	1,000,000	—	—	(1,000,000)	—	10.572	6.3.2007 – 5.3.2012
	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 – 15.11.2019
Mr Kin Wah Chan	16.11.2009	D	1,000,000	—	—	—	1,000,000	6.770	16.11.2009 – 15.11.2019
Mr Chi Chung Chan	16.11.2009	D	1,000,000	—	(1,000,000)	—	—	6.770	16.11.2009 – 15.11.2019
Mr Stephan Horst Pudwill	16.11.2009	D	1,000,000	—	(1,000,000)	—	—	6.770	16.11.2009 – 15.11.2019
	21.5.2012	D	—	1,000,000	—	—	1,000,000	8.742	21.5.2012 – 20.5.2022
Prof Roy Chi Ping Chung BBS JP	16.11.2009	D	600,000	—	—	—	600,000	6.770	16.11.2009 – 15.11.2019
Mr Joel Arthur Schleicher	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 – 22.5.2021
	21.5.2012	D	—	250,000	—	—	250,000	8.742	21.5.2012 – 20.5.2022
Mr Christopher Patrick Langley OBE	16.11.2009	D	400,000	—	(400,000)	—	—	6.770	16.11.2009 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 – 22.5.2021
	21.5.2012	D	—	250,000	—	—	250,000	8.742	21.5.2012 – 20.5.2022
Mr Manfred Kuhlmann	16.11.2009	D	400,000	—	(400,000)	—	—	6.770	16.11.2009 – 15.11.2019
	23.5.2011	D	200,000	—	(100,000)	—	100,000	9.872	23.5.2011 – 22.5.2021
	21.5.2012	D	—	250,000	—	—	250,000	8.742	21.5.2012 – 20.5.2022
Mr Peter David Sullivan	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 – 22.5.2021
	21.5.2012	D	—	250,000	—	—	250,000	8.742	21.5.2012 – 20.5.2022
Mr Vincent Ting Kau Cheung	16.11.2009	D	400,000	—	—	—	400,000	6.770	16.11.2009 – 15.11.2019
	23.5.2011	D	200,000	—	—	—	200,000	9.872	23.5.2011 – 22.5.2021
	21.5.2012	D	—	250,000	—	—	250,000	8.742	21.5.2012 – 20.5.2022
Total for directors			9,800,000	2,820,000	(2,900,000)	(1,000,000)	8,720,000		

Share Options *(continued)*

The following table discloses movements in the Company's share options during the year: *(continued)*

Share option holders	Date of share options granted	Share option scheme category	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year	Subscription price HKD	Exercise period
Employees	1.1.2007	C	150,000	—	—	(150,000)	—	10.080	1.1.2007 – 31.12.2011
	6.3.2007	C	4,325,000	—	—	(4,325,000)	—	10.572	6.3.2007 – 5.3.2012
	20.7.2007	D	200,000	—	(200,000)	—	—	10.060	20.7.2007 – 19.7.2017
	24.8.2007	D	2,060,000	—	(880,000)	—	1,180,000	8.390	24.8.2007 – 23.8.2017
	16.10.2007	D	75,000	—	—	—	75,000	8.810	16.10.2007 – 15.10.2017
	7.11.2007	D	40,000	—	—	—	40,000	8.088	7.11.2007 – 6.11.2017
	23.11.2007	D	500,000	—	(500,000)	—	—	7.578	23.11.2007 – 22.11.2017
	14.1.2008	D	970,000	—	(265,000)	(100,000)	605,000	7.566	14.1.2008 – 13.1.2018
	17.4.2008	D	1,575,000	—	(425,000)	(375,000)	775,000	7.780	17.4.2008 – 16.4.2018
	14.5.2008	D	40,000	—	—	—	40,000	7.500	14.5.2008 – 13.5.2018
	30.5.2008	D	490,000	—	(24,000)	(40,000)	426,000	7.546	30.5.2008 – 29.5.2018
	1.9.2008	D	150,000	—	(150,000)	—	—	7.450	1.9.2008 – 31.8.2018
	11.9.2008	D	50,000	—	—	—	50,000	7.430	11.9.2008 – 10.9.2018
	2.10.2008	D	75,000	—	(75,000)	—	—	7.068	2.10.2008 – 1.10.2018
	1.12.2008	D	100,000	—	—	—	100,000	2.340	1.12.2008 – 30.11.2018
	16.11.2009	D	7,080,000	—	(2,245,000)	(1,265,000)	3,570,000	6.770	16.11.2009 – 15.11.2019
	7.12.2009	D	100,000	—	—	—	100,000	6.790	7.12.2009 – 6.12.2019
	21.12.2009	D	225,000	—	(75,000)	(100,000)	50,000	6.350	21.12.2009 – 20.12.2019
	28.12.2009	D	30,000	—	—	—	30,000	6.390	28.12.2009 – 27.12.2019
	13.9.2010	D	1,050,000	—	(550,000)	—	500,000	7.390	13.9.2010 – 12.9.2020
17.1.2011	D	20,000	—	—	—	20,000	10.436	17.1.2011 – 16.1.2021	
16.12.2011	D	100,000	—	—	(100,000)	—	7.530	16.12.2011 – 15.12.2021	
Total for employees			19,405,000	—	(5,389,000)	(6,455,000)	7,561,000		
Total for all categories			29,205,000	2,820,000	(8,289,000)	(7,455,000)	16,281,000		

The weighted average closing prices of shares immediately before the options grant date during 2012 and 2011 were HKD8.65 and HKD9.70 respectively.

The closing price of the Company's shares immediately before the date of grant was HKD8.65 in 2012 and ranged from HKD7.30 to HKD10.04 in 2011.

The weighted average closing prices of the Company's shares immediately before various dates during 2012 and 2011 on which the share options were exercised were HKD14.12 and HKD10.10 respectively.

The fair values of the share options granted in 2012 and 2011 measured at the date of grant was HKD2.11 and ranged from HKD1.92 to HKD2.58 per option respectively.

Arrangements to Purchase Shares or Debentures

Other than as disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Director's Interests in Contracts of Significance

No contract of significance, to which the Company, or any of its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders' Interests

As at December 31, 2012, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares, underlying shares and debentures of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Total interests in shares (L/S/LP)*	Approximate aggregate percentage of interests
FIL Limited ⁽¹⁾	128,190,784 (L)	7.01%
JPMorgan Chase & Co. ⁽²⁾	147,423,985 (L)	8.06%
	1,600,000 (S)	0.09%
	125,780,084 (LP)	6.88%
The Capital Group Companies, Inc. ⁽³⁾	97,062,500 (L)	5.31%

* (L/S/LP) represents (Long position/Short position/Lending Pool)

Notes:

- (1) The capacity of FIL Limited in holding the 128,190,784 shares was as investment manager.
- (2) The following is a breakdown of the interests in shares in the Company held by JPMorgan Chase & Co.:

Name	Remarks	Total interests in shares			Approximate percentage of interests	
		Direct interests	(L/S)	Deemed interests		
JPMorgan Chase & Co.	(2a)	—	—	147,423,985	(L)	8.06%
		—	—	1,600,000	(S)	0.09%
		—	—	125,780,084	(LP)	6.88%
JPMorgan Chase Bank, N.A.	(2b)	125,780,084	(L)	1,642,401	(L)	6.97%
		—	—	1,600,000	(S)	0.09%
J.P. Morgan Securities plc	(2b)	1,620,000	(L)	—	—	0.09%
		1,600,000	(S)	—	—	0.09%
J.P. Morgan Chase International Holdings	(2b)	—	—	1,620,000	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
J.P. Morgan Chase (UK) Holdings Limited	(2b)	—	—	1,620,000	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
J.P. Morgan Capital Holdings Limited	(2b)	—	—	1,620,000	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
J.P. Morgan International Finance Limited	(2b)	—	—	1,642,401	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
Bank One International Holdings Corporation	(2b)	—	—	1,642,401	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
J.P. Morgan International Inc.	(2b)	—	—	1,642,401	(L)	0.09%
		—	—	1,600,000	(S)	0.09%
JF Asset Management Limited	(2b)	18,746,500	(L)	—	—	1.02%
JPMorgan Asset Management (Asia) Inc.	(2b)	—	—	20,001,500	(L)	1.09%
JPMorgan Asset Management Holdings Inc.	(2b)	—	—	20,001,500	(L)	1.09%
J.P. Morgan Whitefriars Inc.	(2b)	22,401	(L)	—	—	0.00%
J.P. Morgan Overseas Capital Corporation	(2b)	—	—	22,401	(L)	0.00%
JPMorgan Asset Management (Taiwan) Limited	(2b)	1,255,000	(L)	—	—	0.07%

Substantial Shareholders' Interests *(continued)*

Notes: *(continued)*

Remarks:

- (2a) JPMorgan Chase & Co. is listed on New York Stock Exchange. The capacity of JPMorgan Chase & Co. in holding the 147,423,985 shares of long position, 1,600,000 shares of short position and 125,780,084 shares of lending pool respectively was as controlled corporation.
- (2b) JPMorgan Chase Bank, N.A., J.P. Morgan Securities plc, J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., JF Asset Management Limited, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings Inc., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation and JPMorgan Asset Management (Taiwan) Limited were all direct or indirect owned by JPMorgan Chase & Co. and by virtue of the SFO, JPMorgan Chase & Co. was deemed to be interested in the shares held by these subsidiaries.
- (3) The following is a breakdown of the interest in the shares in the Company held by The Capital Group Companies, Inc.:

Name	Remarks	Total interests in shares				Approximate percentage of interests
		Direct interests	(L/S)	Deemed interests	(L/S)	
The Capital Group Companies, Inc.	(3a)	—	—	97,062,500	(L)	5.31%
Capital Research and Management Company	(3b)	97,062,500	(L)	—	—	5.31%

Remarks:

- (3a) The capacity of The Capital Group Companies, Inc. in holding the 97,062,500 shares of long position was as controlled corporation.
- (3b) Capital Research and Management Company was direct owned by The Capital Group Companies, Inc. and by virtue of the SFO, The Capital Group Companies, Inc. was deemed to be interested in the shares held by the subsidiary.

Save as disclosed, no other person was interested in or had a short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of the Part XV of the SFO as at December 31, 2012.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended December 31, 2012.

Donations

During the year, the Group made charitable and other donations totalling USD542,000.

Auditor

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Horst Julius Pudwill

Chairman

Hong Kong

March 21, 2013