NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2006

1. General

The Company is an exempted company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is ASM International N.V. ("ASM International"), a company incorporated in the Netherlands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of machines, tools and materials used in semiconductor industry.

2. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) - INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives [4]
HK(IFRIC) - INT 10	Interim financial reporting and impairment [5]
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions [6]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.
[5] Effective for annual periods beginning on or after 1 November 2006.
[6] Effective for annual periods beginning on or after 1 March 2007.

3. Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services products in the normal course of business, net of discounts and sales related tax.

Sales of goods are recognised when goods are delivered and the title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising from derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the item and is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. Significant accounting policies continued

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. Significant accounting policies continued

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases and rental payable are charged to the consolidated income statement on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease terms on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to an insignificant risk of change in value. At each balance sheet date subsequent to initial recognition, demand deposits are carried at amortised cost using the effective interest method.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities, including trade and other payables and notes payable to a bank, are subsequently measured at amortised cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Significant accounting policies continued

Financial instruments continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received from employees determined by reference to the fair value of shares granted at the grant date is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the time when the shares are subsequently issued, the amount previously recognised in the employee share-based compensation reserve will be transferred to share capital and share premium.

3. Significant accounting policies continued

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management had made the following estimations that have the most significant effect on the amounts recognised in the consolidated financial statements.

Inventories

Note 3 describes that inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group has the operational procedures to put in place to monitor the risk of inventories as majority of working capital is devoted to inventories and the nature of inventories are subject to frequent technological changes. The management reviews inventory age listing on a periodical basis for those slow-moving inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements.

Trade receivables

Note 3 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimate, management considers detailed procedures are in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the semiconductor manufacturing industry as a whole.

5. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has minimal currency exposure as the majority of all sales are denominated in U.S. Dollars which are linked up with the Hong Kong Dollar. On the other hand, the disbursements were mainly in U.S. dollars, Hong Kong dollars and Renminbi, which are the functional currencies of the relevant subsidiaries. The currency risk of some limited Japanese Yen-based receivables was eliminated against some Japanese Yen accounts payables. The management conducted periodical review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

6. Turnover

Turnover represents the amounts received and receivable for goods sold to customers during the year less returns.

7. Business and geographical segments

(A) Business segments

For management purposes, the Group is currently organised into two operating divisions — equipment and leadframe. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Equipment — manufacture and marketing of semiconductor machines and tools

Leadframe — manufacture and marketing of semiconductor materials

(i) Segment information about these businesses is presented below:

Consolidated income statement

	2006	2005
	HK$'000	HK$'000
Turnover		
Equipment	**3,581,917**	2,864,384
Leadframe	**974,036**	672,471
	4,555,953	3,536,855
Result		
Equipment	**1,125,633**	779,358
Leadframe	**121,011**	109,556
	1,246,644	888,914
Interest income	**32,329**	15,025
Finance costs	**(199)**	(15)
Profit before taxation	**1,278,774**	903,924
Income tax expense	**(129,297)**	(53,439)
Profit for the year	**1,149,477**	850,485

7. Business and geographical segments continued

(A) Business segments continued

(i) Segment information about these businesses is presented below: continued

Consolidated balance sheet

	At 31.12.2006			At 31.12.2005		
	Equipment	**Leadframe**	**Consolidated**	Equipment	Leadframe	Consolidated
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Assets						
Segment assets	**1,927,900**	**576,118**	**2,504,018**	1,805,362	464,732	2,270,094
Unallocated corporate assets			**982,713**			777,980
Consolidated total assets			**3,486,731**			3,048,074
Liabilities						
Segment liabilities	**622,016**	**143,104**	**765,120**	484,570	99,036	583,606
Unallocated corporate liabilities			**159,537**			70,934
Consolidated total liabilities			**924,657**			654,540

Other information

	2006			2005		
	Equipment	**Leadframe**	**Consolidated**	Equipment	Leadframe	Consolidated
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Capital additions	**129,875**	**78,794**	**208,669**	119,569	75,279	194,848
Depreciation of property, plant and equipment	**118,955**	**49,464**	**168,419**	111,770	42,675	154,445
Amortisation of prepaid lease payments	**106**	**374**	**480**	112	336	448
Loss on disposal of property, plant and equipment	**1,570**	**63**	**1,633**	3,549	2	3,551

7. Business and geographical segments continued

(B) Geographical segments

The Group's operations are principally carried out in the People's Republic of China (the "PRC"), including Hong Kong and Mainland China, Singapore and Malaysia.

(i) An analysis of the Group's turnover and profit before taxation by location of operations is as follows:

	Turnover		Profit before taxation	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Location of operation				
The PRC	**2,735,647**	1,859,197	**875,022**	508,725
Singapore and Malaysia	**1,820,306**	1,677,658	**371,622**	380,189
	4,555,953	3,536,855	**1,246,644**	888,914
Interest income			**32,329**	15,025
Finance costs			**(199)**	(15)
Profit before taxation			**1,278,774**	903,924

(ii) A geographical breakdown of the Group's turnover by geographical market is as follows:

	2006	2005
	HK$'000	HK$'000
Location of market		
Mainland China	**1,137,465**	774,972
Taiwan	**936,463**	742,304
Malaysia	**700,444**	445,371
Hong Kong	**386,263**	256,515
Thailand	**305,451**	246,546
Philippines	**249,073**	255,488
Korea	**233,769**	322,805
United States of America and Latin America	**194,636**	147,741
Singapore	**129,301**	150,068
Europe	**117,713**	107,325
Japan	**114,553**	45,790
Others	**50,822**	41,930
	4,555,953	3,536,855

7. Business and geographical segments continued

(B) Geographical segments continued

(iii) The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
			Year ended	Year ended
	31.12.2006	31.12.2005	**31.12.2006**	31.12.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**2,702,832**	2,223,532	**167,286**	122,854
Singapore and Malaysia	**783,021**	824,424	**41,383**	71,994
	3,485,853	3,047,956	**208,669**	194,848

8. Research and development expenses

Included in research and development expenses is depreciation on property, plant and equipment of HK$4,862,000 (2005: HK$6,040,000) and rental of land and buildings under operating leases of HK$4,574,000 (2005: HK$2,826,000).

9. Finance costs

The amount represents interest on bank borrowings and notes payable to a bank wholly repayable within five years.

10. Income tax expense

	2006	2005
	HK$'000	HK$'000
Current tax:		
Hong Kong	**118,198**	44,334
Other jurisdictions	**11,082**	7,695
	129,280	52,029
Under(over)provision in prior years:		
Hong Kong	—	2
Other jurisdictions	**1,630**	(1,061)
	1,630	(1,059)
Deferred tax (credit) charge (note 25)		
Current year	**(1,613)**	2,469
	129,297	53,439

10. Income tax expense continued

Hong Kong Profits Tax has been calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The charge for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**1,278,774**	903,924
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**223,785**	158,187
Tax effect of expenses that are not deductible in determining taxable profit	**8,187**	12,480
Tax effect of income that is not taxable in determining taxable profit	**(10,771)**	(10,997)
Tax effect of tax losses not recognised	**19,108**	23,818
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(39,253)**	(49,515)
Effect of tax exemption under the MH status	**(66,316)**	(74,469)
Effect of tax concession/exemption granted to PRC subsidiaries	**(5,158)**	(5,124)
Under(over)provision in prior years	**1,630**	(1,059)
Others	**(1,915)**	118
Tax charge for the year	**129,297**	53,439

Note:
The domestic tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

The Group's profit arising from the manufacture of semiconductor equipment and materials in Singapore is non-taxable under a tax incentive covering certain new products under the Manufacturing Headquarters ("MH") status granted by the Singapore tax authority. The tax exemption applies to profits arising for a period of 10 years from 1 January 2001, subject to the fulfilment of certain criteria during the period.

Certain subsidiaries of the Group were exempted from PRC Income Taxes for two years starting from their first profit-making year, which is 2003, followed by a 50% reduction for the next three years.

The Company has received a letter dated 28 December 2006 from the Hong Kong Inland Revenue Department seeking information relating to Profits Tax and other tax affairs of the Group. The enquiry might lead to additional tax being charged on profits from some overseas subsidiaries that have not previously been included in the scope of charge for Hong Kong Profits Tax.

Based on legal and other professional advice that the Company has sought, the directors are of the opinion that the Group would have a meritorious defence to any additional tax assessment and that no material tax liability would be incurred. Accordingly, the directors consider that sufficient provision has been made in the financial statements.

11. Profit for the year

	2006	2005
	HK$'000	HK$'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**4,825**	4,626
Amortisation of prepaid lease payments	**480**	448
Depreciation	**168,419**	154,445
Loss on disposal of property, plant and equipment	**1,633**	3,551
Minimum lease payments for land and building under operating leases	**33,256**	31,503
Net foreign exchange losses	**189**	2,604
Shipping and handling expenses (included in selling expenses)	**15,382**	9,989
Employee benefits expense, including directors' emoluments	**897,809**	776,939
and after crediting:		
Interest income	**32,329**	15,025

12. Directors' emoluments

The emoluments paid or payable to each of the seven (2005: six) directors were as follows:

Year ended 31 December 2006

	Arthur H. del Prado HK$'000	Lam See Pong, Patrick HK$'000	Arnold J.M. van der Ven HK$'000	Fung Shu Kan, Alan HK$'000	Orasa Livasiri HK$'000	Tang Koon Hung, Eric HK$'000	Lee Shiu Hung, Robert HK$'000	Total HK$'000
Fees	—	—	—	—	300	300	300	900
Other emoluments								
Salaries and other benefits	—	16,486	—	2,532	—	—	—	19,018
Contributions to retirement benefits schemes	—	759	—	177	—	—	—	936
Performance related incentive payments (Note)	—	5,500	—	450	—	—	—	5,950
Total emoluments	—	22,745	—	3,159	300	300	300	26,804

12. Directors' emoluments continued

	Year ended 31 December 2005						
	Arthur H. del Prado HK$'000	Lam See Pong, Patrick HK$'000	Fung Shu Kan, Alan HK$'000	Orasa Livasiri HK$'000	Tang Koon Hung, Eric HK$'000	Lee Shiu Hung, Robert HK$'000	Total HK$'000
Fees	—	—	—	300	299	299	898
Other emoluments							
Salaries and other benefits	—	12,131	2,272	—	—	—	14,403
Contributions to retirement benefits schemes	—	719	170	—	—	—	889
Performance related incentive payments (Note)	—	2,500	450	—	—	—	2,950
Total emoluments	—	15,350	2,892	300	299	299	19,140

Note:
The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics in both years.

For the year ended 31 December 2006, 205,000 shares (2005: 205,000 shares) of the Company were issued to certain executive directors under the Employee Share Incentive Scheme ("Scheme"), and the fair value of these shares at date of grant was included in salaries and other benefits above.

13. Employees' emoluments

The five highest paid individuals included two (2005: two) directors, details of whose emoluments are set out in note 12. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**14,462**	12,390
Performance related incentive payments	**2,671**	2,064
Contributions to retirement benefits schemes	**604**	581
	17,737	15,035

13. Employees' emoluments continued

For the year ended 31 December 2006, 205,000 shares (2005: 205,000 shares) of the Company were issued to the relevant highest-paid employees under the Scheme, and the fair value of these shares at the date of grant was included in salaries and other benefits above.

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$4,000,001 to HK$4,500,000	—	1
HK$4,500,001 to HK$5,000,000	—	1
HK$5,000,001 to HK$5,500,000	**1**	—
HK$5,500,001 to HK$6,000,000	**1**	1
HK$6,500,001 to HK$7,000,000	**1**	—

14. Retirement benefits plans

The Group has retirement plans covering a substantial portion of its employees. The principal plans are defined contribution plans. The plans for employees in Hong Kong are registered under the Occupational Retirement Schemes Ordinance ("ORSO Scheme") and a Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 12.5% of the employee's basic salary, depending on the length of services with the Group.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employees.

The employees of the Group in the Mainland China, Singapore and Malaysia are members of state-managed retirement benefit schemes operated by the relevant governments. The Group is required to contribute a certain percentage of payroll costs to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions. The assets of the schemes are held separately from those of the Group in funds under the control of trustees, and in the case of Singapore and Malaysia, by the Central Provident Fund Board of Singapore and Employee Provident Fund of Malaysia respectively.

The amount charged to the consolidated income statement of HK$46,854,000 (2005: HK$42,757,000) represents contributions paid and payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of HK$566,000 (2005: HK$549,000) arising from employees leaving the Group prior to completion of qualifying service period.

For the year ended 31 December 2005, there were forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years amounting to HK$66,000 (2006: nil).

15. Dividends

	2006 HK$'000	2005 HK$'000
Dividend paid		
Interim dividend paid for 2006 of HK$0.70 (2005: HK$0.50) per share on 387,059,500 (2005: 385,268,500) shares	**270,942**	192,634
First special dividend paid for 2006 of HK$0.75 (2005: HK$0.20) per share on 387,059,500 (2005: 385,268,500) shares	**290,294**	77,054
Final dividend for 2005 paid of HK$1.00 (2005: final dividend for 2004 paid of HK$1.05) per share on 387,059,500 (2005: 385,268,500) shares	**387,059**	404,532
Second special dividend for 2005 paid of HK$0.30 (2005: nil special dividend for 2004) per share on 387,059,500 shares	**116,118**	—
	1,064,413	674,220
Dividend proposed		
Proposed final dividend for 2006 of HK$1.00 (2005: HK$1.00) per share on 388,839,000 (2005: 387,059,500) shares	**388,839**	387,059
Proposed second special dividend for 2006 of HK$0.20 (2005: HK$0.30) per share on 388,839,000 (2005: 387,059,500) shares	**77,768**	116,118
	466,607	503,177

The final dividend of HK$1.00 (2005: HK$1.00) and second special dividend of HK$0.20 (2005: HK$0.30) per share have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

16. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share	**1,149,477**	850,485

	Number of shares (in thousand)	
Weighted average number of shares for the purposes of basic earnings per share	**387,142**	385,352
Effect of dilutive potential shares from the Employee Share Incentive Scheme	**1,465**	1,450
Weighted average number of shares for the purposes of diluted earnings per share	**388,607**	386,802

17. Property, plant and equipment

	Buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost					
At 1 January 2005	321,863	184,506	1,400,460	20,942	1,927,771
Exchange adjustment	(412)	(168)	(1,463)	(137)	(2,180)
Additions	17,236	29,054	143,347	5,211	194,848
Disposals	—	(1,513)	(65,283)	(1,127)	(67,923)
Reclassification	(48,433)	49,738	524	(1,829)	—
At 1 January 2006	290,254	261,617	1,477,585	23,060	2,052,516
Exchange adjustment	8,462	251	7,059	331	16,103
Additions	1,545	25,210	180,537	1,377	208,669
Disposals	—	(286)	(24,115)	(153)	(24,554)
At 31 December 2006	300,261	286,792	1,641,066	24,615	2,252,734
Depreciation and impairment					
At 1 January 2005	137,978	137,910	863,749	16,128	1,155,765
Exchange adjustment	(368)	(56)	(1,366)	(146)	(1,936)
Provided for the year	12,176	21,708	119,761	800	154,445
Eliminated on disposals	—	(1,513)	(61,155)	(1,120)	(63,788)
Reclassification	(46,298)	46,298	41	(41)	—
At 1 January 2006	103,488	204,347	921,030	15,621	1,244,486
Exchange adjustment	615	187	2,153	98	3,053
Provided for the year	13,331	23,031	131,033	1,024	168,419
Eliminated on disposals	—	(223)	(21,849)	(141)	(22,213)
At 31 December 2006	117,434	227,342	1,032,367	16,602	1,393,745
Carrying values					
At 31 December 2006	182,827	59,450	608,699	8,013	858,989
At 31 December 2005	186,766	57,270	556,555	7,439	808,030

17. Property, plant and equipment continued

Items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	4.2% to 4.5%
Leasehold improvements	$33\frac{1}{3}$%
Plant and machinery	10% to $33\frac{1}{3}$%
Furniture, fixtures and equipment	10% to 20%

18. Prepaid lease payments

The Group's prepaid lease payments represent property interests in leasehold land outside Hong Kong under medium-term leases.

Analysed for reporting purposes as:

	2006	2005
	HK$'000	HK$'000
Current	**480**	448
Non-current	**9,128**	8,951
	9,608	9,399

19. Inventories

	2006	2005
	HK$'000	HK$'000
Raw materials	**183,469**	153,595
Work in progress	**427,081**	373,227
Finished goods	**129,611**	82,523
	740,161	609,345

20. Trade and other receivables

	2006 HK$'000	2005 HK$'000
Trade receivables	**887,002**	843,280
Other receivables, deposits and prepayments	**75,411**	46,810
Amounts due from ASM International group companies - trade (Note)	**1**	2,165
	962,414	892,255

An aging analysis of trade receivables is as follows:

	2006 HK$'000	2005 HK$'000
Not yet due	**571,481**	595,643
Overdue within 30 days	**154,736**	151,619
Overdue within 31 to 60 days	**74,330**	64,098
Overdue within 61 to 90 days	**36,227**	24,221
Overdue over 90 days	**50,228**	7,699
	887,002	843,280

Credit policy:

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 30 days to 60 days of issuance, except for certain well established customers, where the terms are extended to 3 to 4 months. Each customer has a pre-set maximum credit limit.

Note:

Amounts due from ASM International group companies are unsecured, non-interest bearing and repayable according to normal trade terms.

The fair value of the Group's trade receivables, other receivables and amounts due from ASM International group companies at 31 December 2006 approximates to the respective carrying amount.

21. Trade and other payables

	2006 HK$'000	2005 HK$'000
Trade payables	**475,366**	315,032
Other payables and accrued charges	**289,612**	269,402
Amounts due to ASM International group companies - trade (Note)	**839**	586
	765,817	585,020

An aging analysis of trade payables is as follows:

	2006	2005
Not yet due	**290,238**	191,659
Overdue within 30 days	**119,702**	82,442
Overdue within 31 to 60 days	**53,421**	39,330
Overdue within 61 to 90 days	**4,815**	1,384
Overdue over 90 days	**7,190**	217
	475,366	315,032

Note:

Amounts due to ASM International group companies are unsecured, non-interest bearing and repayable according to normal trade terms.

The fair value of the Group's trade and other payables and amounts due to ASM International group companies at 31 December 2006 approximates to the respective carrying amount.

22. Notes payable to a bank

The amount represents discounted bills with recourse in which the Group retains the credit risk of the bills receivable and the carrying amount approximates to the corresponding fair value.

23. Share capital of the Company

	Number of shares		Share capital	
	2006	2005	**2006**	2005
	'000	'000	**HK$'000**	HK$'000
Issued and fully paid:				
At 1 January	**387,060**	385,269	**38,706**	38,527
Shares issued under the Scheme	**1,779**	1,791	**178**	179
At 31 December	**388,839**	387,060	**38,884**	38,706

The authorised share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each.

During the year, 1,779,500 shares were issued at par to eligible employees and members of management under the Scheme.

On 8 March 2007, the Group resolved to contribute HK$179,750 to the Scheme enabling the trustees of the Scheme to subscribe for a total of 1,797,500 shares at par in the Company upon the expiry of a defined qualification period.

24. Employee Share Incentive Scheme

The Employee Share Incentive Scheme (the "Scheme") is for the benefit of the Group's employees and members of management and has a life of 10 years starting from December 1989. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

On 21 February 2006, the directors resolved to contribute HK$180,000 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,800,000 shares in the Company for the benefit of employees and members of the management of the Group upon expiration of the defined qualification period as determined by the Board of Directors. The vesting period for the year is from 21 February 2006 to 15 December 2006. 1,779,500 of these shares entitlements were issued on 15 December 2006 and the estimated fair value of these shares at the date of grant amounted to approximately HK$71,091,000. 20,500 shares were unallotted by the Company on the same date. The fair value was determined with reference to market value of shares at the date of grant, and adjusted for the terms and conditions upon which the shares are granted.

On 8 March 2007, the Directors resolved to contribute HK$179,750 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,797,500 shares in the Company for the benefit of employees and members of the management of the Group upon the expiry of a defined qualification period.

25. Deferred taxation

A summary of the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods is as follows:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005	2,963	—	(2,577)	386
Charge (credit) to income for the year	9,888	(6,695)	(724)	2,469
Exchange differences	(5)	3	(14)	(16)
At 31 December 2005 and 1 January 2006	12,846	(6,692)	(3,315)	2,839
Charge (credit) to income for the year	(5,929)	6,350	(2,034)	(1,613)
Exchange differences	2	(39)	—	(37)
At 31 December 2006	6,919	(381)	(5,349)	1,189

The following is the analysis of the deferred tax balances for balance sheet presentation purposes:

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	**2,067**	2,957
Deferred tax assets	**(878)**	(118)
	1,189	2,839

At 31 December 2006, the Group has unused tax losses of HK$171,271,000 (2005: HK$179,317,000) available to offset future taxable profits. At 31 December 2006, a deferred tax asset amounting to HK$381,000 (2005: HK$6,692,000) was recognised for such losses and no deferred tax asset was recognised in respect of the remaining tax losses of HK$170,182,000 (2005: HK$141,077,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$45,942,000 that will expire during the year 2009 to 2012 (2005: HK$41,444,000 that will expire during the year 2007 to 2012). Other losses may be carried forward indefinitely.

26. Contingent liabilities

	2006	2005
	HK$'000	HK$'000
Guarantees given to the Singapore government for work permits of foreign workers in Singapore	**381**	581

27. Capital commitments

	2006	2005
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**79,901**	17,279
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**145,796**	180,895
	225,697	198,174

28. Operating lease commitments

At 31 December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of property interests in land and buildings which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**34,158**	28,700
In the second to fifth years inclusive	**57,917**	54,499
Over five years	**18,791**	25,824
	110,866	109,023

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon expiry for a further term of 30 years), other leases are negotiated for an average term of two to five years.

29. Share option schemes

ASM International has adopted various share option schemes for the primary purpose of providing incentives to the Directors and eligible employees of ASM International and its subsidiaries. Under these schemes, key employees of ASM International and its subsidiaries may purchase a specific number of shares of ASM International. Options are priced at market value in Euros or US dollars on the date of grant, are generally vesting in equal parts over a period of five years and generally will expire after five or ten years from the date of grant.

A summary of the movements of share options of ASM International granted to the Directors of the Company and eligible employees of the Company and its subsidiaries in respect of services provided to ASM International is as follows:

	Held by directors	Held by eligible employees
At 1 January 2005	357,000	291,800
Forfeited during the year	—	(2,000)
Exercised during the year	—	(3,200)
At 31 December 2005	357,000	286,600
Upon appointment of a director	30,000	—
Granted during the year	136,536	—
Exercised during the year	(357,000)	(286,600)
At 31 December 2006	166,536	—

The exercise prices of the above outstanding options are ranged from EURO11.18 to EURO14.13 (2005: Ranged from US$15.44 to US$19.32).

30. Connected and related party transactions

(a) During the year, the Group paid a management fee of HK$750,000 (2005: HK$1,500,000) to ASM International under a consultancy agreement between ASM International and the Company. Pursuant to the original consultancy agreement, an annual management fee of HK$1.5 million is payable to ASM International which acts as a consultant, introduces new business and provides assistance in business development, general management support and services, international expertise and market information to the Group. The annual management fee was revised to HK$750,000 effective from 1 January 2006. The consultancy agreement, which commenced on 5 December 1988, was for an initial period of three years and is terminable thereafter by six months' notice in writing by either party.

30. Connected and related party transactions continued

(b) On 10 August 2005, the Company entered into a service agreement (the "Service Agreement") with ASM Front-End Manufacturing Singapore Pte. Ltd. ("FEMS"), a wholly owned subsidiary of ASM International. Pursuant to the Service Agreement, the Group provides computer software installation consultancy services to FEMS in its implementation of a particular enterprise resources planning software in its production facility in Singapore, at a quarterly fee of US$90,000. The Service Agreement was for a term of one year from 16 August 2005 to 15 August 2006. Details of the Service Agreement are set out in the announcement dated 15 August 2005 made by the Company. Management service fees received during the year amounted to approximately HK$1,746,000 (2005: HK$1,047,000).

(c) On 16 March 2004, the Company entered into a management and production agreement (the "M & P Agreement") with ASM International. The M & P Agreement commenced from 16 March 2004 for a term of one year and is terminable by three months' notice in writing by either party. Details of the M & P Agreement are set out in the announcement dated 18 March 2004 made by the Company. The M & P Agreement was terminated effective from 1 January 2006 while the production orders confirmed before 1 January 2006 were remained enforceable.

Pursuant to the M & P Agreement, the Group provided management services (including services for administration and financial matters and provision of supporting personnel) to ASM International group companies in respect of the production facility of ASM International established in the Republic of Singapore, at a quarterly fee of HK$375,000. Management service fees received during the year ended 31 December 2005 amounted to HK$1,500,000.

In addition, the Group has also agreed to manufacture metal parts for ASM International at a cost-plus basis. The income from the manufacture of metal parts for ASM International during the period amounted to HK$1,378,000 (2005: HK$8,279,000). The income received during the year was being deliveries of orders confirmed before 1 January 2006.

(d) Compensation of key management personnel

The emoluments of directors and other members of key management during the year was as follows:

	2006	2005
	HK$'000	HK$'000
Short-term benefits	**31,543**	23,731
Share-based payments	**17,578**	13,992
	49,121	37,723

Certain shares of the Company were issued to the key management under the Scheme. The estimated fair value of such shares were included in share-based payments for both years.

The emoluments of directors and key executives are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

31. Particulars of principal subsidiaries of the Company

Details of the principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital		Proportion of nominal value of issued ordinary share/registered capital held by the Company		Principal activities
		Fixed-rate participating shares	Ordinary shares/ registered capital	Directly	Indirectly	
ASM Asia Limited	Hong Kong	HK$27,000	HK$1,000	100%	—	Providing purchasing services to group companies
ASM Assembly Automation Limited	Hong Kong	HK$100,000	HK$1,000	100%	—	Manufacture and sale of semiconductor equipment
ASM Assembly Equipment Bangkok Limited	Thailand	—	Baht7,000,000	—	100%	Agency and marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	—	MYR10,000	—	100%	Agency and marketing service
ASM Semi-conductor Materials (Shenzhen) Co., Ltd.*	PRC	—	US$12,839,912	—	100%	Manufacture of semiconductor materials
ASM Assembly Equipment Trading (Shanghai) Co., Limited*	PRC	—	US$200,000	—	100%	Trading in semiconductor equipment
ASM Assembly Materials Limited	Hong Kong	HK$2,000,000	HK$10,000	100%	—	Trading of semiconductor materials
ASM Assembly Products B.V.	Netherlands	—	EUR18,151	100%	—	Trading in semiconductor equipment
ASM Assembly Technology Co., Limited	Japan	—	JPY10,000,000	100%	—	Trading in semiconductor equipment
ASM Pacific (Bermuda) Limited	Bermuda	—	US$120,000	—	100%	Insurance services to group companies
ASM Pacific Investments Limited	Hong Kong	—	HK$2	100%	—	Investment holding and agency services
ASM Pacific KOR Limited	Hong Kong	—	HK$500,000	100%	—	Marketing services in Korea
ASM Technology Singapore Pte Limited	Singapore	—	S$53,000,000	100%	—	Manufacture and sale of semiconductor equipment and materials
ASM Pacific Assembly Products, Inc.	United States of America	—	US$60,000	—	100%	Trading in semiconductor equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	—	MYR74,000,000	100%	—	Manufacture of semiconductor equipment and materials
Edgeward Development Limited	Guernsey, Channel Islands	—	US$10,000	—	100%	Investment holding and provision of manufacturing and marketing infrastructure in Mainland China and Asia
Shenzhen ASM Micro Electronic Technology Co., Limited	PRC	—	(Note)	—	(Note)	Manufacture of semiconductor equipment

31. Particulars of principal subsidiaries of the Company continued

Note:

Under a joint venture agreement, the Group has committed to contribute 100% of the registered capital of HK$497,300,000 in Shenzhen ASM Micro Electronic Technology Co., Limited ("MET"), a co-operative joint venture company established in the PRC with a term of 10 years commencing October 1994. On 23 February 2004, the term was approved to be extended for a further period of five years to October 2009. At 31 December 2006, the Group has paid up approximately HK$455,666,000 as registered capital of MET. The Group has to bear the entire risk and liabilities of MET and, other than a fixed annual amount attributable to assets contributed by the PRC joint venture partner, is entitled to the entire profit or loss of MET. On cessation of the joint venture company, the Group will be entitled to all assets other than those contributed by the PRC joint venture partner and those irremovable building improvements. On 1 April 2004, the Group applied for the de-registration of Shenzhen ASM Precision Machinery Manufactory Limited ("PMM") and approval to merge the operations of PMM with MET. PMM was a subsidiary of the Company as at 31 December 2004. On 27 July 2005, the de-registration of PMM was approved and the operations of PMM were merged with MET from that date.

*Established as a wholly foreign owned enterprise in the PRC.

All the principal subsidiaries operate predominantly in their respective place of incorporation/establishment unless specified otherwise under the heading "principal activities".

The fixed-rate participating shares of the subsidiaries are held by ASM International. These shares carry no voting rights, no rights to participate in a distribution of profits, and very limited rights on a return of capital.

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.