

## 40. Financial Instruments *(continued)*

### 40.4 Transfer of financial assets

The following were the Group's financial assets as at December 31, 2012 that were transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as discounted bills with recourse (see Note 38). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

The bills receivable discounted with banks with full recourse at the year end was as follows:

|   | <b>2012</b><br><b>USD'000</b> | 2011<br>USD'000 |
|---|-------------------------------|-----------------|
| Carrying amount of transferred assets     | <b>432,633</b>                | 518,897         |
| Carrying amount of associated liabilities | <b>(432,633)</b>              | (518,897)       |
| Net position                              | —                             | —               |

## 41. Unsecured Borrowings

|  | <b>The Group</b>              |                 | <b>The Company</b>            |                 |
|--|-------------------------------|-----------------|-------------------------------|-----------------|
|  | <b>2012</b><br><b>USD'000</b> | 2011<br>USD'000 | <b>2012</b><br><b>USD'000</b> | 2011<br>USD'000 |
| Trust receipt loans                          | <b>1,050</b>                  | 3,878           | —                             | —               |
| Bank advance from factored trade receivables | <b>75,000</b>                 | 71,800          | —                             | —               |
| Bank loans                                   | <b>437,325</b>                | 351,637         | <b>371,772</b>                | 343,887         |
| Bank borrowings                              | <b>513,375</b>                | 427,315         | <b>371,772</b>                | 343,887         |
| Fixed interest rate notes (Note)             | <b>134,207</b>                | 163,587         | —                             | —               |
| Total borrowings                             | <b>647,582</b>                | 590,902         | <b>371,772</b>                | 343,887         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 41. Unsecured Borrowings (continued)

The borrowings of the Group and the Company are repayable as follows:

|  | The Group |           | The Company |          |
|--|-----------|-----------|-------------|----------|
|  | 2012      | 2011      | 2012        | 2011     |
|  | USD'000   | USD'000   | USD'000     | USD'000  |
| <b>Fixed rate</b>  |           |           |             |          |
| Within one year  | 39,264    | 29,972    | —           | —        |
| In more than one year but not more than two years                | —         | 39,022    | —           | —        |
| In more than two years but not more than five years              | 94,943    | 94,593    | —           | —        |
| <b>Floating rate</b>   |           |           |             |          |
| Within one year  | 259,626   | 164,053   | 118,023     | 80,793   |
| In more than one year but not more than two years                | 144,785   | 109,131   | 144,785     | 108,963  |
| In more than two years but not more than five years              | 108,964   | 154,131   | 108,964     | 154,131  |
|  | 647,582   | 590,902   | 371,772     | 343,887  |
| Less: Amount due within one year shown under current liabilities | (298,890) | (194,025) | (118,023)   | (80,793) |
| Amount due after one year  | 348,692   | 396,877   | 253,749     | 263,094  |

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

|                          | 2012           | 2011           |
|--------------------------|----------------|----------------|
| Effective interest rate: |                |                |
| Fixed-rate borrowings    | 6.70% to 7.44% | 6.70% to 7.44% |
| Variable-rate borrowings | 1.01% to 4.36% | 1.03% to 3.80% |

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|                         | USD'000 |
|-------------------------|---------|
| As at December 31, 2012 | 66,603  |
| As at December 31, 2011 | 3,861   |

Note: In 2003, the Group issued fixed interest rate notes, through its wholly-owned subsidiary in the US, for an aggregate principal amount of USD145,000,000. The notes were issued in two fixed rate tranches, being USD120,000,000 for 10 years at 6.70% per annum and USD25,000,000 for 7 years at 6.09% per annum. The proceeds were used to refinance existing medium term debts and for general working capital purposes. During the year, the Group repaid nil (2011: USD5,625,000) of the first tranche and USD25,000,000 of the second tranche was fully repaid in 2010.

In 2005, the Group issued additional fixed interest rate notes, through its wholly-owned subsidiary in the US, for an aggregate principal amount of USD200,000,000. The notes were issued in two fixed rate tranches of USD150,000,000 for 10 years at 7.44% per annum and USD50,000,000 for 7 years at 7.17% per annum. The proceeds were used to finance the acquisition of subsidiaries. During the year, the Group repaid USD30,000,000 of the second tranche and the second tranche was then fully repaid.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the contracted market rates.

## 42. Convertible Bonds

The movement of the liability component of the convertible bonds for the year is set out below:

|  | The Group and the Company |                 |
|--|---------------------------|-----------------|
|  | 2012<br>USD'000           | 2011<br>USD'000 |
| Liability component at the beginning of the year | 134,001                   | 127,225         |
| Conversion of convertible bonds                  | (134,667)                 | —               |
| Effective interest expense                       | 5,338                     | 19,059          |
| Interest payment                                 | (4,672)                   | (12,283)        |
| Liability component at the end of the year       | —                         | 134,001         |

The fair value of the liability component of the convertible bonds at December 31, 2011, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate at the end of the reporting period date, was approximately USD156,401,000.

In 2009, the Company issued two tranches of 5-year 8.5% coupon convertible bonds with an aggregate principal amount of USD150,000,000 (“Convertible Bonds 2014”) and 55,888,500 detachable warrants (“Warrants 2012”). Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds 2014 will be redeemed at their principal amount on the maturity date at April 30, 2014.

The holders of the Convertible Bonds 2014 have the right to convert all or any portion of the Convertible Bonds 2014 into shares of the Company at an initial conversion price of HKD5.20 (to be converted to United States dollars at the fixed exchange rate of HKD7.75 = USD1.0) per share, subject to anti-dilutive adjustment, from October 30, 2010 to April 20, 2014 (“Conversion Rights”). The conversion will result in the Company issuing a fixed number of shares of the Company in settlement of a fixed amount of cash.

At the option of the Convertible Bond 2014's holders, on April 30, 2012, the holders could redeem Convertible Bond 2014 at the principal amount plus accrued interest to the date of redemption. Accordingly, the Convertible Bond 2014 is classified as current liabilities as of December 31, 2011.

The fair value of the liability component on initial recognition was estimated at the issue date using an equivalent market interest rate for a similar bond without the Conversion Rights and Warrants 2012. The residual amount was assigned as the equity component, representing the estimated fair value of the Warrants 2012 with the remaining balance is allocated to the Conversion Rights and included in shareholders' equity.

The weighted average effective interest rate of the Convertible Bonds 2014 is 15.57%.

During the year, all the Convertible Bonds 2014 were converted into 223,557,689 shares of the Company at HKD5.20 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 43. Share Capital

|  | 2012<br>Number of<br>shares | 2011<br>Number of<br>shares | 2012<br>USD'000 | 2011<br>USD'000 |
|--|-----------------------------|-----------------------------|-----------------|-----------------|
| <b>Ordinary shares</b>                         |                             |                             |                 |                 |
| Authorised:                                    |                             |                             |                 |                 |
| Shares of HKD0.10 each                         | 2,400,000,000               | 2,400,000,000               | 30,769          | 30,769          |
| Issued and fully paid:                         |                             |                             |                 |                 |
| At the beginning of the year                   | 1,601,564,252               | 1,606,625,752               | 20,533          | 20,598          |
| Issue of shares upon exercise of share options | 8,289,000                   | 455,000                     | 107             | 6               |
| Repurchase of shares                           | (4,330,000)                 | (5,516,500)                 | (56)            | (71)            |
| Conversion of convertible bonds                | 223,557,689                 | —                           | 2,877           | —               |
| At the end of the year                         | 1,829,080,941               | 1,601,564,252               | 23,461          | 20,533          |

Details of the share options are set out in Note 50.

During the year, the Company repurchased and cancelled its own shares through the Stock Exchange as follows:

| Month of repurchase | No. of ordinary<br>shares at<br>HKD0.10 each | Price per share |               | Aggregate<br>consideration<br>paid<br>USD'000 |
|---------------------|--|-----------------|---------------|---|
|                     |  | Highest<br>HKD  | Lowest<br>HKD |   |
| January 2012        | 200,000                                      | 8.01            | 7.93          | 205   |
| May 2012            | 1,980,000                                    | 9.85            | 8.59          | 2,316   |
| June 2012           | 1,150,000                                    | 9.40            | 8.75          | 1,349   |
| December 2012       | 1,000,000                                    | 13.90           | 13.72         | 1,783   |
|                     | 4,330,000                                    |                 |               | 5,653   |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount equivalent to the par value of the shares cancelled of USD56,000 was transferred to the capital redemption reserve. The consideration paid on the repurchase of the shares of approximately USD5,653,000 was charged to retained profits.

## 44. Reserves

|  | Share<br>premium<br>USD'000 | Capital<br>redemption<br>reserve<br>USD'000 | Convertible<br>bonds equity<br>reserve<br>USD'000 | Employee<br>share-based<br>compensation<br>reserve<br>USD'000 | Hedging<br>reserve<br>USD'000 | Retained<br>profits<br>USD'000 | Total<br>USD'000 |
|--|-----------------------------|---|---|---|-------------------------------|--------------------------------|------------------|
| <b>The Company</b>   |                             |   |   |   |                               |                                |                  |
| At January 1, 2011   | 459,866                     | 56  | 8,833   | 7,451   | —                             | 341,744                        | 817,950          |
| Profit for the year and other comprehensive income                           | —                           | —   | —   | —   | —                             | 187,602                        | 187,602          |
| Shares issued at premium on exercise of options                              | 506                         | —   | —   | (91)  | —                             | —                              | 415              |
| Repurchase of shares   | —                           | 71  | —   | —   | —                             | (3,817)                        | (3,746)          |
| Recognition of equity settled share-based payments                           | —                           | —   | —   | 1,053   | —                             | —                              | 1,053            |
| Lapse of share options   | —                           | —   | —   | (1,805)   | —                             | 1,805                          | —                |
| Final dividend - 2010  | —                           | —   | —   | —   | —                             | (12,907)                       | (12,907)         |
| Interim dividend - 2011  | —                           | —   | —   | —   | —                             | (10,347)                       | (10,347)         |
| At December 31, 2011   | 460,372                     | 127   | 8,833   | 6,608   | —                             | 504,080                        | 980,020          |
| Loss for the year  | —                           | —   | —   | —   | —                             | (17,142)                       | (17,142)         |
| Fair value loss on foreign currency forward<br>contracts in hedge accounting | —                           | —   | —   | —   | (1,254)                       | —                              | (1,254)          |
| Other comprehensive loss for the year  | —                           | —   | —   | —   | (1,254)                       | —                              | (1,254)          |
| Total comprehensive loss for the year  | —                           | —   | —   | —   | (1,254)                       | (17,142)                       | (18,396)         |
| Shares issued at premium on exercise of options                              | 9,388                       | —   | —   | (1,772)   | —                             | —                              | 7,616            |
| Repurchase of shares   | —                           | 56  | —   | —   | —                             | (5,653)                        | (5,597)          |
| Recognition of equity settled share-based payments                           | —                           | —   | —   | 578   | —                             | —                              | 578              |
| Lapse of share options   | —                           | —   | —   | (2,201)   | —                             | 2,201                          | —                |
| Conversion of convertible bonds  | 143,330                     | —   | (8,833)   | —   | —                             | —                              | 134,497          |
| Final dividend - 2011  | —                           | —   | —   | —   | —                             | (18,185)                       | (18,185)         |
| Interim dividend - 2012  | —                           | —   | —   | —   | —                             | (15,838)                       | (15,838)         |
| <b>At December 31, 2012</b>  | <b>613,090</b>              | <b>183</b>                                  | <b>—</b>  | <b>3,213</b>  | <b>(1,254)</b>                | <b>449,463</b>                 | <b>1,064,695</b> |

As at December 31, 2012, the Company's reserves available for distribution to shareholders comprised the retained profits of USD449,463,000 (2011: USD504,080,000).

## 45. Retirement Benefit Obligations

### Defined Contribution Plans:

The Company and its subsidiaries operating in Hong Kong have participated in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance since December 2000. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll cost to the MPF Schemes with maximum amount of HKD13,750 (2011: HKD12,000) per employee per annum, which contribution is matched by the employee.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's overseas subsidiaries operate a number of defined contribution schemes. Contributions to the defined contribution schemes applicable to each year are made at a certain percentage of the employees' payroll.

### Defined Benefits Plans:

The Group operates several defined benefit plans for qualifying employees of its subsidiaries in Germany and the US, of which these plans cover substantially all remaining employees that are not covered by defined contribution plans. The major defined benefit plans are as follows:

|   | 2012<br>USD'000 | 2011<br>USD'000 |
|---|-----------------|-----------------|
| Pension plan obligations (Note i)                             | 82,588          | 72,989          |
| Post-retirement medical and dental plan obligations (Note ii) | 602             | 840             |
| Life and medical insurance plan (Note ii)                     | 1,861           | 1,940           |
| Post-employment benefit plan obligations (Note iii)           | 7,862           | 6,648           |
| Others  | 409             | 520             |
|   | <b>93,322</b>   | <b>82,937</b>   |

Note i: Pension plan obligations

The pension plan obligations are provided in the German operations and includes a plan that pays retirement benefits on service and final pay. In general, the benefit plans were closed to new members at the end of 1995. Under the plan, the employees are entitled to retirement benefits varying between 10 and 20 per cent of final salary (based on the average of the last three years) on attainment of a retirement age of 65. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on October 26, 2012, by BDO Deutsche Warentreuhand Aktiengesellschaft, Germany.

Note ii: Post-retirement medical and dental plan obligations/ Life and medical insurance plan

Milwaukee Electric Tool Corporation, a subsidiary of the Group in the US, operates unfunded post-retirement, medical benefits, dental and life insurance plans. The most recent actuarial valuations of the present value of the obligations were carried out on January 18, 2013 by Willis North America, Inc.

Note iii: Post-employment plan obligations

The pension plan obligations are provided by Hoover Inc. for members of IBEW (International Brotherhood of Electrical Workers) Local 1985 employed by Hoover. The most recent actuarial valuation of the present value of the obligations were carried out on January 15, 2013 by CBIZ Benefits & Insurance Services.

## 45. Retirement Benefit Obligations *(continued)*

The main actuarial assumptions used were as follows:

|                                   | Pension plan |       | Post-retirement medical<br>and dental plan |       | Life & medical insurance plan |       | Post-employment benefit plan |       |
|-----------------------------------|--------------|-------|--|-------|-------------------------------|-------|------------------------------|-------|
|                                   | 2012         | 2011  | 2012                                       | 2011  | 2012                          | 2011  | 2012                         | 2011  |
| Discount rate                     | 3.70%        | 4.90% | 0.75%                                      | 1.75% | 2.75%                         | 3.75% | 3.70%                        | 4.04% |
| Expected rate of salary increases | 2.00%        | 2.00% | N/A  | N/A   | N/A                           | N/A   | N/A                          | N/A   |
| Expected return on plan assets    | N/A          | N/A   | N/A  | N/A   | N/A                           | N/A   | 4.04%                        | 0.00% |
| Future pension increases          | 2.00%        | 2.00% | N/A  | N/A   | N/A                           | N/A   | N/A                          | N/A   |
| Medical cost trend rates          | N/A          | N/A   | 5.00%                                      | 5.00% | 5.00%                         | 5.00% | N/A                          | N/A   |

The effect of an increase of one percentage point in the assumed medical cost trend rate on the aggregate of the current service cost and interest cost; and the accumulated post-employment benefit obligations are as follows:

|   | Pension plan    |                 | Post-retirement medical<br>and dental plan |                 | Life & medical insurance plan |                 | Post-employment benefit plan |                 |
|---|-----------------|-----------------|--|-----------------|-------------------------------|-----------------|------------------------------|-----------------|
|   | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000                            | 2011<br>USD'000 | 2012<br>USD'000               | 2011<br>USD'000 | 2012<br>USD'000              | 2011<br>USD'000 |
| Current service cost and interest cost                            | N/A             | N/A             | —  | —               | 4                             | 5               | N/A                          | N/A             |
| Accumulated post-employment benefit obligations for medical costs | N/A             | N/A             | 10   | 15              | 128                           | 132             | N/A                          | N/A             |

Amounts recognised in profit or loss in respect of the plans are as follows:

|   | Pension plan    |                               | Post-retirement medical<br>and dental plan |                               | Life & medical insurance plan |                               | Post-employment benefit plan |                               |
|---|-----------------|-------------------------------|--|-------------------------------|-------------------------------|-------------------------------|------------------------------|-------------------------------|
|   | 2012<br>USD'000 | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000                            | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000               | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000              | 2011<br>USD'000<br>(Restated) |
| Current service cost                        | 258             | 380                           | —  | —                             | —                             | —                             | —                            | —                             |
| Net interest on defined benefit liabilities | 3,534           | 4,009                         | 12   | 58                            | 69                            | 52                            | 269                          | 552                           |
|   | 3,792           | 4,389                         | 12   | 58                            | 69                            | 52                            | 269                          | 552                           |

The charge for the year has been included in staff costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 45. Retirement Benefit Obligations *(continued)*

Amount recognised in other comprehensive income in respect of the plans are as follows:

|                       | Pension plan    |                               | Post-retirement medical<br>and dental plan |                               | Life & medical insurance plan |                               | Post-employment benefit plan |                               |
|-----------------------|-----------------|-------------------------------|--|-------------------------------|-------------------------------|-------------------------------|------------------------------|-------------------------------|
|                       | 2012<br>USD'000 | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000                            | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000               | 2011<br>USD'000<br>(Restated) | 2012<br>USD'000              | 2011<br>USD'000<br>(Restated) |
| Actuarial loss (gain) | 9,024           | 94                            | (240)                                      | (480)                         | (100)                         | (100)                         | 945                          | 1,669                         |

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the major plans is as follows:

|                                       | Pension plan    |                 | Post-retirement medical<br>and dental plan |                 | Life & medical insurance plan |                 | Post-employment benefit plan |                 |
|---------------------------------------|-----------------|-----------------|--|-----------------|-------------------------------|-----------------|------------------------------|-----------------|
|                                       | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000                            | 2011<br>USD'000 | 2012<br>USD'000               | 2011<br>USD'000 | 2012<br>USD'000              | 2011<br>USD'000 |
| Present value of funded obligations   | —               | —               | —  | —               | —                             | —               | 13,700                       | 14,049          |
| Fair value of plan assets             | —               | —               | —  | —               | —                             | —               | (5,838)                      | (7,401)         |
|                                       | —               | —               | —  | —               | —                             | —               | 7,862                        | 6,648           |
| Present value of unfunded obligations | 82,588          | 72,989          | 602  | 840             | 1,861                         | 1,940           | —                            | —               |
|                                       | 82,588          | 72,989          | 602  | 840             | 1,861                         | 1,940           | 7,862                        | 6,648           |

Movements in the present value of the defined benefit obligations in the current year in respect of major plans were as follows:

|                       | Pension plan    |                 | Post-retirement medical<br>and dental plan |                 | Life & medical insurance plan |                 | Post-employment benefit plan |                 |
|-----------------------|-----------------|-----------------|--|-----------------|-------------------------------|-----------------|------------------------------|-----------------|
|                       | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000                            | 2011<br>USD'000 | 2012<br>USD'000               | 2011<br>USD'000 | 2012<br>USD'000              | 2011<br>USD'000 |
| At January 1          | 72,989          | 75,353          | 840  | 1,686           | 1,940                         | 2,150           | 14,049                       | 13,214          |
| Exchange differences  | 1,286           | (2,214)         | —  | —               | —                             | —               | —                            | —               |
| Current service cost  | 258             | 380             | —  | —               | —                             | —               | —                            | —               |
| Actuarial loss (gain) | 9,024           | 94              | (240)                                      | (480)           | (100)                         | (100)           | 669                          | 1,581           |
| Interest cost         | 3,534           | 4,009           | 12   | 58              | 69                            | 52              | 541                          | 636             |
| Benefit paid          | (4,503)         | (4,633)         | (10)                                       | (424)           | (48)                          | (162)           | (1,559)                      | (1,382)         |
| At December 31        | 82,588          | 72,989          | 602  | 840             | 1,861                         | 1,940           | 13,700                       | 14,049          |



## 45. Retirement Benefit Obligations *(continued)*

Movements in the fair value of the plan assets in the current year in respect of certain major plans were as follows:

|                                | Pension plan |         | Post-retirement medical<br>and dental plan |         | Life & medical insurance plan |         | Post-employment benefit plan |         |
|--------------------------------|--------------|---------|--|---------|-------------------------------|---------|------------------------------|---------|
|                                | 2012         | 2011    | 2012                                       | 2011    | 2012                          | 2011    | 2012                         | 2011    |
|                                | USD'000      | USD'000 | USD'000                                    | USD'000 | USD'000                       | USD'000 | USD'000                      | USD'000 |
| At January 1                   | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | 7,401                        | 2,316   |
| Exchange differences           | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | —                            | —       |
| Expected return on plan assets | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | 272                          | 84      |
| Actuarial loss                 | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | (276)                        | (88)    |
| Contribution from employer     | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | —                            | 6,506   |
| Benefit paid                   | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | (1,559)                      | (1,417) |
| At December 31                 | N/A          | N/A     | N/A  | N/A     | N/A                           | N/A     | 5,838                        | 7,401   |

The plan assets of the post-employment benefit plan are cash in a Federated Money Market Fund with an expected return of 4.04% (2011: 0%).

The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The Group expects to make a contribution of USD2,000,000 (2011: Nil) to the defined benefit plans during the next financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 46. Deferred Tax Assets (Liabilities)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

|                                   | Accelerated<br>tax<br>depreciation<br>USD'000 | Warranty<br>provision<br>USD'000 | Convertible<br>bonds equity<br>reserve<br>USD'000 | Employee<br>related<br>provision<br>USD'000 | Tax losses<br>USD'000 | Inventory<br>provision<br>and LIFO<br>USD'000 | Others<br>USD'000 | Total<br>USD'000 |
|-----------------------------------|---|----------------------------------|---|---|-----------------------|---|-------------------|------------------|
| <b>The Group</b>                  |   |                                  |   |   |                       |   |                   |                  |
| At January 1, 2011                | (9,840)                                       | 3,324                            | (3,936)   | 12,733                                      | 64,012                | (1,364)                                       | (19,344)          | 45,585           |
| Currency realignment              | (23)  | (2)                              | —   | 29  | (134)                 | 3   | 606               | 479              |
| Credit (charge) to profit or loss | 3,053   | (282)                            | 1,019   | (1,505)                                     | (6,783)               | (35)  | 4,129             | (404)            |
| At December 31, 2011              | <b>(6,810)</b>                                | <b>3,040</b>                     | <b>(2,917)</b>                                    | <b>11,257</b>                               | <b>57,095</b>         | <b>(1,396)</b>                                | <b>(14,609)</b>   | <b>45,660</b>    |
| Currency realignment              | 45  | 42                               | —   | 28  | 445                   | 8   | 536               | 1,104            |
| Credit (charge) to profit or loss | 5,162   | 295                              | 210   | 10,995                                      | (3,836)               | 2,836   | (9,880)           | 5,782            |
| Credit to equity                  | —   | —                                | 2,707   | 2,962                                       | —                     | —   | —                 | 5,669            |
| <b>At December 31, 2012</b>       | <b>(1,603)</b>                                | <b>3,377</b>                     | <b>—</b>  | <b>25,242</b>                               | <b>53,704</b>         | <b>1,448</b>                                  | <b>(23,953)</b>   | <b>58,215</b>    |

|                                   | Tax loss<br>USD'000 | Accelerated<br>tax<br>depreciation<br>USD'000 | Convertible<br>bonds equity<br>reserve<br>USD'000 | Total<br>USD'000 |
|-----------------------------------|---------------------|---|---|------------------|
| <b>The Company</b>                |                     |   |   |                  |
| At January 1, 2011                | 2,013               | (871)   | (3,936)   | (2,794)          |
| Credit to profit or loss          | 754                 | 397   | 1,019   | 2,170            |
| At December 31, 2011              | <b>2,767</b>        | <b>(474)</b>                                  | <b>(2,917)</b>                                    | <b>(624)</b>     |
| (Charge) credit to profit or loss | (2,589)             | 296   | 210   | (2,083)          |
| Credit to equity                  | —                   | —   | 2,707   | 2,707            |
| <b>At December 31, 2012</b>       | <b>178</b>          | <b>(178)</b>                                  | <b>—</b>  | <b>—</b>         |

Note: Included in Others are the deferred tax impact of the restructuring provision, intellectual properties and other temporary differences.

#### 46. Deferred Tax Assets (Liabilities) *(continued)*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

|                          | The Group       |                 | The Company     |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
|                          | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000 | 2011<br>USD'000 |
| Deferred tax assets      | <b>73,892</b>   | 73,633          | —               | —               |
| Deferred tax liabilities | <b>(15,677)</b> | (27,973)        | —               | (624)           |
|                          | <b>58,215</b>   | 45,660          | —               | (624)           |

At the end of the reporting period, the Group has unused tax losses of USD510 million (2011: USD460 million) available for the offset against future taxable profits that carry forward for at least fifteen years. No deferred tax asset has been recognised in respect of tax losses of USD234 million (2011: USD251 million) due to the lack of probable future taxable profits.

#### 47. Major Non-Cash Transactions

During the year ended December 31, 2012, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the finance leases of USD536,000 (2011: USD870,000).

#### 48. Lease Commitments

At the end of the reporting period, the Group and the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

|                                       | The Group       |                 | The Company     |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                       | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000 | 2011<br>USD'000 |
| Within one year                       | <b>29,662</b>   | 29,734          | <b>707</b>      | 704             |
| In the second to fifth year inclusive | <b>62,398</b>   | 61,922          | —               | —               |
| After five years                      | <b>28,707</b>   | 25,582          | —               | —               |
|                                       | <b>120,767</b>  | 117,238         | <b>707</b>      | 704             |

Operating lease payments represent rentals payable by the Group and the Company for certain of its plant and machinery, motor vehicles, office properties and other assets. Leases are negotiated for a term ranging from 1 year to 10 years.

**49. Contingent Liabilities**

|  | The Group       |                 | The Company     |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2012<br>USD'000 | 2011<br>USD'000 | 2012<br>USD'000 | 2011<br>USD'000 |
| Guarantees given to banks in respect of credit facilities utilised by associates | 12,691          | 10,858          | 12,691          | 10,858          |

In addition, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries as at December 31, 2012 amounted to USD754,752,000 (2011: USD828,876,000).

**50. Share Options****Scheme adopted on March 28, 2002 ("Scheme C") and terminated on March 27, 2007**

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 quotations 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.

## 50. Share Options *(continued)*

### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 50. Share Options (continued)

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

| 2012<br>Share option holders       | Date of share<br>options granted | Share<br>option<br>scheme<br>category | Outstanding<br>at beginning<br>of the year | Granted<br>during<br>the year | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Outstanding<br>at end of<br>the year | Subscription<br>price<br>HKD | Exercise period         |
|------------------------------------|----------------------------------|---------------------------------------|--|-------------------------------|---------------------------------|------------------------------|--------------------------------------|------------------------------|-------------------------|
| <b>Directors</b>                   |                                  |                                       |  |                               |                                 |                              |                                      |                              |                         |
| 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 |
|                                    | 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   |
|                                    | 16.11.2009                       | D                                     | 600,000                                    | —                             | —                               | —                            | 600,000                              | 6.770                        | 16.11.2009 – 15.11.2019 |
| Prof Roy Chi Ping Chung BBS JP     | 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   |
| <b>Total for directors</b>         |                                  |                                       | <b>9,800,000</b>                           | <b>2,820,000</b>              | <b>(2,900,000)</b>              | <b>(1,000,000)</b>           | <b>8,720,000</b>                     |                              |                         |

## 50. 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                     |                        |                         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

### 50. Share Options (continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

| Option type                               | Outstanding<br>at January 1,<br>2012 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed or<br>cancelled<br>during the<br>year | Outstanding<br>at<br>December 31,<br>2012 |
|---|--------------------------------------|-------------------------------|---------------------------------|--|---|
| Scheme C                                  | 5,475,000                            | —                             | —                               | (5,475,000)                                  | —   |
| Scheme D                                  | 23,730,000                           | 2,820,000                     | (8,289,000)                     | (1,980,000)                                  | 16,281,000                                |
|   | 29,205,000                           | 2,820,000                     | (8,289,000)                     | (7,455,000)                                  | 16,281,000                                |
| <b>Exercisable at the end of the year</b> |                                      |                               |                                 |  | <b>12,951,000</b>                         |
| Option type                               | Outstanding<br>at January 1,<br>2011 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed or<br>cancelled<br>during the<br>year | Outstanding<br>at<br>December 31,<br>2011 |
| Scheme C                                  | 9,734,000                            | —                             | —                               | (4,259,000)                                  | 5,475,000                                 |
| Scheme D                                  | 23,515,000                           | 1,120,000                     | (455,000)                       | (450,000)                                    | 23,730,000                                |
|   | 33,249,000                           | 1,120,000                     | (455,000)                       | (4,709,000)                                  | 29,205,000                                |
| <b>Exercisable at the end of the year</b> |                                      |                               |                                 |  | <b>27,060,000</b>                         |

Details of the share options held by the directors included in the above table are as follows:

|             | Outstanding<br>at January 1 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Outstanding<br>at<br>December 31 |
|-------------|-----------------------------|-------------------------------|---------------------------------|------------------------------|----------------------------------|
| <b>2012</b> | <b>9,800,000</b>            | <b>2,820,000</b>              | <b>(2,900,000)</b>              | <b>(1,000,000)</b>           | <b>8,720,000</b>                 |
|             | Outstanding<br>at January 1 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Outstanding<br>at<br>December 31 |
| 2011        | 10,300,000                  | 1,000,000                     | —                               | (1,500,000)                  | 9,800,000                        |



## 50. Share Options *(continued)*

The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

| Date of grant                        | Exercise price<br>HKD | Expected<br>life of<br>share options | Expected<br>volatility based<br>on historical<br>volatility of<br>share prices | Hong Kong<br>Exchange<br>Fund<br>Notes rate | Expected<br>annual<br>dividend yield |
|--------------------------------------|-----------------------|--------------------------------------|--|---|--------------------------------------|
|                                      |                       |                                      |  |   |                                      |
| For the year ended December 31, 2012 |                       |                                      |  |   |                                      |
| 21.5.2012                            | 8.742                 | 3 years                              | 41%  | 0.298%                                      | 1.5%                                 |
| For the year ended December 31, 2011 |                       |                                      |  |   |                                      |
| 17.1.2011                            | 10.436                | 3 years                              | 41%  | 0.926%                                      | 1.5%                                 |
| 23.5.2011                            | 9.872                 | 3 years                              | 41%  | 0.829%                                      | 1.5%                                 |
| 16.12.2011                           | 7.530                 | 3 years                              | 41%  | 0.523%                                      | 1.5%                                 |

The share options are vested in parts over 3 years from the date of grant.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

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 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 Group recognised a total expense of USD578,000 for the year ended December 31, 2012 (2011: USD1,053,000) in relation to share options granted by the Company.

The fair values of the share options granted in 2012 and 2011 measured at date of grant was HKD2.11 and ranged from HKD1.92 to HKD2.58 per option respectively. The weighted average fair value of the share options granted in 2011 was HKD2.40 per option.

The Company had 16,281,000 share options outstanding, which represented approximately 0.89% of the issued share capital of the Company as at December 31, 2012. No option was cancelled during the year.