ASM Pacific Technology Limited

(STOCK CODE 股份代號:0522)

Annual Report
2011 年報

Surging Ahead
全速奮進

ASM's Performance in Year 2011

- Record Group turnover of US$1.66 billion, an increase of 35.7% over 2010
- Record net profit of HK$2.93 billion and earnings per share of HK$7.40, an increase of 3.2% over 2010
- Excluding the one-time gain realized from the purchase of the SMT Equipment business, recurring Group net profit of HK$1.85 billion and earnings per share of HK$4.66
- Assembly equipment turnover of US$838.6 million, representing a 17.5% decline against the previous year
- Lead frame turnover of US$194.5 million, representing a 5.6% decline against the previous year
- SMT equipment revenue of US$626.3 million
- Group new orders booking of US$1.38 billion, a decline of 5.8% from 2010
- Retained the world's No. 1 position in the assembly and packaging equipment industry consecutively for the past 10 years
- Cash on hand of HK$1,627.7 million at the end of 2011

ASM於二零一一年之業績表現

- 集團營業額創新高達16.6億美元，較二零一零年增長35.7%
- 盈利創新高達港幣29.3億元，每股盈利為港幣7.40元，較二零一零年增長3.2%
- 撇除因收購SMT設備業務所實現的一次性收益，集團的經常性業務盈利為港幣18.5億元，每股盈利為港幣4.66元
- 裝嵌設備業務營業額為8.386億美元，較去年減少17.5%
- 引線框架業務營業額為1.945億美元，較去年減少5.6%
- SMT設備業務營業額達6.263億美元
- 集團新增訂單總額達13.8億美元，較二零一零年減少5.8%
- 連續過去十年穩佔全球裝嵌及包裝設備行業第一位
- 於二零一一年年底的現金結存為港幣16.277億元

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Arthur H. del Prado, Chairman
Lo Tsan Yin, Peter, Vice Chairman
Lee Wai Kwong
Chow Chuen, James
Robin Gerard Ng Cher Tat

Non-executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Independent Non-executive Directors:

Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd

AUDITOR

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

SECRETARY

So Sau Ming

REGISTERED OFFICE

Caledonian House
George Town
Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

12/F Watson Centre
16-22 Kung Yip Street
Kwai Chung, New Territories
Hong Kong

SHARE REGISTRARS AND BRANCH REGISTER OFFICE

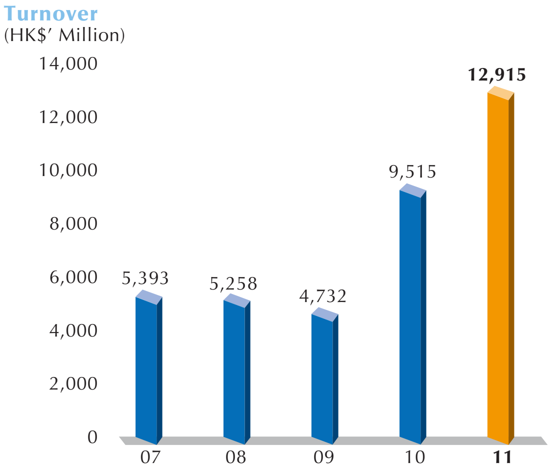
Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

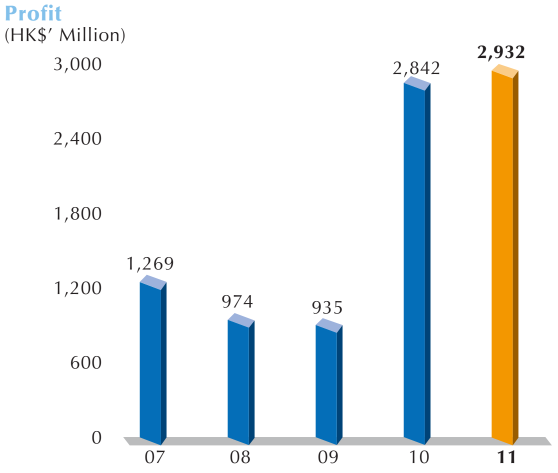
COMPANY WEBSITE AND CONTACT

Website	:	http://www.asmpacific.com
Telephone	:	(852) 2424 2021
Fax	:	(852) 2481 3367

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2011 HK$'000	2010 HK$'000
Turnover	**12,915,194**	9,515,089
Cost of sales	**(8,488,717)**	(5,006,965)
Gross profit	**4,426,477**	4,508,124
Other income	**33,140**	22,769
Selling and distribution expenses	**(867,422)**	(603,095)
General and administrative expenses	**(412,596)**	(275,559)
Research and development expenses	**(885,370)**	(433,987)
Other gains and losses	**(85,328)**	1,398
Gain from a bargain purchase	**1,084,427**	–
Finance costs	**(3,884)**	(3)
Profit before taxation	**3,289,444**	3,219,647
Income tax expense	**(357,464)**	(377,613)
Profit for the year, attributable to owners of the Company	**2,931,980**	2,842,034
Other comprehensive (expense) income		
– exchange differences on translation of foreign operations	**(43,760)**	34,305
– actuarial gains on retirement benefit plans, net of tax	**9,302**	–
Other comprehensive (expense) income for the year	**(34,458)**	34,305
Total comprehensive income for the year, attributable to owners of the Company	**2,897,522**	2,876,339
Earnings per share		
– Basic	**HK$7.40**	HK$7.20
– Diluted	**HK$7.37**	HK$7.18





CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASM") reported a turnover of **HK$12,915 million** in the fiscal year ended 31 December 2011, representing an improvement of 35.7% as compared with HK$9,515 million for the previous year. The Group's consolidated profit after taxation for the year is **HK$2,932 million** which is 3.2% higher than the previous year's net profit of HK$2,842 million. Basic earnings per share (EPS) for the year amounted to **HK$7.40** (2010: HK$7.20). The Group's consolidated profit after taxation for the year includes the one-time gain of HK$1,084 million realized from the purchase of the SMT Equipment business.

DIVIDEND

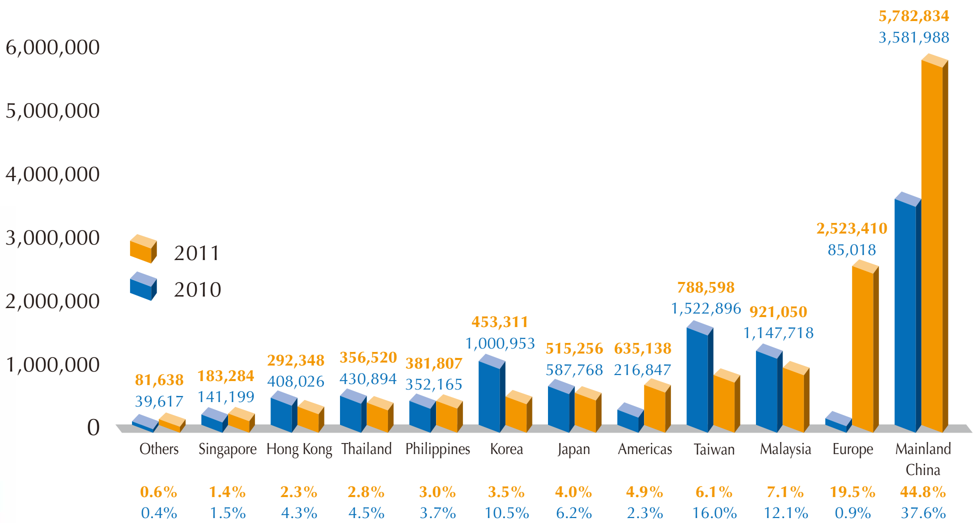
In view of the Company's continuing strong liquidity and equity base, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$0.80** (2010: final dividend of HK$2.10 and special dividend of HK$1.10) per share. Together with the interim dividend of HK$1.60 (2010: HK$1.60) per share paid in August 2011, the total dividend payment for year 2011 will be **HK$2.40** (2010: HK$4.80) per share.

We continue to believe in returning excessive cash to our shareholders as dividends. After considering our short-term needs and on-going positive cash flow from our operations, our cash on hand permits ASM management to recommend a sustained high level of dividend to return excessive cash holdings to shareholders.

REVIEW

The world economy encountered many challenges in 2011. For instance, the earthquake and tsunami in Japan, the sovereign debt crises faced by the United States and Europe, and the tightening of credit by China to tame inflation created very difficult business conditions. Despite these challenges, we are pleased with the progress that we made in 2011.

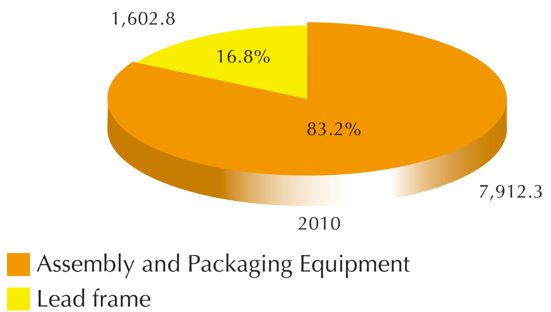
Turnover by Geographical Location (HK$'000)



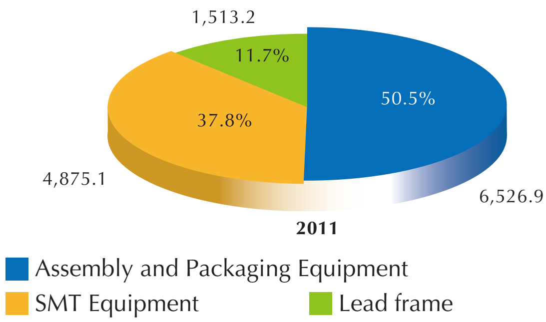
GoCu Wirebonder

Acquisition of the SMT equipment business lifted Group revenue to a new record of US$1.66 billion in 2011.

Turnover by Products
HK$' Million



Turnover by Products
HK$' Million



CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

Last year, we successfully integrated our newly-acquired Surface Mount Technology ("SMT") equipment business, which is complementary to our assembly and packaging equipment business. The acquired business lifted the Group's revenue by 60.6% and contributed positively to the Group's net profit from the outset. With the contribution from the SMT equipment business, Group revenue achieved another new record of US$1.66 billion, which is 35.7% above the Group revenue in 2010. Net profit was HK$2.93 billion, inclusive of a one-time gain realized from the purchase of the SMT equipment business. Return on capital employed and on sales were 52.6% and 25.3% respectively.

Even without the SMT equipment business, comparable revenue in 2011 from our pre-existing businesses stayed above the US$1 billion level, which was attained for the first time in 2010. This was despite the deteriorating market conditions experienced particularly from the second half of last year. We believe that we have laid a solid foundation that will enable ASM to continue to ascend to greater heights.

Last year, our assembly and packaging equipment revenue was US$838.6 million, representing 50.5% of the Group's turnover. It has well surpassed the historical peak achieved before the global financial crisis in 2008, although it declined by 17.5% from the previous year. ASM was again the top supplier in its industry, which is a position we have maintained since 2002. Revenue for our lead frame business in 2011 was US$194.5 million, a contraction of 5.6% compared to 2010. It contributed to 11.7% of the Group revenue. Once again, revenue for our lead frame business last year was well above the pre-crisis level.

Our SMT equipment business made very good progress in 2011. It achieved revenue of US$626.3 million, representing a growth of 18.2% over 2010, before its acquisition by the Group. We believe that we have made solid market share gains last year. The SMT equipment business contributed to 37.8% of the Group revenue.

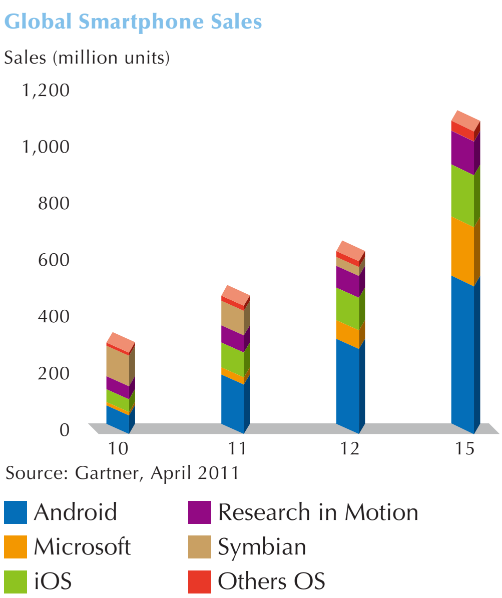
Indeed, the first half of 2011 was a great six-month period for ASM. Group revenue for the first six months exceeded US$900 million. In fact, we achieved record revenue of more than US$500 million during the second quarter of 2011, with many products achieving historical-high revenues.

Nevertheless, due to significantly worsening market conditions, we experienced a sharp contraction in revenue during the second half of last year.

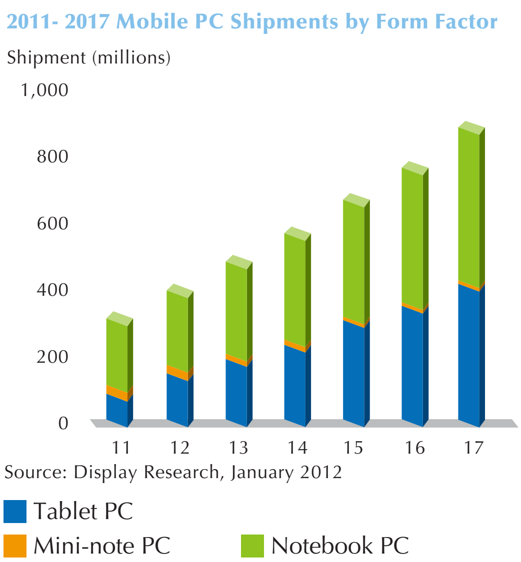
In the second half of 2011, billings for the Group amounted to US$715.0 million, a decrease of 24.3% from the first half of the year and a growth of 4.1% over same period a year ago.

Gemini Automatic Panel Bonding System for touch panel, naked eye 3D display and other new LCD package lamination processes

Demand for smart phones and tablet computers will continue to drive the semiconductor market.



Source: Gartner, April 2011



Source: Display Research, January 2012

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

During the second half of last year, our assembly and packaging equipment revenue was US$307.1 million, representing contraction of 42.2% against the first half of 2011. Assembly and packaging equipment revenue contributed to 43.0% of the Group's turnover. Revenue for our lead frame business was US$91.1 million, a contraction of 11.7% as compared to the preceding six months. It contributed to 12.7% of the Group revenue. Our SMT equipment revenue managed to achieve a small growth of 2.4% over the first half of 2011 with revenue at US$316.7 million, representing a contribution of 44.3% to the Group's turnover.

New order bookings for the six-month period were US$565.9 million, a contraction of 30.4% over the preceding six months. Excluding our SMT equipment business, comparable bookings from our pre-existing businesses during the period contracted more due to the adverse market conditions in the second half of last year.

Our billings in the fourth quarter of 2011 were US$323.6 million. It represented decreases of 17.4% from the preceding quarter and 4.7% against the same period last year.

We noticed that the market for assembly equipment and lead frames started stabilizing in the fourth quarter of 2011. The quarter-on-quarter decline of new order bookings for these products narrowed substantially and was relatively small. However, the market softening had by then spilled over to the SMT equipment market, particularly in China. Comparatively, the SMT equipment market dropped much less in Europe and the Americas where ASM enjoys a stronger market position over its competitors.

During the fourth quarter, assembly and packaging equipment revenue fell by 51.0% from the same period a year ago to US$141.2 million and decreased by 15.0% from the preceding quarter. Lead frame revenue showed a decline of 21.2% as compared to the third quarter to US$40.2 million and decreased by 21.8% against the same period last year. Lead frame revenue represented 12.4% of the Group's revenue in the fourth quarter. After its strong growth momentum during the past few quarters, SMT equipment revenue receded by 18.7% from the third quarter. SMT equipment revenue represented 43.9% of the Group's revenue in the fourth quarter. New order bookings during the last quarter of 2011 amounted to US$240.5 million, representing a sequential decline of 26.1% against the preceding quarter.

New order bookings for 2011 amounted to US$1.38 billion. Due to the lower order intake, our backlog as of 31 December 2011 declined significantly to US$291.8 million.

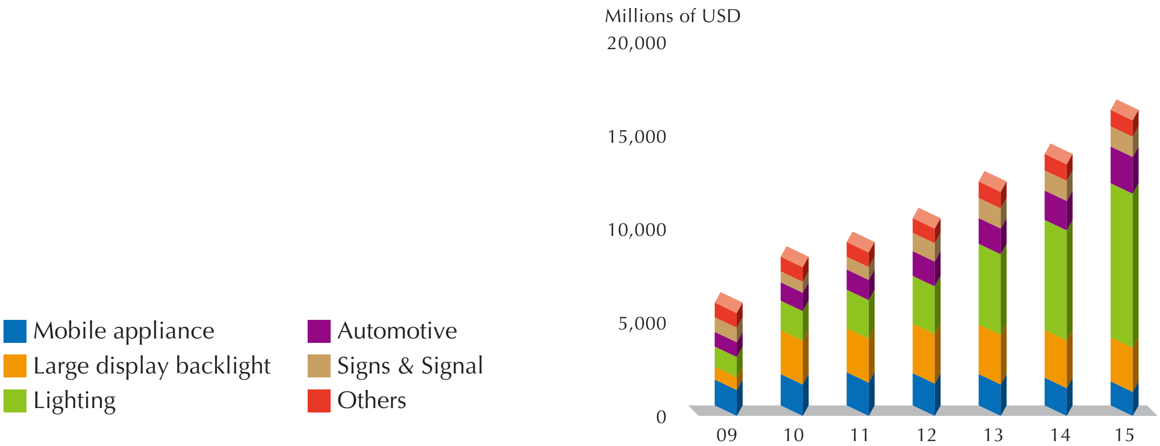
Our customer base continues to be well diversified. By geographical distribution, China (44.8%), Europe (19.5%), Malaysia (7.1%), Taiwan (6.1%) and the Americas (4.9%) are the top five markets for ASM in 2011. In particular, the addition of the SMT equipment business has significantly enhanced ASM's market presence in Europe and the Americas. Moreover, the contribution from the China market has further increased.

The addition of the SMT equipment business has further contributed to ASMPT's strength in building its business on a diversified customer base. In 2011, our top 5 customers contributed to 12.4% of ASM's total revenue. 80% of the Group revenue in 2011 came from our top 332 customers. Out of our top 20 customers, 6 were from the SMT equipment business.

FT2018 Test Handler for IC and discrete packages

LED market continues to offer excellent long term growth potential, especially LED lighting, which will be an important growth driver.

LED Market Revenue in 2011-2015



Source: LEDinside, August 2011

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

After aggressive capacity expansion in 2009 and 2010, and amid the current gloomy market conditions, subcontractor customers appear to have cut back on their capital expenditure ("capex") spending last year.

The contraction of assembly and packaging equipment revenue as compared to 2010 was mainly due to lower demand for capacity-related equipment such as die bonders and wire bonders. Our Back-End Products ("BEP") business (which is more package-related) and CMOS Image Sensor ("CIS") business (which is closely linked to demand for smart phones and tablet computers) continued to achieve moderate growth last year.

The slowdown of the LED market, mainly caused by lackluster demand for LED back-lit televisions, lasted longer than expected. On the other hand, the integrated circuits and discrete market actually showed moderate growth in the first half of last year.

Our lead frame business contracted moderately by 5.6% as compared to 2010. It is still 38.5% above the revenue level experienced in 2009, reflecting that the fundamental demand for electronic products is still solid.

High metal prices had led to a loss for our lead frame business. We have taken necessary action to tackle the problem structurally by proposing to our customers to adopt a floating price formula which links the lead frame selling price to the prices of copper and other precious metals such as gold, silver and palladium on the London Metal Exchange. At the same time, we continue to drive internal cost reduction and productivity improvement.

The market slowdown produced an overall negative impact on our gross margin. Gross margins for assembly and packaging equipment were negatively affected by both product mix and lower volume. Although contributing positively to our net profit, profitability of our SMT equipment business has still yet to match the profitability of our assembly and packaging equipment business.

ASM has the largest product portfolio to address the various markets that the Group operates in. Last year, with the easing of capacity constraints which were experienced in the preceding year, we have launched many new products to the market.

Our copper wire bonding solution, the GoCu™ wire bonder, is well accepted by customers. It has aroused the interest of many customers, including potential new customers for ASM. Our heavy aluminum wire bonder for power electronic packages is making solid in-roads to the market.

Our 12-inch die bonder, the LINDA™, is recognized by our customers as the most accurate die bonder for stack die applications. This is an essential packaging solution for producing flash memory storage devices.

Our encapsulation solutions group has been able to clinch more orders to develop new advanced packaging solutions for our customers. It is now the preferred encapsulation solution choice for many customers for their new package developments, especially for very high density packages.

Further, our lead frame business is leading the market in very high density lead frames. Leveraging on the expertise of both assembly and packaging equipment and lead frames, ASM is offering to its customers total solutions for their very high density packaging needs. Additionally, we have started shipping LED lead frames to our customers.

Solar Wafer Inspection System

ASM entered the Solar energy market with the Solar Wafer Inspection System in 2011; the Solar energy market has superb potential.

Solar WIS – resistivity and P/N type measurement

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

Our DX series SMT placement machine, which is based on our very successful SX series placement machines, was also launched. While the SX series is an ideal solution for most customers in Europe, America and some sophisticated customers in Asia, the DX series is designed primarily for the mainstream Asian market.

Our FT2018 test handler is gaining good market acceptance. We have also shipped our first equipment for the solar market.

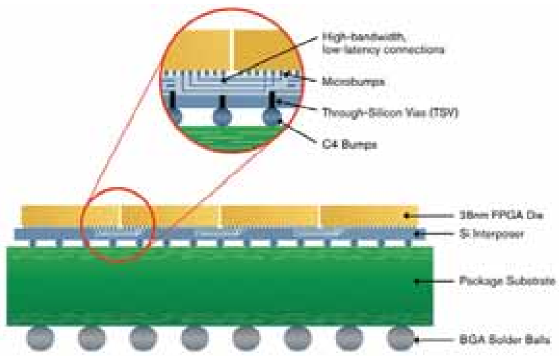
The Sale and Purchase Agreement for acquiring the SMT equipment business was formally executed on 7 January 2011.

Despite cultural differences arising from the European and Asian origins of the respective businesses, integration has been progressing well. We are very glad that employees from both Europe and Asia have been able to work well and successfully together. Synergies which were identified by us before have been confirmed, and we are well on course to accomplish our target of achieving the planned synergies.

We have started to see cross-utilization of technologies between our assembly and packaging equipment and SMT equipment groups. In fact, a new generation bonder which will be sent to our customer in early 2012 is inspired by technologies and solutions adopted by the SMT equipment business.

In the other direction, more and more components and modules in our SMT equipment are being designed and manufactured by the ASM team in Asia. This helps both to bring down the cost of our SMT equipment and also to further enhance the performance capabilities of our SMT equipment.

More joint development projects are on the way. Our respective teams of engineers have been working on the design of a new-generation SMT placement machine that is dedicated for the low-volume and high-mix market. Work on the development of adjacent products for the SMT equipment market is also in progress.



Source: Xilinx

The Thermal Compression Bonder (TCB) will enable customers to achieve very fine pitch flip chip bonding as well as chip to substrate, chip to chip and chip to wafer bonding for 3D Through Silicon Via ("TSV") packages.

LIQUIDITY AND FINANCIAL RESOURCES

We ended the last fiscal year in a healthy financial position, despite funding the acquisition and integration of the SMT equipment business, as well as the capex spending to expand our production and research and development capacity.

Cash on hand as of 31 December 2011 was HK$1,628 million (2010: HK$2,055 million). During the twelve-month period, HK$1,901.4 million was paid as dividends and €35.9 million was paid to Siemens AG as purchase consideration for the acquisition of the SMT equipment business. Furthermore, €20 million was injected into the SMT equipment business as share capital to support the business, as was previously committed in the Sale and Purchase Agreement. Capital addition during the period amounted to HK$807.7 million, which was partially funded by the year's depreciation of HK$340.3 million. Accounts receivable have been tightly monitored during the year. With our aggressive collection efforts and the general reduction in sales activities in the last quarter, accounts receivable have come down to 59.3 days sales outstanding (2010: 72.7 days).

Current ratio was 2.3, with a debt-equity ratio of 53.4%. As there were no long term borrowings, gearing of the Group was zero, which has been the case for more than ten years. The Group's shareholders' funds increased to HK$6,266 million as at 31 December 2011 (2010: HK$5,140 million).

The Group has moderate currency exposure as the majority of all sales were denominated in U.S. dollars. On the other hand, the disbursements were mainly in U.S. dollars, Hong Kong dollars, Singapore dollars, Malaysian Ringgit and China Renminbi. Our limited yen-based receivables were offset by some accounts payable in yen to Japanese vendors. With the addition of the SMT equipment business, the Group's exposure to the Euro has increased starting from 2011.

We continue to believe in returning excessive cash to our shareholders as dividends. Under the Sale and Purchase Agreement for the acquisition of the SMT Equipment business from Siemens AG, ASM had committed that it will not transfer assets, which include but are not limited to cash, from the German operations of the SMT Equipment business for a period of 3 years from the acquisition. After considering our short-term needs, on-going positive cash flow from our operations and the above commitment, our cash on hand permits ASM management to recommend a sustained high level of dividend, although the payout ratio is lower than in recent years. Excluding the earnings from the SMT equipment business and the one-time gain realized from the purchase of the SMT equipment business, the dividend payout ratio for 2011 is 62.9%. With its promising growth potential in both revenue and earnings we believe our investment in the SMT equipment business will be able to deliver high returns in the future.

HUMAN RESOURCES

ASM recognizes human resources as one of the Company's most important assets. Recruiting and retaining high-calibre employees is always of high priority in ASM. Besides offering competitive remuneration packages, ASM also commits to specialized yet demanding staff development and training programs. In general, salary review is conducted annually. In addition to salary payments, other benefits include contributions to provident fund schemes, medical and training subsidies. Discretionary bonus and incentive shares may be granted to eligible staff based on the Group's financial results and individual performance.

As of 31 December 2011, the total headcount of the Group worldwide was approximately 14,600 people. This figure includes the contribution from the acquisition of the SMT equipment business to the total headcount of the Group.

CHAIRMAN'S STATEMENT *(CONTINUED)*

PROSPECTS

It is generally expected that demand for consumer electronics products, in particular the demand for smart phones, tablet computers and automotive electronics, will continue to drive the semiconductor market in the near future. Healthy demand for consumer electronics products will thus help to fuel the market. The semiconductor equipment market is now highly cyclical. The industry has experienced high growth rates in capital equipment spending in 2010, which started to moderate significantly in 2011. From the high base, some analysts have forecasted that semiconductor equipment spending will decline somewhat in 2012 before resuming its growth in 2013.

Although the market may encounter turbulence in the coming months arising from potentially volatile global economic conditions, we do not expect the market for assembly and packaging equipment and lead frames to deteriorate further. In general, customers are expecting the market situation to improve although there is still uncertainty due to the possibility of impending macroeconomic problems. In fact, after the recent Chinese New Year, we have observed some pick-up in the market.

In the LED sector, the LED market has already been relatively slow for six consecutive quarters due to a prolonged oversupply of LED products. However, there are encouraging signs indicating that the LED market is now stabilizing. We believe that we are not far from a recovery of the LED market, which will likely continue to grow again especially in the areas of LED general lighting. In fact, we recognize LED lighting to be an important future driver of growth.

The outlook for 2012 has improved with the US economy improving and China relaxing its credit tightening. Of course, the Euro zone sovereign debt crisis continues to be a big variable and is a concern to the world economy at large.

Semiconductor packaging is becoming more sophisticated and demanding. Although wire bonding will continue to be the mainstream interconnection solution, there is need for new technologies for more advanced wafer technologies and 3D packaging. We have been working on the development of Thermal Compression Bonding ("TCB"). The first TCB bonder is expected to be delivered to one of our customers early this year. The TCB bonder will enable customers to achieve very fine pitch flip chip bonding as well as chip to substrate, chip to chip and chip to wafer bonding for 3D Through Silicon Via ("TSV") packages.

Substantial efforts are being expended to improve the profitability of the SMT equipment business to seek to bring the profitability of the SMT equipment business to a comparable level to ASM's norms. We are confident that it will become an additional growth engine for ASM, and that it will increasingly contribute to ASM's profitability in the future. We are confident that the SMT equipment business will enable the Group to continue to deliver growth and returns to its shareholders that are in line with ASM's historical performance.

Our new R&D centre in Chengdu, China was completed in the fourth quarter of 2011. Our SMT equipment business has already started to make use of the new resources in Chengdu. The additional R&D centre allows ASM to significantly expand its R&D resources. Together with our fourth R&D center in Munich, Germany we now employ more than a thousand high quality R&D engineers. ASM's long term strategic position as the leader of the assembly and packaging equipment business, as well as the SMT equipment market, is now significantly strengthened.

Our new manufacturing plant in Huizhou, China has been successfully in operation for more than a year. The second phase of expansion is in progress and is expected to be completed by the first half of 2012. It will allow ASM to further expand its production capacity to cater for the growth of both assembly and packaging equipment and SMT equipment, and to allow us to make new investments in casting technologies.

PROSPECTS (Continued)

Further, we are in the process of setting up etched lead frame facilities in our manufacturing plant in Fuyong, China to capture the growing China market for lead frames. It is expected to be operational by the second quarter this year.

ASM's management team has always sought to adopt long-term business strategies. Our long-term business strategies include offering multiple products serving diversified application markets, a customer-centric approach focusing on customer value creation, a vertical integration strategy and strategic choice of low-cost manufacturing locations, and providing customers with innovative, total packaging solutions based on ASM's equipment and lead frames to meet their ever-expanding new product requirements. Leveraging on our in-house enabling technologies, we are focused on injecting higher performance and lower cost of manufacturing into our products, and to expand the scope of our total solutions to customers in all the various business segments that we operate in. With the addition of the SMT equipment business, ASM is now in a premier position to serve the entire food chain of the manufacturing of electronic products. While the path ahead could be bumpy due to unpredictable macro-economic conditions, we are confident that ASM is poised to continue its journey to forge a new era of growth.

APPRECIATION

The Group is operating in a very competitive business environment and the semiconductor industry is facing many challenges. The management recognizes and is grateful for the efforts of all our staff, including colleagues from the SMT business unit who have recently joined the ASM family, which helped us to achieve such laudable results last year. We wish to take this opportunity to place on record our appreciation to our employees, customers, suppliers and stakeholders for their continued support and contributions to the success of the company.

Arthur H. del Prado
Chairman
6 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

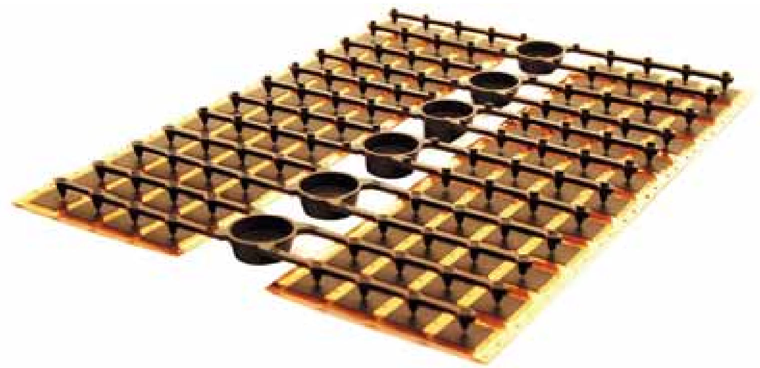
OVERVIEW

The Group has made great strides over the years. We have progressed from being a company that has been successfully pursuing organic growth to achieve further success by acquiring and entering the Surface Mount Technology ("SMT") equipment business. The new business is in a technological field that not only has massive potential but is also complementary to our existing businesses. We had in 2010 achieved our previous target of achieving total annual revenues exceeding US$1 billion. As a result of our successful expansion, our revenue reached US$1.66 billion in 2011, which was an increase of about 35.7% over our previous record-high of US$1.22 billion set in the preceding year. The record was arrived at despite a slowdown which caused the semiconductor industry to be in the doldrums for the second half of 2011. Net profit was also at a new record of HK$2.93 billion.

We are pleased that our integration of the SMT equipment business has been successful and that it has been profitable from the very start. ASM's continuing success across the different semiconductor industry cycles is a testimonial to its resilience, seamless execution of its winning strategies and ability to continuously increase its momentum in the marketplace. We are optimistic that the enlarged Group has now become even more resilient to short-term economic fluctuations. With the enlarged Group benefitting from new revenue streams and exciting new market opportunities, the Company is certainly poised for robust future growth!

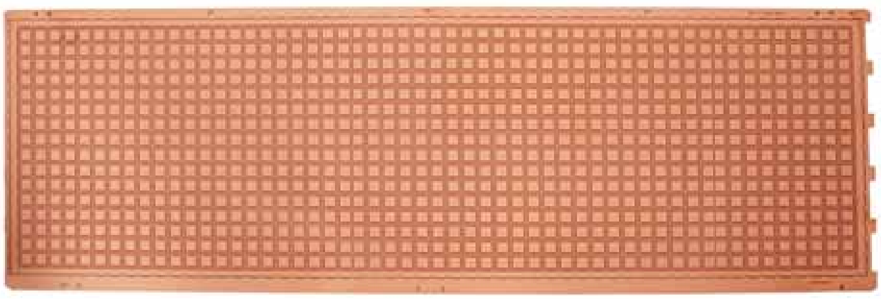
In 2011, semiconductor assembly and packaging equipment revenue was US$838.6 million, representing 50.5% of the Group's turnover. This was a decrease of 17.5% from the previous year's record turnover. Revenue for our lead frame business was US$194.5 million, declining by 5.6% as compared to 2010. New order bookings amounted to US$1.38 billion, a drop of 5.8% as compared to the previous year. Our backlog as of 31 December 2011 was US$291.8 million. Net profits increased by 3.2% over the previous year to HK$2.93 billion.

There was strong demand for our products during the first half of 2011. Group revenue for the first six months alone exceeded US$900 million. Moreover, record revenues of more than US$500 million were achieved during the second quarter of 2011, due to historically-high sales of many of our products. Unfortunately, this strong performance was followed by a pronounced fall in demand during the second half of 2011, brought about by a number of adverse macroeconomic factors and falling consumer confidence. The market appears to be picking up since February this year, but it is difficult to forecast at this time whether its momentum is sustainable.



ASM's Pinnacle Gating System (PGS) Technology is a key enabler for High Density Packages

ASM is a unique total solutions provider in the market; its ultra high density packages will be the key driver for cost reduction.



100 mm x 300 mm Lead frame for ultra high density packages

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

OVERVIEW (Continued)

Despite short-term economic fluctuations amid global uncertainties, we remain confident in the long-term demand for consumer electronic products and in the excellent growth potential of the LED market. Therefore, setting up our third manufacturing plant in Huizhou, China, was a key foundation to the company's long-term plans to pursue our growth strategy. In particular, the increased capacity serves to support the production needs of the SMT equipment business, as well as our other growing businesses. Historically, our vertical integration manufacturing model and our decision not to downsize our operations in the face of the financial crises have enabled ASM to respond swiftly to past market rebounds. Our current installed capacity puts us in a great position to take advantage of new emerging opportunities. In addition, we have turned to subcontractors from as early as the end of the third quarter of 2009. This outsourcing option is now available to help us to supplement our internal production capabilities whenever necessary.

An oversupply of LED products has given rise to weakness in the LED sector for a relatively long time. However, it is likely that the LED market will again continue its growth, especially in the field of LED lighting which we believe presents excellent growth potential and will be an important future driver of growth. It appears that the level of demand in LED market is now relatively stable, and we anticipate that a recovery of the LED market is not far off.

The Group continues to benefit from a diversified customer base. In 2011, our top 5 customers accounted for only 12.4% of our total revenue. The Group's growing pool of customers for a wide variety of products has built a highly stable revenue base on which the Group has powered to ever-greater heights. This is further complemented by our highly-diversified and wide product range, which enables us to offer a broad range of products and packaging solutions for the different groups of customers that we serve. To cope with such diversity, ASM has consistently excelled in delivering a good sales and support network and accompanying infrastructure to provide a high level of service to its customers.

Apart from our diversified customer base and wide product range, our strength also lies in our geographical diversification. China, Europe, Malaysia, Taiwan and the Americas are now the greatest contributors to our revenue. Europe and the Americas are new entrants to this list after the addition of the SMT equipment business into our portfolio. Overall, China remains our largest market, and is still expected to present further growth opportunities.

The opportunity to acquire the SMT equipment business from Siemens AG was timely. We were able to seamlessly integrate the SMT equipment business from the beginning of last year while our core business was still performing very strongly. The SMT industry has proven to be a natural field of expansion for the Group. It is a product segment which allows us to achieve significant synergies since it has similar engineering, technical and production process characteristics as compared to the assembly and packaging equipment industry. Indeed, the SMT equipment business was immediately able to contribute positively both to ASM's top and bottom lines. We are confident that the SMT equipment industry has very solid long-term growth prospects that can be further tapped.

SIPLACE SX-Series is well received by the automotive industry

Automotive electronics is yet another growth driver for the semiconductor market due to the significant increase in the electronics content inside cars.

ASM solutions for the power electronics market - Heavy Aluminium Wire Bonder and eClip

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

OVERVIEW (Continued)

The acquisition of the SMT equipment business from Siemens AG was an attractive entry point into the SMT industry given its leading position, advanced research and development and technological capabilities, experienced management, brand awareness with customers and comprehensive global sales footprint. There are significant synergies from the enlarged Group that can be realized by adopting a variety of measures. For instance, we aim to achieve aggressive reduction of direct materials costs by leveraging on our larger purchasing power, by shifting the supplier base from Europe to Asia and by moving from outsourcing to in-sourcing from our manufacturing plants in China over time. The SMT equipment business may further exploit revenue opportunities in the Asian region by drawing on the Group's deep knowledge and established position in the Asian markets. It can also increase its revenue base by horizontally expanding its product portfolio, and joint product development can be initiated to develop improved products drawing from the strengths of all parties.

The SMT equipment business is expected to become an additional growth engine for ASM for the foreseeable future that will make a material and significant contribution to ASM's profitability. Riding on the strong performance of the SMT equipment business in 2011, we are making progress in increasing the profitability of the SMT business relative to that which has been attained by ASM for its assembly and packaging equipment business. ASM is poised for a new era of growth, and to continue to deliver outstanding growth and returns to its shareholders.

MARKET AND PRODUCT DEVELOPMENT

Assembly and Packaging Equipment Division

Last year, our assembly and packaging equipment revenue was US$838.6 million, representing 50.5% of the Group's turnover. It had decreased by 17.5% as compared to the previous year. ASM again retained the number one position in the assembly and packaging equipment industry, keeping the premier position it has held since 2002.

We achieved quarterly billings of US$141.2 million for our assembly and packaging equipment during the last quarter of 2011, a decrease of 51.0% from a year ago and a decrease of 15.0% as compared to the preceding quarter.

After aggressive capacity expansion in 2009 and 2010, many customers, particularly subcontractor customers, appear to have cut back on their capex spending last year amidst the generally bleak market outlook. However, the revenue that we achieved in 2011 for our assembly and package equipment business was still 51.5% higher than the peak revenue achieved in 2007, before the global financial crisis in 2008. Even though the market for assembly and packaging equipment contracted significantly in the second half of 2011, we still achieved revenue amounting to US$307.1 million, which equaled the peak half-yearly revenue achieved in the second half of 2007. This performance leads us to believe that when the market recovers, our assembly and packaging equipment business is likely to bounce back to a level that will be well above the pre-crisis level.

SIPLACE DX-Series

Despite the cultural differences of our European and Asian businesses, integration has been progressing well.

SIPLACE X-feeders impress with three special characteristics: robust, intelligent and easy to replace.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

MARKET AND PRODUCT DEVELOPMENT (Continued)

Assembly and Packaging Equipment Division (Continued)

Due to overcapacity in the LED market, our bookings for LED assembly and packaging equipment continued to be at a relatively low level throughout 2011. However, towards end of the year, we noticed that the market seemed to have stabilized. Capacity utilization of our customers seemed to have improved slightly. We believe that the recovery of the LED market is now probably not far away. Moreover, the overcapacity in the market appears to have led to a price drop for LEDs, which will lead in turn to accelerated adoption of LEDs in nascent applications such as LED general lighting. LED general lighting will likely be the next growth driver for the LED market.

Our equipment portfolio encompasses a wide range of die bonder models to address the diverse needs of our customers in many different applications such as IC, discrete, power and LED. We are recognized for providing solutions for handling different die sizes, and we are also known for the versatility of our die bonders. Our die bonders can be utilized for many different applications and they assist our customers tremendously to enhance their productivity. Our AD838 and AD8312 die bonders, which cater to 8-inch wafers and 12-inch wafers respectively, are market leaders. Together with their predecessor, the very successful and popular AD830 die bonder, they combine our advanced in-house developed linear motor technology and our knowledge and expertise in handling dies of different sizes. Both the AD838 and AD8312 have been very well-received by the market and clearly surpass their competitors in both throughput and cost effectiveness. Additionally, our 12-inch die bonder, the LINDA™, is recognized by our customers as the most accurate die bonder for stack die applications, and is ideal for producing flash memory devices.

ASM continues to be one of the leaders in wire bonding technology. Our gold wire bonder, the Eagle Xtreme™, is capable of cutting-edge 30 micron fine pitch bonding. Our dual head gold wire bonder based on the Eagle Xtreme™ platform is unique and unparalleled in its cost-effectiveness, and is an excellent example of the success of our Blue Ocean Strategy.

Our technologically-advanced copper wire bonder, the GoCu™ wire bonder, was released last year. This new product is meant to cater to customers driven by the need to reduce cost and to enhance electrical performance for dies with very small line widths. The GoCu™ wire bonder serves to close the throughput gap between gold wire bonding and copper wire bonding, while reducing costs for customers. It has been enthusiastically embraced by the market and has aroused the interest of many customers, including potential new customers for ASM.

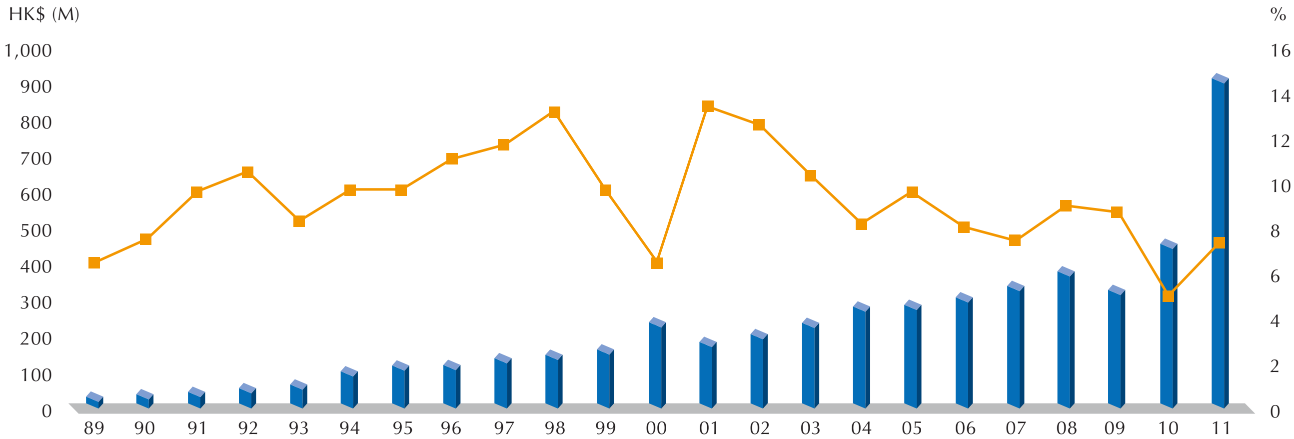
Our heavy aluminum wire bonder for power electronic packages has been making solid in-roads to the market after its launch last year. We expect that there will be a strong demand for such wire bonders in the production of power drivers and power management electronic devices due to the booming demand for electric cars and the drive for "green" products.

We have a wide range of LED products, including LED sorters and test handlers. In order to further tap into this growth market, we have started shipping LED lead frames to our customers. Moreover, we are developing laser saws for LED wafers to be supplied to LED manufacturers.

New R&D Building in Chengdu

ASM has four R&D centres around the world with over 1,000 high quality engineers to propel ASM's future growth.

ASM will continue to invest 10% of equipment sales annually on R&D



MARKET AND PRODUCT DEVELOPMENT (Continued)

Assembly and Packaging Equipment Division (Continued)

Our Encapsulation Solutions Group ("ESG") has continued to make further advancements. ASM is now the choice of many key customers for its superior molding technology, such as Pinnacle Gating System ("PGS") for high density lead frame molding, Package-on-Package ("POP") molding and mold under-fill ("MUF") molding, which are especially suitable for the development of advanced new packages. These advanced capabilities have helped ASM gain entry to a number of new accounts, including the world's top semiconductor assembly and packaging companies. The ESG group has made significant progress in compression molding technology with the IDEALcompress™ which is applicable in areas such as wafer level packages, high brightness LED and other optical devices. Our latest IDEALmold 3G platform combines traditional transfer molding and the state-of-the-art compression molding technology in one system. The ESG group has also delivered solutions for the packaging of high concentration solar cells, a cutting-edge technology in solar cell manufacturing. The strong performance of our ESG group is demonstrated by its growth and gain in market share during the past few years.

The Back End Products (BEP) business unit is an amalgamation of our encapsulation and post-encapsulation equipment operations, such as our encapsulation systems, ball placement, package singulation and test handler equipment groups. Our FT2018 test handler is gaining good market acceptance. Last year, we also introduced to the market a singulation and pick-and-place machine for QFN devices. Despite a general slowdown in the assembly equipment market, our BEP business unit has continued to achieve moderate growth last year, and has shown excellent potential to further contribute to our revenue streams.

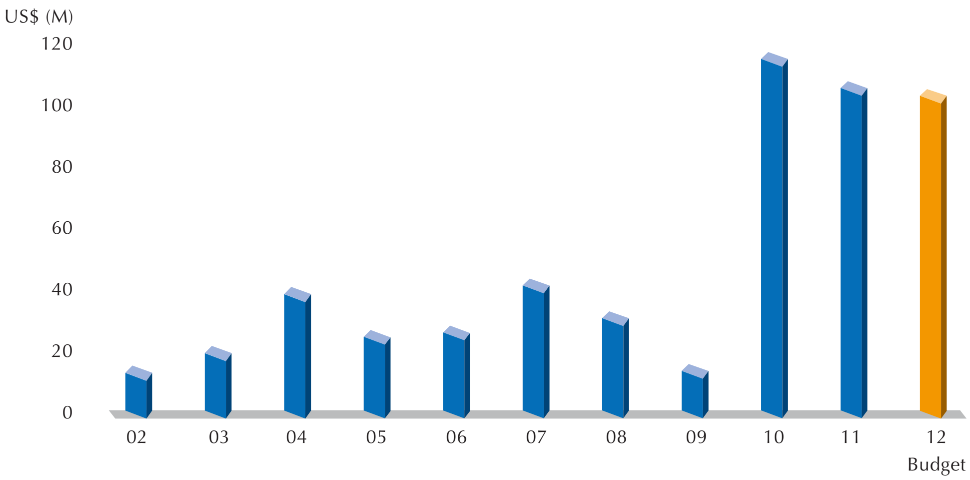
Lead Frame Division

Our revenue for lead frames in 2011 experienced a fall of 5.6% as compared to the preceding year to US$194.5 million. Nevertheless, in order to satisfy customer demand which remains strong, we continue to expand our lead frame production capacity. We have increased our factory floor space in Fuyong, China, and the increased factory floor space was shared between the stamped lead frame operations and our BEP operations. Additional stamping machines and plating lines were installed. We are also in the course of setting up another etching facility in Fuyong to capture the growing China market for lead frames. The etched lead frame facility is expected to be operational by the second quarter of this year to add further etched lead frame capacity for us.

Lead frame revenue in the fourth quarter decreased by 21.8% from the same quarter last year to US$40.2 million and decreased by 21.2% from the preceding quarter. Lead frame revenue contributed to about 12.4% of the Group's turnover in the fourth quarter. The reduction of lead frame revenue during the last quarter reflected a contraction of the market, although overall demand for lead frames is fundamentally solid and is still higher than the levels that we experienced prior to the global financial crisis in 2008.

We firmly believe that the long term growth potential for the market is strong, prompting us to make strategic long term investments.

Long term strategic investment in capital expenditure



MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

MARKET AND PRODUCT DEVELOPMENT (Continued)

Lead Frame Division (Continued)

Unfortunately, our lead frame business was negatively impacted by high metal prices last year, particularly for copper, gold, silver and palladium. We have sought to adopt a floating price formula in respect of our lead frame sales. The floating price formula links the lead frame selling prices to the prices of copper and other precious metals on the London Metal Exchange. To further increase our competitiveness and profitability, we will continue to reduce our internal costs and improve our manufacturing productivity.

ASM continues to maintain its leadership position in the development of high-density lead frame solutions. Last year, ASM aggressively promoted its 100mm x 300mm ultra high-density solutions, which offer very good value propositions to its customers. Offering such high-density lead frame solutions has not only helped the Group penetrate new accounts in the lead frame business but has also created business opportunities for its related equipment. The ultra high-density lead frame will be a key enabler for cost reduction by our customers in the next few years. With its expertise in lead frames and equipment, and process knowledge in various technical fields, ASM is in a unique position to assist its customers to realize the cost reduction potential offered by the latest technologies.

Last year we have started shipping LED lead frames to our customers. We expect its contribution to our lead frame revenue will increase over time.

SMT Equipment Division

The integration of the SMT equipment business into the Group has been progressing well. Our SMT equipment business is now operating under the "ASM Assembly Systems" name, with its headquarters based in Munich, Germany, and its R&D centers and manufacturing plants in Munich and Singapore. This year, we will start the assembly of one of the key accessories of SMT equipment, the S-feeder, in our factory in Malaysia. Our SMT equipment continues to be marketed under the "SIPLACE" brand name, which has been licensed from Siemens AG for 5 years.

Our SMT equipment customers' reactions to the acquisition have been very positive after they understood the potential synergies that can be realized and ASM's plan to elevate this business to a new level of success. The acquisition has also gained the enthusiastic support of employees throughout the whole organization. Like our customers, they recognize that the SMT equipment business will become part of ASM's core business and will experience rapid growth in both revenue and profitability in the years to come. The team has set for itself an ambitious target: "Together to be the #1" in the SMT equipment market.

Our SMT equipment business achieved US$626.3 million in revenue in 2011, which represented a growth of 18.2% over 2010, before it was acquired by the Group. It contributed 37.8% to the Group's revenue in 2011. We believe that we have achieved solid market share gain during the past year.

We are particularly pleased that it has contributed positively to the Group's bottom line right from the outset. It achieved a gross margin of 28.3% and EBIT of 11.9% in 2011, before taking into account the effect of acquisition-date fair value adjustment of its inventories. This result compares well with the gross margin of 20.6% during the last fiscal year ended 30 September 2010, when it was still part of Siemens AG.

After many quarters of robust growth, we experienced revenue contraction during the last quarter of 2011 as the market slowdown finally spilled over to the SMT market as had been anticipated. During the fourth quarter of 2011, SMT equipment revenue was US$142.2 million, falling by 18.7% from the third quarter, and contributing to 43.9% of the Group's revenue. Despite lower revenue, our SMT equipment business remained profitable with a gross margin of 24.7% and EBIT of 4.8%.

MARKET AND PRODUCT DEVELOPMENT (Continued)

SMT Equipment Division (Continued)

The synergies which we had envisaged at the time the acquisition was mooted have been confirmed. The manufacturing capabilities and expertise of our team in Asia are well-appreciated by our engineers in Germany, while our engineers and other staff in Asia are correspondingly impressed by the advanced technologies developed in Germany. Engineers throughout the Group are now aggressively working on cost reduction and in-sourcing to fulfill the synergistic potential. By now, we have made preparations for a few hundred components, sub-assemblies and modules to be produced in our factory in China. When we successfully ramp up the production of these parts, we expect that there will be a significant boost to our aim of lowering the production costs of our SMT equipment.

The combined organization has improved the Group's purchasing power. Suppliers from both Asia and Europe are eager to present attractive offers to the Group to take the opportunity to supply to both our assembly and packaging equipment and SMT equipment businesses.

Synergy is also found in product development. We are seeing more and more cross-utilization of technologies from both sides.

Besides working on cost reduction, we are also aggressively working on expanding the product portfolio of the SMT equipment business both to cover more market segments and to address the adjacent markets. The DX series SMT placement machine was launched last year. It is based on our SX series placement machines, which have been very successful in the past and have been the preferred choice of customers in Europe, America and some sophisticated customers in Asia. The DX series is designed with the mainstream Asian market in mind, for customers who may not require the complexity and higher costs of the SX series placement machines. Another new machine model which will address the mid-to-low segment of the market will result from joint development. This new machine will be jointly developed by engineers from the SMT equipment group and R&D engineers who had served only the assembly and packaging equipment business in the past.

FINANCIAL

We continue to streamline our working capital management to deal with a wide range of products and high production run rates. Last year, we achieved an inventory turnover of 6.2 times (2010: 7.2 times), with an ending inventory of HK$2,546 million. The acquisition of the SMT equipment business has increased our inventories significantly as the revenue contribution from the new business is sizeable. Although capital investments amounting to HK$808 million were made in 2011, our sound working capital management resulted in a free cash flow of HK$1,026 million (2010: HK$1,618 million) and a return on invested capital of 44.4% (2010: 121.9%). Receivables have been tightly monitored, resulting in 59.3 days sales outstanding. So far our bad debt exposure, if any, is immaterial and well-covered by provisions made in conformity with ASM's policy. There was a cash conversion cycle of 134.3 days. Cash on hand as of 31 December 2011 was HK$1,628 million (2010: HK$2,055 million).

With no long-term bank borrowings, ASM achieved an all-bank debt to equity ratio of 5.3% and no gearing for the Group, essentially the same situation as during the past years. With rigorous control over our current assets and liabilities, the current ratio stood comfortably at 2.3. The Group's shareholders' funds increased by about 21.9% to HK$6,266 million as of 31 December 2011 (2010: HK$5,140 million).

ASM's strong financial position is the result of our consistently profitable and cash-generating business performance in past years, as well as our conservative fiscal policy, prudent investment planning and strict working capital management. With continual positive cash generation from our ongoing operations, we aim to maintain our policy of operating the Group with the optimum shareholder funds and returning any excessive cash holdings to our shareholders.

CAPACITY AND PLANT DEVELOPMENT

The acquisition of the SMT equipment business has expanded our addressable market but also introduces increased challenges in dealing with a more diverse product mix, diverse geographical locations and an expanded supply chain. In anticipation of further growth, and to ensure that we are in a strong position to capitalize on future opportunities, we are actively expanding our production capacity for both equipment and lead frames.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

CAPACITY AND PLANT DEVELOPMENT (Continued)

The second phase of expansion of our new factory in Huizhou, China is ongoing and is now likely to be completed within the first half of 2012. It will have a new casting center to enable us to upgrade our casting technology and increase the portion of castings which are supplied internally. A new fabrication center will provide room for the further expansion of both our assembly and SMT equipment businesses. In conjunction with the increase of our internal capacity, we will also source for and engage more external subcontractors where practical to complement our in-house manufacturing activities, so that additional capacity is readily available as and when we require it.

In order to take advantage of the high level of demand for Quad Flat No-lead ("QFN") packages, we are expanding our current capacity for manufacturing etched lead frames. QFN packages are commonly used in mobile phones and other portable devices which are now very popular amongst consumers. In addition to our Singapore factory which is now conducting the etching of lead frames, we are setting up new etching lines in our factory in Fuyong, China to add to our production capacity for etched lead frames.

We will also allocate more resources to further upgrade our IT infrastructure, and we expect that this will contribute positively to improving our efficiency. More resources will also be put into further enhancing our R&D capability to enhance our technological leadership and long-term cost advantages.

Additionally, we plan to expand our factory in Singapore so that we can integrate the facilities for our SMT equipment business in Singapore under one roof.

This year, our capital expenditure budget will be HK$790 million, which is at roughly the same level as for 2011.

RESEARCH AND DEVELOPMENT

ASM's long term commitment in R&D has become one of our competitive advantages, and will be a major factor to support the future growth of the company. With our continued investment in R&D, we will further widen our technology leadership over our peers.

We are satisfied with the progress made by our new R&D center in Chengdu, China, which has strengthened our R&D capability. Construction of a new R&D building in Chengdu was completed last year. With the expansion, the Chengdu R&D operations will be well-placed to support all the different business units of the Group, including the SMT business unit.

A fourth R&D centre has been added in Munich, Germany as a result of the acquisition of the SMT equipment business. Both the R&D centers in Munich and Singapore for the SMT equipment business will be expanded to develop solutions to address market segments that have not been addressed by us so far and to expand our product portfolio in the SMT equipment market horizontally. We consider these to be important strategies to increase our market share and revenue.

We believe that with the aforesaid increase in R&D resources, ASM's long-term strategic positioning as the leader of the assembly and packaging equipment business, as well as a leading supplier of SMT equipment, would be significantly strengthened. ASM will be in a unique position to capture the market trend of convergence of chip packaging and SMT processes.

ASM's strategy over the years has been to deliver the best value propositions to our customers. We believe in investing substantially in R&D to implement this strategy. Thus, we have maintained our long-standing policy of spending 10% of our equipment turnover on R&D while ignoring short-term sales fluctuations. This has been very important to enable us to widen our product portfolio to supply to diversified market segments.

Our current research and development teams based in Hong Kong, Singapore, Chengdu and Munich consist of more than 1,000 people with close to 60% of them having a Master or PhD degree. Our net R&D expenditure increased by 104% to HK$885 million (2010: HK$434 million), including the R&D expenditure of the SMT business unit. This represents 7.8% of our equipment sales and is in line with our R&D funding guidelines.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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 the semiconductor industry and surface mount technology placement machines.

RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$0.80 (2010: Final dividend of HK$2.10 and a special dividend of HK$1.10) per share which, together with the interim dividend of HK$1.60 (2010: Interim dividend of HK$1.60) per share paid during the year, makes a total dividend for the year of HK$2.40 (2010: HK$4.80) per share.

Details of the results of the Group are set out in the consolidated statement of comprehensive income on page 48.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2011 are set out in note 39 to the consolidated financial statements.

SHARE CAPITAL

On 15 December 2011, 1,518,100 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, as at 31 December 2011 amounted to HK$2,047,636,000 (2010: HK$2,091,361,000). In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

DIRECTORS' REPORT *(CONTINUED)*

DIRECTORS

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

Executive Directors:

Arthur H. del Prado, Chairman
Lo Tsan Yin, Peter, Vice Chairman
Lee Wai Kwong, Chief Executive Officer
Chow Chuen, James, Chief Operating Officer
Robin Gerard Ng Cher Tat, Chief Financial Officer (appointed on 28 April 2011)

Non-executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel
Robert A. Ruijter (Alternate Director to Charles Dean del Prado and Petrus Antonius Maria van Bommel during the period from 29 October 2010 to 11 February 2011)

Independent Non-executive Directors:

Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John

In accordance with the articles 113 and 114 of the Company's Articles of Association ("the Articles"), Mr. Lo Tsan Yin, Peter, Mr. Lok Kam Chong, John, Mr. Lee Shiu Hung, Robert and Miss Orasa Livasiri, will retire from office as Directors at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In order to streamline the current provisions on appointment and retirement of directors as set out in the existing Articles, the Directors have proposed to amend the existing Articles such that each Director elected by the Company at general meetings shall be elected for a term of not more than three years until the conclusion of the third annual general meeting following his appointment. Subject to the passing of the resolution in relation to the proposed amendments to the Articles, the Directors have further proposed to have the current term of appointment for all existing Directors to expire on the end of the third annual general meeting since their last appointment. In view of the above,

(a) Mr. Lok Kam Chong, John, having served for a term of nearly three years, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election should the proposed amendments to the Articles be approved by the Shareholders; and

(b) Mr. Lo Tsan Yin, Peter, Mr. Lee Shiu Hung, Robert and Miss Orasa Livasiri will not be required to retire at the forthcoming annual general meeting should the proposed amendments to the Articles be approved by the Shareholders.

The biographical details of the Directors during the year and up to the date of this report are set out below:

Arthur H. del Prado, aged 80, is the Chairman of the Company and founder of ASM International N.V. ("ASM International"), the ultimate holding company of the Company. Mr. del Prado currently serves on the Board of several companies, civic and non profit organisations, among which the MEDEA+ Board, the "Micro Electronics Development for European Applications" project. Mr. del Prado was formerly a member of the Board of Directors of: Océ van der Grinten Nederland N.V., Manufacturer of Copiers and Printers; G.T.I. Holding N.V., an Electronic Equipment and Installations company; Delft Instruments N.V., a Manufacturer of High-Technology Industrial and Defence Products; Breevast N.V., Project Development and Management; Dujat, Dutch & Japanese Trade Federation and ABN-AMRO Bank, Advisory Counsel.

Lo Tsan Yin, Peter, aged 63, was appointed to the Board as the Vice Chairman of the Company on 1 January 2007. He has a Bachelor of Science degree in Electronics Engineering from the University of Southampton, England. Mr. Lo joined the Group in 1980. He has over 30 years of experience in the computer and semiconductor industry.

DIRECTORS (Continued)

Lee Wai Kwong, aged 57, was appointed to the Board as the Chief Executive Officer on 1 January 2007. He has a Bachelor of Science degree and a Master of Philosophy degree from The Chinese University of Hong Kong, Hong Kong; both degrees are in Electronics. He also has a Masters degree in Business Administration from the National University of Singapore, Singapore. Mr. Lee joined the Group in 1980. He has over 30 years of working experience in the semiconductor industry.

Chow Chuen, James, aged 55, was appointed to the Board as the Chief Operating Officer of the Company on 1 January 2007. He has a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong and a Master of Science degree in Manufacturing System Engineering from the University of Warwick, England. Mr. Chow joined the Group in 1982. He has over 25 years of working experience in the electronics and semiconductor industry.

Ng Cher Tat, Robin, aged 48, was appointed to the Board as an Executive Director on 28 April 2011, he was also appointed as the Chief Financial Officer of the Group on 1 February 2010. Mr. Ng holds an accountancy degree from the National University of Singapore and a Master of Laws (Commercial Law) from the University of Derby. Mr. Ng is also a Fellow Certified Public Accountant of Singapore who has acquired more than 20 years of working experience in finance, audit and accounting.

Robert A. Ruijter, aged 60, was appointed as the Non-executive Director of the Company on 30 October 2009. He is a Dutch national and retired as Chief Financial Officer and Executive Director of The Nielsen Company, a US-based global information and media group, in October 2007. He has also served as Chief Financial Officer in several international businesses including VNU, the media information and publishing group, and KLM, the Dutch national airline. He holds non-executive board positions at Wavin N.V. and Unit 4 Agresso N.V.. He is also a member of the Audit Committee of Wavin N.V. and the chairman of the Audit Committee of Unit 4 Agresso N.V.. Mr. Ruijter became the Interim Chief Financial Officer of ASM International in May 2009 and has been a non-statutory member of the Management Board of ASM International since May 2009. Mr. Ruijter retired as Chief Financial Officer of ASM International on 1 September 2010 and resigned as Non-executive Director of the Company on 29 October 2010. He was appointed as Alternate Director to Mr. Charles Dean del Prado and Mr. Petrus Antonius Maria van Bommel for the period from 29 October 2010 to 11 February 2011.

Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 50, was appointed as the Non-executive Director of the Company on 29 April 2010. He is a member of the Management Board of ASM International since 2006. He assumed the position of Chief Executive Officer (CEO) of ASM International on 1 March 2008. As CEO, Mr. Charles Dean del Prado oversees the operations of the worldwide organization from the company headquarters in Almere, the Netherlands. Mr. Charles Dean del Prado is the son of Mr. Arthur H. del Prado, the Chairman of the Company. During his twenty-year career, Mr. Charles Dean del Prado has had worldwide experience in sales, marketing, manufacturing, and customer service of high technology computer and semiconductor products. From 2003 to 2008, he served as President and General Manager of ASM America, responsible for the R&D, sales, manufacturing, and service of the Epitaxy and TCP product lines, which include high-k and atomic layer CVD deposition. He also directed sales and service of ASM International's Front-end product lines to all US customers. Previously, Mr. Charles Dean del Prado served as Director of Marketing, Sales & Service of ASM Europe. Prior to joining ASM International in 2001, Mr. Charles Dean del Prado spent five years at ASM Lithography Holding N.V. in Taiwan and the Netherlands managing wafer stepper manufacturing and customer program management. From 1988-1996, Mr. Charles Dean del Prado had assignments in sales and global account management at IBM Nederland N.V.. Mr. Charles Dean del Prado received a Master of Science degree in Industrial Engineering and Technology Management from the University of Twente in the Netherlands.

DIRECTORS' REPORT *(CONTINUED)*

DIRECTORS (Continued)

Petrus Antonius Maria van Bommel, aged 55, was appointed as the Non-executive Director of the Company on 29 October 2010. He is the Chief Financial Officer of ASM International. He was appointed as a member of the Management Board of ASM International in May 2010 for a period of 4 years. He holds a Master's degree in economics from the Erasmus University, Rotterdam, the Netherlands. He has more than twenty years experience in the electronics and semiconductor industry. He spent most of his career at Philips, which he joined in 1979. From the mid-1990s until 2005, Mr. Petrus Antonius Maria van Bommel acted as Chief Financial Officer of several business units of the Philips group. Between 2006 and 2008, he was Chief Financial Officer at NXP (formerly Philips Semiconductors) and was Chief Financial Officer of Odersun AG, a manufacturer of thin-film solar cells and modules, from January 2009 until 31 August 2010. During the period from March 2006 to September 2008, Mr. Petrus Antonius Maria van Bommel served as a Non-executive Director of Advanced Semiconductor Manufacturing Corporation Limited ("ASMC"), a company incorporated in the People's Republic of China and listed on The Stock Exchange of Hong Kong Limited. From January 2007 to September 2008, he was also a Vice Chairman of the Board of Directors of ASMC.

Orasa Livasiri, Independent Non-executive Director, aged 56, was appointed to the Board as an Independent Non-executive Director in 1994. She is a solicitor in private practice and is a partner of Messrs. Ng, Lie, Lai & Chan.

Lee Shiu Hung, Robert, Independent Non-executive Director, aged 79, was appointed to the Board on 23 December 2004. Mr. Lee is a Certified Public Accountant with over 40 years of practical experience in auditing, accounting and finance, taxation and general management. He was engaged in public accounting practice in the name of Robert S.H. Lee & Co., Certified Public Accountants, since 1984 until his retirement in 2000. Mr. Lee previously held senior executive positions in multinational groups, including Jardine Matheson & Co. Limited and Hutchison International Limited. He was a President of the Society of Chinese Accountants & Auditors, Hong Kong in 1983/84 and a President of the Australian Society of Certified Practicing Accountants (CPA Australia) Hong Kong Branch in 1986/87. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia; the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is a member of the Advisory Board of the Society of Chinese Accountants & Auditors, Hong Kong.

Lok Kam Chong, John, Independent Non-executive Director, aged 49, was appointed to the Board as an Independent Non-executive Director on 9 March 2007. Mr. Lok is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has 20 years of experience in financial management and corporate controllership. Mr. Lok started his career as an auditor in an international accounting firm and then moved to work for some major financial information companies, including Moneyline Telerate (Hong Kong) Ltd. and Dow Jones Telerate. He is currently a director of Oriental Link CPA Limited. Mr. Lok holds Dual Degrees in Master in Business Administration and Master of Science in Information Technology from The Hong Kong University of Science and Technology.

SENIOR MANAGEMENT

The Group's senior management team includes, other than the Executive Directors, Mr. Wong Yam Mo, the Chief Technical Officer of the Group. His biographical information is as follows:

Wong Yam Mo, aged 52, is the Chief Technical Officer of the Group. He has a Bachelor of Science degree in Mechanical Engineering and a Master degree in Industrial Engineering, both from the University of Hong Kong, Hong Kong. He also holds a Master degree in Precision Engineering from Nanyang Technological University, Singapore. Mr. Wong joined the Group in 1983.

EMPLOYEE SHARE INCENTIVE SCHEME

The Group has an Employee Share Incentive Scheme (the "Scheme") which is for the benefit of the Group's employees and members of management and has a life of 10 years starting from March 1990. 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.

At the annual general meeting of the Company held on 24 April 2009, the shareholders approved to extend the period of the Scheme for a term of a further 10 years up to 23 March 2020 and allow up to 7.5% of the issued share capital of the Company from time to time (excluding any shares 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 and that no more than 3.5% of the issued share capital of the Company from time to time (excluding any shares subscribed for or purchased pursuant to the Scheme since 23 March 1990) to be subscribed for or purchased pursuant to the Scheme for the period from 24 March 2010 to 23 March 2015.

On 11 March 2011, the Directors resolved that the Company should contribute HK$187,440 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,874,400 shares in the Company for the benefit of employees and members of the management of the Group in respect of their services for the year ended 31 December 2010 upon expiration of the defined qualification period. 328,000 of these shares entitlement were allocated to four executive directors, namely Mr. Lee Wai Kwong, Mr. Lo Tsan Yin, Peter, Mr. Chow Chuen, James and Mr. Robin Gerard Ng Cher Tat.

In December 2011, the Board resolved to cancel and revoke the grant of incentive shares to the four executive directors, and to pay cash bonus to each of the executive Directors, the amount of cash bonus to be paid to each of the executive directors shall be equivalent to the average price of the shares on 15 December 2011 (i.e. the date of allotment of the relevant shares to the four executive directors had the grant of the incentive shares not been cancelled and revoked), multiplied by the total number of shares which such executive director would have received by way of allotment on 15 December 2011 had the grant of the incentive shares to him not been cancelled and revoked.

DIRECTORS' REPORT *(CONTINUED)*

DIRECTORS' INTERESTS IN SHARES

Details of the interests of the Directors and chief executives of the Company and their associates in the share capital of the Company and its associated corporations as at 31 December 2011 as recorded in the register by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions

(a) Shares of HK$0.10 each ("Shares") of the Company:

Name of director	Capacity	Number of shares held	Percentage of Shareholding in the Company
Arthur H. del Prado	Beneficial Owner	*(Note i)*	–
Charles Dean del Prado	Beneficial Owner	*(Note ii)*	–
Lee Wai Kwong	Beneficial Owner	716,700	0.18%
Lo Tsan Yin, Peter *(Note iii)*	Beneficial Owner	242,000	0.06%
Chow Chuen, James	Beneficial Owner	262,000	0.07%
Robin Gerard Ng Cher Tat	Beneficial Owner	13,000	0.00%

(b) Share options of ASM International *(Note iv)*:

Name of director	Date of grant	Exercise period	Exercise price	At 1 January 2011	Granted during the year	Adjustment from vesting conditions during the year	At 31 December 2011
Arthur H.del Prado	23.5.2007	23.5.2010 – 23.5.2015	EUR19.47	52,886	–	–	52,886
Charles Dean del Prado	1.2.2003	1.2.2006 – 1.2.2013	US$11.35	20,000	–	–	20,000
	23.5.2007	23.5.2010 – 23.5.2015	EUR 19.47	19,645	–	–	19,645
	1.3.2008	1.3.2011 – 1.3.2016	EUR 12.71	100,000	–	25,000	125,000
	30.11.2009	30.11.2012 – 30.11.2017	EUR 15.09	50,000	–	–	50,000
	31.12.2011	31.12.2014 – 31.12.2018	EUR 22.33	–	75,000	–	75,000
Petrus Antonius Maria van Bommel	23.12.2010	1.7.2013 – 1.7.2017	EUR 16.27	25,000	–	–	25,000
	31.12.2011	31.12.2014 – 31.12.2018	EUR 22.33	–	53,000	–	53,000

DIRECTORS' INTERESTS IN SHARES (Continued)

Long positions (Continued)

Notes:

(i) As at 31 December 2011, Arthur H. del Prado, as well as a Dutch private liability company and a foundation both controlled by him, altogether held about 20.49% of the share capital of ASM International, represented by 11,346,323 common shares. ASM International through its wholly-owned subsidiary, ASM Pacific Holding B.V., is a controlling shareholder of the Company, holding 207,427,500 shares which is approximately 52.17% of the entire share capital of the Company. ASM International also holds the fixed-rate participating shares of ASM Assembly Automation Limited, ASM Assembly Materials Limited and ASM Asia Limited which are wholly-owned subsidiaries of the Company. These shares carry no voting rights, no rights to participate in a distribution of profits, and very limited rights on a return of capital.

(ii) Mr. Charles Dean del Prado and his spouse directly held 134,317 common shares in ASM International, together with his interest of 713,000 common shares in ASM International held through a foundation controlled by Mr. Arthur H. del Prado, he is deemed to be interested in an aggregate of 847,317 common shares in ASM International, representing 1.53% shareholding in the issued share capital in ASM International.

(iii) As at 31 December 2011, Mr. Lo beneficially owned 2,500 shares of ASM International (representing 0.0045% shareholding in the issued share capital in ASM International).

(iv) Details of the share option schemes of ASM International are set out in note 37 to the consolidated financial statements.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, as at 31 December 2011, none of the Directors or chief executives of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than those rights described under the section headed "Employee Share Incentive Scheme" and the share options of ASM International disclosed above, none of the Directors or chief executives or their spouses or children under the age of 18 had any right to subscribe for shares of the Company, or had exercised any such right during the year; and at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons (other than the interests disclosed above in respect of Directors or chief executives of the Company) had interests in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Long positions: Number of shares held	Long positions: Percentage of Shareholding in the Company	Lending pool: Number of shares held	Lending pool: Percentage of Shareholding in the Company
ASM International	Interest of a controlled corporation	207,427,500	52.17%	–	–
ASM Pacific Holding B.V.	Beneficial owner	207,427,500	52.17%	–	–
Aberdeen Asset Management Plc and its associates on behalf of accounts managed by Aberdeen Asset Management Plc and its associates	Investment manager	39,499,420	9.93%	–	–

Save as disclosed above, as at 31 December 2011, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no other person who had any interests or short positions in the shares or underlying shares of the Company.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group entered into several transactions with the ASM International, details of one transaction is set out in note 38 to the consolidated financial statements.

The Independent Non-executive Directors of the Company confirmed that the connected transactions have been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Arthur H. del Prado, Charles Dean del Prado, Petrus Antonius Maria van Bommel and Lo Tsan Yin, Peter have an interest in ASM International as disclosed in the section headed "Directors' interests in shares" above.

Save as disclosed above, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No Director of the Company has a service contract with any company in the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The emolument policy of the employees of the Group is established by the management with reference to the employees' merit, qualifications and competence.

The emoluments of the Directors and the senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company currently has an Employee Share Incentive Scheme as an incentive to Directors and eligible employees, details of which are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the five largest customers of the Group were less than 30% of the Group's turnover for the year under review.

The aggregate purchases attributable to the five largest suppliers of the Group were less than 30% of the Group's purchases for the year under review.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$740,000.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of the independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the Independent Non-executive Directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Lee Wai Kwong
DIRECTOR
6 March 2012

CORPORATE GOVERNANCE REPORT

The Group strives to attain and maintain high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. In addition, the Group is also committed to continuously improving its corporate governance practices.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") throughout the year ended 31 December 2011 except for the deviations from Code Provision A.4.1 as described in this report.

The manner in which the principles and code provisions in the CG Code are applied and implemented are explained as follows:–

THE BOARD

Board composition

The Board of the Company comprises the following directors during the year ended 31 December 2011:

Executive Directors

Arthur H. del Prado (Chairmen of the Board and Remuneration Committee)
Lo Tsan Yin, Peter (Vice Chairman of the Board)
Lee Wai Kwong (Chief Executive Officer)
Chow Chuen, James (Chief Operating Officer)
Robin Gerard Ng Cher Tat* (Chief Financial Officer)

Non-Executive Directors

Charles Dean del Prado ** (Member of Remuneration Committee)
Petrus Antonius Maria van Bommel (Member of Audit Committee)
Robert A. Ruijter*** (Alternate Director to Charles Dean del Prado and Petrus Antonius Maria van Bommel)

Independent Non-Executive Directors

Orasa Livasiri (Chairman of Audit Committee and Member of Remuneration Committee)
Lok Kam Chong, John (Member of Audit Committee and Remuneration Committee)
Lee Shiu Hung, Robert (Member of Audit Committee and Remuneration Committee)

* Mr. Robin Gerard Ng Cher Tat was appointed as Executive Director with effect from 28 April 2011.
** Mr. Charles Dean del Prado was appointed as Member of Remuneration Committee with effect from 1 February 2012.
*** Mr. Robert A. Ruijter was the Alternate Director to Mr. Charles Dean del Prado and Mr. Petrus Antonius Maria van Bommel during the period from 29 October 2010 to 10 February 2011.

THE BOARD (Continued)

Board composition (Continued)

Mr. Charles Dean del Prado is the son of Mr. Arthur H. del Prado, besides this, none of the members of the Board is related to one another.

During the year ended 31 December 2011, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The position of the Chairman is held by Mr. Arthur H. del Prado while the position of Chief Executive Officer is held by Mr. Lee Wai Kwong during the year ended 31 December 2011. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer, supported by the executive directors, is responsible for managing the Group's business, including implementation of objectives, policies and major strategies and initiatives adopted by the Board.

Appointment and re-election of directors

In accordance with the Company's Articles of Association ("Articles"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

The Company has not yet adopted Code Provision A.4.1 which provides that non-executive directors should be appointed for a specific term, subject to re-election. All the non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the Company's annual general meetings at least once every three years pursuant to the Company's Articles. As such, the Company considers that such provisions in the Articles are sufficient to meet the underlying objective of the relevant provision of the CG Code.

Mr. Lo Tsan Yin, Peter, Mr. Lok Kam Chong, John, Mr. Lee Shiu Hung, Robert and Miss Orasa Livasiri shall retire by rotation in accordance with Articles 113 and 114 of the Company's Articles and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In order to streamline the current provisions on appointment and retirement of directors as set out in the existing Articles and to fully comply with the Code Provision A.4.1, the Directors have proposed to amend the existing Articles such that each Director elected by the Company at general meetings shall be elected for a term of not more than three years until the conclusion of the third annual general meeting following his appointment. Subject to the passing of the resolution in relation to the proposed amendments to the Articles, the Directors have further proposed to have the current term of appointment for all existing Directors to expire on the end of the third annual general meeting since their last appointment.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

THE BOARD (Continued)

Appointment and re-election of directors (Continued)

The Board recommended the re-appointment of the directors standing for re-election at the 2012 annual general meeting of the Company.

The Company's circular dated 26 March 2012 contains detailed information of the directors standing for re-election.

The Board reviewed its own structure, size and composition regularly to ensure that there is a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Company does not have written director nomination procedure.

The Chairman and the Chief Executive Officer are responsible for the selection and recommendation of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

On 13 February 2012, the Board resolved to establish a Nomination Committee with effect from 1 April 2012. The Board also appointed Mr. Arthur H. del Prado as chairman of the Nomination Committee, Mr. Charles Dean del Prado, Miss Orasa Livasiri, Mr. Lee Shiu Hung, Robert and Mr. Lok Kam Chong, John as members of the Nomination Committee with effect from 1 April 2012.

Induction and continuing development for directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has proper understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

Board meetings

Board practices and conduct of meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors in a timely manner before each Board or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

THE BOARD (Continued)

Board meetings (Continued)

Board practices and conduct of meetings (Continued)

Minutes of all Board meetings and Audit Committee meetings are kept by the Company Secretary while minutes of Board meetings relating to the Employee Share Incentive Scheme and Remuneration Committee meetings are kept by the executive secretary of the Chief Executive Officer. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Directors' attendance records

Six Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2011 is set out below:

	Attendance/Number of Meetings held during the tenure of directorship		
Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Arthur H. del Prado (Chairmen of the Board and Remuneration committee)	6/6	N/A	1/1
Lo Tsan Yin, Peter (Vice Chairman of the Board)	6/6	N/A	N/A
Lee Wai Kwong	6/6	N/A	N/A
Chow Chuen, James	6/6	N/A	N/A
Robin Gerard Ng Cher Tat (appointed on 28 April 2011)	3/3	N/A	N/A
Non-executive Directors			
Charles Dean del Prado	6/6	N/A	N/A
Petrus Antonius Maria van Bommel	6/6	5/5	N/A
Independent Non-executive Directors			
Orasa Livasiri (Chairman of Audit Committee)	5/6	4/5	1/1
Lee Shiu Hung, Robert	6/6	5/5	1/1
Lok Kam Chong, John	6/6	5/5	1/1

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

THE BOARD (Continued)

Model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees (the "Employees Written Guidelines") who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION OF MANAGEMENT FUNCTIONS

The Company has formalized and adopted the written terms on the division of functions reserved to the Board and delegated to the management.

The Board reserves for its decisions all major matters of the Company, including: objectives and overall strategies of the Company; annual budgets and financial matters; internal control and risk management systems; equity related transactions such as issue of shares/options, repurchase of shares, dividend, raising of capital loan; determination of major business strategy; merger and acquisition; disposal of business unit; major investment; annual financial budget in turnover, profitability and capital expenditure; review and approval of financial performance and announcement; and matters as required by laws and regulations.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

During the year ended 31 December 2011, the Board had two committees, namely, the Remuneration Committee and the Audit Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board committees are provided with sufficient resources to discharge their duties.

REMUNERATION OF DIRECTORS

The Company has established a formal and transparent procedure for formulating policies on remuneration of the executive directors of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2011 are set out on page 82 in note 14 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee comprises four members during the year ended 31 December 2011. Mr. Arthur H. del Prado is the chairman while all other members are the independent non-executive directors.

The primary functions of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee held one meeting during the year ended 31 December 2011 and the attendance records are set out under "Directors' attendance records" on page 41.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company and the remuneration packages of the executive directors for the year under review.

The Remuneration Committee has also consulted the Chairman and/or the Chief Executive Officer of the Company about their recommendations on remuneration policy and packages of the executive directors.

On 13 February 2012, the Board resolved to appoint Miss Orasa Livasiri as the chairman of the Remuneration Committee with effect from 1 April 2012.

ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

ACCOUNTABILITY AND AUDIT (Continued)

Internal controls

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Group.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

The Group Internal Audit Department plays a major role, independent of the Company's management, in providing objective assurance and consulting services to the Company by bringing a disciplined systematic approach to evaluate and improve the effectiveness and efficiency of risk management, internal control and governance processes and the integrity of the operations. The Department is accountable to the Audit Committee and has unrestricted access to information that allows it to perform its functions. On a regular basis, it conducts audits on financial, operational and compliance controls, and effectiveness of risk management functions of all business and functional units as well as subsidiaries. Management is responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan derived from risk assessment for the Audit Committee's review. The Group Internal Audit Manager reports to the Audit Committee his audit findings and his opinions on the system of internal controls. The Committee was satisfied with the existing controls.

The Company has established a whistleblowing procedure and system for employees to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the Company.

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and one Non-executive director during the year ended 31 December 2011. Miss Orasa Livasiri is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditor before submission to the Board.

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget, and risk management system and associated procedures.

ACCOUNTABILITY AND AUDIT (Continued)

Audit Committee (Continued)

In 2011, a total of five meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 41. The following is a summary of the tasks completed by the Audit Committee during 2011:

- reviewed the Group's financial reports for the year ended 31 December 2010, for the six months ended 30 June 2011, and for the quarters ended 31 March 2011 and 30 September 2011;
- reviewed the financial reporting system;
- reviewed the effectiveness of internal controls system;
- reviewed risk management system;
- reviewed work plan for 2011 audit and fees budget of the auditor; and
- made recommendations on the re-appointment of the auditor.

There is no material uncertainty relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

On 13 February 2012, the Board resolved to appoint Mr. Lok Kam Chong, John as the chairman of the Audit Committee with effect from 1 April 2012.

Auditor's remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 47.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, in respect of audit services amounted to HK$12,784,000, assurance related services amounted to HK$1,529,000 and non-audit services amounted to HK$2,014,000 which were reviewed and approved by the Audit Committee. There was significant increase in audit fee in year 2011 as compared with year 2010 due to the acquisition of thirteen subsidiaries in early January 2011 and additional fee was charged for auditing of the purchase price allocation accounting in relation to the acquisition.

The Audit Committee recommends the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor at the forthcoming annual general meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings. The Company's external auditor, Messrs. Deloitte Touche Tohmatsu, attends the annual general meeting and is available to answer questions relating to the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

All announcements and notices which have been published on the Stock Exchange's website are also available for viewing on the Company's own website.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring directors.

All votes of the shareholders at the shareholders' meeting will be taken by poll. Poll results will be posted on the websites of the Company and of the Stock Exchange following the shareholders' meeting.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ASM PACIFIC TECHNOLOGY LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ASM Pacific Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 109, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
6 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	7	12,915,194	9,515,089
Cost of sales		(8,488,717)	(5,006,965)
Gross profit		4,426,477	4,508,124
Other income		33,140	22,769
Selling and distribution expenses		(867,422)	(603,095)
General and administrative expenses		(412,596)	(275,559)
Research and development expenses	9	(885,370)	(433,987)
Other gains and losses	10	(85,328)	1,398
Gain from a bargain purchase	33	1,084,427	–
Finance costs	11	(3,884)	(3)
Profit before taxation		3,289,444	3,219,647
Income tax expense	12	(357,464)	(377,613)
Profit for the year, attributable to owners of the Company	13	2,931,980	2,842,034
Other comprehensive (expense) income			
– exchange differences on translation of foreign operations		(43,760)	34,305
– actuarial gains on retirement benefit plans, net of tax	31	9,302	–
Other comprehensive (expense) income for the year		(34,458)	34,305
Total comprehensive income for the year, attributable to owners of the Company		2,897,522	2,876,339
Earnings per share	17		
– Basic		HK$7.40	HK$7.20
– Diluted		HK$7.37	HK$7.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	*18*	2,073,679	1,528,498
Intangible assets	*19*	11,380	–
Prepaid lease payments	*20*	28,531	28,782
Pledged bank deposit	*21*	201,020	–
Deposits paid for acquisition of property, plant and equipment		49,972	65,511
Rental deposits paid	*23*	5,480	10,261
Deferred tax assets	*32*	98,223	23,495
Other non-current assets		2,367	–
		2,470,652	1,656,547
Current assets			
Inventories	*22*	2,545,601	1,624,182
Trade and other receivables	*23*	2,956,191	2,280,470
Prepaid lease payments	*20*	979	977
Income tax recoverable		8,611	–
Pledged bank deposit		2,010	–
Bank deposits with original maturity of more than three months	*24*	–	76,798
Bank balances and cash	*24*	1,627,662	1,978,182
		7,141,054	5,960,609
Current liabilities			
Trade and other payables	*25*	2,031,739	1,993,404
Derivative financial instruments	*26*	17,733	–
Provisions	*27*	307,051	–
Income tax payable		470,622	482,992
Bank borrowings	*28*	331,144	–
		3,158,289	2,476,396
Net current assets		3,982,765	3,484,213
		6,453,417	5,140,760

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	*29*	39,764	39,612
Dividend reserve		318,110	1,267,581
Other reserves		5,907,921	3,832,957
Equity attributable to owners of the Company		6,265,795	5,140,150
Non-current liabilities			
Retirement benefit obligations	*31*	26,845	–
Provisions	*27*	68,625	–
Deferred tax liabilities	*32*	38,468	610
Other liabilities and accruals	*25*	53,684	–
		187,622	610
		6,453,417	5,140,760

The consolidated financial statements on pages 48 to 109 were approved and authorised for issue by the Board of Directors on 6 March 2012 and are signed on its behalf by:

Arthur H. del Prado
DIRECTOR

Lee Wai Kwong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Total HK$'000
At 1 January 2010	39,439	420,371	–	155	72,979	(71,885)	2,317,990	631,027	3,410,076
Profit for the year	–	–	–	–	–	–	2,842,034	–	2,842,034
Exchange differences on translation of foreign operations	–	–	–	–	–	34,305	–	–	34,305
Total comprehensive income for the year	–	–	–	–	–	34,305	2,842,034	–	2,876,339
Sub-total	39,439	420,371	–	155	72,979	(37,580)	5,160,024	631,027	6,286,415
Recognition of equity-settled share-based payments	–	–	115,789	–	–	–	–	–	115,789
Shares issued under the Employee Share Incentive Scheme	173	115,616	(115,789)	–	–	–	–	–	–
2009 final and second special dividend paid	–	–	–	–	–	–	–	(631,027)	(631,027)
2010 interim dividend paid	–	–	–	–	–	–	(631,027)	–	(631,027)
2010 final dividend proposed	–	–	–	–	–	–	(831,850)	831,850	–
2010 special dividend proposed	–	–	–	–	–	–	(435,731)	435,731	–
At 31 December 2010 and 1 January 2011	39,612	535,987	–	155	72,979	(37,580)	3,261,416	1,267,581	5,140,150
Profit for the year	–	–	–	–	–	–	2,931,980	–	2,931,980
Actuarial gains on retirement benefit plans, net of tax *(note 31)*	–	–	–	–	–	–	9,302	–	9,302
Exchange differences on translation of foreign operations	–	–	–	–	–	(43,760)	–	–	(43,760)
Total comprehensive income for the year	–	–	–	–	–	(43,760)	2,941,282	–	2,897,522
Sub-total	39,612	535,987	–	155	72,979	(81,340)	6,202,698	1,267,581	8,037,672
Recognition of equity-settled share-based payments	–	–	157,472	–	–	–	–	–	157,472
Shares issued under the Employee Share Incentive Scheme	152	129,342	(129,494)	–	–	–	–	–	–
Cancellation of the grant under the Employee Share Incentive Scheme	–	–	(27,978)	–	–	–	–	–	(27,978)
2010 final and special dividend paid	–	–	–	–	–	–	–	(1,267,581)	(1,267,581)
2011 interim dividend paid	–	–	–	–	–	–	(633,790)	–	(633,790)
2011 final dividend proposed	–	–	–	–	–	–	(318,110)	318,110	–
At 31 December 2011	39,764	665,329	–	155	72,979	(81,340)	5,250,798	318,110	6,265,795

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Operating activities		
Profit before taxation	3,289,444	3,219,647
Adjustments for:		
Depreciation	340,324	226,758
Release of prepaid lease payments	571	553
Impairment losses recognised in respect of property, plant and machinery	56,293	–
Amortisation of intangible assets	7,111	–
Gain from a bargain purchase	(1,084,427)	–
Loss on disposal/write-off of property, plant and equipment	984	15,474
Loss on fair value change of derivative financial instruments	22,653	–
Decrease in provisions	(21,223)	–
Share-based payments under the Employee Share Incentive Scheme	129,494	115,789
Interest income	(21,032)	(6,215)
Interest expense	3,884	3
Effect of foreign exchange rate changes on inter-company balances	(106,449)	(7,809)
Operating cash flows before movements in working capital	2,617,627	3,564,200
Decrease (increase) in inventories	135,241	(609,405)
Decrease (increase) in trade and other receivables	704,089	(710,183)
Decrease in other non-current assets	2,596	–
(Decrease) increase in trade and other payables	(1,163,055)	613,823
Increase in other liabilities and accruals	35,804	–
Increase in retirement benefit obligations	19,045	–
Cash generated from operations	2,351,347	2,858,435
Income taxes paid	(655,658)	(91,052)
Income taxes refunded	554	597
Net cash from operating activities	1,696,243	2,767,980
Investing activities		
Net cash inflow arising on acquisition of subsidiaries	467,613	–
Withdrawal (placement) of bank deposits with original maturity of more than three months	76,798	(76,798)
Interest received	21,032	6,215
Proceeds on disposal of property, plant and equipment	2,322	910
Proceeds on disposal of intangible assets	523	–
Purchase of property, plant and equipment	(752,131)	(631,763)
Increase in pledged bank deposits	(203,030)	–
Deposits paid for acquisition of property, plant and equipment	(49,972)	(65,511)
Additions of intangible assets	(3,511)	–
Additions of prepaid lease payments	–	(21,193)
Net cash used in investing activities	(440,356)	(788,140)

	2011 HK$'000	2010 HK$'000
Financing activities		
Bank borrowings raised	490,662	–
Dividends paid	(1,901,371)	(1,262,054)
Repayment of bank borrowings	(227,656)	–
Interest paid	(3,884)	(3)
Net cash used in financing activities	(1,642,249)	(1,262,057)
Net (decrease) increase in cash and cash equivalents	(386,362)	717,783
Cash and cash equivalents at beginning of the year	1,978,182	1,253,872
Effect of foreign exchange rate changes	35,842	6,527
Cash and cash equivalents at end of the year, represented by bank balances and cash	1,627,662	1,978,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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. Its parent company is ASM Pacific Holding B.V. and its ultimate holding company is ASM International N.V. ("ASM International"), companies 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 ("HKFRS"s)

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKAS"s), HKFRSs, amendments and interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement
HK(IFRIC*) – Int 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the IFRS Interpretations Committee

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) (Continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
	Disclosures – Offsetting financial assets and financial liabilities[2]
	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) (Continued)

HKFRS 9 "Financial instruments" (Continued)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) (Continued)

HKAS 19 (as revised in 2011) "Employee benefits"

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact, if any.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for the derivative financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 statement of comprehensive income 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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except the deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business.

Revenue from sale of goods is recognised when the goods are delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of assembly and packaging equipment and lead frame is calculated using the first-in, first-out method. Cost of surface mount technology equipment is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs or returns, discounted to their present values as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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. Subsequent to initial recognition, loans and receivables (including pledged bank deposit, trade and other receivables, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at financial asset's original effective interest rate.

The carrying amount of loans and receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a loan or receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities, including trade and other payables, bank borrowings and other liabilities, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

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 Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items 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 in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revised its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

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

Any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to expense items are recognised in the same period as those expenses are charged to profit or loss and are deducted in the reporting of the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

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 recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. All actuarial gains and losses of defined benefit plans are recognised immediately in other comprehensive income in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to frequent technological changes. As at 31 December 2011, the carrying amount of inventories was HK$2,545,601,000 (2010: HK$1,624,182,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving, obsolete and defective inventories. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The amount of allowance would be changed as a result of changes in current market conditions and technology subsequently.

Impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made based on estimation of the future cash flows discounted at the original effective interest rates. If the financial condition of the customers of the Group deteriorates, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2011, the carrying amount of trade receivables was HK$2,098,882,000 (2010: HK$1,895,898,000).

Impairment of property, plant and equipment

The Group tested whether property, plant and equipment for the etched frame operation under lead frame segment have suffered any impairment in accordance with its accounting policy. The determination of the recoverable amount involves the use of the estimates by management with respect to the discount rate and cash flows used in the discounted cash flow model. The estimate included, and the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment. During the year ended 31 December 2011, the Group recognised an impairment loss on property, plant and equipment amounting to HK$56,293,000 (2010: nil) (see note 18).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Retirement benefit obligations

Obligations for retirement benefit and related net periodic pension costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected return on plan assets, expected salary increases, mortality rates and health care trend rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. The expected returns on plan asset assumptions are determined on a uniform methodology, considering long-term historical returns and assets allocations. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in retirement benefit obligations. During the year ended 31 December 2011, actuarial gains before tax effect amounting to HK$13,009,000 (2010: nil) are recognised directly in equity in the period in which they occur (see note 31).

Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings. As a global operating business, the Group is exposed to numerous legal risks, particularly in the areas of product liability and tax assessments. Pending and future proceedings often involve complex legal issues and are subject to substantial uncertainties. The outcome of such proceedings cannot be predicted with certainty. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the reporting date, whether it is more likely than not that such a proceeding will result an outflow of resources and whether the amount of the obligation can be reliably estimated. As at 31 December 2011, the Group recognised warranty provisions amounting to HK$357,658,000 (2010: nil) (see note 27).

Income taxes

The Group operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognised if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each year-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future development are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that all or a portion of a deferred tax asset cannot be realised, a corresponding valuation allowance is taken into account. As at 31 December 2011, the deferred tax assets recognised is HK$98,223,000 (2010: HK$23,495,000) (see note 32).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,226,708**	4,113,962
Financial liabilities		
Amortised cost	**1,794,419**	1,390,846
Derivative financial instruments	**17,733**	–

Financial risk management objectives and policies

The Group's financial instruments include other non-current assets, pledged bank deposits, bank balances and cash, trade and other receivables, derivative financial instruments, trade and other payables, other liabilities and bank borrowings. Details of the 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 that appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 52% and 50% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entities making the sales and the purchases.

The carrying amounts of the group entities' foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

		Assets		Liabilities	
	Currency	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
US dollars	US$	**1,241,980**	1,690,676	**130,713**	286,045
Euro	EUR	**483,701**	426,110	**21,014**	27,037
Renminbi	RMB	**83,763**	419,187	**213,171**	280,520
Singapore dollars	S$	**25,464**	49,527	**99,363**	89,684
Japanese Yen	JPY	**4,403**	210,515	**151,991**	204,037
Others		**24,639**	6,317	**86,999**	19,747

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Majority of the Group's foreign currency financial assets and financial liabilities are denominated in US dollars. The US dollars are linked up with Hong Kong dollars where Hong Kong dollars is the functional currency of the relevant group entities. For other group entities having significant US dollars financial assets and financial liabilities where Hong Kong dollars is not the functional currency, they have exposure to the foreign currency exchange risk. The currency risk of certain Japanese Yen-based receivables was eliminated against Japanese Yen trade payables. It is the Group's policy to maintain a similar level of Japanese Yen financial assets and Japanese Yen financial liabilities to minimise the currency risk exposure of Japanese Yen. As at 31 December 2011, there was a temporary shortfall of Japanese Yen monetary assets. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Group is mainly exposed to Euro, US dollars, Renminbi, Japanese Yen and Singapore dollars.

The Group is also exposed to currency risk on its outstanding foreign currency forward contracts. If forward rates of US$ appreciate against Euro by 5%, while all other variables are held constant, the profit for the year would decrease by EUR1,417,000 (2010: nil). For a 5% depreciation of the US$ against Euro, there would be an equal and opposite impact on the profit of the Group.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency of the group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of the functional currency of the relevant group entities against the relevant currency and a positive and negative number below indicates an increase and a decrease in profit respectively. For a 5% weakening of the functional currency of the relevant group entities against the relevant currency, there would be an equal and opposite impact on the profit.

	Euro impact (i)		US dollars impact (ii)		Renminbi impact (iii)		Japanese Yen impact (iv)		Singapore dollars impact (v)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Decrease) increase in post tax profit	(18,390)	(19,954)	(15,250)	(5,382)	4,733	(6,933)	6,131	(324)	3,028	2,008

(i) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables and trade and other payables denominated in Euro at the year end.

(ii) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables and trade and other payables denominated in US dollars at the year end.

(iii) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables and trade and other payables denominated in Renminbi at the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis (Continued)

(iv) This is mainly attributable to the exposure on outstanding bank balances, other receivables and trade payables denominated in Japanese Yen at the year end.

(v) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables, trade and other payables denominated in Singapore dollars at the year end.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (see note 21). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances and bank borrowings (set out in notes 24 and 28 for details). Management will monitor interest rate risk exposure closely. By management's discretion, the Group keeps its borrowings at floating rates and may enter into interest rate swaps to balance the fair value interest rate risk and cash flow interest rate risk exposure of the Group.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at 31 December 2011. The analyses are prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 5 basis points increase is used for bank deposits and 50 basis points increase and decrease for bank borrowings when reporting interest rate risk internally to key management personnel. If interest rates had been 5 basis points and 50 basis points for bank deposits and bank borrowings higher or 50 basis points for bank borrowings lower and all other variables were held constant, post-tax profit for the year ended 31 December 2011 would decrease/increase by HK$1,178,000 and HK$1,383,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The cash flow interest rate risk for the year ended 31 December 2010 related primary to the Group's bank deposits (set out in note 24) carried at prevailing market rates. The Group's bank deposits were short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

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 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage 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 end of the reporting period 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 and authorised banks in Mainland China with high credit-ratings.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

At 31 December 2011

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	More than one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	–	272,329	1,158,912	–	1,431,241	1,431,241
Other non-current liabilities	–	–	–	32,034	32,034	32,034
Bank borrowings	–	331,144	–	–	331,144	331,144
		603,473	1,158,912	32,034	1,794,419	1,794,419
Derivatives – net settlement						
Foreign exchange forward contracts	–	–	17,733	–	17,733	17,733
		603,473	1,176,645	32,034	1,812,152	1,812,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

At 31 December 2010

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Trade and other payables	–	366,255	1,024,591	1,390,846	1,390,846

* Weighted average effective interest rate is determined based on the variable interest rate of outstanding bank borrowings at the end of the reporting period.

Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank loans amounted to HK$331,144,000 (2010: nil). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that bank loans amounting to HK$137,144,000 and HK$194,000,000 will be repaid approximately 3 months and 3 years after the reporting date, respectively, in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$339,403,000.

Fair value

The fair value of derivative instruments is calculated using quoted foreign exchange rate. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The financial assets and liabilities carried at amortised cost approximate to their respective fair values.

6. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements recognised in the statement of financial position

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of the measure of the derivative financial instruments at 31 December 2011 using the fair value hierarchy is Level 2.

There were no transfers between Level 1 and 2 in the current year.

7. TURNOVER

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

8. SEGMENT INFORMATION

The Group has three (2010: two) operating segments: development, production and sales of assembly and packaging equipment, surface mount technology equipment and lead frame. They represent three major types of products manufactured by the Group. The operations of surface mount technology equipment were introduced to the Group in the current year upon completion of the Acquisition (see note 33), which resulted in the Group having a new operating segment in the current year. This new operating segment is engaged in the development, production and sales of surface mount technology placement machines. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by Company's Chief Executive Officer, the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The Group is organised and managed around the three (2010: two) major types of products manufactured by the Group.

Segment results represent the profit before taxation earned by each segment without allocation of interest income, finance costs, gain from a bargain purchase, unallocated other expenses and unallocated general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2011

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

An analysis of the Group's turnover and results by operating segment is as follows:

	2011 HK$'000	2010 HK$'000
Segment revenue from external customers		
Assembly and packaging equipment	6,526,877	7,912,246
Surface mount technology equipment	4,875,100	–
Lead frame	1,513,217	1,602,843
	12,915,194	9,515,089
Segment profit (loss)		
Assembly and packaging equipment	1,938,081	3,140,895
Surface mount technology equipment	462,485	–
Lead frame	(119,512)	135,650
	2,281,054	3,276,545
Interest income	21,032	6,215
Finance costs	(3,884)	(3)
Gain from a bargain purchase	1,084,427	–
Unallocated other expenses	(3)	(3)
Unallocated general and administrative expenses	(93,182)	(63,107)
Profit before taxation	3,289,444	3,219,647

No analysis of the Group's assets and liabilities by operating segments is disclosed as they are not regularly provided to the chief operating decision maker for review.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. This is the measure reported to the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance.

All of the segment revenue derived by the segments is from external customers.

8. SEGMENT INFORMATION (Continued)

Other segment information

2011

	Assembly and packaging equipment HK$'000	Surface mount technology equipment HK$'000	Lead frame HK$'000	Unallocated general and administrative expenditure HK$'000	Consolidated HK$'000
Amounts regularly provided to chief operating decision maker:					
Additions of property, plant and equipment					
– Additions during the year	573,372	69,221	161,622	–	804,215
– Arising from acquisition of subsidiaries	–	135,814	–	–	135,814
	573,372	205,035	161,622	–	940,029
Additions of intangible assets					
– Additions during the year	–	3,511	–	–	3,511
– Arising from acquisition of subsidiaries	–	16,019	–	–	16,019
	–	19,530	–	–	19,530
Amounts included in the measure of segment profit (loss):					
Amortisation for intangible assets	–	7,111	–	–	7,111
Depreciation of property, plant and equipment	213,955	57,451	68,918	–	340,324
Impairment losses recognised in respect of property, plant and equipment	–	–	56,293	–	56,293
Loss on disposal/write-off of property, plant and equipment	564	396	24	–	984
Release of prepaid lease payments	157	–	414	–	571
Share-based payments	116,706	6,142	12,182	22,442	157,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2010

	Assembly and packaging equipment HK$'000	Lead frame HK$'000	Unallocated general and administrative expenditure HK$'000	Consolidated HK$'000
Amounts regularly provided to chief operating decision maker:				
Additions of property, plant and equipment	693,819	163,703	–	857,522
Additions of prepaid lease payments	21,193	–	–	21,193
Amounts included in the measure of segment profit:				
Depreciation of property, plant and equipment	150,864	75,894	–	226,758
Release of prepaid lease payments	114	439	–	553
(Gain) loss on disposal/write-off of property, plant and equipment	(364)	15,838	–	15,474
Share-based payments	87,724	11,148	16,917	115,789

The information of the Group's non-current assets by geographical location of assets are detailed below:

	Non-current assets 2011 HK$'000	2010 HK$'000
Mainland China	1,647,535	1,167,616
Malaysia	225,401	237,837
Europe	123,100	821
Singapore	117,062	169,683
Hong Kong	50,244	50,328
Taiwan	2,649	3,123
Japan	941	1,507
Others	4,477	2,137
	2,171,409	1,633,052

Note: Non-current assets excluded deferred tax assets and pledged bank deposit.

8. SEGMENT INFORMATION (Continued)

Geographical information by location of customers

	Turnover	
	2011	2010
	HK$'000	HK$'000
Mainland China	5,782,834	3,581,988
Europe	2,523,410	85,018
Malaysia	921,050	1,147,718
Taiwan	788,598	1,522,896
Americas	635,138	216,847
Japan	515,256	587,768
Korea	453,311	1,000,953
Philippines	381,807	352,165
Thailand	356,520	430,894
Hong Kong	292,348	408,026
Singapore	183,284	141,199
Others	81,638	39,617
	12,915,194	9,515,089

The revenue from individual customers contribute less than 10% of the total sales of the Group of the respective year.

9. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are depreciation for property, plant and equipment of HK$24,648,000 (2010: HK$9,706,000), rental of land and buildings under operating leases of HK$20,351,000 (2010: HK$7,170,000) and staff costs of HK$642,594,000 (2010: HK$354,778,000) for the year ended 31 December 2011.

10. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	HK$'000
The (losses) gains comprise:		
Net foreign exchange (loss) gain	(11,102)	16,872
Impairment losses recognised in respect of property, plant and equipment	(56,293)	–
Loss on disposal/write-off of property, plant and equipment	(984)	(15,474)
Loss on fair value change of derivative financial instruments	(16,949)	–
	(85,328)	1,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

11. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	(3,884)	–
Others	–	(3)
	(3,884)	(3)

12. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	116,351	312,808
PRC Enterprise Income Tax	105,735	64,073
Other jurisdictions	396,925	2,943
	619,011	379,824
(Over) underprovision in prior years:		
Hong Kong	(1,214)	(14)
PRC Enterprise Income Tax	1,919	(45)
Other jurisdictions	(67)	93
	638	34
Deferred tax credit *(note 32)*		
Current year	(262,185)	(2,202)
Attributable to change in tax rate	–	(43)
	(262,185)	(2,245)
	357,464	377,613

12. INCOME TAX EXPENSE (Continued)

(a) Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year.

(b) Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 10% and 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 24% to 25% for the year ended 31 December 2011 (2010: 22% to 25%).

(c) ASM Technology Singapore Pte Limited ("ATS"), a principal subsidiary of the Company, was previously granted the Manufacturing Headquarters ("MH") status by the Singapore Economic Development Board ("EDB") whereby the Group's profit arising from the manufacturing of semiconductor equipment and materials by ATS in Singapore was non-taxable under a tax incentive covering certain new products. The tax exemption applied to profits arising for a period of 10 years from 1 January 2001, subject to the fulfillment of certain criteria during the relevant period, and expired on 31 December 2010.

On 12 July 2010, EDB granted a Pioneer Certificate ("PC") to ATS to the effect that profits arising from certain new assembly and packaging equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates commenced or to be commenced between 1 June 2010 and 1 January 2012 across specified products, subject to fulfillment of certain criteria during the relevant periods. EDB also granted a 5-year Development and Expansion Incentive ("DEI") to ATS to the effect that profits arising from certain existing products are subject a concessionary tax rate of 10% for a period of 5 years from 1 January 2011, subject to the fulfillment of certain criteria during the relevant period.

On the same date, EDB also granted ATS an International Headquarters Award ("IHA") to the effect that certain income arising from qualifying activities conducted by ATS, excluding income from business transactions with companies or end customers in Singapore, are subject to a concessionary tax rate of 5% for a period of 10 years from 1 January 2011, subject to fulfillment of certain criteria during the relevant period.

Income of ATS arising from activities not covered under the abovementioned incentives is taxed at the prevailing corporate tax rate in Singapore of 17% (2010: 17%).

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% plus 5.50% solidarity surcharge thereon for all distributed and retained earnings. In addition to corporate income tax, trade tax is levied on taxable income. For the current year, the applicable German trade tax (local income tax) rate was 17.00%. Thus the aggregate tax rate amounts to 32.825%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

12. INCOME TAX EXPENSE (Continued)

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

	2011 HK$'000	2010 HK$'000
Profit before taxation	3,289,444	3,219,647
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	542,758	531,242
Tax effect of expenses not deductible in determining taxable profit	37,684	12,903
Tax effect of income not taxable in determining taxable profit	(187,278)	(7,505)
Tax effect of tax losses not recognised	25,238	6,417
Tax effect of utilisation of tax losses previously not recognised	(22,363)	(35,066)
Effect of different tax rates of subsidiaries operating in other jurisdictions	104,551	728
Effect of tax exemption and concessions under the MH status and PC, DEI and IHA granted by EDB	(108,422)	(135,079)
Underprovision in prior years	638	34
Others	(35,342)	3,939
Tax charge for the year	357,464	377,613

Note: The income tax rate (which is the Hong Kong Profits Tax rate) in the jurisdiction where one of the major operations of the Group is substantially based is used.

The Company continued to receive letters from the Hong Kong Inland Revenue Department during the year ended 31 December 2011 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries 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. As at 31 December 2011, the Group purchased tax reserve certificates amounting to HK$184,329,000 (2010: HK$137,929,000), as disclosed in note 23.

Based on legal and other professional advice that the Company has sought, the directors continued to be of the opinion that sufficient provision for taxation has been made in the consolidated financial statements and the amounts paid under the tax reserve certificates are fully recoverable.

13. PROFIT FOR THE YEAR

	2011 HK$'000	2010 HK$'000
Profit for the year has been arrived at after charging:		
Minimum lease payments under operating leases		
– Land and buildings	179,290	59,624
– Motor vehicles	6,648	–
	185,938	59,624
Directors' remunerations *(note 14)*	49,812	37,252
Salaries, wages and bonus	2,534,087	1,522,252
Pension costs, excluding directors	160,848	83,979
Total staff costs	2,744,747	1,643,483
Amortisation for intangible assets (included in cost of sales)	7,111	–
Auditor's remuneration	13,315	8,525
Depreciation for property, plant and equipment	340,324	226,758
Release of prepaid lease payments	571	553
and after crediting:		
Government grants *(Note)*	19,489	5,741
Interest income on bank deposits	21,032	6,215

Note: Government grants for the year ended 31 December 2011 included an amount of HK$6,835,000 which is related to a grant for a product development project under the Innovation Development Scheme in Singapore. The amount has been deducted in research and development expenses incurred for the year ended 31 December 2011. Included in the remaining amount, being mainly government grants received from government authorities in Mainland China, is an amount of HK$5,343,000 which is related to subsidies received relating to toll manufacturing activities.

During the year ended 31 December 2010, an amount of HK$2,222,000 was received during that year towards employment subsidy under the Jobs Credit Scheme in Singapore. This amount was deducted in employee benefits expense incurred for the year ended 31 December 2010. The remaining amount for the year ended 31 December 2010 represented mainly government grants received from government authorities in Mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eleven (2010: eleven) directors were as follows:

	Year ended 31 December 2011											
	Arthur H. del Prado HK$'000	Charles Dean del Prado HK$'000	Robert A. Ruijter HK$'000 (Note d)	Petrus Antonius Maria van Bommel HK$'000	Lee Wai Kwong HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000 (Note b)	Orasa Livasiri HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Total HK$'000
Fees	306	250	–	300	–	–	–	–	400	350	350	1,956
Other emoluments												
Salaries and other benefits	–	–	–	–	15,703	12,097	9,403	2,565	–	–	–	39,768
Contributions to retirement benefits schemes	–	–	–	–	226	12	310	52	–	–	–	600
Performance related incentive bonus payments *(Note a)*	–	–	–	–	2,688	2,700	2,100	–	–	–	–	7,488
Total emoluments	306	250	–	300	18,617	14,809	11,813	2,617	400	350	350	49,812

	Year ended 31 December 2010											
	Arthur H. del Prado HK$'000	Charles Dean del Prado HK$'000 (Note c)	Robert A. Ruijter HK$'000 (Note d)	Petrus Antonius Maria van Bommel HK$'000 (Note e)	Lee Wai Kwong HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Tang Koon Hung, Eric HK$'000 (Note f)	Orasa Livasiri HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	–	300	300	300	900
Other emoluments												
Salaries and other benefits	–	–	–	–	11,568	10,067	7,951	185	–	–	–	29,771
Contributions to retirement benefits schemes	–	–	–	–	211	12	293	1	–	–	–	517
Performance related incentive bonus payments *(Note a)*	–	–	–	–	1,877	1,867	1,494	826	–	–	–	6,064
Total emoluments	–	–	–	–	13,656	11,946	9,738	1,012	300	300	300	37,252

Notes:

(a) The performance related incentive bonus payments are determined with reference to the operating results, individual performance and comparable market statistics in both years.

(b) Appointed on 28 April 2011.

(c) Appointed on 29 April 2010.

(d) Resigned as a non-executive director on 29 October 2010 and then appointed as an alternate director to Petrus Antonius Maria van Bommel upon his appointment as a non-executive director (see note (e) below) and Charles Dean del Prado. Further ceased to act as an alternate director to these two individuals on 11 February 2011.

(e) Appointed on 29 October 2010.

(f) Resigned on 1 February 2010.

14. DIRECTORS' EMOLUMENTS (Continued)

During the year ended 31 December 2011, 328,000 Incentive Shares were granted to certain executive directors under the Employee Share Incentive Scheme (the "Scheme"). As announced by the Company on 12 December 2011, the grant of these Incentive Shares was cancelled and revoked and instead cash bonuses in lieu of the Incentive Shares were paid to the affected executive directors. The aggregate cash bonuses paid to the affected directors amounting to HK$28,398,000, which was determined with reference to the fair value of the shares measured at the cancellation date of 15 December 2011, was included in salaries and other benefits above.

For the year ended 31 December 2010, 284,000 shares of the Company were issued to certain executive directors under the Scheme, and the fair value of these shares amounting to HK$19,042,000 at the grant date was included in salaries and other benefits above.

No directors waived any emoluments in both years.

15. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2010: three) directors, details of whose emoluments are set out in note 14. The emoluments of the remaining two (2010: two) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	12,117	8,710
Contributions to retirement benefits schemes	1,356	288
Performance related incentive bonus payments	460	628
	13,933	9,626

For the year ended 31 December 2011, 62,000 shares (2010: 71,000 shares) of the Company were issued to the above two (2010: two) relevant highest-paid employees under the Scheme, and the fair value of these shares amounting to HK$5,289,000 (2010: HK$4,761,000) at the grant date was included in salaries and other benefits above.

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
HK$3,000,001 to HK$3,500,000	–	1
HK$6,000,001 to HK$6,500,000	–	1
HK$6,500,001 to HK$7,000,000	1	–
HK$7,000,001 to HK$7,500,000	1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

16. DIVIDENDS

	2011 HK$'000	2010 HK$'000
Dividend recognised as distribution during the year		
Interim dividend for 2011 of HK$1.60 (2010: HK$1.60) per share on 396,119,000 (2010: 394,392,100) shares	633,790	631,027
Final dividend for 2010 of HK$2.10 (2010: final dividend for 2009 of HK$1.20) per share on 396,119,000 (2010: 394,392,100) shares	831,850	473,270
Special dividend for 2010 of HK$1.10 (2010: second special dividend for 2009 of HK$0.40) per share on 396,119,000 (2010: 394,392,100) shares	435,731	157,757
	1,901,371	1,262,054
Dividend proposed after the year end		
Proposed final dividend for 2011 of HK$0.80 (2010: HK$2.10) per share on 397,637,100 (2010: 396,119,000) shares	318,110	831,850
Proposed special dividend for 2011 of HK$nil (2010: special dividend for 2010 of HK$1.10) per share on 397,637,100 (2010: 396,119,000) shares	–	435,731
	318,110	1,267,581

The final dividend of HK$0.80 (2010: final dividend of HK$2.10 and special dividend of HK$1.10) per share in respect of the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

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

	2011 HK$'000	2010 HK$'000
Earnings for the purposes of basic and diluted earnings per share (Profit for the year)	2,931,980	2,842,034

	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purpose of basic earnings per share	396,190	394,472
Effect of dilutive potential shares from the Scheme	1,419	1,378
Weighted average number of ordinary shares for the purpose of diluted earnings per share	397,609	395,850

18. 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	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2010	302,995	375,281	2,133,676	32,338	2,128	2,846,418
Currency realignment	15,079	834	22,050	839	133	38,935
Additions	–	125,663	658,727	5,819	67,313	857,522
Disposals	–	(188)	(33,488)	(165)	–	(33,841)
Write-off	–	(67)	(22,900)	(168)	–	(23,135)
At 31 December 2010	318,074	501,523	2,758,065	38,663	69,574	3,685,899
Currency realignment	(4,850)	2,283	4,642	60	3,451	5,586
Acquisition of subsidiaries	–	3,403	132,411	–	–	135,814
Additions	–	129,936	390,540	4,467	279,272	804,215
Disposals	–	(392)	(16,516)	(78)	–	(16,986)
Write-off	–	(87,484)	(140,385)	(4,258)	–	(232,127)
Transfer	197,287	–	–	–	(197,287)	–
At 31 December 2011	510,511	549,269	3,128,757	38,854	155,010	4,382,401
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	156,651	316,865	1,461,343	21,103	–	1,955,962
Currency realignment	3,621	658	9,585	436	–	14,300
Provided for the year	13,741	41,412	169,427	2,178	–	226,758
Eliminated on disposals	–	(188)	(32,730)	(109)	–	(33,027)
Eliminated on write-off	–	(67)	(6,374)	(151)	–	(6,592)
At 31 December 2010	174,013	358,680	1,601,251	23,457	–	2,157,401
Currency realignment	(1,369)	625	1,265	(10)	–	511
Provided for the year	13,518	65,524	258,614	2,668	–	340,324
Eliminated on disposals	–	(211)	(15,779)	(8)	–	(15,998)
Eliminated on write-off	–	(87,364)	(138,606)	(3,839)	–	(229,809)
Impairment loss recognised in profit or loss	–	14,784	40,907	602	–	56,293
At 31 December 2011	186,162	352,038	1,747,652	22,870	–	2,308,722
CARRYING VALUES						
At 31 December 2011	324,349	197,231	1,381,105	15,984	155,010	2,073,679
At 31 December 2010	144,061	142,843	1,156,814	15,206	69,574	1,528,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above 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	10% to $33^1/_3$%
Plant and machinery	10% to $33^1/_3$%
Furniture, fixtures and equipment	10% to 20%

In the opinion of the directors, certain of the Group's property, plant and equipment were impaired at 31 December 2011 as a result of excess production capacity in the etched frame operation in Singapore. The impairment loss of HK$56,293,000 (2010: nil) was recognised based on the recoverable amount of the relevant assets accordingly.

The recoverable amount of leasehold improvements, plant and machinery and equipment for the etched frame operation under the lead frame segment was estimated based on a value-in-use calculation and the calculation was based on the budgeted cash flows approved by the management at a discount rate of 10% covering a seven-year period which is the average remaining useful lives of the relevant plant and machinery. The management considered that stable cash flows would be generated throughout the remaining useful lives of these plant and machinery.

19. INTANGIBLE ASSETS

	Licences and similar rights HK$'000
COST	
At 1 January 2010 and 31 December 2010	–
Currency realignment	(516)
Acquisition of subsidiaries	16,019
Additions	3,511
Disposals	(523)
At 31 December 2011	18,491
AMORTISATION	
At 1 January 2010 and 31 December 2010	–
Charge for the year	7,111
At 31 December 2011	7,111
CARRYING VALUES	
At 31 December 2011	11,380
At 31 December 2010	–

The intangible assets represent licences and similar rights of softwares for machines used in the production.

The licences and similar rights are amortised on a straight-line basis at rates ranging from 20% to $33^1/_3$% per annum.

20. 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:

	2011 HK$'000	2010 HK$'000
Current	979	977
Non-current	28,531	28,782
	29,510	29,759

21. PLEDGED BANK DEPOSIT

Pursuant to the Master Sale and Purchase Agreement of the Acquisition (see note 33) entered into between Siemens Aktiengesellschaft (the "Seller" or "Siemens AG") and the Company (the "MSP Agreement"), the Group provided a bank guarantee to Siemens AG upon completion of the Acquisition for the purpose of securing certain obligations of the Group in accordance with the MSP Agreement in an amount of EUR20,000,000. At 31 December 2011, a bank deposit amounting to EUR20,000,000 (equivalent to HK$201,020,000) is pledged for the purpose of securing the bank guarantee. The pledged bank deposit will be released on 7 January 2015.

The pledged bank deposit carried interest at a market rate of 0.95% per annum.

22. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	811,819	485,539
Work in progress	1,275,456	988,146
Finished goods	458,326	150,497
	2,545,601	1,624,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

23. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	2,098,882	1,895,898
Amount recoverable from Siemens AG *(Note a)*	238,838	–
Amount due from ASM International – trade *(Note b)*	–	30
VAT recoverable	315,880	198,657
Tax reserve certificate recoverable	184,329	137,929
Other receivables, deposits and prepayments	123,742	58,217
	2,961,671	2,290,731
Less: Non-current rental deposits paid shown under non-current assets	(5,480)	(10,261)
	2,956,191	2,280,470

An aging analysis of trade receivables is as follows:

	2011 HK$'000	2010 HK$'000
Not yet due	1,529,797	1,444,641
Overdue within 30 days	278,745	252,653
Overdue within 31 to 60 days	101,536	116,569
Overdue within 61 to 90 days	77,784	50,781
Overdue over 90 days	111,020	31,254
	2,098,882	1,895,898

Notes:

(a) Pursuant to the MSP Agreement, Siemens AG undertakes to pay to the Group such amount as is necessary to indemnify ASM AS Entities (as defined in note 33) from and against any and all taxes imposed to ASM AS Entities relating to any taxable periods beginning before and ending before or after 7 January 2011 while Siemens AG was the beneficial owner. The amount recoverable from Siemens AG represents the aggregate amount of the tax liabilities of ASM AS Entities covered under the tax indemnity and is therefore recoverable from Siemens AG. It is due for settlement once the Group pays the related taxes. The related tax liabilities were partially settled in 2011 with the remaining to be settled in 2012.

(b) At 31 December 2010, amount due from ASM International was not yet due, unsecured, non-interest bearing and repayable according to normal trade terms.

Credit policy: Payment terms with customers are mainly on credit together with deposits received in advance. 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.

23. TRADE AND OTHER RECEIVABLES (Continued)

Included in the Group's trade receivables are debtors with an aggregate amount of HK$569,085,000 (2010: HK$451,257,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, those trade receivables that are past due but not impaired are generally recoverable. The trade and other receivables that are neither past due nor impaired are of good credit quality because of satisfactory repayment history.

24. BANK DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS/ BANK BALANCES AND CASH

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0.001% to 2.9% (2010: 0.001% to 2.2%) per annum.

25. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade payables	802,358	982,204
Amounts due to subsidiaries of ASM International – trade *(Note)*	401	880
Accrued salaries and wages	254,235	108,950
Other accrued charges	507,590	407,013
Deposits received from customers	290,065	280,848
Payables arising from acquisition of property, plant and equipment	189,544	206,137
Other payables	41,230	7,372
	2,085,423	1,993,404
Less: Non-current other liabilities and accruals	(53,684)	–
	2,031,739	1,993,404

An aging analysis of trade payables is as follows:

	2011 HK$'000	2010 HK$'000
Not yet due	530,029	615,949
Overdue within 30 days	106,723	270,895
Overdue within 31 to 60 days	52,845	72,067
Overdue within 61 to 90 days	27,960	16,977
Overdue over 90 days	84,801	6,316
	802,358	982,204

Note: Amounts due to subsidiaries of ASM International are not yet due, unsecured, non-interest bearing and repayable according to normal trade terms.

The average credit period on purchases of goods ranges from 30 to 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2011		2010	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Foreign currency forward contracts	–	17,733	–	–

The foreign currency forward contracts were mainly related to buy Euros and to sell US dollars at contract rates ranging from US$1.2941 to US$1.2983 per EUR with future maturity dates ranging from 30 January 2012 to 30 August 2012 amounting to an aggregate notional amount of US$56,975,000.

The above derivatives were measured at fair value at the end of the reporting period using the prevailing forward exchange rates.

27. PROVISIONS

The Group's provisions are analysed for reporting purposes as:

	2011 HK$'000	2010 HK$'000
Current	307,051	–
Non-current	68,625	–
	375,676	–

The Group's provisions mainly comprise warranties provision of HK$357,658,000 (2010: nil) and provisions for onerous purchase contracts. The movement of the warranties provision is as follows:

	Warranties provision HK$'000
At 1 January 2010 and 31 December 2010	–
Currency realignment	(2,509)
Acquisition of subsidiaries	363,542
Additions	199,412
Utilisation	(160,177)
Reversal	(42,610)
At 31 December 2011	357,658

28. BANK BORROWINGS

At 31 December 2011, all bank borrowings bear interest at LIBOR plus a margin per annum or HIBOR plus a margin per annum, at a weighted average effective interest rate of 1.83% per annum. The bank loans amounting to HK$137,144,000 and HK$194,000,000 will be entirely repaid 3 months and 3 years after the reporting date, respectively. The entire bank borrowings have repayment on demand clause. The loan which matures in December 2014 was borrowed to finance the construction of a property which is classified as construction in progress as at 31 December 2011.

29. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2011	2010	2011	2010
	'000	'000	HK$'000	HK$'000
Issued and fully paid:				
At 1 January	**396,119**	394,392	**39,612**	39,439
Shares issued under the Scheme	**1,518**	1,727	**152**	173
At 31 December	**397,637**	396,119	**39,764**	39,612

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

During the year, 1,518,100 (2010: 1,726,900) shares were issued at par to eligible employees and members of management under the Scheme.

30. 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 March 1990. 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.

At the annual general meeting of the Company held on 24 April 2009, the shareholders approved to extend the period of the Scheme for a term of a further 10 years up to 23 March 2020 and allow up to 7.5% of the issued share capital of the Company from time to time (excluding any shares subscribed for or purchased pursuant to the Scheme since 23 March 1990) to be subscribed for or purchased pursuant to the Scheme during such extended period and that no more than 3.5% of the issued share capital of the Company from time to time (excluding any shares subscribed for or purchased pursuant to the Scheme since 23 March 1990) to be subscribed for or purchased pursuant to the Scheme for the period from 24 March 2010 to 23 March 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

30. EMPLOYEE SHARE INCENTIVE SCHEME (Continued)

On 2 March 2010, the directors resolved to grant a total of 1,747,100 new shares in the Company to 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 of such grant was from 2 March 2010 to 15 December 2010. 1,726,900 of these shares entitlements were issued on 15 December 2010 and the estimated fair value of these shares at the grant date amounted to HK$115,789,000. 20,200 shares were forfeited and unallotted by the Company on the same date. The fair value was determined with reference to market value of shares at the grant date taking into account of the expected dividends as employee is not entitled to receive dividends paid during the vesting period.

On 11 March 2011, the directors resolved to grant a total of 1,874,400 new shares in the Company to employees and members of the management of the Group upon expiration of the defined qualification period as determined by the Board of Directors (the "First Resolution"). The vesting period of such grant was from 11 March 2011 to 15 December 2011. 1,518,100 of these shares entitlements were issued on 15 December 2011 and the estimated fair value of these shares at the grant date amounted to HK$129,494,000. The fair value was determined with reference to market value of shares at the grant date taking into account of the expected dividends as employee is not entitled to receive dividends paid during the vesting period.

Subsequent to the First Resolution, the Remuneration Committee of the Company considered that it would be of best interests to the Company to cancel and revoke the grant of 328,000 Incentive Shares to four executive directors, and to pay instead cash bonuses in lieu of the Incentive Shares to these four executive directors. The Board of Directors agreed with the Remuneration Committee's recommendations and resolved accordingly (the "Second Resolution"). Details of these are set out in an announcement of the Company dated 12 December 2011.

As a result of the First Resolution, the Second Resolution and the issue of new shares on 15 December 2011, 28,300 shares were forfeited and unallotted by the Company on the same date.

31. RETIREMENT BENEFIT PLANS

Defined contribution 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 Schemes 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 subject only to the maximum level of payroll costs amounting to HK$20,000 per employee, which contribution is matched by the employees.

31. RETIREMENT BENEFIT PLANS (Continued)

Defined contribution plans (Continued)

The employees of the Group in 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 profit or loss of HK$129,590,000 (2010: HK$84,495,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of HK$82,000 (2010: HK$275,000) arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2011, there was 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$29,000 (2010: HK$3,000).

Defined benefit plans

Certain ASM AS Entities (see note 33) operate funded defined benefits pension scheme for all their qualified employees.

Pension benefits provided by ASM AS Entities are currently organised primarily through defined benefit pension plans which cover virtually all German employees and certain foreign employees of ASM AS Entities.

Furthermore, ASM AS Entities provide other post-employment benefits, which consist of transition payments and death benefits to German employees after retirement. These predominantly unfunded other post-employment benefit plans qualify as defined benefit plans under HKFRSs.

Defined benefit plans determine the entitlements of their beneficiaries. An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the reporting date due to future compensation or benefit increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the Defined Benefit Obligation ("DBO"), which is calculated with consideration of future compensation increases by actuaries. The DBO is calculated based on the projected unit credit method and reflects the net present value as of the reporting date of the accumulated pension entitlements of active employees, former employees with vested rights and of retirees and their surviving dependents with consideration of future compensation and pension increases. The most recent actuarial valuation of the DBO plan in Germany was carried out at 31 December 2011 by independent qualified actuaries, Aon Hewitt GmbH, a member of the International Actuarial Association.

In the case of unfunded plans, the recognised pension liability is equal to the DBO adjusted by unrecognised past service cost. In the case of funded plans, the fair value of the plan assets is offset against the benefit obligations. The net amount, after adjusting for the effects of unrecognised past service cost, is recognised as a pension liability or prepaid pension asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2011

31. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	31 December 2011
Discount rate	5.25%
Expected return on plan assets	4.00%
Expected rate of compensation increase	2.26%
Expected rate of pension progression	1.75%

The retirement benefit plans obligations at 31 December 2011 comprise:

	HK$'000
Principal pension benefit plans	9,438
Other post-employment benefit plans	14,216
Other retirement benefit obligations	3,191
	26,845

Net amount recognised in other comprehensive income (net of tax) for the year ended 31 December 2011 is as follows:

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Actuarial gains	11,081	1,898	30	13,009
Income tax effect	(3,230)	(477)	–	(3,707)
	7,851	1,421	30	9,302

The cumulative actuarial gains recognised in other comprehensive income amounted to HK$9,033,000.

31. RETIREMENT BENEFIT PLANS (Continued)

Principal pension benefit plans

A reconciliation of the funded status of the principal pension benefit plans to the amount recognised in the consolidated statement of financial position at 31 December 2011 is as follows:

	HK$'000
Fair value of plan assets	214,740
Total present value of DBO	
Defined benefit obligation (funded)	(222,572)
Defined benefit obligation (unfunded)	(1,606)
	(9,438)

The actuarial valuation showed that market value of the plan assets was HK$214,740,000 and that the actuarial value of these represented 96% of the benefits that had accrued to members.

The following table shows the change in the plan assets for the year ended 31 December 2011:

	HK$'000
Fair value of plan assets at completion date of acquisition of subsidiaries	230,542
Currency realignment	(6,155)
Expected return on plan assets	7,349
Actuarial losses on plan assets	(17,965)
Contributions from plan participants	969
	214,740

The pension asset allocation of the principal pension benefit plans as of 31 December 2011 are as follow:

	%
Asset class	
Fixed income and corporate bonds	82
Equity	16
Cash and other assets	2
	100

The weighted average expected return of the plan assets at 31 December 2011 is 4% per annum. The expected return on plan assets is determined on an uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

31. RETIREMENT BENEFIT PLANS (Continued)

Principal pension benefit plans (Continued)

The actual return on defined benefit plan assets for the year ended 31 December 2011 was a loss of HK$10,616,000.

The reconciliation of the changes in the DBO for the year ended 31 December 2011 is as follows:

	HK$'000
DBO assumed in the acquisition of subsidiaries	231,648
Currency realignment	(4,594)
Service cost	16,390
Interest cost	9,794
Actuarial gains	(29,046)
Transfer in	(704)
Contributions from plan participants	969
Benefits paid	(279)
	224,178

The experience adjustment arising on the principal pension benefit plans for the year ended 31 December 2011 was HK$7,075,000.

Other post-employment benefit plans

Employees who joined ASM Assembly Systems GmbH & Co. KG ("ASM AS KG"), a subsidiary located in Germany, on or before 30 September 1983, are entitled to transition payments and death benefits. In respect of the transition payments for the first six months after retirement, participants receive the difference between their final compensation and the retirement benefits payable under the corporate pension plan. Employees of the Group in France are entitled to retirement indemnity plans as required by the French labour laws.

The reconciliation of the funded status of the other post-employment benefit plans to the amount recognised in the consolidated statement of financial position is as follows:

	HK$'000
Defined benefit obligation (unfunded)	14,216

31. RETIREMENT BENEFIT PLANS (Continued)

Other post-employment benefit plans (Continued)

The reconciliation of the changes in the benefit obligation for the other post-employment benefits for the year ended 31 December 2011 is as follows:

	HK$'000
Defined benefit obligation assumed in the acquisition of subsidiaries	15,267
Currency realignment	(348)
Service cost	691
Interest cost	704
Actuarial gains	(1,898)
Benefits paid	(200)
	14,216

The experience adjustment arising from the other post-employment benefit plans for the year ended 31 December 2011 was HK$1,530,000.

The components of the principal pension benefit plans and the other post-employment benefit plans recognised in profit or loss in respect of these defined benefit plans and other post-employment benefits for year ended 31 December 2011 are as follows:

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost	(16,390)	(691)	(17,081)
Interest cost	(9,794)	(704)	(10,498)
Expected return on plan assets	7,349	–	7,349
	(18,835)	(1,395)	(20,230)

Service cost for pension is allocated among functional costs (cost of sale, selling and distribution expenses, general and administrative expenses, and research and development expenses). The net amount of interest cost and expected return on plan assets is included in general and administrative expenses in the consolidated statement of comprehensive income.

Other retirement benefit obligations

The consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Italy and Austria amounting to HK$3,191,000 as at 31 December 2011. The obligations assumed in the acquisition of subsidiaries for the year ended 31 December 2011 was HK$3,061,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2011

32. DEFERRED TAXATION

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

	Depreciation HK$'000 *(Note a)*	Tax losses HK$'000	Retirement benefit obligations HK$'000	Inventories HK$'000	Trade receivables HK$'000	Provisions HK$'000	Others HK$'000	Total HK$'000
At 1 January 2010	9,504	1,497	–	–	–	–	9,501	20,502
(Charge) credit to profit or loss for the year	(277)	(1,610)	–	–	–	–	4,089	2,202
Effect of change in tax rate	–	–	–	–	–	–	43	43
Currency realignment	11	113	–	–	–	–	14	138
At 31 December 2010	9,238	–	–	–	–	–	13,647	22,885
Acquisition of subsidiaries *(Note b)*	(12,792)	77,458	18,268	(126,087)	(134,024)	5,455	(35,685)	(207,407)
Credit (charge) to profit or loss for the year	1,657	(80,419)	5,609	192,864	128,008	23,740	(9,274)	262,185
Charge to other comprehensive income for the year	–	–	(3,707)	–	–	–	–	(3,707)
Currency realignment	101	5,435	(1,079)	(7,163)	(9,733)	317	(2,079)	(14,201)
At 31 December 2011	(1,796)	2,474	19,091	59,614	(15,749)	29,512	(33,391)	59,755

Notes:

(a) The deferred tax arose from the temporary difference between the carrying amount of property, plant and equipment and their tax base. As at 31 December 2010, the tax depreciation was less than accounting depreciation. A deductible temporary difference arose, and resulted in a deferred tax asset.

(b) The amounts of net deferred tax liabilities were mainly related to acquisition of interest in certain ASM AS Entities (see note 33). From the respective local countries' tax point of view, the amounts of the tax base of the assets and liabilities of the acquiree equals the purchase consideration of the respective entity. The net carrying value of the assets and liabilities of the acquiree is higher than purchase consideration. The temporary difference between the tax base of each single asset and liability and the carrying value of the asset and liability resulted in deferred tax liabilities. The deductible temporary difference arising from retirement benefit obligations and provisions would be reversed upon the settlement of the related obligations and provisions. The taxable temporary difference arising from inventories and trade receivables would be reversed upon sales of inventories and collection of the receivables, respectively.

32. DEFERRED TAXATION (Continued)

The following is the analysis of the deferred tax balances for the purpose of presentation in the consolidated statement of financial position:

	2011 HK$'000	2010 HK$'000
Deferred tax assets	98,223	23,495
Deferred tax liabilities	(38,468)	(610)
	59,755	22,885

At 31 December 2011, the Group had unused tax losses of HK$449,966,000 (2010: HK$461,113,000) available to offset future taxable profits. At 31 December 2011, a deferred tax asset amounting to HK$2,474,000 was recognised for tax losses amounting to HK$12,753,000 and no deferred tax was recognised in respect of the remaining tax losses of HK$437,213,000 due to the unpredictability of future profit streams. At 31 December 2010, no deferred tax asset was recognised in respect of the tax losses of HK$461,113,000 due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of HK$6,988,000 that will expire during the years 2016 to 2019 (2010: HK$14,969,000 that will expire during the years 2016 to 2019). Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For certain subsidiaries located in other jurisdictions, withholding tax is also imposed on dividend. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of these subsidiaries amounting to HK$632,717,000 (2010: HK$208,379,000) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

33. ACQUISITION OF SUBSIDIARIES

On 7 January 2011, the Group acquired the entire equity interest of 13 direct and indirect subsidiaries of Siemens AG ("ASM AS Entities") operating the surface mount technology equipment business in 11 countries, including Germany, the PRC, the United Kingdom, France, Austria, the United States of America, Mexico, Singapore, Sweden, Italy and Brazil (the "Acquisition"), for a cash consideration of EUR35,900,000 (approximately HK$372,841,000).

The principal activities of the ASM AS Entities are development, production, sale and service of surface mount technology placement machines. The ASM AS Entities were acquired so as to achieve significant synergies given they have similar engineering, technical and production process characteristics compared to the semiconductor equipment industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

33. ACQUISITION OF SUBSIDIARIES (Continued)

	HK$'000
Consideration transferred *(Note)*:	
– by cash	372,841
– service fee in respect of bank guarantee paid to a bank	1,558
– service fee in respect of bank guarantee payable to a bank	4,673
	379,072

Acquisition-related costs have been excluded from the cost of acquisition and recognised as an expense in the year when incurred within the "general and administrative expenses" line item in the consolidated statement of comprehensive income. Cumulative acquisition-related costs in respect of the Acquisition amounted to HK$53,460,000, of which HK$7,073,000 was charged to profit or loss in the current year with the remaining amount charged to profit and loss in previous years.

Note: Apart from the cash consideration paid by the Group, the Company undertook certain financial commitments to the ASM AS Entities and Siemens AG pursuant to the Master Sale and Purchase Agreement of the Acquisition entered into between Siemens AG and the Company (the "MSP Agreement") which are summarised as set out below.

The Company undertook to pay to ASM AS KG, one of the ASM AS Entities, an equity amount of EUR20.0 million (approximately HK$208.0 million) as capital injection to increase ASM AS KG's registered limited partnership interest, and to grant ASM AS KG a revolving loan facility of up to EUR20.0 million (approximately HK$201.0 million) for a period of at least three years from the completion of the Acquisition subject to the terms and conditions as set out in the MSP Agreement (the "Loan Commitment"). The Company shall not alter, rescind, rewind or in any other way contradict the letter of support granted to ASM AS KG up to an amount of EUR120.0 million (approximately HK$1,206.0 million) valid as for a duration of six years following the completion of the Acquisition. The letter of support is to procure that ASM AS KG will for a period of six years after the completion of the Acquisition be in position to fulfil its obligations towards its creditors when the obligations become due. The Company undertook to procure that ASM AS KG will not reduce or decrease the registered limited partnership interest of ASM AS KG for a period of three years following the completion of the Acquisition.

Further, the Company undertook to Siemens AG that for a period of three years from date of the completion of the Acquisition that the Company would not directly or indirectly, (i) make, resolve, initiate, enable or accept any withdrawals from ASM AS KG or any of its partial or entire successors conducting the business or parts thereof (the "Sustained Business"), (ii) make, resolve on, initiate, enable or accept dividend payments or loan repayments by the Sustained Business, (iii) encumber, induce or impose the encumbrance of any assets of ASM AS KG or any of its successors other than in the ordinary course for the regular operative business of ASM AS KG, (iv) accept other non-arm's length advantages from the Sustained Business, or (v) change, alter, rescind, rewind or in any other way contradict the equity commitment and loan commitment as set out in the MSP Agreement. In addition, the Company undertook to Siemens AG that certain employment protection clauses of ASM AS KG as included in the MSP Agreement, including the maintenance of existing site in Munich, Germany and Munich as the headquarters of the group comprising principally the ASM AS Entities, and compliance with certain collective labour agreements. The Company also undertook to pay Siemens AG liquidated damages in the amount up to EUR20.0 million (approximately HK$201.0 million) if the Group does not comply with its obligations in respect of the Sustained Business and employment protection as set out in the MSP Agreement and is not able to cure such non-compliance within a reasonable period of time. The Company agreed to provide Siemens AG with a bank guarantee which shall secure the obligations of the Group as set out above in an amount of not less than EUR20.0 million (approximately HK$201.0 million). The bank charges a service fee of 0.75% per annum on the guarantee amount, which is equivalent to EUR150,000 per annum. The guarantee is to cover a period of four years and the aggregate expense to the Company would be EUR600,000 (approximately HK$6,231,000), which represents part of the acquisition cost and is regarded as part of the consideration for the Acquisition.

33. ACQUISITION OF SUBSIDIARIES (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Non-current assets	
Property, plant and equipment	135,814
Intangible assets	16,019
Deferred tax assets	18,308
Other non-current assets	5,128
	175,269
Current assets	
Inventories	1,073,257
Trade and other receivables	1,365,364
Income tax recoverable	7,295
Derivative financial instruments	2,586
Bank balance and cash	842,012
	3,290,514
Current liabilities	
Trade and other payables	1,209,792
Provisions	329,950
Income tax payable	55,734
Bank borrowings	69,977
	1,665,453
Non-current liabilities	
Retirement benefit obligations	19,434
Provisions	73,207
Deferred tax liabilities	225,715
Other liabilities and accruals	18,475
	336,831
Net assets	1,463,499
Gain from a bargain purchase arising on acquisition:	
Consideration transferred	379,072
Less: Net assets acquired	1,463,499
Gain from a bargain purchase	1,084,427
Net cash inflow arising on acquisition:	
Consideration paid in cash	(372,841)
Service fee in respect of bank guarantee paid to a bank	(1,558)
Less: Cash and cash equivalents acquired	842,012
	467,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

33. ACQUISITION OF SUBSIDIARIES (Continued)

The receivables acquired (which principally comprised trade and other receivables) with a fair value of HK$1,365,363,000 and had gross contractual amounts of HK$1,397,056,000. The best estimate at acquisition date of the contractual cash flows of the receivables is expected to be collected.

Gain from a bargain purchase of HK$1,084,427,000 was recognised upon completion of the acquisition of the ASM AS Entities. The gain from a bargain purchase on acquisition was mainly attributable to depressed market value of the acquired business because of years of losses due to challenging economic environment and the bad global economic environment during the period of negotiation of the Acquisition. The fair value of certain contingent liabilities that might arise from the acquired business could not be measured reliably and such contingent liabilities were not recognised.

Included in the revenue and profit for the year of the Group are HK$4,875,100,000 and HK$335,417,000, respectively, which represent the revenue and profit of the ASM AS Entities for the year.

34. CONTINGENT LIABILITIES

	2011 HK$'000	2010 HK$'000
Guarantees given to the Singapore government for work permits of foreign workers in Singapore	2,898	3,000

In addition, a supplier raised a claim in 2009 against a group entity which was acquired by the Group during the year. The management estimated the expected financial effect to be an amount of EUR2,500,000 (equivalent to HK$25,128,000) and the amount was recognised as of 31 December 2011. The legal proceedings have not yet been finalised, however the management believes the accrued liabilities will be sufficient to meet the obligation under the claim. The Company is not aware of any other legal proceedings that would have an adverse or material impact on the Group's financial results.

35. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– authorised but not contracted for	158,881	–
– contracted for but not provided in the consolidated financial statements	174,567	213,378
	333,448	213,378

36. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 Land and buildings HK$'000	2011 Motor vehicles HK$'000	2011 Total HK$'000	2010 Land and buildings HK$'000	2010 Motor vehicles HK$'000	2010 Total HK$'000
Within one year	160,061	5,031	165,092	62,591	–	62,591
In the second to fifth years inclusive	348,476	3,121	351,597	127,842	–	127,842
Over five years	50,826	–	50,826	9,554	–	9,554
	559,363	8,152	567,515	199,987	–	199,987

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties, quarters and motor vehicles. 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 six years (2010: two to five years).

37. 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 grant date, and are generally vesting in equal parts over a period of five years and generally will expire after five or ten years from the grant date.

A summary of the movements of share options of ASM International granted to the directors of the Company in respect of services provided to ASM International is as follows:

	Held by directors	Weighted average exercise price EUR
At 1 January 2010	60,441	19.47
Granted during the year	25,000	16.27
On appointment as a director of the Company during the year	192,451	13.66
Forfeited as a result of the performance condition during the year	(10,361)	19.47
At 31 December 2010	267,531	14.99
Granted during the year	128,000	22.33
Performance related vesting adjustment	25,000	12.71
At 31 December 2011	420,531	17.11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

38. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2010, the Group paid a management fee of HK$750,000 (2011: nil) to ASM International under a consultancy agreement between ASM International and the Company, which constituted a connected transaction as defined under the Listing Rules. Pursuant to the original consultancy agreement, an annual management fee of HK$1.5 million shall be payable to ASM International which acted as a consultant, introduced new business and provided 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. The consultancy agreement was terminated with effect from 1 January 2011.

(b) During the year ended 31 December 2011, the Group purchased property, plant and equipment from ASM Front End Manufacturing Singapore Pte. Limited, a subsidiary of ASM International, at a consideration HK$1,140,000 (2010: nil).

(c) Compensation of key management personnel

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

	2011 HK$'000	2010 HK$'000
Short-term benefits	55,705	23,751
Post-employment benefits	981	888
Share-based payments	6,056	24,607
	62,742	49,246

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. Cash bonuses paid to certain executive directors during the year ended 31 December 2011 in lieu of Incentive Shares when the grant of Incentive Shares was cancelled and revoked (see notes 14 and 30) were included in short-term benefits.

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

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2011 and 2010 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%	Marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	–	MYR10,000	–	100%	Marketing service
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 of semiconductor equipment
ASM Assembly Systems GmbH & Co. KG *(Note a)*	Germany	–	EUR20,200,000	–	100% *(Note b)*	Manufacture and sale of surface mount technology equipment
ASM Assembly Systems, LLC	Delaware, United States	–	–	–	100% *(Note b)*	Trading of surface mount technology equipment
先進裝配系統有限公司 (ASM Assembly Systems Ltd.)*	PRC	–	EUR5,400,000	–	100% *(Note b)*	Trading of surface mount technology equipment
ASM Assembly Systems Singapore Pte. Ltd.	Singapore	–	S$33,000,001	–	100% *(Note b)*	Manufacture and sale of surface mount technology equipment
ASM Assembly Technology Co., Limited	Japan	–	JPY10,000,000	100%	–	Trading of semiconductor equipment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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	
先域微電子技術服務(上海)有限公司 (ASM Microelectronic Technical Services (Shanghai) Co., Limited)*	PRC	–	US$400,000	–	100%	Trading of semiconductor equipment
ASM Pacific Assembly Products, Inc.	United States of America	–	US$60,000	–	100%	Trading of semiconductor equipment and materials
ASM Pacific (Bermuda) Limited	Bermuda	–	US$120,000	–	100%	Insurance services to group companies
ASM Pacific (Holding) Limited *(Note d)*	Hong Kong	–	HK$1,000,000	100%	–	Trading of semiconductor equipment and materials in Taiwan
ASM Pacific (Hong Kong) Limited	Hong Kong	–	HK$500,000	100%	–	Marketing service in Korea in 2010, and also trading of semiconductor equipment and materials in Hong Kong in 2011
先進半導體材料(深圳)有限公司 (ASM Semi-conductor Materials (Shenzhen) Co., Ltd.)*	PRC	–	US$36,526,870	–	100%	Manufacture of semiconductor equipment and materials
ASM Technology Asia Limited	Hong Kong	–	HK$2	100%	–	Investment holding and agency services in 2010, and also provision of logistics and purchasing services to group companies in 2011
先進科技(中國)有限公司 (ASM Technology China Limited)*	PRC	–	US$26,058,159 (2010: US$12,058,159)	–	100%	Research and development of semiconductor equipment
ASM Technology Hong Kong Limited *(Note d)*	Hong Kong	–	HK$10,000,000	100%	–	Manufacture of semiconductor equipment and provision of research and development services

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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	
先進科技(惠州)有限公司 (ASM Technology (Huizhou) Co., Ltd.)*	PRC	–	US$72,000,000 (2010: US$34,000,000)	–	100%	Manufacture of semiconductor equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	–	MYR74,000,000	100%	–	Manufacture of semiconductor equipment and materials
ASM Technology Singapore Pte Limited	Singapore	–	S$53,000,000	100%	–	Manufacture and sale 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
進峰貿易(深圳)有限公司 (Edgeward Trading (Shenzhen) Limited)*	PRC	–	US$300,000	–	100%	Trading of semiconductor equipment and materials
深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Limited)	PRC	–	*(Note c)*	–	*(Note c)*	Manufacture of semiconductor equipment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2011

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Notes:

(a) Pursuant to the MSP Agreement entered into with Siemens AG, the Company undertook for a period of three years from the date of completion of acquisition of the ASM AS Entities not to directly or indirectly make, resolve on, initiate, enable or accept dividend payments and loan repayments from ASM AS KG. As at 31 December 2011, no loan was advanced to ASM AS KG and the accumulated losses of ASM AS KG amounted to EUR14,800,000 (approximately HK$148,756,000).

(b) Acquired on 7 January 2011 (see note 33).

(c) Under a joint venture agreement, the Group has committed to contribute 100% of the registered capital of HK$718,300,000 (2010: HK$638,300,000) in 深圳先進微電子科技有限公司 (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 period of five years to October 2009. On 23 June 2009, the term was approved to be extended for a further period of seven years to October 2016. At 31 December 2011, the Group has paid up HK$654,329,270 (2010: HK$632,955,170) as registered capital of MET. The Group has to bear the entire risk and liabilities of MET and, other than annual amount of HK$9,307,000 (2010: HK$8,160,000) attributable to assets provided 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 provided by the PRC joint venture partner and those irremovable building improvements. The annual amount paid to the PRC joint venture partner was included in the minimum lease payments during the year. The commitment for the future payments was included in the operating lease commitments as at 31 December 2011 and 2010 in note 36.

(d) Incorporated on 8 February 2011.

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

All the principal subsidiaries operate predominantly in their respective places 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.

40. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011 HK$'000	2010 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	464,199	452,199
Loans to subsidiaries	708,998	116,434
Pledged bank deposit	201,020	–
	1,374,217	568,633
Current assets		
Amounts due from subsidiaries	3,882,294	3,056,175
Other current assets	168,691	992,905
	4,050,985	4,049,080
Current liabilities	(2,616,174)	(1,894,454)
Net current assets	1,434,811	2,154,626
	2,809,028	2,723,259
Capital and reserves		
Share capital *(see note 29)*	39,764	39,612
Reserves *(Note)*	2,769,264	2,683,647
	2,809,028	2,723,259

Note: The movement of the reserves of the Company is as follows:

	HK$'000
At 1 January 2011	2,683,647
Premium for shares issued under the Employee Share Incentive Scheme	129,342
Profit for the year	1,857,646
2010 final and special dividend paid	(1,267,581)
2011 interim dividend paid	(633,790)
At 31 December 2011	2,769,264

FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Results					
Turnover	**12,915,194**	9,515,089	4,732,174	5,258,413	5,392,661
Profit before taxation	**3,289,444**	3,219,647	1,065,770	1,103,564	1,450,125
Income tax expense	**(357,464)**	(377,613)	(130,332)	(129,891)	(180,628)
Profit for the year	**2,931,980**	2,842,034	935,438	973,673	1,269,497

	At 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Assets and Liabilities					
Non-current assets	**2,470,652**	1,656,547	938,753	1,034,853	1,040,759
Current assets	**7,141,054**	5,960,609	3,831,063	2,750,211	3,019,792
Current liabilities	**(3,158,289)**	(2,476,396)	(1,359,185)	(919,052)	(1,108,904)
Net current assets	**3,982,765**	3,484,213	2,471,878	1,831,159	1,910,888
Non-current liabilities	**(187,622)**	(610)	(555)	(1,912)	(1,528)
Equity attributable to owners of the Company	**6,265,795**	5,140,150	3,410,076	2,864,100	2,950,119

ASM Pacific Technology Limited
12/F Watson Centre
16-22 Kung Yip Street
Kwai Chung, New Territories
Hong Kong
Telephone (852) 2424 2021
Facsimile (852) 2481 3367

Subsidiaries

ASM Technology Singapore Pte Limited
ASM Pacific (Hong Kong) Limited
ASM Technology Hong Kong Limited
ASM Assembly Systems GmbH & Co. KG
Shenzhen ASM Micro Electronic Technology Company Limited
ASM Semi-conductor Materials (Shenzhen) Company Limited
ASM Technology (Huizhou) Co., Limited
ASM Technology (M) Sdn. Bhd.
ASM Technology China Limited

www.asmpacific.com

This annual report is printed on environmental paper
此年報以環保紙張印製