ASM

*ASM Pacific Technology Limited*

(STOCK CODE 股份代號:0522)

# STRATEGIC TRANSFORMATION FOR GROWTH

# 前瞻・蛻變・邁進

ANNUAL REPORT **2014** 年報

# ASMPT
## Performance in Year 2014

- Record Group revenue of US$1.83 billion, representing a strong increase of 31.3% over the preceding year
- Net profits of HK$1.60 billion and earnings per share of HK$3.99, representing a surge of 186.4% over the preceding year
- Back-end equipment revenue of US$877.2 million, representing a strong increase of 30.8% over 2013
- Record Materials business revenue of US$245.2 million, achieving a growth of 10.3% over 2013
- Record SMT solutions revenue of US$712.3 million, representing a strong increase of 41.0% over 2013
- Record new order bookings of US$1.91 billion, representing a strong increase of 37.8% over 2013
- Bookings improved for all three business segments over 2013
- Retained the global #1 position in the semiconductor assembly and packaging equipment market
- Cash on hand of HK$2.59 billion at the end of December 2014

# ASMPT
## 二零一四年之業績表現

- 集團營業額創新高達18.3億美元，較去年大幅增加31.3%
- 盈利為港幣16.0億元，每股盈利為港幣3.99元，較去年激增186.4%
- 後工序設備業務營業額為8.772億美元，較二零一三年大幅增加30.8%
- 物料業務營業額創新高達2.452億美元，較二零一三年增加10.3%
- SMT解決方案業務營業額創新高達7.123億美元，較二零一三年大幅增加41.0%
- 新增訂單總額創新高達19.1億美元，較二零一三年大幅增加37.8%
- 三個業務分部的訂單總額較二零一三年均有改善
- 穩佔全球半導體裝嵌及包裝設備市場第一位
- 於二零一四年十二月底的現金結存為港幣25.9億元

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# CORPORATE INFORMATION

## DIRECTORS

**Executive Directors:**

Arthur H. del Prado, 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
Lok Kam Chong, John
Wong Hon Yee
Tang Koon Hung, Eric

## 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
Commerzbank AG

## 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
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

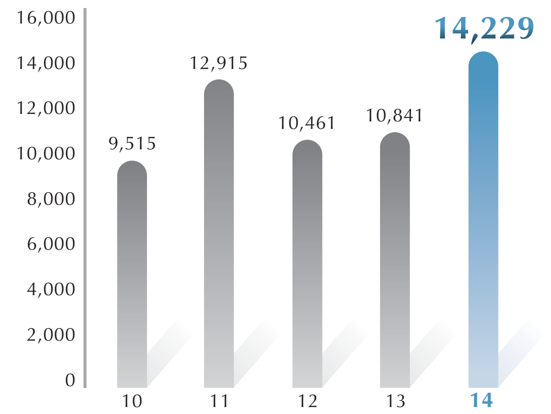
## COMPANY WEBSITE AND CONTACT

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

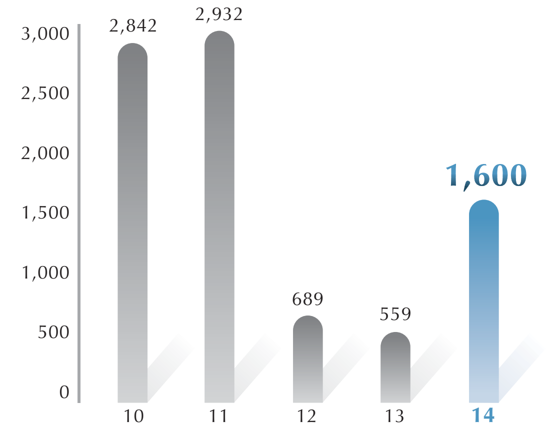
# FINANCIAL HIGHLIGHTS

| | Year ended 31 December | |
|---|---|---|
| | **2014** **HK$'000** | 2013 HK$'000 |
| Turnover | **14,229,177** | 10,841,166 |
| Cost of sales | **(9,179,551)** | (7,661,808) |
| Gross profit | **5,049,626** | 3,179,358 |
| Other income | **86,078** | 31,774 |
| Selling and distribution expenses | **(1,161,244)** | (898,478) |
| General and administrative expenses | **(620,715)** | (560,845) |
| Research and development expenses | **(1,148,382)** | (948,295) |
| Other gains and losses | **112,012** | (7,420) |
| Other expenses | **(168,400)** | (104,521) |
| Finance costs | **(120,512)** | (18,563) |
| Profit before taxation | **2,028,463** | 673,010 |
| Income tax expense | **(428,509)** | (114,421) |
| Profit for the year, attributable to owners of the Company | **1,599,954** | 558,589 |
| Other comprehensive (expense) income | | |
| – exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | **(299,755)** | 93,807 |
| – remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss | **(52,820)** | 12,108 |
| Other comprehensive (expense) income for the year | **(352,575)** | 105,915 |
| Total comprehensive income for the year, attributable to owners of the Company | **1,247,379** | 664,504 |
| Earnings per share | | |
| – Basic | **HK$3.99** | HK$1.40 |
| – Diluted | **HK$3.98** | HK$1.40 |

**Turnover**
(HK$' Million)




**Profit**
(HK$' Million)



# CHAIRMAN'S STATEMENT

## RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") reported a turnover of **HK$14.23 billion** (**US$1.83 billion**) in the fiscal year ended 31 December 2014, representing a rise of 31.3% as compared with HK$10.84 billion (US$1.40 billion) for the previous year. The Group's consolidated profit after taxation for the year is **HK$1.60 billion** which is 186.4% higher than the previous year's net profit of HK$558.6 million. Basic earnings per share (EPS) for the year amounted to **HK$3.99** (2013: HK$1.40).

## DIVIDEND

We continue to believe in returning excessive cash to our shareholders as dividends. After considering the Group's short term needs and our cash on hand, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$1.30** (2013: final dividend of HK$0.50) per share. Together with the interim dividend of HK$0.80 (2013: HK$0.35) per share paid in August 2014, the total dividend payment for year 2014 will be **HK$2.10** (2013: HK$0.85) per share.

## REVIEW

2014 has been another satisfying year in the Group's strategic transformation. Not only did the Group again achieve many new records, it also successfully established its SMT Solutions business as its second growth engine.

During the year, the Group completed two acquisitions, which have served to further expand its product portfolio and will significantly enhance the Group's competitiveness in the marketplace. Over the past four years, the Group has successfully expanded its total addressable market (TAM) from approximately US$5 billion in 2010 to around US$10 billion currently.

Global Leader in Assembly and Packaging Equipment Market

Market share gain in China through the introduction of E by SIPLACE equipment

# Propelled by Dual Growth Engines


2014 REVENUE

2H 2014 PROFIT BEFORE TAX

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

Moreover, the acquisitions added valuable technologies to the Group. With the addition of the multi-beam laser separation, printing and surface-mount technologies to the Group's traditional core competencies in back-end assembly and packaging, the Group is now well-equipped to address new and emerging advanced packaging applications such as embedded printed circuit boards (PCB), system-in-package (SIP), wafer-level packaging, redistribution layers (RDL), flip-chip bonding, thermo-compression bonding (TCB) and advanced CMOS imaging sensors (CIS).

Last year, all three of our business segments achieved revenue growths over the preceding year, notably with both the SMT Solutions and Materials Segments setting multiple new records.

Our Back-end Equipment business continued to be the top supplier in the global market, a position that we first attained in 2002. Over the past thirteen years, the Group was displaced from its leadership position only once in 2012. In fact, the revenue gap with our closest rival has further increased to an unprecedented high last year.

Our Lead frame business continued to set new revenue records and it has grown to become the 4th largest global supplier. Our Lead frame business has been consistently setting new revenue records for the past three years on its way to advancing its market position.

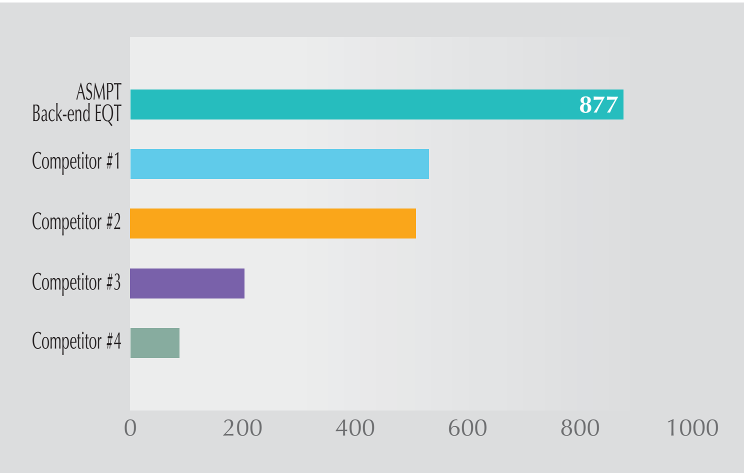
Our SMT Solutions business has arrived at a new revenue record and has taken over the world number two position. We believe that our market share has already exceeded the 20% level and that we have significantly narrowed the revenue gap with the top SMT equipment supplier in the global market. Our team is fully motivated to attain the goal of becoming the global leader in the supply of SMT equipment by 2016.

The year 2014 also marked a turnaround year for the Group in terms of profitability. All three business segments delivered higher profits as well as better profitability. In particular, the profit contribution from our SMT Solutions business has improved significantly.

Last year, the Group attained a new revenue record of HK$14.23 billion (US$1.83 billion), representing a growth of 31.3% as compared to 2013. Net profits for the Group amounted to HK$1.60 billion, representing a surge of 186.4% over the preceding year. Significantly, the Group achieved record quarterly profits before tax (PBT) during the third quarter of last year.

The revenue of the Group was also at a new record during the second half of last year, amounting to HK$8.30 billion (US$1.07 billion), which represented growths of 41.5% and 39.9% against the second half of 2013 and the preceding six months respectively. Net profits for the six-month period amounted to HK$1.03 billion, which was a significant expansion of 220.3% over the same period of 2013. The Group achieved a gross margin of 36.7% during the second half of last year.

**2014 BACK-END EQUIPMENT REVENUE BENCHMARKING** *US$M*




Test and Pack System for Wafer Level Packaging to be launched in 2H 2015

## Always Committed to our Back-end Equipment Business

# BUILDING A PRODUCT PORTFOLIO FOR GROWTH

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

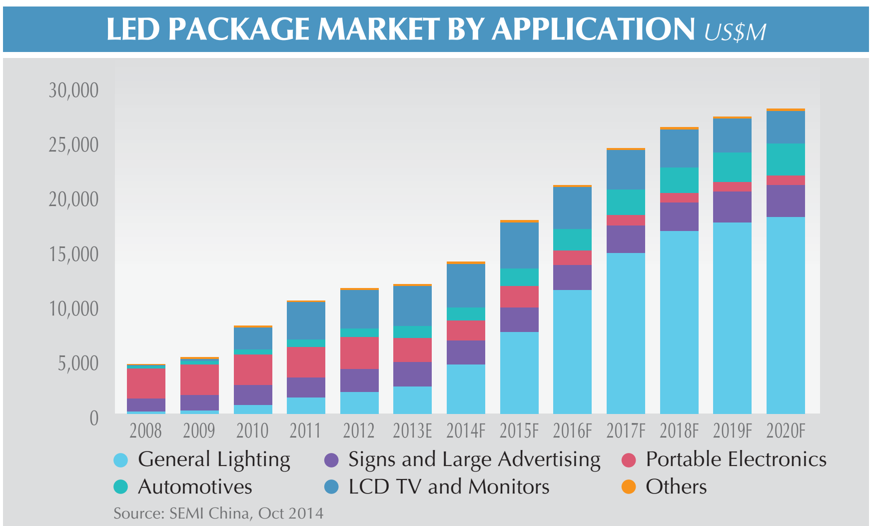
Group revenue for the fourth quarter of last year grew by 24.7% year-on-year to HK$3.45 billion (US$444.0 million). It was slightly below the low-end of our expectations due to some customers postponing deliveries to the subsequent quarter. Net profits for the fourth quarter amounted to HK$243.7 million, representing a surge of 416.4% over the same period of 2013. The Group achieved a gross margin of 38.0% during the fourth quarter of last year. Group revenue in the fourth quarter of last year contracted 29.0% as compared to the third quarter of last year. During the fourth quarter last year, the Group has booked a provision for tax-related expenses of HK$168.4 million in relation to the tax enquiries the Group has been receiving from the Hong Kong Inland Revenue Department ("HKIRD") since 2006. Since discussions with HKIRD have been ongoing for some years, efforts are being made to resolve the pending issues. The Group also booked a charge of HK$38.7 million relating to amortization of fair value increment of assets acquired in DEK business. Excluding these two charges, profit before tax would have been HK$544.3 million for the quarter. Annual amortization of around HK$47.4 million relating to the fair value increment of assets acquired in DEK business will be charged in 2015 and such amount will decrease gradually in future years.

The Group's business remains highly diversified geographically, with China (including Hong Kong) (47.9%), Europe (14.8%), Malaysia (8.4%), Taiwan (8.3%) and the Americas (8.1%) being the top five markets for the Group in 2014. Moreover, we continued to build our business on an extensive customer base. In 2014, no customer accounted for more than 10% of the Group's revenue. The top 5 customers combined contributed to 20.4% of the Group's sales revenue, and 80% of the Group's revenue came from 182 customers.

Out of our top 20 customers, 7 were from the SMT Solutions business and 6 were key customers for both the Back-end and SMT Solutions businesses. The top 20 customers of the Group consisted of customers from different market segments such as the world's leading independent device manufacturers (IDMs), tier-1 outsourced semiconductor assembly and test (OSAT) suppliers, major OSATs in China, key light-emitting diode (LED) players, top electronic manufacturing services (EMS) providers and leading automotive component suppliers. Last year, Back-end Equipment sales to IDM customers were higher than sales to OSAT customers.

New order bookings for all three segments of our business improved over the previous year. Our new order bookings last year amounted to US$1.91 billion, a strong increase of 37.8% as compared to 2013, and achieved a new record for the Group.

Global Leader in LED Packaging Equipment Market



# LED is an Important Growth Driver

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

New order bookings for the second half of last year was US$875.5 million, representing a growth of 32.6% as compared to the same period in 2013, although it was a contraction of 15.4% from the first half of last year.

New order bookings for the fourth quarter of last year was US$342.5 million, representing a growth of 17.0% as compared to the same period in 2013 but a contraction of 35.7% from the preceding quarter.

The book to bill ratio for 2014 was 1.04, while the backlog as of the end of the year was US$361.8 million.

We believe that our achievements in the past year clearly reflect our successful business strategies. We have grown our business with a diversified product portfolio and large customer base. Besides enabling the Group to be more resilient during periods of challenging market conditions, it has further aided the Group in taking advantage of the opportunities brought about by rapid changes in technology and applications.

Furthermore, the Group's proven strategies of focusing on multiple application markets, investing in advanced technologies and collaborating with leading customers have paid off quite handsomely over the past few years.

For decades, ASMPT had built its successes on internal organic growth. Nevertheless, over the past four years, the Group has demonstrated its competence in pursuing strategic acquisitions. We believe that this new competence will enable ASMPT to take full advantage of the current market conditions – namely, the trends of consolidation and technology transition. The enhanced skill-set will certainly help to accelerate the growth of ASMPT.

### Back-end Equipment Segment

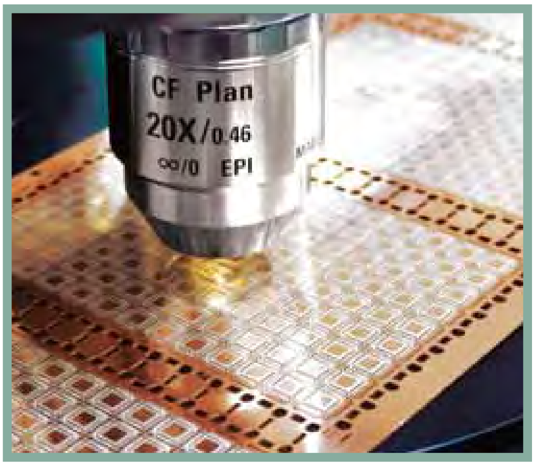
The revenue of our Back-end Equipment business grew by 30.8% last year to HK$6.80 billion (US$877.2 million), which was the second highest in the Group's history, and the Back-end Equipment business contributed 47.8% to the Group's total revenue.

Since 2002, our Back-end Equipment business has held the number one position in the global market, except in 2012 when it was the second largest supplier. In 2014, revenue from our Back-end Equipment business was 65.3% higher than the revenue of our closest rival, with the revenue gap now at a new record of US$346.6 million.

Last year, we experienced strong revenue growth for almost all the major products comprised the Back-end Equipment business. Leading the growth were bonders, including die bonders, flip chip bonders, TCB bonders and wire bonders, while our other Back-end products also demonstrated steady growth.

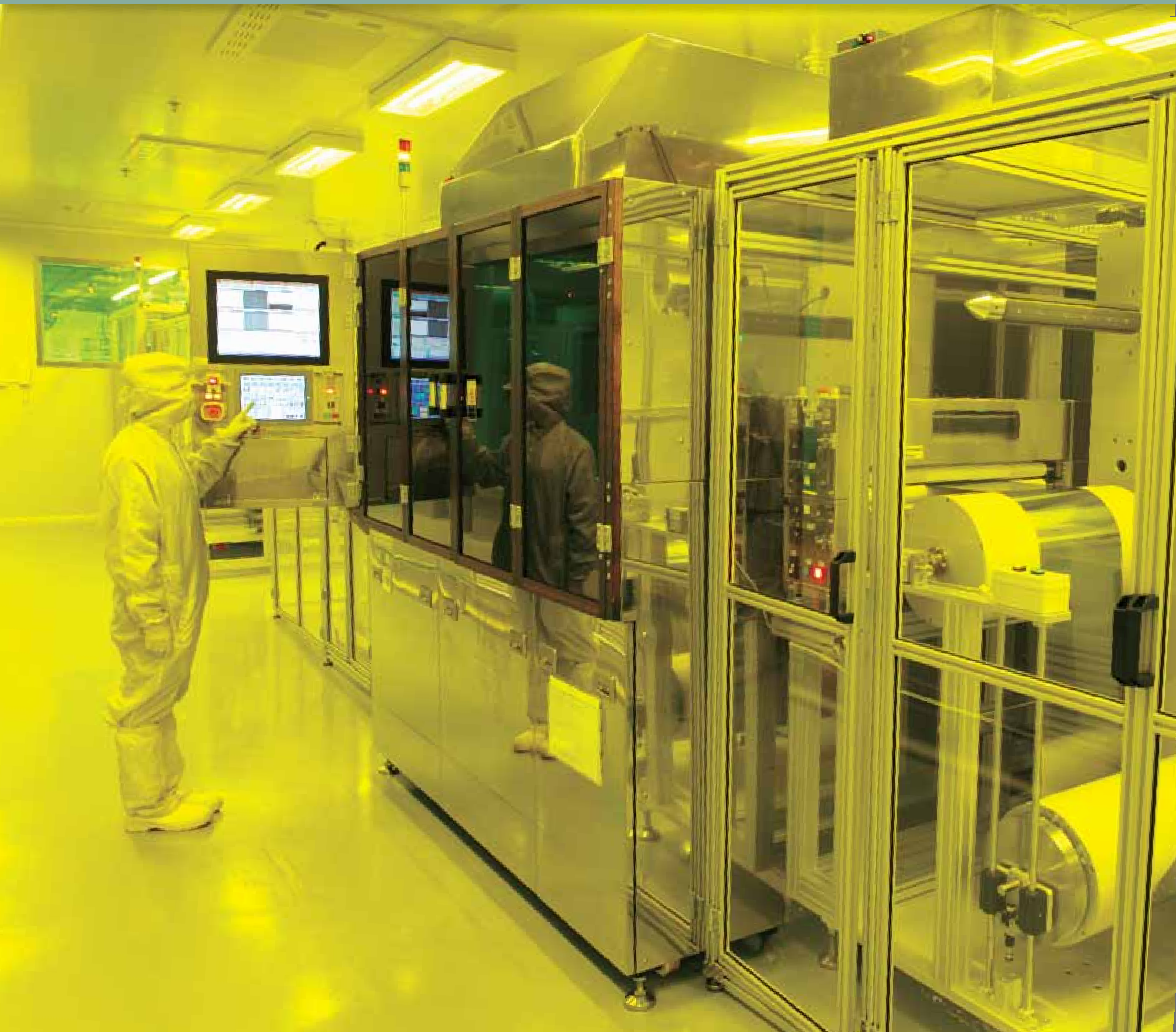
Many new products that we have developed over the past few years contributed to the solid performance of our Back-end Equipment business last year. They were able to either contribute to last year's strong revenue growth or to gross margin improvement. TCB bonders and test handlers performed particularly well.

**LEAD FRAME REVENUE 2010-2014** *US$'000*


Ultra High Density Lead frame solutions translate into huge cost savings for our customers

# Lead frame Business Consistently Setting New Records



# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

### Back-end Equipment Segment (Continued)

Our acquisition of the Laser Separation business (ALSI) has been well-received by customers. Customers were not only impressed by the superior laser technology, high throughput and outstanding quality offered by ALSI's laser grooving and dicing systems, they also gained assurance from ALSI's financial backing from a major supplier like ASMPT. With the acquisition, ALSI is now able to leverage on ASMPT's extensive sales and service network to reach out to customers, particularly in Asia. ALSI is also able to leverage on ASMPT's engineering and manufacturing expertise along with the enabling technologies of ASMPT to drive down the costs of its products.

Laser grooving is becoming almost a necessity for low-k and ultra low-k semiconductor wafers. For some wafer-level packaging applications, it is also necessary to prepare the wafer well with good-quality grooves before the wafer reconstruction process. Laser dicing also significantly reduces the number of process steps for die separation of thin wafers, which is the trend for flash memory and advanced packages. ALSI's multi-beam technology places ASMPT technically well ahead of the competition in the laser dicing arena. Currently, we are the world leader in the RF (radio frequency) application market. Our technology is particularly well suited for dicing silicon-based LED wafers, an emerging technology in the LED market.

Last year, the growth of our Back-end Equipment business was propelled by both the IC/Discrete and LED markets. Smart phones continued to be the major growth driver for the market. The Group also benefitted from the proliferation of higher pixel-count cameras and the installation of multiple cameras on portable electronic devices. Automotive and power management devices were other growth drivers for our business.

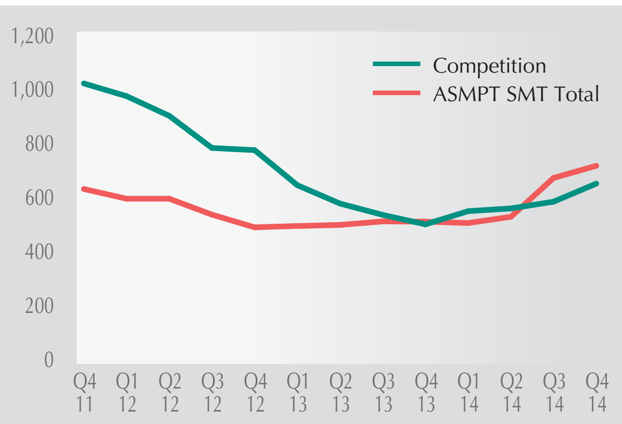
Flip chip bonders, in particular TCB bonders, made substantial contributions to last year's revenue growth.

The strong demand for Back-end Equipment for LED manufacturing last year was mainly driven by LED general lighting and display applications. Besides traditional die and wire bonders, we shipped a substantial quantity of bonders for the assembly of flip-chip LEDs.

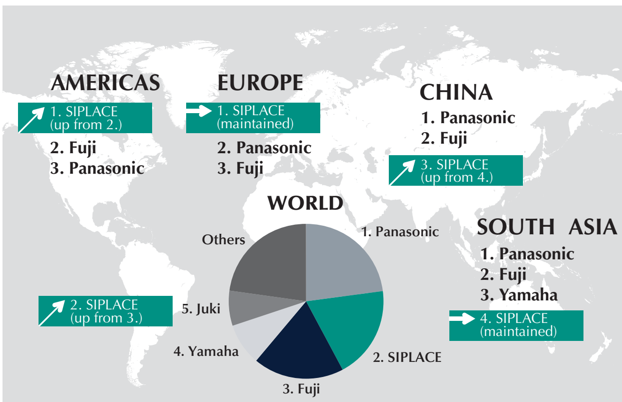
During the second half of last year, Back-end Equipment revenue amounted to HK$3.68 billion (US$475.0 million), representing growths of 33.4% and 18.1% against the second half of 2013 and the preceding six months respectively.

Back-end Equipment revenue for the fourth quarter last year grew 22.3% year-on-year to HK$1.52 billion (US$195.3 million) but contracted 30.1% from the preceding quarter due to seasonal factors.

**ASMPT SMT EQT VS. COMPETITION LAST TWELVE MONTHS SALES** *US$M*

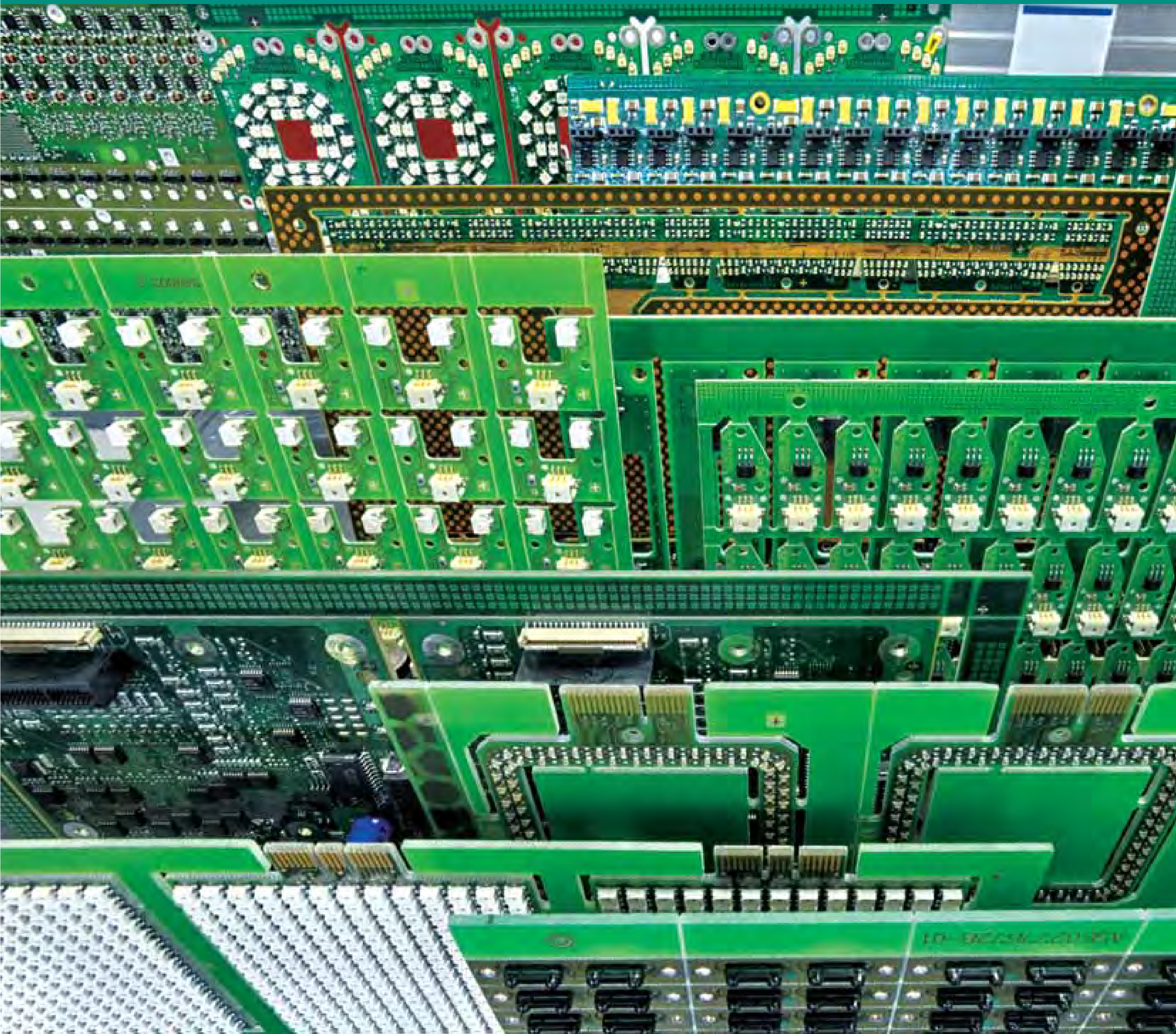



**SIPLACE IS THE MARKET LEADER IN EUROPE AND AMERICAS AND # 2 GLOBALLY**




Source: ASMPT SIPLACE Market Intelligence, February 2015

# SMT – A Successful Investment



# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

### Back-end Equipment Segment (Continued)

New order bookings for Back-end Equipment last year increased strongly by 41.8% as compared to 2013. It was the second highest level of bookings in the Group's history.

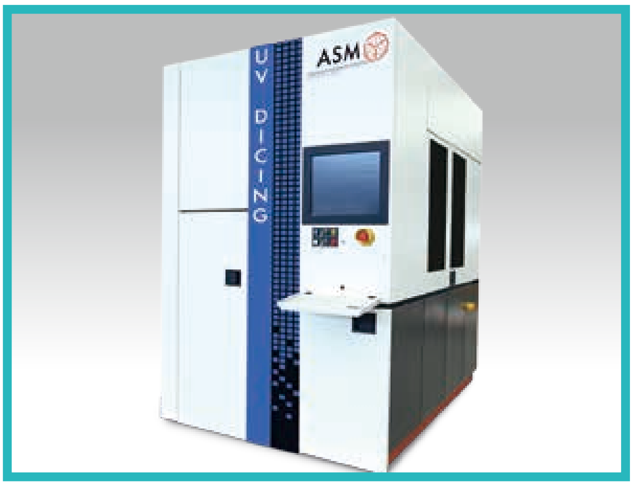
New order bookings for the second half of last year grew 26.6% as compared to the same period of 2013, but contracted 25.2% from the first half of last year.

New order bookings for the fourth quarter of last year grew 3.0% as compared to the same period in 2013, but contracted 46.5% from the preceding quarter. The booking contraction in the fourth quarter appears to reflect that customers' capex last year was mainly front-loaded to the early part of the year.

Profitability of our Back-end Equipment business improved significantly last year, achieving a gross margin of 41.9% and a segment result of 20.2%, representing improvements of 609 bps and 976 bps over the previous year, respectively. The improvement was mainly due to stable average selling price (ASP), aggressive cost reduction efforts, and the introduction of new models of machines. The Back-end Equipment business achieved a gross margin of 42.8% and a segment result of 22.1%, respectively, during the second half of last year.

With our relentless efforts to diversify our product portfolio over the past few years, we have successfully reduced our dependence on the demand for traditional die and wire bonders. Last year, the revenue generated from traditional die and wire bonders for assembly of semiconductor and LED devices contributed to less than 60% of our Back-end Equipment business. It has come down from around the 80% level, which used to be the norm until 2010. The remainder was mainly contributions from packaging-related equipment, test handlers, flip-chip bonders, TCB bonders, clip bonders for power management devices, CMOS image sensor assembly equipment, laser grooving and dicing systems and other advanced packaging equipment. While we believe that wire bonding remains the most cost-effective interconnection technology for semiconductor devices and will continue to account for a much higher volume of semiconductor devices shipped globally, we do recognize the fast-growing trend towards the adoption of advanced packaging technology. Over the past few years, the Group has been consciously building a product portfolio that will reduce its dependence on wire bonding interconnection technology, but without losing focus on it.

While ASMPT has diversified into the SMT Solutions business, it remains committed to the Back-end Equipment business. We believe that we have put in place the right product and technology portfolio to take advantage of the continuing technology transition to advanced packages, a position that no single player in the industry is getting close to achieving as yet. ASMPT will be the undoubted partner for its customers in their pursuit of a successful transition to advanced packaging technology.




Laser grooving and dicing systems offer superior laser technology, high throughput and outstanding quality

Integrated DEK printers and SIPLACE placement equipment offer synergistic value to customers

# Total Addressable Market Doubled in 4 Years

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

### Materials Business Segment

Last year, revenue of our Lead frame business attained another new record of HK$1.90 billion (US$245.2 million), representing a growth of 10.3% from the year before. Both our Stamped and Etched Lead frame businesses achieved new revenue records.

In particular, our Lead frame business has been repeatedly setting new revenue records consecutively for the past three years. Last year, we have progressed to the world number 4 position. It is noteworthy that over the past ten years, our Lead frame business has achieved a CAGR of 12.2%. Last year, Lead frame revenue contributed to 13.4% of the Group's total revenue.

During the second half of last year, Lead frame revenue amounted to HK$953.1 million (US$122.9 million), representing growths of 7.7% and 0.5% against the second half of 2013 and the preceding six months respectively. The result has set a new half-year revenue record.

Lead frame revenue for the fourth quarter last year grew 13.3% year-on-year to HK$450.2 million (US$58.0 million), but contracted 10.5% from the preceding quarter due to seasonal factors.

New order bookings for Lead frames increased by 3.6% last year as compared to 2013, setting a new record in the process. New order bookings for the second half of last year grew 9.4% as compared to the same period in 2013, but contracted 11.8% from the first half of last year. New order bookings for the fourth quarter of last year contracted by 0.6% and 6.5% as compared to the same period in 2013 and the preceding quarter, respectively.

Profitability of our Lead frame business has improved last year. Whilst revenue increased by 10.3% year-on-year, segment results improved by 29.0%.

### SMT Solutions Segment

Our investment in the SMT Solutions business has borne further fruit. Last year, our SMT Solutions business contributed to 38.8% of the Group's revenue and 37.1% of the Group's PBT. Its contribution during the second half of 2014 was especially significant. During the second half of last year, the SMT Solutions business contributed to 44.1% of the Group's revenue and 46.8% of the Group's PBT.

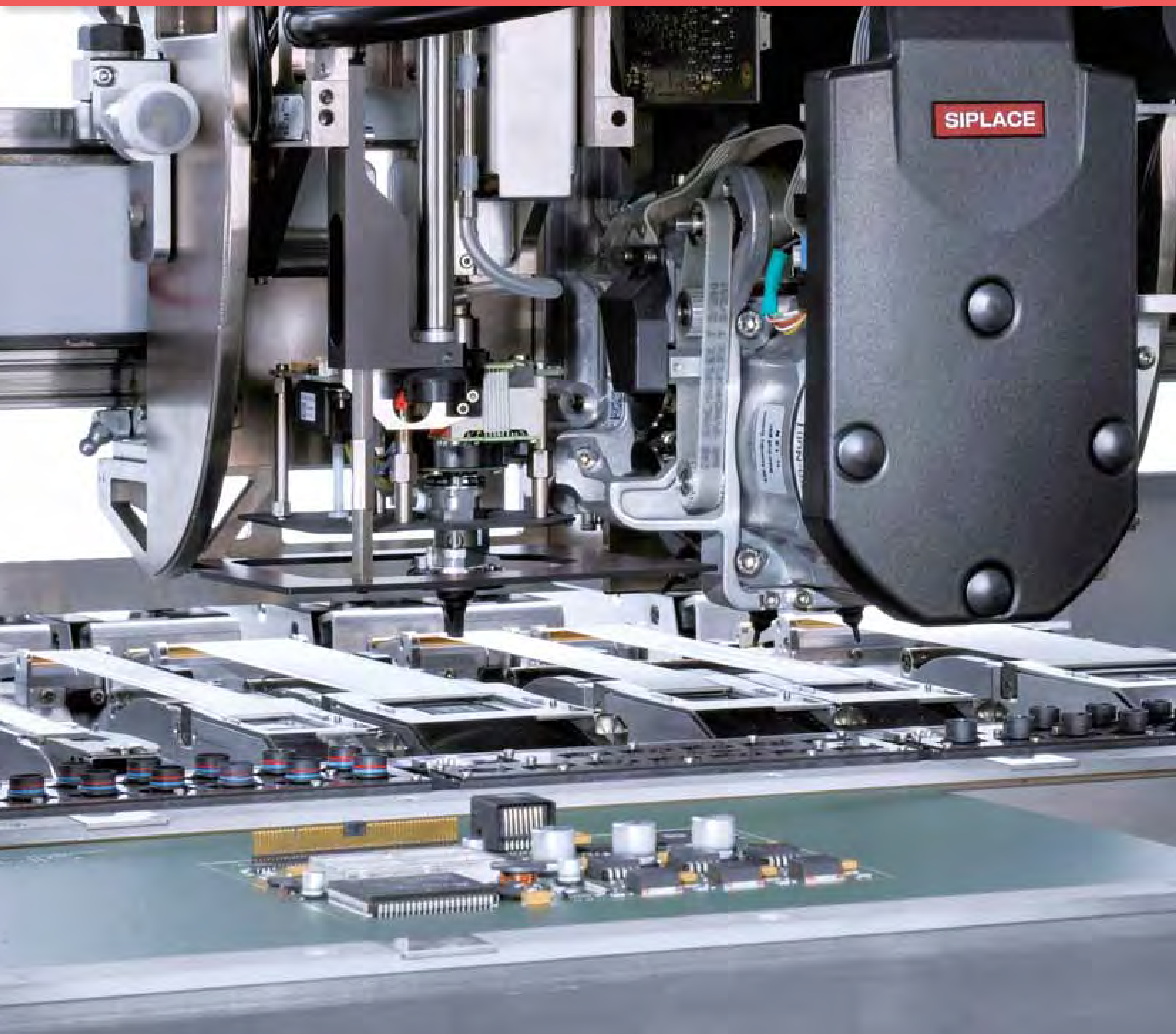
With the improved performance, our SMT Solutions Segment has now firmly established itself as the second growth engine of the Group.

Revenue of our SMT Solutions business grew 41.0% to HK$5.52 billion (US$712.3 million) last year, setting a new revenue record. At the same time, we have now become the second largest global SMT equipment supplier and the undisputed leader in the European and Americas markets.

SMT in-sourcing through China and Malaysia plants

External Manufacturing mitigates cyclical impact and improves margins

# Manufacturing Strategies Aligned for Growth



# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

### SMT Solutions Segment (Continued)

We believe that our market share has crossed the 20% level last year, which is a remarkable growth from around 11-12% when the business was acquired by the Group back in 2011. Admirably, this outstanding performance was achieved against the backdrop of a significant depreciation in the Japanese yen, which gave the products of our Japanese competitors a pricing advantage.

We further believe that our gap with the SMT equipment industry's top supplier has been significantly narrowed. We are optimistic about the future and will continue to work towards pursuing our goal of being the top global player in the SMT equipment industry by 2016.

Our SMT Solutions business is also starting to make substantial contributions to the Group's profitability. It achieved a gross margin of 34.8% and a segment result of 13.2% last year. Its performance during the second half of last year was even better, attaining a gross margin of 36.6% and a segment result of 16.4%.

While the depreciation of Japanese yen has put much pressure on our ASP, we have been able to offset its negative effects on our profitability to some extent with our superior technology, outstanding machine performance, savings from in-sourcing and the depreciation of the Euro against the US dollar.

During the second half of last year, the revenue of our SMT Solutions business amounted to HK$3.66 billion (US$472.2 million), once again setting a new half-year record. It represented surges of 65.0% and 96.5% compared to the same period last year and the preceding six months, respectively.

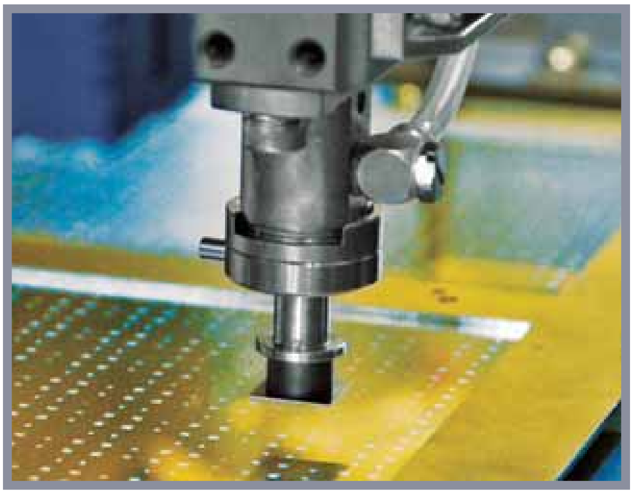
During the fourth quarter of last year, the revenue of our SMT Solutions business amounted to HK$1.48 billion (US$190.7 million), representing an increase of 31.3% and a contraction of 32.2% compared to the same period of last year and the preceding quarter, respectively. It achieved a gross margin of 41.1% and a segment result of 16.0% during the fourth quarter of last year, due to favorable geographical and product mix.

Bookings for our SMT Solutions business grew 48.8% last year, thereby achieving a new bookings record. Bookings were boosted by 50.2% year-on-year during the second half of last year. New orders received during the fourth quarter grew by 44.3% year-on-year but contracted 31.0% from the third quarter of last year, due to seasonal reasons.

The integration of the Printing business ("the DEK Business") that we acquired in July last year is progressing well. Over the past few months, our engineers have been aggressively working on projects to realize synergies to bring down the cost of our printers and to further enhance their performance by utilizing technologies that are widely available in our Back-end Equipment segment and the SMT Placement division.

The acquisition is also well-received by both existing and potential customers. From customer surveys that were conducted last year, we confirmed that the synergistic benefits that we have established by offering to the market a closed-loop line solution is exactly what many customers are looking forward to from the combination of the DEK and SIPLACE brands of ASMPT.


Strength in handling small components



R&D Investment target of 10% of Equipment Revenue

## Talented People Around the World

# Inspired to Deliver Innovative Solutions

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## REVIEW (Continued)

### SMT Solutions Segment (Continued)

The integration further allows us to enjoy the benefits of leveraging on the market reaches of both businesses to expand our market penetration, optimization of distribution channels and our customer relationship management ("CRM") organization. We expect that these will translate into even better customer service and coverage, increases in sales revenue and market share, as well as cost reductions for us.

With the newly-established SMT Solutions Segment, ASMPT maintains a strong foothold in the automotive and industrial markets, and increases its opportunities in the mobile phone market while at the same time reaching out to the LED, semiconductor and advanced packaging applications.

## LIQUIDITY AND FINANCIAL RESOURCES

Cash on hand as of 31 December 2014 was HK$2.59 billion (2013: HK$1.60 billion). During 2014, HK$520.8 million was paid as dividends (2013: HK$259.5 million). Capital addition during the period amounted to HK$444.1 million (2013: HK$350.4 million), which was funded by the year's depreciation and amortization of HK$417.9 million (2013: HK$427.4 million). Accounts receivable have been tightly monitored during the year. Accounts receivable increased to 86.8 days sales outstanding (2013: 83.4 days) as a result of significantly increased sales.

On 28 March 2014, the Group completed the issuance of Convertible Bonds in the principal amount of HK$2.4 billion at 2.00 per cent interest which are due in 2019 (the "Bonds"). The Group used the net proceeds from the Bond issuance to pay for the purchase consideration for the acquisition of the DEK Business, and for general working capital purposes. The Bonds are convertible into shares of the Group in the circumstances set out in the terms and conditions in relation to the Bonds at an initial Conversion Price of HK$98.21 per share (subject to adjustments).

As of 31 December 2014, the current ratio was 2.88, with a debt-equity ratio of 28.6% (debt represents all bank borrowings and convertible bonds). The Group had available bank loans and overdraft facilities of HK$2.27 billion (US$292.4 million) or its equivalent, out of which HK$533.3 million (US$68.8 million) or its equivalent were committed facilities. As of 31 December 2014, HK$167.5 million (US$21.6 million) of the Group's bank loan and overdraft facilities was drawn down, out of which utilization of committed facilities was HK$145.4 million (US$18.8 million). The Group's shareholders' funds increased to HK$8.21 billion as at 31 December 2014 (2013: HK$7.08 billion).

The Group has moderate currency exposure. The majority of our sales were denominated in U.S. dollars, Euros and Chinese Renminbi. On the other hand, the disbursements were mainly in U.S. dollars, Euros, Hong Kong dollars, Singapore dollars, Malaysian Ringgit, Chinese Renminbi and British Pound. 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 Euro had increased starting from 2011.

We continue to believe in returning excessive cash to our shareholders as dividends. After considering our mid- to short-term needs and our cash on hand, the Board recommends a final dividend of HK$1.30 per share. The total dividend payout for 2014 is HK$2.10 per share and the payout ratio is 52.7%.

On track to launch Integrated Closed Loop System in 2015

# Organic Growth with STRATEGIC M&A

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## HUMAN RESOURCES

ASMPT recognizes human resources as one of the Group's most important assets. Recruiting and retaining high-calibre employees is always of high priority in ASMPT. Besides offering competitive remuneration packages, ASMPT 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 2014, the total headcount of the Group worldwide was approximately 15,900 people, of whom 1,400 were based in Hong Kong, 10,600 were based in Mainland China, 1,200 were based in Singapore, 800 were based in Malaysia, 900 were based in Germany and 400 were based in the United Kingdom. The rest were based in other locations around the world.

ASMPT invests aggressively to build up its competence in core and enabling technologies. After its recent acquisitions, ASMPT is currently operating six R&D centers around the globe. These R&D centers are located in Hong Kong, Chengdu (China), Singapore, Munich (Germany), Weymouth (United Kingdom) and Beuningen (Netherlands). As of end-2014, there were around 1,500 product development and R&D engineers in ASMPT, with about 60% of them having either a Master's degree or a PhD.

In order to cope with the cyclical nature of its business, the Group has adopted the strategy of building a flexible production workforce. During the past two years, the Group has increased the deployment of contract and out-sourced workers in its production operations.

Total manpower costs for the Group for 2014 were HK$3.94 billion, as compared with HK$3.32 billion for 2013.

Competitive advantage through broad customer base and multiple product offerings

## PROSPECTS

While 2014 has been a strong year, market participants generally remain confident that 2015 will be similarly healthy. Some analysts have forecasted that the semiconductor assembly and packaging equipment market will stay at around the same high level as 2014, followed by a small correction of around 10% in 2016, before it continues its growth momentum in years 2017 and 2018. The SMT equipment market typically closely follows the semiconductor assembly and packaging equipment market, albeit with a delay of one to two quarters.

For ASMPT, we expect new order bookings in the first quarter of this year to rebound from the level of the last quarter of 2014 to show a moderate double-digit percentage improvement quarter-on-quarter. However, as the first quarter of a year is typically the low season, we expect Group billings in the first quarter of 2015 to fall from the level of the preceding quarter, but to show a low to moderate double-digit percentage improvement year-on-year.

We believe that smart phones and tablet computers will continue be the major volume contributors for the semiconductor industry. Other applications such as automotive electronics, power management devices, MEMs and CMOS imagining sensors will offer additional growth channels for the semiconductor industry. In the LED market, LED general lighting, 4K televisions and large LED display panels will be the market drivers.

# Transformed ASMPT Poised for Accelerated Growth

## STRATEGIC DIRECTION FOR TRANSFORMED ASMPT

# CHAIRMAN'S STATEMENT *(CONTINUED)*

## PROSPECTS (Continued)

We expect the semiconductor industry to continue its transition to advanced packages. However, traditional die and wire bonding will continue be the mainstream interconnection technology due to its well-established industry infrastructure and acknowledged cost advantages. On the other hand, advanced packages offer benefits of small form factor and thin packages, high transmission speeds and superior electrical performance.

ASMPT continues to invest in advanced packaging technologies. The Group is developing a product portfolio to serve this market. For flip chip interconnection, the Group offers its customers flip chip bonders and TCB bonders. For wafer-level packaging and RDL (redistribution layer), the Group offers its customers laser grooving systems for wafer preparation; die bonders and high precision SMT placement equipment are available for wafer reconstruction; and wafer and panel molding systems to support wafer encapsulation. The Sunbird, a test and pack system, is currently under development and is targeted to be launched to the market in the second half of this year.

The Group is retaining its focus on the traditional die and wire bonder market since it will continue to be the largest segment of the assembly and packaging equipment market for a long time to come. The Group aims to defend its high market share in some areas and to further gain market share in other areas.

The Group also continues to develop products that are not sensitive to the change of interconnection technologies, such as encapsulation systems, singulation systems and test handlers.

We believe that we have put in place the right product portfolio and business strategy to ride on the growth of the industry and to put ASMPT in a unique position relative to its peers.

The combination of the printing business from DEK and placement business from SIPLACE puts ASMPT in a strong position to compete for the number one position in the global SMT market. This second growth engine is expected to propel ASMPT to new heights. Furthermore, together with the Back-end Equipment business, it puts ASMPT in a very good position to address the SIP market.

Last but not least, the breadth and depth of technologies developed by the more than 1,400 high-quality R&D engineers around the world will differentiate ASMPT from its peers and puts ASMPT at the forefront of the technology transition race.

## APPRECIATION

With exceptional effort from everyone in the Group, ASMPT was able to turn in sensational results last year. The efforts and dedication of our management, employees and partners have been critical to the Group's successes and cannot be underestimated. On behalf of the Board, I would like to express my heartfelt appreciation to all our customers, employees, suppliers and other stakeholders for their long-standing support, and to our continued partnership in the exciting years ahead!

**Arthur H.del Prado**
Chairman
4 March 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The Group has thrived in 2014. New records were achieved in various respects of the Group's performance, including in our Group revenue, revenues for our respective business segments, quarterly profits and new order bookings, amongst others.

Moreover, it was another pivotal year in which the Group continued its growth through strategic acquisitions. The Group acquired a printing solutions business ("DEK") and a laser separation business ("ALSI"), giving it access to new technologies and customers which it did not previously have access to. As a result of the Group's persistent efforts to reach out to new technologies, applications and markets, we have successfully reduced our reliance on the sales of traditional back-end bonding equipment.

Wire bonding is likely to remain the most cost-effective interconnection technology for semiconductor devices and will continue to account for a much higher volume of semiconductor devices shipped globally. As such, we will maintain our focus on it, but at the same time invest in the emerging adoption of advanced packaging technology. The Group has already been working towards building a product portfolio that will reduce its dependence on wire bonding interconnection technology.

The addition of the multi-beam laser separation, printing and surface-mount technologies to the Group's traditional core competencies in back-end assembly and packaging equips the Group to address new and emerging advanced packaging applications such as embedded printed circuit boards (PCB), system-in-package (SIP), wafer-level packaging, redistribution layers (RDL), flip-chip bonding, thermo-compression bonding (TCB) and advanced CMOS imaging sensors (CIS).

In the pursuit of growth, the integration of DEK into our SMT Solutions Segment which was previously served primarily by SIPLACE means that our SMT Solutions and the Back-end Equipment segments are now firmly established as the twin growth engines of the Group. Meanwhile, ALSI has bolstered the capabilities of the Group in making the transition to advanced packaging technology and applications.

It is not only the Group's total addressable market that has increased. The acquisitions have further expanded the Group's already diversified product portfolio and added new customers into its significant customer base to secure new markets for its existing products. The Group's proven technologies and formidable R&D strength are in place to gain more customers. The increased diversification has added flexibility to the business and improved the Group's ability to sail through fluctuations in the market as compared to its peers.

In 2014, overall Group revenue was HK$14.23 billion (US$1.83 billion), representing an increase of 31.3% from the previous year's turnover. New order bookings amounted to HK$14.81 billion (US$1.91 billion), a significant rise of 37.8% as compared to the previous year. Our backlog as of 31 December 2014 was HK$2.81 billion (US$361.8 million). Net profits surged by 186.4% from the previous year to HK$1.60 billion (US$206.3 million).

The record revenue was driven by healthy gains in turnover for all our business segments. In particular, the SMT Solutions and Materials Business segments set annual and semi-annual revenue records. The SMT Solutions Segment is now the second largest supplier of SMT equipment in the world, whereas the Materials Business Segment is now the fourth largest global supplier of lead frames. The global market share of our SMT Solutions Segment is now more than 20%. As it appears that the gap with the top SMT equipment supplier has closed considerably, we are on track to take over the leadership of the market for SMT equipment in the foreseeable future.

The Group has always been recognized in the Back-end Equipment market for its innovative products and financial muscle. We have maintained our position as the top global supplier of Back-end Equipment. The strong revenue growth that we have enjoyed in the past year has resulted in a widening of our lead over the revenue of our nearest competitor to US$346.6 million.

The Group's diversified customer base enables it to avoid over-reliance on the performance of any particular customer or market segment. In 2014, our top 5 customers accounted for only 20.4% of our total revenue. The Group's growing pool of customers for a wide variety of products results in a highly stable revenue base to reinforce the growth of the Group. 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. In order to achieve such diversity, ASMPT has consistently excelled in delivering a good sales and support network and accompanying infrastructure to provide a high level of service to its customers.

# MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

## OVERVIEW (Continued)

Besides the advantages of the Group's large customer pool and diversified product range, our geographical diversification also puts us in good stead as compared to our peers. The regions of China, Europe, Malaysia, Taiwan and the Americas are now the largest contributors to our revenue. Overall, China continues to be our biggest market, but our other markets are generally also seeing healthy growth.

Along with the strong revenue growth, the profits and profitability of the Group have improved in all our business segments without exception. In particular, the profits contributed by our SMT Solutions Segment have grown significantly. Amongst other things, the SMT Solutions Segment will give the Group a strong presence in the automotive as well as industrial markets, increase its opportunities in the mobile phone market and also gain penetration into LED, semiconductor and advanced packaging applications.

Recognizing the strong growth potential of our SMT Solutions Segment, we have increased R&D spending in the development of SMT products, software and technologies since we acquired the business. We have increased R&D resources in Munich, Germany and have also established R&D capabilities in Singapore and Chengdu, China for the SMT business. We are confident that these investments will deliver substantial returns in future.

The semiconductor industry is set to undergo a technology transition brought about by new wafer node technology and the popularity of personal mobile devices. Customers are constantly looking for innovations in new packaging technologies and are actively sourcing technology partners to help to explore new technology frontiers. Unlike many of our peers, which focus mainly on specific product segments, ASMPT has the broadest product portfolio, comprehensive knowledge of the assembly and SMT processes, advanced enabling technologies, a dynamic R&D team and strong financial resources.

As technologies are fast developing, capabilities and opportunities to co-develop new technologies with anchor customers is the key for future success. ASMPT is steadfastly advancing in the right direction, and it will continue to be the technology partner of choice for many of its customers for advanced packaging and other new technologies.

## MARKET AND PRODUCT DEVELOPMENT

### Back-end Equipment Segment

The Back-end Equipment Segment remains the assembly and packaging equipment market leader, and also widened the revenue gap with its closest rival. Back-end equipment revenue was HK$6.80 billion (US$877.2 million), representing 47.8% of the Group's turnover. As compared to the previous year, its revenue increased by 30.8% and its segment result rose by 1.5 times. Moreover, bookings for the year increased by 41.8%.

Many new products that we have developed recently contributed to the solid performance of our Back-end Equipment business last year. These were able to either contribute to last year's strong revenue growth, to gross margin improvement, or to both. Amongst our new products, TCB bonders and test handlers performed particularly well, especially TCB bonders that are used for advanced flip-chip bonding.

One reason for the revenue growth was the robust demand in the IC/Discrete and LED markets. Demand for Back-end Equipment for LED manufacturing was mainly driven by LED general lighting and display applications. In addition to die and wire bonders for the assembly of traditional LEDs, there was also a relatively high demand for bonders used for the assembly of flip-chip LEDs.

The demand for smart phones boosted the market, along with high-definition cameras and portable electronic devices incorporating multiple cameras. Strong demand was also seen arising from automotive and power management devices.

Strong revenue growth was experienced for almost all the major products comprised in the Back-end Equipment business. Bonders, including die bonders, flip chip bonders, TCB bonders and wire bonders, received the highest demand. Nevertheless, there was also steady rise in the demand for other Back-end products.

While it is clear that the market is making a transition to flip chip bonding and TCB bonding, the transition will only affect certain package types and applications. For the past few years, mobile computing has been the major growth driver for the market. Cost is a very important consideration for our customers serving the consumer electronics market. We expect that conversion to flip chip bonding and TCB bonding will only take place for those packages or applications where flip chip bonding is demonstrably more cost-effective than traditional die and wire bonding, or superior quality and electrical performance can be achieved. In our opinion, the mainstream market will continue to be adequately served by die and wire bonding.

Our focus for the Back-end equipment business is to drive gross margin improvements and to ride on the business opportunities brought about by the technology transition in the semiconductor industry.

## MARKET AND PRODUCT DEVELOPMENT (Continued)

### Back-end Equipment Segment (Continued)

Our approach in driving gross margin improvement is to develop measures to address the areas of production capacity utilization, product cost reduction and the lowering of our fixed production costs. Thus, we have fine-tuned our production planning system to utilize our idle capacity more efficiently during the low seasons. As a result, although our manufacturing expenses may not have come down as much as in previous years during the low seasons, conversely, we will also not need to ramp up to the same run rates as before during the peak seasons.

One of our countermeasures to the volatile market conditions is to make adjustments to our internal vertical integration business model. We have built more flexibility in our production workforce by increasing the deployment of contract and out-sourced workers in our production operations. The level of external manufacturing has been increased and production processes have been redesigned. Moreover, emphasis has been put on retaining members of our core work force who possess critical skill sets and training programmes have been designed to train new recruits for non-core production activities in relatively short time-frames. When market demand is strong, we use temporary and contract workers for non-core activities to supplement our regular workforce.

Wages in China continue to increase at a fast pace. This has affected the attractiveness of China as a manufacturing base. Comparatively, Malaysia has become more attractive. In order to address such a trend, we have made it a clear strategy to explore territories outside China for both our internal and external manufacturing.

We anticipate that, once we have successfully made the transition into more cost-efficient production, we will be able to lower the breakeven point of our Back-end Equipment Segment.

Additionally, gaining market share has become our top priority. We successfully launched new products with enhanced performance and lower manufacturing costs, which have directly contributed to our success in achieving market share gains, particularly for the LED equipment market in China.

Our equipment portfolio encompasses a wide range of products to address the diverse needs of our customers in many different applications such as IC, discrete, power, flash memory, CIS, MEMs and LED. We focus on developing solutions to serve different application markets. Today, ASMPT is either the largest or second-largest supplier for all the major products that it offers to the market. Our FT2018 test handler has been very successful and it has enabled ASMPT to gain market share quickly. In just a few years, we have advanced to being the fourth largest supplier in the test handler market. ASMPT is particularly recognized as the leader in test handlers for handling small packages, and its sales have been spurred by the popularity of mobile devices.

As technology transition in our industry is taking place at a fast pace, we are seeking to build a varied product portfolio with increasing contribution from advanced packages.

We are addressing the flip chip market with a wide range of products. Our AD8312FC is a high-speed flip chip bonder which is applicable to low IO flip chips. It offers customers a cost-effective flip chip solution due to its high productivity. At the high end, we serve the market with our advanced TCB solution. Copper pillar flip chip bonding using thermo-compression bonding ("TCB") is gaining momentum in the marketplace. It is a good solution for connecting very fine pitch packages and offers superior package performance. We are also developing a new-generation flip chip bonder that will serve mainstream flip chip applications. Our unique solution combines high speed, high accuracy and high flexibility in one machine. Depending on their needs, customers may select how the ASMPT flip chip bonder should serve them. ASMPT's flip chip solution has been adopted by leading semiconductor companies and top OSATs in the world.

Existing TCB technology has its limitations. While offering customers superior package performance, its inherent disadvantage is its low productivity. We are collaborating with a leading customer to develop an innovative solution to achieve high productivity fine pitch copper pillar flip chip bonding which is capable of delivering similar superior package performance. We anticipate that such an innovative solution will open the door to the mobility market. The adoption of 2.5D and/or 3D packages will accelerate accordingly.

Fine pitch copper pillar flip chip bonding has also driven up demand for encapsulation systems with mold under fill ("MUF") technology. ASMPT is the market leader for MUF systems for singulated BGAs.

# MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

## MARKET AND PRODUCT DEVELOPMENT (Continued)

### Back-end Equipment Segment (Continued)

The growth in demand for system-in-packages ("SIP"), wafer level packaging ("WLP") and re-distribution layer ("RDL") is expected to accelerate. ASMPT addresses these markets with products from both the semiconductor Back-end equipment and SMT equipment product portfolios. The acquisition of the DEK business has strengthened ASMPT's position in the SIP market as DEK is a major supplier of screen printers for SIP applications.

It is widely recognized that low-k and ultra low-k semiconductor wafers benefit from laser grooving. For some wafer-level packaging applications, it is further necessary to prepare the wafer well with good-quality laser grooves before the wafer reconstruction process. ALSI's advanced laser singulation offerings are optimized for laser grooving. Additionally, ALSI's multi-beam technology places ASMPT technically well ahead of the competition in the laser dicing arena. We expect that the multi-beam laser singulation technology for low-K wafer grooving and thin wafer dicing will experience greater demand when customers move to new wafer node technology.

It is likely that smart phones and tablet computers will continue be the major volume contributors for the semiconductor industry. Other applications such as automotive electronics, power management devices, sensors and CMOS imagining sensors will offer other growth channels for the semiconductor industry. In the LED market, LED general lighting, 4K televisions and large LED display panels will be the market drivers.

The product portfolio that ASMPT has developed addresses all the major applications that are required by the semiconductor industry, and we expect that revenue contribution from advanced packages will continue to increase.

Packaging remains a key process in the production of semiconductor and LED devices. As such, demand for assembly and packaging equipment for these devices will continue to be strong. However, packaging technologies continue to evolve. Similar to other players in the market, ASMPT faces a business risk of not being able to come out with competitive products that meet customers' and the market's expectations. The consequence of deficiency in this respect might well be a decline in revenue and/or profitability of the Group.

### Materials Business Segment

Our Materials Business Segment has been doing well. It has been consecutively setting new revenue records during the past 3 years. Our revenue for Materials in 2014 experienced a growth of 10.3% to a new record of HK$1.90 billion (US$245.2 million) and profitability improved by 29.0% as compared to the preceding year. We have certainly out-performed the market once again.

In fact, we have been gaining market share steadily for a number of years and our market position has been further strengthened. Cumulatively over the past ten years, our Materials business has achieved a CAGR of 12.2%. We believe that ASMPT is now the fourth largest lead frame supplier in the world.

With the steady growth in revenue and tight control on headcount increase in the past few years, we have successfully developed a lean manufacturing structure and managed to achieve good productivity improvement in this business segment. As most customers have accepted floating price mechanisms or price increases and in view of the relatively stable prices of precious metals for the past three years, profitability of our Materials business has improved significantly.

Our facilities related to the Materials business are strategically located in China, Malaysia and Singapore. We believe we have struck a good balance between cost and scale of operations. The continual market share gain will bring to ASMPT further advantages due to benefits from economy of scale. It will translate into a key cost advantage of ASMPT.

The synergies between the Materials Business Segment and the Back-end Equipment Segment are another competitive advantage of ASMPT. Our recent success in offering to the market the ultra-high density lead frames demonstrates this.

We have developed a good customer profile with the top ten customers for lead frame business being the major IDM and OSATs. No single customer is a dominant contributor to our business. ASMPT is perceived by customers as one of the most reliable lead frame suppliers, and ASMPT's financial strength and track record of achieving consistent profitability in this business are likely the key contributing factors.

Although the packaging of high pin-count semiconductor devices uses substrates other than lead frames, lead frames remain the most commonly-used substrates for the packaging of semiconductor devices due to their cost-effectiveness. The risk of lead frames being replaced by other technologies in the near future is expected to be low.

## MARKET AND PRODUCT DEVELOPMENT (Continued)

### SMT Solutions Segment

Our SMT Solutions business has made great strides in market share gain during the past four years since it was integrated into ASMPT. Our market share is estimated to have increased from about 11% in 2010 to a level in excess of 20% in 2014. We are now clearly the second largest SMT supplier in the global market and retained the number one position in the Europe and the Americas market. Moreover, we have successfully penetrated into many new accounts.

Accordingly, our SMT Solutions business successfully made substantial contributions to the Group's profitability. It achieved a gross margin of 34.8% and a segment result of 13.2% last year. During the second half of last year, it achieved a higher gross margin of 36.6% and a segment result of 16.4%.

When we acquired this business, we set clear strategies to improve its profitability and to expand its revenue through: in-sourcing and increasing sourcing from Asian supplier base, tapping on ASMPT's marketing network in Asia, improving cost performance of the products, develop products to address the mid-speed market and the adjacent market. Over the past four years, we have developed plans to execute the above strategies. Positive results were achieved almost immediately. We proved that we have the engineering and production capability to carry out the in-sourcing strategy as planned. Starting with the most challenging linear motor assemblies, a significant portion of feeders, a major accessory for our SMT placement equipment, are now being produced in our factory in Malaysia. Last year, savings from in-sourcing activities made a material contribution to the profitability of this business segment. We expect that such savings will further increase this year.

Over the past four years, we gained significant market share in China, advanced to the number one position in the Americas market as well as the number two position globally. We have prepared a new generation of products that will offer customers improved performance while producing them with lower cost. It enhances ASMPT's competitiveness in the market and will make positive contributions to our average selling price, revenue and profitability. We have also developed a solder paste inspection equipment which will enable ASMPT to offer to customers a closed loop system consisting of screen printing, solder paste inspection and placement machines. Development of the placement equipment for the mid-speed market is on-track which will expand ASMPT's total addressable market in the SMT business.

The SMT Solutions Segment achieved HK$5.52 billion (US$712.3 million) in revenue in 2014, which represented an expansion of 41.0% from 2013. It contributed to 38.8% the Group's revenue in 2014. It achieved a gross margin of 34.8% and EBIT of 14.7% in 2014. Bookings improved by 48.8%.

Apart from achieving significant market share gains, one of our priorities since our acquisition of the SMT business was to improve profitability of the sales of our SMT equipment. Thus, although the depreciation of Japanese yen has put much pressure on our average selling price (ASP) in the past year, our superior technology, outstanding machine performance, savings from in-sourcing and the depreciation of the Euro against the US dollar have offset some of its negative effects on our profitability.

With the increasing level of in-sourcing, a new generation of placement machines in place and the addition of the DEK printing business, we are confident that we will be able to achieve our target of driving gross margins for our SMT Solutions business to consistently above the 40% level over time. In fact, it was successful in achieving a gross margin of 41.1% during the fourth quarter of last year, due to favourable geographical and product mixes.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

## MARKET AND PRODUCT DEVELOPMENT (Continued)

**SMT Solutions Segment** (Continued)

The successful integration of the DEK Printing business into it will no doubt raise its contributions further. There are many potential synergies between the SIPLACE and DEK brands which are being aggressively pursued. Intensive efforts are being put into access to wider markets, lowering production costs and introducing increasingly technologically cutting-edge products. Moreover, customers have recognized the benefits of a closed-loop line solution which the Group has already successfully implemented in its Back-end Equipment Segment. The growth in customer recognition will prove to be mutually advantageous to the Group as well as its customers as the synergistic benefits are progressively realized.

It is generally believed that surface mount technology (SMT) will remain the mainstream technology for placing semiconductor devices onto printed circuit boards. There is no replacement technology in sight in the short to medium term that will pose a technological risk to this business segment of the Group. However, as the Group's main competitors in this business are Japanese companies, any further slide of the Japanese yen against the US dollar or the Euro may pose a significant business risk to the Group. Since a significant portion of the SMT Solutions segment of the Group is based in Germany, any significant rise in exchange rate of Euro against the US dollar may also have a significant cost impact on the Group.

## FINANCIAL

We continue to streamline our working capital management to deal with a wide range of products and high fluctuation of production run rates. The expanding SMT Solutions Segment has increased our inventories significantly as the revenue contribution from this business segment is sizeable. Last year, inventory turnover was 4.00 times (2013: 3.55 times), with an ending inventory of HK$3.89 billion. Receivables have been tightly monitored. Accounts receivable increased to 86.8 days sales outstanding (2013: 83.4 days). Our bad debt exposure, if any, is immaterial and well-covered by provisions made in conformity with ASMPT's policy. There was a cash conversion cycle of 186.7 days (2013: 182.2 days). Free cash flow generated last year amounted to HK$1.15 billion (2013: HK$418 million).

Capital investments amounting to HK$444.1 million were made in 2014, which was funded by last year's depreciation and amortization. Return on invested capital ("ROIC") was 24.9% (2013: 9.9%). We believe that we have taken the necessary measures to bring it back to a much higher level when the market conditions improve. Cash on hand as of 31 December 2014 was HK$2.59 billion (2013: HK$1.60 billion).

As of 31 December 2014, current ratio was 2.88 (2013: 2.43), with a debt-equity ratio of 28.6% (2013: 9.8%). The Group had available bank loans and overdraft facilities of US$292.4 million or its equivalent, out of which US$68.8 million or its equivalent were committed facilities. As of 31 December 2014, US$21.6 million of the Group's bank loan and overdraft facilities was drawn down, out of which utilization of committed facilities was US$18.8 million. The Group's shareholders' funds increased to HK$8.21 billion as at 31 December 2014 (2013: HK$7.08 billion). Return on equity ("ROE") was 20.9% (2013: 8.2%).

Bank borrowings are mainly arranged to support day-to-day operations and capital expenditure. These are denominated in Hong Kong dollars and US dollars. As of 31 December 2014, cash holdings by the Group are mainly in US dollars, Euro, Chinese Yuan (RMB) and Hong Kong dollars. The SMT Solutions Segment of the Group enters into US dollars and Euro hedging contracts to mitigate the foreign currency risks as the production of SMT equipment and its suppliers are mainly located in Europe while a substantial part of the Group's revenue for SMT equipment are denominated in US dollars.

On 28 March 2014, the Group completed the issuance of Convertible Bonds in the principal amount of HK$2.4 billion at 2.00 per cent interest which are due in 2019 (the "Bonds"). The Group used the net proceeds from the Bond issuance to pay for the purchase consideration for the acquisition of the DEK business, and for general working capital purposes. The Bonds are convertible into shares of the Company in the circumstances set out in the terms and conditions in relation to the Bonds at an initial Conversion Price of HK$98.21 per share (subject to adjustments).

## CAPACITY AND PLANT DEVELOPMENT

During the past few years, the market has demonstrated high seasonal volatility. Our relative high fixed cost as a result of our vertical integration internal manufacturing model has led to significant deterioration in the gross margin of our Back-end equipment business during the low seasons. To cope with the changed market conditions, we have fine-tuned our manufacturing strategies to enable us to increase our out-sourcing level by up to 50% during the peak seasons and built a flexible internal manufacturing work force by using more temporary and short-term contract workers during the peak seasons.

Wages in China have gone up significantly over the past few years and are expected to continue to increase further. It has become necessary for us to implement tight controls on headcount increases in our manufacturing operations in China. To support future growth, additional capacity will be procured from external manufacturing, automation, productivity improvement and moderate capacity expansion in our factory in Malaysia.

This year, our capital expenditure budget will be HK$844.0 million, of which approximately 32.0% will be spent on production machineries either to upgrade our capabilities or to increase our capacities to address current production bottlenecks. 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 invested into further enhancing our R&D capability to enhance our technological leadership and long-term cost advantages.

Additionally, we are expanding our factory in Singapore so that we can integrate the facilities for our SMT Solutions Segment in Singapore under one roof. A new factory building is under construction and is targeted to be completed by beginning of next year.

## RESEARCH AND DEVELOPMENT

ASMPT has always been committed to R&D as being one of its competitive advantages which supports the future growth of the company. With our continued investment in R&D, we will further widen our technology leadership over our peers. Regardless of short-term challenges brought about by transient market and macroeconomic conditions, we remain determined to push ahead with our R&D investment. We believe in investing during dips in the market in preparation for the future.

Our R&D focus for the past few years has been in the areas of copper wire bonding, thin die handling, flip chip packaging, thermo-compression bonding (“TCB”), encapsulation of advanced packages, die and package singulation, test handling as well as automatic optical inspection (“AOI”). Advanced packaging of LEDs with the aim of improving light emission efficiency is also one area of focus. We have invested heavily in the development of TCB solutions recently, as we believe that the industry is on the verge of a technology transition. With its capability to address fine pitch flip chip bonding using copper pillars and potential applications for 2.5D and 3D packages, we believe that fine pitch flip chip bonding including TCB is a promising technology for the future.

In the SMT Solutions arena, our R&D focus has been in the areas of developing new generation placement machines which deliver better price performance at lower cost, software solutions to enhance the value of ASMPT products to customers, adjacent products for the SMT market and new placement machines addressing the mid-speed application market.

Advanced enabling technologies in the areas of linear motor, control systems and algorithm, computer vision, software and advanced materials are ASMPT’s strengths. They enable ASMPT equipment to achieve state of the art performance at affordable cost.

# MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

## RESEARCH AND DEVELOPMENT (Continued)

With the addition of the Printing and Laser Separation businesses, the Group now has further extended its core enabling technologies to the areas of materials deposition, laser optics and laser separation. It puts the Group in a unique position as compared to its peers.

ASMPT invests aggressively to build up its competence in core and enabling technologies. After its acquisitions in the past years, ASMPT is now operating six R&D centers worldwide. These R&D centers are located in Hong Kong, Chengdu (China), Singapore, Munich (Germany), Weymouth (United Kingdom) and Beuningen (Netherlands).

We are satisfied with the progress made by our R&D centre in Chengdu, China, which has strengthened our R&D capability. The R&D centre in Chengdu is well-positioned to support all the different business units of the Group, including the SMT Solutions Segment.

Both the R&D centers in Munich and Singapore for the SMT Solutions Segment have been 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 expansion of our R&D resources, ASMPT's long-term strategic positioning as the leader of the Back-end equipment business, as well as the second-largest supplier of SMT equipment, would be significantly strengthened. ASMPT will be in a unique position to capture the market trend of convergence of chip packaging and SMT processes.

ASMPT'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, Munich, Weymouth and Beuningen consist of about 1,500 people with close to 60% of them having a Master or PhD degree. Our net R&D expenditure increased by 21.1% to HK$1.15 billion (2013: HK$948.3 million), representing 9.3% of our equipment (Back-end as well as SMT) sales and is in line with our R&D funding guidelines. Approximately 44.2% of our R&D expenditure last year was spent on the SMT Solutions Segment.

## HUMAN RESOURCES

ASMPT recognizes human resources as one of the Group's most important assets. Recruiting and retaining high-calibre employees is always of high priority in ASMPT. Besides offering competitive remuneration packages, ASMPT 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 2014, total headcount of the Group worldwide was approximately 15,900 people, of whom 1,400 were based in Hong Kong, 10,600 were based in mainland China, 1,200 were based in Singapore, 800 were based in Malaysia, 900 were based in Germany and 400 were based in the United Kingdom. The remainder was based in other locations overseas.

Total manpower costs for 2014 were HK$3.94 billion (US$508.0 million), as compared with HK$3.32 billion (US$428.0 million) for 2013.

# 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 2014.

## 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 and electronic assembly industries.

## RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$1.30 (2013: Final dividend of HK$0.50) per share which, together with the interim dividend of HK$0.80 (2013: Interim dividend of HK$0.35) per share paid during the year, makes a total dividend for the year of HK$2.10 (2013: HK$0.85) per share.

Details of the results of the Group are set out in the consolidated statement of profit or loss and other comprehensive income on page 56.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 146 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

## SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2014 are set out in note 43 to the consolidated financial statements.

## SHARE CAPITAL

On 15 December 2014, 1,885,000 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that an independent professional trustee appointed by the Board under the Employee Share Incentive Scheme, pursuant to the terms of the rules and trust deed of the Employee Share Incentive Scheme, purchased on the Exchange a total of 211,100 shares in the Company. The cost of purchase of these shares amounted to HK$15.9 million.

# DIRECTORS' REPORT *(CONTINUED)*

## 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 2014 amounted to HK$2,325,530,000 (2013: HK$2,122,906,000). In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

## 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
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
Petrus Antonius Maria van Bommel

*Independent Non-executive Directors:*

Orasa Livasiri
Lok Kam Chong, John
Wong Hon Yee
Tang Koon Hung, Eric

In accordance with the articles 113 and 114 of the Company's Articles of Association ("the Articles"), Mr. Lok Kam Chong, John will retire from office as Director at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

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 83, is the Chairman of the Company and founder of ASM International N.V. ("ASM International"), a major shareholder of the Company. Mr. del Prado used to be a member of the Board of several companies, civic and non-profit making organizations, among which the MEDEA+ Board, the "Micro Electronics Development for European Applications" project. He was also 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 Defense Products; Breevast N.V., Project Development and Management; Dujat, Dutch & Japanese Trade Federation and ABN-AMRO Bank, Advisory Counsel. At present, Mr. Arthur H. del Prado serves on the Board of several start-up companies in technology industries.

## DIRECTORS (Continued)

Lee Wai Kwong, aged 60, was appointed to the Board as the Chief Executive Officer of the Group 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. Mr. Lee currently serves as the Chairman of the Advisory Committee of the Department of Electronic Engineering of The Chinese University of Hong Kong, Hong Kong.

Chow Chuen, James, aged 58, 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 30 years of working experience in the electronics and semiconductor industry.

Ng Cher Tat, Robin, aged 51, 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 25 years of working experience in finance, audit and accounting.

Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 53, 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 five-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 2007, 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. (ASML) in Taiwan and the Netherlands managing wafer stepper manufacturing and customer program management. From 1989-1996, 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.

Petrus Antonius Maria van Bommel (He is also known as "Mr. Peter van Bommel"), aged 58, 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 and he was reappointed in May 2014 for a period of 4 years again. He holds a Master's degree in economics from the Erasmus University, Rotterdam, the Netherlands. He has more than twenty years of 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. In April 2012 Mr. van Bommel was appointed member of the Supervisory Board and member of the Audit Committee of the Royal KPN N.V..

# DIRECTORS' REPORT *(CONTINUED)*

## DIRECTORS (Continued)

Orasa Livasiri, Independent Non-executive Director, aged 59, was appointed to the Board as an Independent Non-executive Director in 1994. She was a solicitor in private practice and a partner of Messrs. Ng, Lie, Lai & Chan prior to her retirement in November 2012.

Lok Kam Chong, John, Independent Non-executive Director, aged 52, 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 FHL & Partners 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.

Wong Hon Yee, Independent Non-executive Director, aged 67, was appointed to the Board as an Independent Non-executive Director on 27 December 2012. Mr. Wong is a chartered engineer and a fellow of the Hong Kong Institution of Engineers. He was the Associate Vice President (Knowledge Transfer) at the City University of Hong Kong prior to his retirement in 2014. Prior to joining City University of Hong Kong, he has been involved in high-tech product design and engineering management in industry for 25 years, over 20 of which were spent at Ampex Ferrotec Ltd., a subsidiary of Ampex Corporation in the USA. He received his Bachelor of Science in Electrical Engineering from the University of Hong Kong in 1969 and Master of Science in Electrical Engineering and Computer Science (EECS) from the University of California, Berkeley in 1971.

Tang Koon Hung, Eric, Independent Non-executive Director, aged 69, was appointed as an Independent Non-executive Director on 26 April 2013. He was formerly an Independent Non-executive Director of the Company for the period from 6 September 2004 to 31 January 2007, an Executive Director and the Chief Financial Officer of the Company for the period from 1 February 2007 to 1 February 2010. Mr. Tang was also appointed as an Independent Non-executive Director of EGL Holdings Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 06882) on 13 November 2014. Mr. Tang was qualified as a Chartered Accountant in Canada and is a member of the Hong Kong Institute of Certified Public Accountants. He has worked in the fields of manufacturing, banking, and public utilities with some major corporations both in Canada and in Hong Kong. Mr. Tang graduated from the University of Toronto, Canada. He holds a Bachelor degree in Industrial Engineering and a Master degree in Business Administration.

## 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 55, 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 25 March 2014, the Directors resolved that the Company should contribute HK$25.0 million to the Scheme, enabling the trustees of the Scheme to subscribe or purchase a total of 2,137,800 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 2013 upon expiration of the defined qualification period.

The Board also resolved to instruct an independent professional trustee, appointed by the Board under the Employee Share Incentive Scheme, to purchase a total of 211,100 shares ("Shares") at market price as soon as practicable on the Stock Exchange. These Shares represented the aggregate of shares to which the three executive Directors, namely, Mr. Lee Wai Kwong, Mr. Chow Chuen, James and Mr. Robin Gerard Ng Cher Tat, would be eligible to receive pursuant to the Scheme, and subject to the 2014 qualification period, the Shares would be held on trust for them.

In March 2014 the independent trustee purchased a total of 211,100 Shares, which represents approximately 0.053% of total issued share capital of the Company at the date of purchase, at total consideration of HK$15.9 million on the Stock Exchange. These 211,100 Shares were transferred to the said Directors at no cost upon the expiration of 2014 qualification period.

# 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 2014 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 and short positions

**Shares of HK$0.10 each of the Company:**

| | | Long positions | | Short positions | |
|---|---|---|---|---|---|
| **Name of director** | **Capacity** | **Number of shares held** | **Percentage of shareholding in the Company** | **Number of shares held** | **Percentage of shareholding in the Company** |
| Arthur H. del Prado *(Note)* | Interest of a controlled corporation | 6,550,000 | 1.63% | 6,550,000 | 1.63% |
| Lee Wai Kwong | Beneficial Owner | 1,065,100 | 0.26% | – | – |
| Chow Chuen, James | Beneficial Owner | 471,100 | 0.12% | – | – |
| Robin Gerard Ng Cher Tat | Beneficial Owner | 85,000 | 0.02% | – | – |
| Tang Koon Hung, Eric | Beneficial Owner | 13,000 | 0.003% | – | – |

*Note:* Mr. Arthur H. del Prado is taken to be interested, and have a short position, in the shares through his wholly owned corporation, ADP Industries B.V..

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 2014, 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 share options granted by ASM International N.V. to certain Directors to buy shares of ASM International N.V., 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.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, the following persons (other than the interests disclosed above in respect of Directors or chief executives of the Company) had interests or short positions 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:

| | | Long positions | | Short positions | | Lending pool | |
|---|---|---|---|---|---|---|---|
| Name of shareholder | Capacity | Number of shares held | Percentage of shareholding in the Company | Number of shares held | Percentage of shareholding in the Company | Number of shares held | Percentage of shareholding in the Company |
| ASM International N.V. *(Note 1)* | Interest of a controlled corporation | 160,003,000 | 39.75% | – | – | – | – |
| ASM Pacific Holding B.V. | Beneficial owner | 160,003,000 | 39.75% | – | – | – | – |
| JPMorgan Chase & Co. | *(Note 2)* | 50,069,434 | 12.44% | 20,256,000 | 5.03% | 15,122,822 | 3.76% |
| Aberdeen Asset Management Plc and its associates on behalf of accounts managed by Aberdeen Asset Management Plc and its associates | Investment manager | 36,090,850 | 8.97% | – | – | – | – |
| The Capital Group Companies, Inc *(Note 3)* | Interest of a controlled corporation | 32,050,600 | 7.96% | – | – | – | – |
| Genesis Asset Managers, LLP | Investment manager | 28,370,964 | 7.05% | – | – | – | – |
| Commonwealth Bank of Australia *(Note 4)* | Interest of a controlled corporation | 20,871,378 | 5.19% | – | – | – | – |

*Notes:*

1. ASM International N.V. is deemed interested in 160,003,000 shares, through the shares held by its wholly owned subsidiary, ASM Pacific Holding B.V..

2. The interests held by JPMorgan Chase & Co. were held in the following capacities:

| Capacity | Number of shares (Long position) | Number of shares (Short position) | Number of shares (Lending pool) |
|---|---|---|---|
| Beneficial owner | 34,946,568 | 20,256,000 | – |
| Trustee | 44 | – | – |
| Custodian corporation/approved lending agent | 15,122,822 | – | 15,122,822 |

3. The Capital Group Companies, Inc. is deemed interested in 32,050,600 shares, through the shares held by its wholly owned subsidiary, Capital Research and Management Company.

4. The Commonwealth Bank of Australia is deemed interested in 20,871,378 shares, through the shares held by its wholly owned subsidiary, Colonial Holding Company Limited (which is deemed interested in the Company through the shares held by Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Hong Kong) Ltd, Capital 121 Pty Limited and Colonial First State Investments Limited, each a wholly owned subsidiary of Colonial Holding Company Limited).

Save as disclosed above, as at 31 December 2014, 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' REPORT *(CONTINUED)*

## DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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.

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 34 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 approximately HK$915,000.

## 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 2014.

## 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
4 March 2015

# 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 Corporate Governance Code and Corporate Governance Report ("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 2014.

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

As at 31 December 2014, the Company has ten directors, one of whom is female. The majority of Board members are non-executive directors. They bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the effective direction of the Group. Members of the Board comprise nationals from Hong Kong, Singapore and the Netherlands. The Board considers its current composition to have achieved good diversity in terms of gender, cultural, educational background and professional experience.

The Board of the Company comprises the following directors during the year ended 31 December 2014:

*Executive Directors*

| | |
|---|---|
| Arthur H. del Prado | (Chairmen of the Board and Nomination Committee, Member of Remuneration Committee) |
| 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 and Nomination Committee) |
| Petrus Antonius Maria van Bommel | (Member of Audit Committee) |

*Independent Non-Executive Directors*

| | |
|---|---|
| Orasa Livasiri | (Chairman of Remuneration Committee, Member of Audit Committee and Nomination Committee) |
| Lok Kam Chong, John | (Chairman of Audit Committee, Member of Remuneration Committee and Nomination Committee) |
| Wong Hon Yee | (Member of Nomination Committee) |
| Tang Koon Hung, Eric | (Member of Audit Committee and Remuneration Committee) |

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

## THE BOARD (Continued)

### Board composition (Continued)

During the year ended 31 December 2014, 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. Currently, there are two such directors on the Board and they are also members of the Board's Audit Committee. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

The Company has received written annual confirmation from each independent non-executive director of his or her 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.

### Board Diversity Policy

The Board adopted the Board Diversity Policy in September 2013 setting out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. The Company will also take into account factors based on its own business model and specific needs from time to time. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

The Board will review the board diversity policy on a regular basis to ensure its continued effectiveness.

### Corporate Governance Functions

The Board is responsible for performing the corporate governance duties with its written terms of reference as set out below. It may delegate the responsibilities to a committee or committees, which shall comply with the following terms of reference with regard to such duties.

(a) To provide independent, effective leadership to supervise the management of the Company's business and affairs to grow value responsibly, in a profitable and sustainable manner, and in the best interests of its shareholders.

(b) To develop and review the Company's policies and practices on corporate governance.

(c) To review and monitor the training and continuous professional development of directors and senior management.

(d) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

(e) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors.

(f) To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

(g) To appoint any other committees that the Board decides are needed and delegate to those committees any appropriate powers of the Board.

(h) To retain, oversee, compensate and terminate independent advisors to assist the Board in its activities.

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## THE BOARD (Continued)

### 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 2014. 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"), 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 or her appointment. The Directors whose term has expired are eligible for re-election at general meetings.

Mr. Lok Kam Chong, John shall retire from office as Director in accordance with Articles 113 and 114 of the Company's Articles and being eligible, offer himself for re-election at the forthcoming annual general meeting.

### Nomination Committee

The Nomination Committee comprises five members as at 31 December 2014. Mr. Arthur H. del Prado is the chairman with three other members are independent non-executive directors namely, Miss Orasa Livasiri, Mr. Lok Kam Chong, John and Mr. Wong Hon Yee and another member is a non-executive director, Mr. Charles Dean del Prado.

The role of the Nomination Committee is to assist the Board of Directors in: (i) identifying individuals qualified to become Board members and recommending that the Board select a group of director nominees for the next annual general meeting; (ii) ensuring that the Audit Committee, Remuneration Committee and Nomination Committee of the Board shall have the benefit of qualified and experienced independent non-executive directors.

The major duties of the Nomination Committee include the following:

- To review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

- To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

- To assess the independence of independent non-executive directors.

- To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the Chairman and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, including making recommendations on the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board.

- To recommend directors who are retiring to be put forward for re-election.

The Nomination Committee held one meeting during the year ended 31 December 2014 and the attendance record is set out under "Directors' attendance records" on page 47.

## THE BOARD (Continued)

### 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.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments to the Directors.

The Directors are committed to complying with Code Provision A.6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2014 to the Company.

The individual training record of each Director received for the year ended 31 December 2014 is summarized as below:

**Participation in Continuous Professional Development Programme in 2014**

| Directors | Reading Regulatory Updates | Attending briefings/seminars/ conferences relevant to the business | Attending training/ briefing on regulatory development, directors' duties or other relevant topics |
|---|---|---|---|
| *Executive Directors* | | | |
| Arthur H. del Prado | | √ | |
| 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* | | | |
| Lok Kam Chong, John | √ | √ | √ |
| Orasa Livasiri | √ | | √ |
| Wong Hon Yee | √ | | √ |
| Tang Koon Hung, Eric | √ | √ | √ |

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## THE BOARD (Continued)

### Board meetings

**Board practices and conduct of meetings**

Notices of regular Board meetings are served on 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.

Minutes of all Board meetings, Audit Committee meetings and Nomination 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 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.

## THE BOARD (Continued)

### Board meetings (Continued)

**Directors' attendance records**

Seven 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, the Nomination Committee and the Remuneration Committee and the 2014 Annual General Meeting, during the year ended 31 December 2014 is set out below:

| Directors | | Attendance/Number of Meetings held during the tenure of directorship | | | | |
|---|---|---|---|---|---|---|
| | | Board Meetings | Audit Committee Meetings | Nomination Committee Meeting | Remuneration Committee Meeting | 2014 Annual General Meeting |
| *Executive Directors* | | | | | | |
| Arthur H. del Prado | (Chairmen of the Board and Nomination Committee) | 6/7 | N/A | 1/1 | 2/2 | 1/1 |
| Lee Wai Kwong | | 7/7 | N/A | N/A | N/A | 1/1 |
| Chow Chuen, James | | 6/7 | N/A | N/A | N/A | 1/1 |
| Robin Gerard Ng Cher Tat | | 7/7 | N/A | N/A | N/A | 1/1 |
| *Non-executive Directors* | | | | | | |
| Charles Dean del Prado | | 6/7 | N/A | 1/1 | 2/2 | 0/1 |
| Petrus Antonius Maria van Bommel | | 6/7 | 4/4 | N/A | N/A | 0/1 |
| *Independent Non-executive Directors* | | | | | | |
| Lok Kam Chong, John | (Chairman of Audit Committee) | 7/7 | 4/4 | 1/1 | 2/2 | 1/1 |
| Orasa Livasiri | (Chairman of Remuneration Committee) | 7/7 | 3/4 | 1/1 | 2/2 | 1/1 |
| Wong Hon Yee | | 6/7 | N/A | 0/1 | N/A | 1/1 |
| Tang Koon Hung, Eric | | 7/7 | 4/4 | N/A | 2/2 | 1/1 |

### 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 directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2014.

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.

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## THE BOARD (Continued)

### Company Secretary

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affair. She was appointed by the Board in 2006. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and the Board Committees.

During the year, the company secretary complied with Rule 3.29 of the Listing Rules and has taken more than 15 hours of relevant professional training.

## 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.

The Management provides to all members of the Board monthly performance updates giving information on the Group's latest financial performance and financial position, the status of the Group's order book and the performance of individual operating segments and other relevant information. Directors can therefore have a balanced and understandable assessment of the Group's performance, position and prospects throughout the year.

During the year ended 31 December 2014, the Board has three committees, namely, the Remuneration Committee, the Audit Committee and the Nomination 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 website of the Company (www.asmpacific.com) and Hong Kong Stock Exchange (www.hkex.com.hk) 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 2014 are set out on page 105 in note 15 to the consolidated financial statements.

### Remuneration Committee

The Remuneration Committee has five members as at 31 December 2014. Miss Orasa Livasiri, independent non-executive director, is the Chairman with one executive director, Mr. Arthur H. del Prado, one non-executive director, Mr. Charles Dean del Prado and two independent non-executive directors, Mr. Lok Kam Chong, John and Mr. Tang Koon Hung, Eric.

The primary functions of the Remuneration Committee include making recommendations on the remuneration policy and structure and remuneration packages of the executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

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 has adopted the model that it determines, with delegated responsibility, the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee will also review and approve performance-based remuneration by reference to corporate goals and objectives.

The main duties of Remuneration Committee are as follow:

- On an annual basis, to review and approve the specific remuneration of the Chief Executive Officer including but not limited to basic salary, performance based discretionary bonus and bonus shares allocation.

- On an annual basis, to review and approve the recommendations made by the Chief Executive Officer for the remuneration of other executive directors and senior management, which includes their basic salary, performance based discretionary bonus and bonus share allocation.

- To review and approve compensation payable to the executive directors and senior management for any loss of termination of office or appointment, to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.

- To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct, to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

- To make recommendations to the Board on the remuneration of non-executive directors.

- To consider salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the ASMPT group.

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## REMUNERATION OF DIRECTORS (Continued)

### Remuneration Committee (Continued)

The Remuneration Committee held two meetings during the year ended 31 December 2014 and the attendance records are set out under "Directors' attendance records" on page 47.

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.

## 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 2014.

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.

### 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 of the Company 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.

## ACCOUNTABILITY AND AUDIT (Continued)

### Audit Committee

The Audit Committee comprises 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 as at 31 December 2014. Mr. Lok Kam Chong, John, independent non-executive director, is the chairman of the committee. Other members are two independent non-executive directors, Miss Orasa Livasiri and Mr. Tang Koon Hung, Eric and one non-executive director, Mr. Petrus Antonius Maria van Bommel. 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.

In 2014, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 47. The following is a summary of the tasks completed by the Audit Committee during 2014:

- reviewed the Group's financial reports for the year ended 31 December 2013, for the six months ended 30 June 2014, and for the quarters ended 31 March 2014 and 30 September 2014;

- reviewed the financial reporting system;

- reviewed the effectiveness of internal controls system;

- reviewed risk management system;

- reviewed work plan for 2014 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.

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## ACCOUNTABILITY AND AUDIT (Continued)

### 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 55.

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$12,247,000, assurance related services amounted to HK$1,034,000 and non-audit services amounted to HK$2,058,000 which were reviewed and approved by the Audit Committee.

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 recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

### Shareholders Communication Policy

The Company has established a Shareholders Communication Policy to set out the Company's processes to provide shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

All announcements and notices are published on the Stock Exchange's website as well as the Company's own website. In addition, to promote greater understanding and dialogue with the investment community, the Company holds conference calls or investor luncheon meetings with the investment community in connection with the Company's annual, interim and quarterly results. During these conference calls or investor luncheon meetings, the Company's Chief Executive Officer or his delegate will make presentations on the Group's performance to the investment community. The conference calls are also broadcast live via webcast. Apart from this, designated senior executives maintain regular dialogue with institutional investors to keep them abreast of the Group's development, subject to compliance with applicable laws and regulations. Including the four results announcements, over 430 meetings with analysts and fund managers were held in 2014.

Any question regarding the shareholders' communication policy is directed to the Company's Chief Executive Officer.

### Shareholders' Meeting

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 the respective chairman of the Remuneration Committee, the Audit Committee and the Nomination Committee or, in their absence, other members of the respective committees and independent non-executive directors 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.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

### Shareholders' Meeting (Continued)

The most recent shareholders' meeting was the 2014 annual general meeting held on 25 April 2014 at Room 3-5, United Conference Centre, 10/F United Centre, 95 Queensway, Hong Kong. All the resolutions proposed at that meeting (except for the resolution proposing to give a general mandate to the directors to issue, allot and deal with additional shares of the Company) were approved by the shareholders by poll voting. Details of poll results are available under the investor relations section of the Company's website at www.asmpacific.com.

The next annual general meeting will be held on Monday, 11 May 2015, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

### 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 are taken by poll. Poll results are posted on the websites of the Company and of the Stock Exchange following the shareholders' meeting.

### Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association of the Company, shareholder(s) holding not less than one-tenth in amount of the issued capital of the Company (hereinafter refer to "the requisitionists") may request for an extraordinary general meeting of the Company to be convened. The requisition must be in writing and signed by the requisitionists, stating the objective of the meeting, and be deposited at the Company's registered office at Cayman Islands or its principal place of business in Hong Kong at 12/F, Watson Centre, 16-22 Kung Yip Street, Kwai Chung, New Territories, Hong Kong.

If the Directors do not within 21 days from the date of the requisition proceed duly to convene a meeting, the requisitionists or any of them representing more than one-half of total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said dates.

### Procedures for putting forward proposals at shareholders' meetings

Shareholders who wish to put forward a proposal at an extraordinary general meeting should follow the procedures set out in "Procedures for shareholders to convene an extraordinary general meeting" above.

Pursuant to Article 115 of the Company's Articles, no person other than a Director retiring at a meeting shall, unless recommended by the Directors, be appointed a Director at a general meeting unless notice in writing shall have been given to the Company of the intention of any member qualified to vote at the meeting to propose any person other than a retiring Director for election to the office of Director, with notice executed by that person of his willingness to be appointed, provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that the period for giving such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

Details of the procedures for shareholders to propose candidates for election to the Board of Directors are available on the Company's website.

# CORPORATE GOVERNANCE REPORT *(CONTINUED)*

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

### Procedures for putting enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Investor Relations Department, which contact details are as follow:

ASM Pacific Technology Ltd.
12/F, Watson Centre,
16-22 Kung Yip Street,
Kwai Chung, Hong Kong
Attn: Investor Relationship Department

Telephone: 852-2424-2021; 852-2619-2529
Fax: 852-2481-3367
Email: investor.relation@asmpt.com

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

### Articles of Association of the Company

There was no change in the Articles of Association of the Company for the year ended 31 December 2014.

On behalf of the Board
**Lee Wai Kwong**
DIRECTOR
4 March 2015

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

## TO THE SHAREHOLDERS 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 56 to 145, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other 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 2014, and of its 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
4 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| Turnover | 7 | **14,229,177** | 10,841,166 |
| Cost of sales | | **(9,179,551)** | (7,661,808) |
| Gross profit | | **5,049,626** | 3,179,358 |
| Other income | | **86,078** | 31,774 |
| Selling and distribution expenses | | **(1,161,244)** | (898,478) |
| General and administrative expenses | | **(620,715)** | (560,845) |
| Research and development expenses | 9 | **(1,148,382)** | (948,295) |
| Other gains and losses | 10 | **112,012** | (7,420) |
| Other expenses | 11 | **(168,400)** | (104,521) |
| Finance costs | 12 | **(120,512)** | (18,563) |
| Profit before taxation | | **2,028,463** | 673,010 |
| Income tax expense | 13 | **(428,509)** | (114,421) |
| Profit for the year, attributable to owners of the Company | 14 | **1,599,954** | 558,589 |
| Other comprehensive (expense) income | | | |
| – exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | | **(299,755)** | 93,807 |
| – remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss | 35 | **(52,820)** | 12,108 |
| Other comprehensive (expense) income for the year | | **(352,575)** | 105,915 |
| Total comprehensive income for the year, attributable to owners of the Company | | **1,247,379** | 664,504 |
| Earnings per share | 18 | | |
| – Basic | | **HK$3.99** | HK$1.40 |
| – Diluted | | **HK$3.98** | HK$1.40 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **2,073,489** | 2,000,800 |
| Investment property | 20 | **68,467** | 70,215 |
| Goodwill | 21 | **405,652** | – |
| Intangible assets | 23 | **627,338** | 9,650 |
| Prepaid lease payments | 24 | **25,587** | 26,983 |
| Pledged bank deposits | 25 | **506** | 213,866 |
| Deposits paid for acquisition of property, plant and equipment | | **22,336** | 61,490 |
| Rental deposits paid | 27 | **7,332** | 16,719 |
| Deferred tax assets | 36 | **317,448** | 242,427 |
| Other non-current assets | | **108,124** | 79,459 |
| | | **3,656,279** | 2,721,609 |
| **Current assets** | | | |
| Inventories | 26 | **3,886,140** | 3,236,119 |
| Trade and other receivables | 27 | **4,119,540** | 3,115,798 |
| Prepaid lease payments | 24 | **941** | 974 |
| Derivative financial instruments | 28 | **–** | 4,225 |
| Income tax recoverable | | **48,296** | 65,152 |
| Pledged bank deposits | 25 | **191,306** | – |
| Bank balances and cash | 29 | **2,593,756** | 1,596,592 |
| | | **10,839,979** | 8,018,860 |
| **Current liabilities** | | | |
| Trade and other payables | 30 | **2,918,458** | 2,151,810 |
| Derivative financial instruments | 28 | **9,297** | – |
| Provisions | 31 | **354,170** | 348,901 |
| Income tax payable | | **325,315** | 251,781 |
| Bank borrowings | 32 | **151,379** | 550,778 |
| | | **3,758,619** | 3,303,270 |
| **Net current assets** | | **7,081,360** | 4,715,590 |
| | | **10,737,639** | 7,437,199 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

At 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *33* | **40,252** | 40,063 |
| Dividend reserve | | **523,274** | 200,317 |
| Other reserves | | **7,641,668** | 6,840,885 |
| **Equity attributable to owners of the Company** | | **8,205,194** | 7,081,265 |
| **Non-current liabilities** | | | |
| Convertible bonds | *37* | **2,164,204** | – |
| Retirement benefit obligations | *35* | **150,147** | 83,133 |
| Provisions | *31* | **61,360** | 85,224 |
| Bank borrowings | *32* | **16,159** | 145,384 |
| Deferred tax liabilities | *36* | **95,870** | 5,783 |
| Other liabilities and accruals | *30* | **44,705** | 36,410 |
| | | **2,532,445** | 355,934 |
| | | **10,737,639** | 7,437,199 |

The consolidated financial statements on pages 56 to 145 were approved and authorized for issue by the Board of Directors on 4 March 2015 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 2014

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Shares held for share award scheme HK$'000 *(Note 34)* | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Translation reserve HK$'000 | Retained profits HK$'000 | Dividend reserve HK$'000 | Total HK$'000 |
| At 1 January 2013 | 39,925 | 825,265 | – | – | 155 | 72,979 | – | (38,723) | 5,537,300 | 119,773 | 6,556,674 |
| Profit for the year | – | – | – | – | – | – | – | – | 558,589 | – | 558,589 |
| Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | – | – | – | – | – | – | – | 93,807 | – | – | 93,807 |
| Remeasurement of defined benefit retirement plans, net of tax *(note 35)*, which will not be reclassified to profit or loss | – | – | – | – | – | – | – | – | 12,108 | – | 12,108 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 93,807 | 570,697 | – | 664,504 |
| Sub-total | 39,925 | 825,265 | – | – | 155 | 72,979 | – | 55,084 | 6,107,997 | 119,773 | 7,221,178 |
| Recognition of equity-settled share-based payments | – | – | 142,418 | – | – | – | – | – | – | – | 142,418 |
| Purchase of shares under the Employee Share Incentive Scheme | – | – | – | (22,822) | – | – | – | – | – | – | (22,822) |
| Shares vested under the Employee Share Incentive Scheme | – | – | (22,822) | 22,822 | – | – | – | – | – | – | – |
| Shares issued under the Employee Share Incentive Scheme | 138 | 119,458 | (119,596) | – | – | – | – | – | – | – | – |
| 2012 final dividend paid | – | – | – | – | – | – | – | – | – | (119,773) | (119,773) |
| 2013 interim dividend paid | – | – | – | – | – | – | – | – | (139,736) | – | (139,736) |
| 2013 final dividend proposed | – | – | – | – | – | – | – | – | (200,317) | 200,317 | – |
| At 31 December 2013 and 1 January 2014 | 40,063 | 944,723 | – | – | 155 | 72,979 | – | 55,084 | 5,767,944 | 200,317 | 7,081,265 |
| Profit for the year | – | – | – | – | – | – | – | – | 1,599,954 | – | 1,599,954 |
| Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | – | – | – | – | – | – | – | (299,755) | – | – | (299,755) |
| Remeasurement of defined benefit retirement plans, net of tax *(note 35)*, which will not be reclassified to profit or loss | – | – | – | – | – | – | – | – | (52,820) | – | (52,820) |
| Total comprehensive income for the year | – | – | – | – | – | – | – | (299,755) | 1,547,134 | – | 1,247,379 |
| Sub-total | 40,063 | 944,723 | – | – | 155 | 72,979 | – | (244,671) | 7,315,078 | 200,317 | 8,328,644 |
| Recognition of equity-settled share-based payments | – | – | 146,300 | – | – | – | – | – | – | – | 146,300 |
| Purchase of shares under the Employee Share Incentive Scheme | – | – | – | (15,858) | – | – | – | – | – | – | (15,858) |
| Shares vested under the Employee Share Incentive Scheme | – | – | (15,858) | 15,858 | – | – | – | – | – | – | – |
| Shares issued under the Employee Share Incentive Scheme | 189 | 130,253 | (130,442) | – | – | – | – | – | – | – | – |
| Recognition of equity component of convertible bonds *(note 37)* | – | – | – | – | – | – | 266,932 | – | – | – | 266,932 |
| 2013 final dividend paid | – | – | – | – | – | – | – | – | – | (200,317) | (200,317) |
| 2014 interim dividend paid | – | – | – | – | – | – | – | – | (320,507) | – | (320,507) |
| 2014 final dividend proposed | – | – | – | – | – | – | – | – | (523,274) | 523,274 | – |
| At 31 December 2014 | 40,252 | 1,074,976 | – | – | 155 | 72,979 | 266,932 | (244,671) | 6,471,297 | 523,274 | 8,205,194 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **2,028,463** | 673,010 |
| Adjustments for: | | |
| Depreciation | **386,788** | 413,289 |
| Release of prepaid lease payments | **941** | 974 |
| Amortization of intangible assets | **27,909** | 10,157 |
| Release of land license fee | **2,216** | 2,970 |
| Loss on disposal/write-off of property, plant and equipment | **1,169** | 11,160 |
| Loss (gain) on fair value change of derivative financial instruments | **15,781** | (1,818) |
| Warranty provision expenses | **248,147** | 275,971 |
| Other expenses | **168,400** | 104,521 |
| Share-based payments under the Employee Share Incentive Scheme | **146,300** | 142,418 |
| Interest income | **(8,794)** | (3,273) |
| Interest expense | **120,512** | 18,563 |
| Effect of foreign exchange rate changes on inter-company balances | **(73,988)** | 14,649 |
| Operating cash flows before movements in working capital | **3,063,844** | 1,662,591 |
| Increase in pledged bank deposits | **(3,472)** | – |
| Increase in inventories | **(533,820)** | (324,704) |
| (Increase) decrease in trade and other receivables | **(818,486)** | 77,948 |
| (Increase) decrease in other non-current assets | **(3,321)** | 376 |
| Increase in trade and other payables | **401,625** | 107,071 |
| Increase in other liabilities and accruals | **4,093** | 3,167 |
| Increase (decrease) in provisions | **7,298** | (2,652) |
| Utilization of warranty provision | **(217,566)** | (273,837) |
| Payment for restructuring provision | **(42,324)** | (57,067) |
| (Decrease) increase in retirement benefit obligations | **(1,915)** | 5,683 |
| Purchase of shares under the Employee Share Incentive Scheme | **(15,858)** | (22,822) |
| Cash generated from operations | **1,840,098** | 1,175,754 |
| Income taxes paid | **(410,564)** | (261,441) |
| Income taxes refunded | **55,531** | 9,780 |
| **Net cash from operating activities** | **1,485,065** | 924,093 |

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Investing activities** | | |
| Interest received | **8,794** | 3,273 |
| Proceeds on disposal of property, plant and equipment | **25,116** | 9,027 |
| Net cash outflow arising on acquisitions of subsidiaries | **(1,333,294)** | – |
| Purchase of property, plant and equipment | **(313,663)** | (346,718) |
| Deposits paid for acquisition of property, plant and equipment | **(22,336)** | (61,490) |
| Prepayment for land license fee | **(26,658)** | (31,013) |
| Additions of intangible assets | **(4,333)** | (3,898) |
| Additions to investment property | **–** | (53) |
| **Net cash used in investing activities** | **(1,666,374)** | (430,872) |
| **Financing activities** | | |
| Proceeds from issue of convertible bonds | **2,400,000** | – |
| Payment for transaction costs attributable to issue of convertible bonds | **(39,801)** | – |
| Bank borrowings raised | **256,174** | 519,731 |
| Repayment of bank borrowings | **(784,801)** | (648,389) |
| Dividends paid | **(520,824)** | (259,509) |
| Interest paid | **(36,420)** | (18,413) |
| **Net cash from (used in) financing activities** | **1,274,328** | (406,580) |
| Net increase in cash and cash equivalents | **1,093,019** | 86,641 |
| Cash and cash equivalents at beginning of the year | **1,596,592** | 1,487,003 |
| Effect of foreign exchange rate changes | **(95,855)** | 22,948 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | **2,593,756** | 1,596,592 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014

## 1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The 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. The principal activities of the Company and its subsidiaries (the "Group") are engaged in the design, manufacture and marketing of machines, tools and materials used in semiconductor and electronic assembly industries. The principal subsidiaries and their activities are set out in note 43.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs and the new Interpretation that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to HKFRSs and a new Interpretation.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities"

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities" for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

### Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"

The Group has applied the amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities" for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

### Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

The Group has applied the amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 "Fair Value Measurements".

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

### Amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"

The Group has applied the amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

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

### HK(IFRIC) – Int 21 "Levies"

The Group has applied HK(IFRIC) – Int 21 "Levies" for the first time in the current year. HK(IFRIC) – Int 21 addresses the issue as to when to recognize a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with customers[2] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to HKAS 1 | Disclosure Initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee contributions[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010–2012 Cycle[5] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011–2013 Cycle[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012–2014 Cycle[3] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

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

### HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognized financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized 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 amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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 recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

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

### HKFRS 9 "Financial Instruments" (Continued)

The directors of the Company do not anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

### HKFRS 15 "Revenue from Contracts with Customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### Amendments to HKFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 "Impairment of Assets" regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

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

### Amendments to HKAS 1 "Disclosure Initiative"

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

### Amendments to HKAS 16 and HKAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

### Amendments to HKAS 16 and HKAS 41 "Agriculture: Bearer Plants"

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

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

### Amendments to HKAS 19 "Defined Benefit Plans: Employee Contributions"

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans with employee contributions.

### Amendments to HKAS 27 "Equity Method in Separate Financial Statements"

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost, or
- In accordance with HKFRS 9 "Financial Instruments" (or HKAS 39 "Financial Instruments: Recognition and Measurement" for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 "Investments in Associates and Joint Ventures".

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 "Consolidated Financial Statements" and to HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards".

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

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

### Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains or losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment Entities: Applying the Consolidation Exception"

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

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

### Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarized below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit or loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

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

### Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarized below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and
(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

### Annual Improvements to HKFRSs 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarized below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held for distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 "Disclosure – Offsetting Financial Assets and Financial Liabilities" issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 "Interim Financial Reporting".

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognized in retained profits at the beginning of that period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

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

### Annual Improvements to HKFRSs 2012-2014 Cycle (Continued)

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. 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 and by the Hong Kong Companies Ordinance (Cap. 32).

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Business combination

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 recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized 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 net of 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 acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combination (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### 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, net of estimated customer returns, rebates, discounts and sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 and freehold land held for use in the production of goods, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy, and amortization of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. 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.

Freehold land is not depreciated.

Depreciation is recognized 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.

An item of property, plant and equipment is derecognized 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 recognized in profit or loss.

### Investment property

Investment property is property held to earn rentals and/or for capital appreciation. Investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment property over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets

**Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

**Intangible assets acquired in a business combination**

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**Derecognition of intangible assets**

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of back-end equipment and lead frame is calculated using the first-in, first-out method. Cost of surface mount technology equipment is calculated using either on a first-in, first-out or weighted average method, depending on the type of inventory.

### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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. The amount recognized as a provision is 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).

**Restructurings**

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

**Warranties**

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Research and development expenditure

Expenditure on research activities is recognized 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 recognized 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 recognized 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 recognized, 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 amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal 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 the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on tangible and intangible assets other than goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Taxation

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

**Current tax**

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

**Deferred tax**

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such assets and liabilities are not recognized 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. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

**Current and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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.

### 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.

**The Group as lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investments in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate on the Group's net investment outstanding in respect of the leases.

Rentals income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

**The Group as lessee**

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized 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 recognized as a liability. The aggregate benefit of incentives is recognized 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 amortized 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments**

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

**Financial assets**

The Group's non-derivative financial assets are classified as loans and receivables.

The classification of non-derivative financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

*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 other non-current assets, pledged bank deposits, trade and other receivables, and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognized by applying the effective interest rate, except for short-term receivable where the recognition of interest would be immaterial.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (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-organization.

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 amortized cost, the amount of the impairment loss recognized 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Financial liabilities and equity instruments**

*Classification as debt or equity*

Debt 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 and the definitions of a financial liability and an equity instrument.

*Equity instruments*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial liabilities and equity instruments** (Continued)

*Convertible bonds*

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognized in equity will be transferred to retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

*Other financial liabilities*

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

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

**Derivative financial instruments**

Derivatives are initially recognized 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 recognized in profit or loss immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

**Derecognition**

The Group derecognizes 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized 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 retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the foreign operation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

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 recognized 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 recognized in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

### Share-based payment arrangements

**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 recognized 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 recognized 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 recognized as an expense.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment arrangements (Continued)

**Awarded shares held under Share Award Scheme granted to members of the management of the Group for their service to the Group**

Shares purchased under the Share Award Scheme are initially recognized in equity (shares held for Share Award Scheme) at fair value of consideration paid including the transaction costs at the date of purchase.

The fair value of services received from directors and employees determined by reference to the fair value of awarded shares granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in employee share-based compensation reserve.

At the time when the awarded shares are vested, the amounts previously recognized in shares held for Share Award Scheme and the amount recognized in employee share-based compensation reserve are transferred to retained profits.

### 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 capitalization.

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

### Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 recognized 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 2014

## 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 recognized 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 each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presented the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

## 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 may 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 2014, the carrying amount of inventories was HK$3,886,140,000 (2013: HK$3,236,119,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving, obsolete and defective inventories. The management estimates the net realizable 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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 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 2014, the carrying amount of trade receivables was HK$3,385,276,000 (2013: HK$2,475,927,000).

### 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 rate of compensation increase and pension progression and mortality 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. 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 2014, remeasurement losses before tax effect amounting to HK$78,751,000 (2013: remeasurement gains before tax effect HK$17,962,000) are recognized directly in equity in the period in which they occur (see note 35).

### Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings (see note 39). 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 2014, the Group recognized warranty provisions amounting to HK$393,352,000 (2013: HK$376,673,000) (see note 31).

### Income taxes

The Group operates and is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There were certain trading transactions for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax issues and tax-related expense, if any, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

**Income taxes** (Continued)

The Group 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 recognized 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 realized, a reversal of deferred tax assets may arise which would be recognized in profit or loss for the period in which such reversal takes place. As at 31 December 2014, the deferred tax assets recognized is HK$317,448,000 (2013: HK$242,427,000) (see note 36).

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill as at 31 December 2014 was HK$405,652,000 (2013: nil). Details of the impairment testing are set out in note 22.

### Impairment of intangible assets

In accounting for intangible assets, management of the Group considers the potential impairment based on the fair value of the assets and the cash flows generated. The intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable; the intangible asset with an indefinite useful life are measured annually, irrespective of whether there is any indication that it may be impaired. Factors that would indicate potential impairment may include, but are not limited to, the significant change in technology, and operating or cash flow losses associated with the intangible assets.

If cash flows do not materialize as estimated, there is a risk that further impairment charges may be necessary in future. The carrying amount of intangible assets as at 31 December 2014 was HK$627,338,000 (2013: HK$9,650,000). Details of the impairment testing on intangible assets with an indefinite useful life are set out in note 22.

### Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 6 and 20 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

## 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 maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings, convertible bonds 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.

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | **6,273,238** | 4,401,554 |
| Derivative financial instruments | **–** | 4,225 |
| Financial liabilities | | |
| Amortized cost | **4,319,897** | 2,379,038 |
| Derivative financial instruments | **9,297** | – |

### 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, convertible bonds 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

*Foreign currency risk management*

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 38% and 48% 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** | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 |
| US dollar *(Note)* | US$ | **1,535,215** | 1,145,289 | **216,691** | 508,596 |
| Euro | EUR | **337,064** | 408,627 | **43,142** | 28,466 |
| Renminbi | RMB | **246,605** | 173,665 | **400,509** | 324,465 |
| Singapore dollar | S$ | **33,724** | 12,675 | **118,425** | 119,351 |
| Japanese Yen | JPY | **4,868** | 3,258 | **132,841** | 114,068 |
| Others | | **33,548** | 21,805 | **197,955** | 162,246 |

*Note:* Included in the balances are US dollar financial assets and financial liabilities of HK$718,052,000 and HK$41,653,000 (2013: HK$437,281,000 and HK$26,042,000), respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

The majority of the Group's foreign currency financial assets and financial liabilities are denominated in US dollar. The US dollar 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 dollar financial assets and financial liabilities where Hong Kong dollars is not the functional currency, they have exposure to the foreign currency exchange risk. 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.

Foreign currency sensitivity analysis

The Group is mainly exposed currency risk related to Euro, US dollar, Renminbi, Japanese Yen and Singapore dollar.

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 HK$5,311,000 (2013: HK$5,376,000). For a 5% depreciation of the US$ against Euro, there would be an equal and opposite impact on the profit of the Group.

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

*Foreign currency risk management (Continued)*

Foreign currency sensitivity analysis (Continued)

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 dollar impact (ii) | | Renminbi impact (iii) | | Japanese Yen impact (iv) | | Singapore dollar impact (v) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 |
| (Decrease) increase in post tax profit | **(12,211)** | (15,216) | **(23,693)** | (14,040) | **5,758** | 5,586 | **6,040** | 5,206 | **3,851** | 4,984 |

(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 payables denominated in US dollar 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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

*Interest rate risk management*

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit (see note 25) and convertible bonds (see note 37). 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 29 and 32 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.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at the end of the reporting period. 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 higher for bank deposits and bank borrowings or 50 basis points lower for bank borrowings and all other variables were held constant, post-tax profit for the year ended 31 December 2014 would decrease/increase by HK$84,000 (2013: HK$2,695,000) and HK$712,000 (2013: HK$2,942,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

**Credit risk management**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2014 in relation to each class of recognized 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 authorized banks in Mainland China with high credit-ratings.

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.

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Liquidity risk management**

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 utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its 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 2014**

| | 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 | – | 594,000 | 1,367,584 | – | 1,961,584 | 1,961,584 |
| Other non-current liabilities | – | – | – | 13,881 | 13,881 | 13,881 |
| Bank borrowings | 2.638 | 22,106 | 131,461 | 16,196 | 169,763 | 167,538 |
| Convertible bonds | 6.786 | – | 48,000 | 2,472,000 | 2,520,000 | 2,176,894 |
| | | 616,106 | 1,547,045 | 2,502,077 | 4,665,228 | 4,319,897 |
| Derivatives – net settlement | | | | | | |
| Foreign exchange forward contracts | – | – | 9,297 | – | 9,297 | 9,297 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Liquidity risk management** (Continued)

At 31 December 2013

| | 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 | – | 538,390 | 1,126,115 | – | 1,664,505 | 1,664,505 |
| Other non-current liabilities | – | – | – | 18,371 | 18,371 | 18,371 |
| Bank borrowings | 1.951 | 421,548 | 134,920 | 147,597 | 704,065 | 696,162 |
| | | 959,938 | 1,261,035 | 165,968 | 2,386,941 | 2,379,038 |

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

Bank borrowings with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2014, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$22,106,000 (2013: HK$421,548,000). 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 borrowings amounting to HK$22,106,000 (2013: HK$285,799,000, HK$71,780,000 and HK$63,969,000) will be fully repaid within 4 months (2013: approximately 1 month, 12 months and 16 months, respectively) after the reporting date, 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$22,313,000 (2013: HK$424,287,000).

## 6. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets and financial liabilities | Fair value as at 2014 | 2013 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| 1) Foreign currency forward contracts classified as derivative instruments on the statement of financial position (see note 28) | **Liability- HK$9,297,000** | Asset- HK$4,225,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. | N/A | N/A |
| 2) Contingent consideration in DEK Acquisition (as defined in note 38) (see note 38) | **Nil** | N/A | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration. | Probability that DEK Business (as defined in note 38) will meet the amount of revenue target is approximate to zero (Note). | The higher the probability the higher the fair value. |

*Note:* A slight increase in the probability that DEK Business will meet the amount of revenue target would result in a significant increase in the fair value measurement of the contingent consideration, and vice versa.

There were no transfers between Level 1 and 2 in both years.

The fair values of the financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The directors consider that the carrying amounts of the other financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

## 7. TURNOVER

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 8. SEGMENT INFORMATION

The Group has three (2013: three) operating segments: development, production and sales of (1) back-end equipment,(2) surface mount technology solutions (formerly known as surface mount technology equipment) and (3) materials (formerly known as lead frame). They represent three major types of products manufactured by the Group. 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 ("CODM"), for the purpose of allocating resources to segments and assessing their performance. The Group is organized and managed around the three (2013: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

### Segment revenues and results

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Segment revenue from external customers | | |
| Back-end equipment | **6,803,776** | 5,200,054 |
| Surface mount technology solutions | **5,523,883** | 3,917,089 |
| Materials | **1,901,518** | 1,724,023 |
| | **14,229,177** | 10,841,166 |
| Segment profit | | |
| Back-end equipment | **1,372,634** | 541,310 |
| Surface mount technology solutions | **730,891** | 210,802 |
| Materials | **174,053** | 134,910 |
| | **2,277,578** | 887,022 |
| Interest income | **8,794** | 3,273 |
| Finance costs | **(120,512)** | (18,563) |
| Unallocated other income (expenses) | **269** | (3,176) |
| Unallocated net foreign exchange gain | **86,093** | 6,054 |
| Unallocated general and administrative expenses | **(55,359)** | (97,079) |
| Other expenses | **(168,400)** | (104,521) |
| Profit before taxation | **2,028,463** | 673,010 |

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. Segment results represent the profit before taxation earned by each segment without allocation of interest income, finance costs, unallocated other income (expenses), unallocated net foreign exchange gain, unallocated general and administrative expenses and other expenses. 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 segments is from external customers.

## 8. SEGMENT INFORMATION (Continued)

### Other segment information (included in the segment profit or loss or regularly provided to the CODM)

**2014**

| | Back-end equipment HK$'000 | Surface mount technology solutions HK$'000 | Materials 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 | 249,901 | 114,062 | 49,143 | – | 413,106 |
| – Arising from acquisition of subsidiaries | 2,085 | 105,406 | – | – | 107,491 |
| Additions of intangible assets | | | | | |
| – Additions during the year | – | 4,333 | – | – | 4,333 |
| – Arising from acquisition of subsidiaries | 6,985 | 635,627 | – | – | 642,612 |
| Amounts included in the measure of segment profit: | | | | | |
| Amortization for intangible assets | 1,171 | 26,738 | – | – | 27,909 |
| Depreciation of property, plant and equipment | 237,349 | 70,919 | 77,010 | – | 385,278 |
| Depreciation of investment property | 1,510 | – | – | – | 1,510 |
| (Gain) loss on disposal/write-off of property, plant and equipment | (325) | 767 | 727 | – | 1,169 |
| Release of prepaid lease payments | 691 | – | 250 | – | 941 |
| Research and development expenses | 632,526 | 507,427 | 8,429 | – | 1,148,382 |
| Share-based payments | 112,191 | 11,162 | 11,262 | 11,685 | 146,300 |

2013

| | Back-end equipment HK$'000 | Surface mount technology solutions HK$'000 | Materials 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 | 179,585 | 94,518 | 39,769 | – | 313,872 |
| Additions to investment property | 53 | – | – | – | 53 |
| Additions of intangible assets | – | 3,898 | – | – | 3,898 |
| Amounts included in the measure of segment profit: | | | | | |
| Amortization for intangible assets | – | 10,157 | – | – | 10,157 |
| Depreciation of property, plant and equipment | 263,745 | 66,781 | 81,249 | – | 411,775 |
| Depreciation of investment property | 1,514 | – | – | – | 1,514 |
| Loss on disposal/write-off of property, plant and equipment | 10,989 | 99 | 72 | – | 11,160 |
| Release of prepaid lease payments | 622 | – | 352 | – | 974 |
| Research and development expenses | 534,700 | 407,054 | 6,541 | – | 948,295 |
| Share-based payments | 104,746 | 8,223 | 10,662 | 18,787 | 142,418 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 8. SEGMENT INFORMATION (Continued)

### Geographical information

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

| | Non-current assets | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Mainland China | **1,554,238** | 1,637,805 |
| Europe | **843,731** | 150,406 |
| – Switzerland | **618,996** | – |
| – Germany | **140,711** | 145,799 |
| – United Kingdom | **67,339** | – |
| – Others | **16,685** | 4,607 |
| Singapore | **285,774** | 227,485 |
| Malaysia | **192,158** | 196,668 |
| Hong Kong | **42,750** | 42,506 |
| Korea | **5,468** | 4,385 |
| Americas | **5,374** | 2,476 |
| – United States of America | **4,974** | 1,430 |
| – Others | **400** | 1,046 |
| Others | **3,180** | 3,585 |
| | **2,932,673** | 2,265,316 |

*Note:* Non-current assets excluded goodwill, deferred tax assets and pledged bank deposits.

## 8. SEGMENT INFORMATION (Continued)

### Geographical information (Continued)

The Group's revenue from external customers by location of customers are detailed below:

| | Revenue from external customers | |
|---|---|---|
| | **2014** **HK$'000** | 2013 HK$'000 |
| Mainland China | **6,126,950** | 4,669,179 |
| Europe | **2,103,924** | 1,490,296 |
| – Germany | **852,601** | 723,254 |
| – Hungary | **162,655** | 74,497 |
| – Romania | **90,141** | 75,382 |
| – Others | **998,527** | 617,163 |
| Malaysia | **1,197,632** | 921,032 |
| Taiwan | **1,174,800** | 641,683 |
| Americas | **1,153,022** | 1,038,084 |
| – United States of America | **763,056** | 801,940 |
| – Mexico | **207,248** | 165,618 |
| – Others | **182,718** | 70,526 |
| Hong Kong | **689,814** | 686,393 |
| Thailand | **471,227** | 360,952 |
| Philippines | **393,154** | 292,273 |
| Korea | **392,021** | 415,786 |
| Japan | **197,151** | 117,719 |
| Singapore | **161,352** | 159,676 |
| Others | **168,130** | 48,093 |
| | **14,229,177** | 10,841,166 |

No individual customer contributes to more than 10% of the total revenue of the Group for the year.

## 9. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are depreciation for property, plant and equipment of HK$31,944,000 (2013: HK$28,644,000), rental of land and buildings under operating leases of HK$25,222,000 (2013: HK$23,900,000) and staff costs of HK$759,853,000 (2013: HK$654,886,000) for the year ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 10. OTHER GAINS AND LOSSES

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| The gains and losses comprise: | | |
| Net foreign exchange gains (losses) | **118,206** | (11,909) |
| Reversal of legal provision *(note 39)* | **26,372** | – |
| Loss on disposal/write-off of property, plant and equipment | **(1,169)** | (11,160) |
| (Loss) gain on fair value change of derivative financial instruments | **(32,113)** | 17,963 |
| Others | **716** | (2,314) |
| | **112,012** | (7,420) |

## 11. OTHER EXPENSES

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Provision for tax-related expense *(Note a)* | **168,400** | – |
| Restructuring costs *(Note b)* | **–** | 104,521 |
| | **168,400** | 104,521 |

*Notes:*

(a) As detailed in note 13, the Group continued to receive letters from the Hong Kong Inland Revenue Department ("HKIRD") during the year ended 31 December 2014 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-related expenses and a provision for tax-related expenses has been charged to profit or loss accordingly.

(b) Due to the local authorities' redevelopment plans for the Yantian District of Shenzhen, part of the operation of a subsidiary of the Company, Shenzhen ASM Micro Electronic Technology Co., Ltd., was required to move out of its premises located in Yantian District by October 2014. The Group announced the details of the relocation and compensation plan to the affected employees in October 2013. In connection with this plant relocation, the Group recorded HK$104,521,000 restructuring costs for the year ended 31 December 2013, which primarily relates to severance payments of HK$74,367,000 and incentive payments and other compensation of HK$24,020,000 to employees for relocation to new premises of the Group.

## 12. FINANCE COSTS

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Interest on convertible bonds *(note 37)* | **107,826** | – |
| Interest on bank borrowings wholly repayable within five years | **8,867** | 14,962 |
| Others | **3,819** | 3,601 |
| Total borrowing costs | **120,512** | 18,563 |

## 13. INCOME TAX EXPENSE

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| The charge (credit) comprises: | | |
| Current tax: | | |
| Hong Kong | **43,731** | 38,859 |
| PRC Enterprise Income Tax | **81,838** | 72,304 |
| Other jurisdictions | **294,435** | 87,664 |
| | **420,004** | 198,827 |
| Under(over)provision in prior years: | | |
| Hong Kong | **34,295** | (30) |
| PRC Enterprise Income Tax | **248** | 2,086 |
| Other jurisdictions | **3,445** | (9,750) |
| | **37,988** | (7,694) |
| Deferred tax credit *(note 36)* | | |
| Current year | **(29,483)** | (76,712) |
| | **428,509** | 114,421 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 13. INCOME TAX EXPENSE (Continued)

(a) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(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 is 25% (2013: 25%).

(c) On 12 July 2010, the Singapore Economic Development Board ("EDB") granted a Pioneer Certificate ("PC") to ASM Technology Singapore Pte Ltd. ("ATS"), a principal subsidiary of the Company, to the effect that profits arising from certain new back-end equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates 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 to tax at 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% (2013: 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 the assessable profit for the year. In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rate was 17.00%. Thus the aggregate tax rate amounts to 32.825% (2013: 32.825%).

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

## 13. INCOME TAX EXPENSE (Continued)

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

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Profit before taxation | **2,028,463** | 673,010 |
| Tax at the domestic income tax rate of 16.5% (2013: 16.5%) | **334,696** | 111,047 |
| Tax effect of expenses not deductible in determining taxable profit | **75,222** | 34,870 |
| Tax effect of income not taxable in determining taxable profit | **(6,461)** | (9,639) |
| Tax effect of tax losses not recognized | **18,207** | 2,857 |
| Tax effect of utilization of tax losses/temporary difference previously not recognized | **(57,068)** | (44,170) |
| Recognition of deferred tax arising from tax losses previously not recognized | **–** | (25,539) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **154,126** | 56,117 |
| Effect of tax exemption and concessions under PC, DEI and IHA granted by EDB | **(119,456)** | (10,836) |
| Under(over)provision in prior years | **37,988** | (7,694) |
| Others | **(8,745)** | 7,408 |
| Tax charge for the year | **428,509** | 114,421 |

*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 Group continued to receive letters from the HKIRD during the year ended 31 December 2014 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 or tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2014, the Group purchased tax reserve certificates amounting to HK$323,829,000 (2013: HK$298,529,000), as disclosed in note 27.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 14. PROFIT FOR THE YEAR

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Minimum lease payments under operating leases | | |
| – Land and buildings | **219,835** | 187,867 |
| – Motor vehicles and others | **13,046** | 9,713 |
| | **232,881** | 197,580 |
| Directors' remunerations *(note 15)* | **30,658** | 35,622 |
| Salaries, wages, bonus and other benefits | **3,576,308** | 2,973,590 |
| Pension costs, excluding directors | **204,191** | 189,118 |
| Share-based payments under the Employee Share Incentive Scheme | **130,442** | 119,596 |
| Total staff costs | **3,941,599** | 3,317,926 |
| Auditor's remuneration | **13,025** | 9,913 |
| Depreciation for property, plant and equipment | **385,278** | 411,775 |
| Depreciation for investment property | **1,510** | 1,514 |
| Amortization for intangible assets | | |
| – Included in selling and distribution expenses | **10,392** | – |
| – Included in cost of sales | **17,517** | 10,157 |
| Release of prepaid lease payments | **941** | 974 |
| Release of land license fee | **2,216** | 2,970 |
| | **417,854** | 427,390 |
| Government grants *(Note)* | **(55,559)** | (29,041) |
| Interest income on bank deposits | **(8,794)** | (3,273) |

*Note:* Government grants for the year ended 31 December 2014 included an amount of HK$52,403,000 (2013: HK$17,602,000) which is government subsidy received from local authority in the PRC relating to import of high technology products. Government grants for the year ended 31 December 2013 included an amount of HK$5,303,000 which was government grants related to product development project under the Innovation Development Scheme in Singapore, such amount had been deducted in research and development expenses incurred for the year ended 31 December 2013.

## 15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the ten (2013: twelve) directors and the chief executive were as follows:

Year ended 31 December 2014

| | Directors | | | | | | | | | Director and chief executive | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Arthur H. del Prado | Charles Dean del Prado | Petrus Antonius Maria van Bommel | Chow Chuen, James | Robin Gerard Ng Cher Tat | Orasa Livasiri | Lok Kam Chong, John | Wong Hon Yee | Tang Koon Hung, Eric | Lee Wai Kwong | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 *(Note d)* | HK$'000 |
| Fees | 450 | 350 | 300 | – | – | 450 | 450 | 300 | 384 | – | 2,684 |
| Other emoluments | | | | | | | | | | | |
| Salaries and other benefits | – | – | – | 8,008 | 4,255 | – | – | – | – | 13,357 | 25,620 |
| Contributions to retirement benefits schemes | – | – | – | 329 | 121 | – | – | – | – | 158 | 608 |
| Performance related incentive bonus payments *(Note a)* | – | – | – | 733 | 151 | – | – | – | – | 862 | 1,746 |
| Total emoluments | 450 | 350 | 300 | 9,070 | 4,527 | 450 | 450 | 300 | 384 | 14,377 | 30,658 |

Year ended 31 December 2013

| | Directors | | | | | | | | | | | Director and chief executive | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Arthur H. del Prado | Charles Dean del Prado | Petrus Antonius Maria van Bommel | Lo Tsan Yin, Peter | Chow Chuen, James | Robin Gerard Ng Cher Tat | Orasa Livasiri | Lee Shiu Hung, Robert | Lok Kam Chong, John | Wong Hon Yee | Tang Koon Hung, Eric | Lee Wai Kwong | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 *(Note b)* | HK$'000 | HK$'000 | HK$'000 | HK$'000 *(Note b)* | HK$'000 | HK$'000 | HK$'000 *(Note c)* | HK$'000 *(Note d)* | HK$'000 |
| Fees | 450 | 350 | 300 | – | – | – | 450 | 129 | 450 | 304 | 204 | – | 2,637 |
| Other emoluments | | | | | | | | | | | | | |
| Salaries and other benefits | – | – | – | 2,024 | 8,207 | 3,668 | – | – | – | – | – | 13,707 | 27,606 |
| Contributions to retirement benefits schemes | – | – | – | 5 | 323 | 125 | – | – | – | – | – | 250 | 703 |
| Performance related incentive bonus payments *(Note a)* | – | – | – | 1,733 | 1,213 | 293 | – | – | – | – | – | 1,437 | 4,676 |
| Total emoluments | 450 | 350 | 300 | 3,762 | 9,743 | 4,086 | 450 | 129 | 450 | 304 | 204 | 15,394 | 35,622 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

*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) Retired as directors on 26 April 2013.

(c) Appointed on 26 April 2013.

(d) Mr. Lee Wai Kwong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

During the year ended 31 December 2014, 211,100 Awarded Shares were granted to certain executive directors under the Employee Share Incentive Scheme (the "Scheme"). The fair value of these shares purchased during the year amounting to HK$15,858,000 was determined with reference to the cost of purchase from the market including transaction costs, was included in salaries and other benefits above. The market value for these Awarded Shares as at their vesting date was amounted to HK$15,790,000, which was calculated with reference to the closest trading price of the Company's share of HK$74.80 per share. For details regarding the Awarded Shares, please refer to note 34.

During the year ended 31 December 2013, 263,200 Awarded Shares were granted to certain executive directors under the Scheme. The fair value of these shares purchased during the year amounting to HK$22,822,000 was determined with reference to the cost of purchase from the market including transaction costs, was included in salaries and other benefits above. The market value for these Awarded Shares as at their vesting date was amounted to HK$16,661,000, which was calculated with reference to the closest trading price of the Company's share of HK$63.35 per share.

No directors waived any emoluments in both years.

## 16. EMPLOYEES' EMOLUMENTS

During the year ended 31 December 2014, the five highest paid individuals included three directors, details of whose emoluments are set out in note 15. During the year ended 31 December 2013, the five highest paid individuals included two directors and Mr. Lo Tsan Yin, Peter, a former director who retired as director on 26 April 2013. The emoluments of the remaining two individuals (2013: Mr. Lo Tsan Yin, Peter and the remaining two individuals) were as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **8,968** | 18,688 |
| Contributions to retirement benefits schemes | **538** | 906 |
| Performance related incentive bonus payments | **764** | 558 |
| | **10,270** | 20,152 |

For the year ended 31 December 2014, 54,600 shares of the Company were granted and vested to the two relevant highest paid employees under the Scheme. For the year ended 31 December 2013, 126,400 shares of the Company were granted and vested to the two relevant highest paid employees and Mr. Lo Tsan Yin, Peter under the Scheme.

At 31 December 2014, the fair value of these shares amounting to HK$3,778,320 (2013: HK$10,038,000) at the grant date was included in salaries and other benefits above.

Their emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2014** | 2013 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **–** | 1 |
| HK$6,000,001 to HK$6,500,000 | **1** | – |
| HK$6,500,001 to HK$7,000,000 | **–** | 1 |
| HK$8,500,001 to HK$9,000,000 | **–** | 1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 17. DIVIDENDS

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Dividend recognized as distribution during the year** | | |
| Interim dividend paid for 2014 of HK$0.80 (2013: HK$0.35) per share on 400,633,700 (2013: 399,244,500) shares | **320,507** | 139,736 |
| Final dividend paid for 2013 of HK$0.50 (2013: final dividend paid for 2012 of HK$0.30) per share on 400,633,700 (2013: 399,244,500) shares | **200,317** | 119,773 |
| | **520,824** | 259,509 |
| **Dividend proposed after the year end** | | |
| Proposed final dividend for 2014 of HK$1.30 (2013: HK$0.50) per share on 402,518,700 (2013: 400,633,700) shares | **523,274** | 200,317 |

The final dividend of HK$1.30 (2013: final dividend of HK$0.50) per share in respect of the year ended 31 December 2014 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 18. 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:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share (Profit for the year) | **1,599,954** | 558,589 |

| | Number of shares (in thousands) | |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **400,566** | 399,115 |
| Effect of dilutive potential shares from the Scheme | **1,556** | 1,240 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **402,122** | 400,355 |

*Note:* The computation of diluted earnings per share for the year ended 31 December 2014 did not assume the conversion of the Company's outstanding convertible bonds because the assumed conversion would result in an increase in earnings per share.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land outside Hong Kong HK$'000 | Buildings outside Hong Kong HK$'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 2013 | – | 746,920 | 599,810 | 3,323,440 | 39,271 | 27,938 | 4,737,379 |
| Currency realignment | – | 4,134 | (1,486) | (12,894) | (190) | 248 | (10,188) |
| Additions | – | – | 60,665 | 222,543 | 955 | 29,709 | 313,872 |
| Disposals | – | – | (2,156) | (30,226) | (33) | – | (32,415) |
| Write-off | – | – | (13,431) | (82,485) | (2,528) | – | (98,444) |
| Transfer | – | 53,916 | – | – | – | (53,916) | – |
| At 31 December 2013 | – | 804,970 | 643,402 | 3,420,378 | 37,475 | 3,979 | 4,910,204 |
| Currency realignment | (281) | (9,449) | 187 | (41,349) | (879) | (4) | (51,775) |
| Acquisitions of subsidiaries *(note 38)* | 16,511 | 19,944 | 9,703 | 50,150 | 11,183 | – | 107,491 |
| Additions | – | 1,219 | 108,166 | 255,989 | 7,164 | 40,568 | 413,106 |
| Disposals | – | – | (2,701) | (81,594) | (178) | – | (84,473) |
| Write-off | – | – | (111,021) | (21,443) | (1,793) | – | (134,257) |
| Transfer | – | 24,003 | – | – | – | (24,003) | – |
| At 31 December 2014 | 16,230 | 840,687 | 647,736 | 3,582,131 | 52,972 | 20,540 | 5,160,296 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| At 1 January 2013 | – | 205,399 | 436,584 | 1,965,217 | 24,564 | – | 2,631,764 |
| Currency realignment | – | (3,076) | (2,653) | (17,493) | (241) | – | (23,463) |
| Provided for the year | – | 23,227 | 96,288 | 289,594 | 2,666 | – | 411,775 |
| Eliminated on disposals | – | – | (1,893) | (22,254) | (31) | – | (24,178) |
| Eliminated on write-off | – | – | (9,806) | (74,815) | (1,873) | – | (86,494) |
| At 31 December 2013 | – | 225,550 | 518,520 | 2,140,249 | 25,085 | – | 2,909,404 |
| Currency realignment | – | (3,197) | 977 | (12,943) | (267) | – | (15,430) |
| Provided for the year | – | 26,534 | 75,406 | 277,070 | 6,268 | – | 385,278 |
| Eliminated on disposals | – | – | (2,687) | (58,836) | (129) | – | (61,652) |
| Eliminated on write-off | – | – | (110,577) | (18,635) | (1,581) | – | (130,793) |
| At 31 December 2014 | – | 248,887 | 481,639 | 2,326,905 | 29,376 | – | 3,086,807 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2014 | 16,230 | 591,800 | 166,097 | 1,255,226 | 23,596 | 20,540 | 2,073,489 |
| At 31 December 2013 | – | 579,420 | 124,882 | 1,280,129 | 12,390 | 3,979 | 2,000,800 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for freehold land are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 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% |

As at 31 December 2013 and 2014, the directors are of the opinion that there is neither any indicator of additional impairment nor any indicator that impairment previously recorded should be reversed.

## 20. INVESTMENT PROPERTY

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2013 | 70,969 |
| Currency realignment | 2,221 |
| Additions | 53 |
| At 31 December 2013 | 73,243 |
| Currency realignment | (247) |
| At 31 December 2014 | 72,996 |
| **DEPRECIATION** | |
| At 1 January 2013 | 1,468 |
| Currency realignment | 46 |
| Provided for the year | 1,514 |
| At 31 December 2013 | 3,028 |
| Currency realignment | (9) |
| Provided for the year | 1,510 |
| At 31 December 2014 | 4,529 |
| **CARRYING VALUES** | |
| At 31 December 2014 | 68,467 |
| At 31 December 2013 | 70,215 |

## 20. INVESTMENT PROPERTY (Continued)

The Group's property interests held to earn rentals or for capital appreciation purposes are measured using the cost model and are classified and accounted for as investment property.

The fair value of the Group's investment property at 31 December 2014 was HK$114,084,000 (2013: HK$114,471,000). The fair value has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited, an independent firm of qualified professional valuers not connected with the Group with appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the property, the highest and best use of the properties is their current use. Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2014 is as follows:

| | Level 3<br>HK$'000 | **Fair value as at 31.12.2014<br>HK$'000** |
|---|---|---|
| Research and development centre located in the PRC | 114,084 | **114,084** |

Investment property is depreciated over the lease term of 48 years on a straight-line basis.

## 21. GOODWILL

| | **HK$'000** |
|---|---|
| **COST** | |
| At 1 January 2013 and 31 December 2013 | – |
| Arising on acquisitions of subsidiaries *(note 38)* | 405,349 |
| Currency realignment | 303 |
| At 31 December 2014 | 405,652 |
| **IMPAIRMENT** | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | – |
| **CARRYING VALUE** | |
| At 31 December 2014 | 405,652 |
| At 31 December 2013 | – |

Particulars regarding impairment testing on goodwill are disclosed in note 22.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and intangible assets with indefinite useful lives set out in notes 21 and 23, respectively, have been allocated to group of cash generating units ("CGUs"), comprising certain subsidiaries in the surface mount technology solutions segment. The carrying amounts of goodwill and trade name as at 31 December 2014 allocated to this group of CGUs are as follows:

| | Goodwill<br>HK$'000 | Trade name<br>HK$'000 |
|---|---|---|
| Surface mount technology solutions – Printing business | **405,652** | **244,792** |

During the year ended 31 December 2014, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful lives.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

### Printing business

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 16%. The cash flows beyond the five-year period are extrapolated using a steady 2.5% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Printing business to exceed the aggregate recoverable amount of Printing business.

## 23. INTANGIBLE ASSETS

| | Sales backlog HK$'000 | Trade name HK$'000 | Technology HK$'000 | Customer bases HK$'000 | Licenses and similar rights HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2013 | – | – | – | – | 36,128 | 36,128 |
| Currency realignment | – | – | – | – | 1,651 | 1,651 |
| Additions | – | – | – | – | 3,898 | 3,898 |
| At 31 December 2013 | – | – | – | – | 41,677 | 41,677 |
| Currency realignment | 2 | 183 | (573) | 162 | (4,940) | (5,166) |
| Acquisitions of subsidiaries *(note 38)* | 2,635 | 244,609 | 178,273 | 217,095 | – | 642,612 |
| Additions | – | – | – | – | 4,333 | 4,333 |
| At 31 December 2014 | 2,637 | 244,792 | 177,700 | 217,257 | 41,070 | 683,456 |
| **AMORTIZATION** | | | | | | |
| At 1 January 2013 | – | – | – | – | 20,915 | 20,915 |
| Currency realignment | – | – | – | – | 955 | 955 |
| Charge for the year | – | – | – | – | 10,157 | 10,157 |
| At 31 December 2013 | – | – | – | – | 32,027 | 32,027 |
| Currency realignment | – | – | – | – | (3,818) | (3,818) |
| Charge for the year | 2,637 | – | 9,742 | 7,757 | 7,773 | 27,909 |
| At 31 December 2014 | 2,637 | – | 9,742 | 7,757 | 35,982 | 56,118 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2014 | – | 244,792 | 167,958 | 209,500 | 5,088 | 627,338 |
| At 31 December 2013 | – | – | – | – | 9,650 | 9,650 |

The intangible assets represent sales backlog, trade name, technology, customer bases and licenses and similar rights of softwares for machines used in production.

The trade name is with indefinite useful live and the other intangible assets are amortized on a straight-line basis at below rates per annum:

| | |
|---|---|
| Sales backlog | 100% |
| Technology | 10% |
| Customer bases | 7% |
| Licenses and similar rights | 20% to 33⅓% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 24. PREPAID LEASE PAYMENTS

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

Analyzed for reporting purposes as:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Current | **941** | 974 |
| Non-current | **25,587** | 26,983 |
| | **26,528** | 27,957 |

## 25. PLEDGED BANK DEPOSITS

Pursuant to the Master Sale and Purchase Agreement of the acquisition entered into between Siemens Aktiengesellschaft ("Siemens AG") and the Company (the "MSP Agreement") in connection with the acquisition of the entire equity interest of 13 direct and indirect subsidiaries of Siemens AG ("ASM AS Entities") in 2011 which principal activities are development, production, sale and service of surface mount technology placement machines, 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 2014, a bank deposit amounting to EUR20,000,000 (equivalent to approximately HK$188,340,000 (2013: approximately HK$213,866,000)) is pledged for the purpose of securing the bank guarantee. The pledged bank deposit was released in January 2015. The remaining pledged bank deposits at 31 December 2014 mainly represent bank deposits pledged for lease arrangement and performance guarantee for certain subsidiaries.

The pledged bank deposit carried interest at a market rate of 0.1% (2013: 0.1%) per annum for the year ended 31 December 2014.

## 26. INVENTORIES

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Raw materials | **842,960** | 786,397 |
| Work in progress | **2,083,966** | 1,697,769 |
| Finished goods | **959,214** | 751,953 |
| | **3,886,140** | 3,236,119 |

## 27. TRADE AND OTHER RECEIVABLES

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Trade receivables *(Note a)* | **3,385,276** | 2,475,927 |
| Amount recoverable from Siemens AG *(Note b)* | **33,001** | 52,741 |
| Value added tax recoverable | **214,525** | 170,132 |
| Tax reserve certificate recoverable | **323,829** | 298,529 |
| Other receivables, deposits and prepayments | **170,241** | 135,188 |
| | **4,126,872** | 3,132,517 |
| Less: Non-current rental deposits paid shown under non-current assets | **(7,332)** | (16,719) |
| | **4,119,540** | 3,115,798 |
| The following is an aging analysis of trade receivables presented based on the due date at the end of the reporting period: | | |
| Not yet due | **2,751,032** | 1,939,899 |
| Overdue within 30 days | **353,222** | 234,819 |
| Overdue within 31 to 60 days | **161,519** | 108,539 |
| Overdue within 61 to 90 days | **53,047** | 75,499 |
| Overdue over 90 days | **66,456** | 117,171 |
| | **3,385,276** | 2,475,927 |

*Notes:*

(a) The amount included notes receivables amounting to HK$457,333,000 (2013: HK$469,411,000).

(b) Pursuant to the MSP Agreement, Siemens AG undertakes to pay to the Group such amount as is necessary to indemnify ASM AS Entities 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 and received the tax demand notes from tax authorities. Amount of HK$15,126,000 was settled in 2014 and the remaining is expected to be settled in 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 27. TRADE AND OTHER RECEIVABLES (Continued)

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 or more. Each customer has a pre-set maximum credit limit.

Included in the Group's trade receivables are amounts totaling HK$634,244,000 (2013: HK$536,028,000) 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.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Assets HK$'000** | **Liabilities HK$'000** | Assets HK$'000 | Liabilities HK$'000 |
| Foreign currency forward contracts | – | **9,297** | 4,225 | – |

The foreign currency forward contracts were mainly related to the purchase of Euros and the sale of US dollar at contract rates ranging from US$1.2365 to US$1.3293 (2013: US$1.3255 to US$1.3480) per one Euro with future maturity dates ranging from 22 January 2015 to 19 May 2015 (2013: 27 January 2014 to 24 April 2014) at an aggregate notional amount of US$21,600,000, equivalent to approximately HK$203,407,000 (2013: US$20,100,000, equivalent to approximately HK$155,851,000).

## 29. BANK BALANCES AND CASH

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0% to 3.30% (2013: 0.001% to 2.45%) per annum.

## 30. TRADE AND OTHER PAYABLES

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Trade payables | **1,373,839** | 1,161,150 |
| Amounts due to subsidiaries of a shareholder – trade *(Note)* | **–** | 119 |
| Accrued salaries and wages | **262,946** | 243,030 |
| Other accrued charges | **560,069** | 382,621 |
| Deposits received from customers | **372,169** | 259,192 |
| Accrual for tax-related expense *(note 11)* | **168,400** | – |
| Payables arising from acquisition of property, plant and equipment | **110,284** | 73,073 |
| Other payables | **115,456** | 69,035 |
| | **2,963,163** | 2,188,220 |
| Less: Non-current other liabilities and accruals | **(44,705)** | (36,410) |
| | **2,918,458** | 2,151,810 |
| The following is an aging analysis of trade payables presented based on the due date at the end of the reporting period: | | |
| Not yet due | **779,839** | 622,760 |
| Overdue within 30 days | **302,062** | 228,622 |
| Overdue within 31 to 60 days | **166,269** | 147,766 |
| Overdue within 61 to 90 days | **70,524** | 87,837 |
| Overdue over 90 days | **55,145** | 74,165 |
| | **1,373,839** | 1,161,150 |

*Note:* Balance represented amounts due to subsidiaries of a shareholder of the Company, ASM International N.V., which were mainly not yet due, unsecured, non-interest bearing and repayable according to normal trade terms. Such amount was fully settled in current year.

The average credit period on purchases of goods ranges from 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 31. PROVISIONS

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

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Current | **354,170** | 348,901 |
| Non-current | **61,360** | 85,224 |
| | **415,530** | 434,125 |

The Group's provisions mainly comprise warranty provision of HK$393,352,000 (2013: HK$376,673,000) and restructuring provision of HK$4,970,000 (2013: HK$47,454,000). The movement of the warranty provision and restructuring provision are as follows:

| | **Warranty provision HK$'000** | **Restructuring provision HK$'000** |
|---|---|---|
| At 1 January 2013 | **362,349** | – |
| Currency realignment | **12,040** | – |
| Additions | **314,732** | 104,521 |
| Utilization | **(273,837)** | (57,067) |
| Reversal | **(38,611)** | – |
| At 31 December 2013 | **376,673** | 47,454 |
| Currency realignment | **(19,768)** | (160) |
| Acquisition of subsidiaries *(note 38)* | **5,601** | – |
| Additions | **260,883** | – |
| Utilization | **(217,566)** | (42,324) |
| Reversal | **(12,471)** | – |
| At 31 December 2014 | **393,352** | 4,970 |

The warranty provision represents management's best estimate of the Group's liability under 2-year warranty period for back-end equipment and surface mount technology equipment based on prior experience and industry averages for defective products. See note 11 for details of the restructuring provision.

## 32. BANK BORROWINGS

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Carrying amount repayable: | | |
| Within one year *(Note)* | **151,379** | 486,809 |
| More than one year, but not exceeding two years | **16,159** | 129,230 |
| More than two years, but not more than five years | **–** | 16,154 |
| | **167,538** | 632,193 |
| Carrying amount of bank loans that are not repayable within one year from the end of the reporting period that contains a repayment on demand clause (shown under current liabilities) | **–** | 63,969 |
| | **167,538** | 696,162 |
| Less: Amounts due within one year shown under current liabilities | **(151,379)** | (550,778) |
| Amounts shown under non-current liabilities | **16,159** | 145,384 |

*Note:* The amount includes bank loans amounting HK$22,106,000 (2013: HK$357,579,000) that contains a repayment on demand clause.

At 31 December 2014, all bank borrowings bear interest at LIBOR plus a margin per annum, at a weighted average effective interest rate of 2.638% (2013: 1.951%) per annum.

## 33. SHARE CAPITAL OF THE COMPANY

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | 2014 '000 | 2013 '000 | 2014 HK$'000 | 2013 HK$'000 |
| Issued and fully paid: | | | | |
| At 1 January | **400,633** | 399,244 | **40,063** | 39,925 |
| Shares issued under the Scheme | **1,885** | 1,389 | **189** | 138 |
| At 31 December | **402,518** | 400,633 | **40,252** | 40,063 |

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

During the year, 1,885,000 (2013: 1,389,200) shares were issued at par to eligible employees and members of management under the Employee Share Incentive Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 34. 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.

On 28 March 2012 (the "Adoption Date"), a Share Award Scheme (the "Share Award Scheme") was adopted by the Company to establish a trust to purchase shares of the Company for the benefit of employees and the directors of the Company and its subsidiaries under the Employee Share Incentive Scheme. The scheme is valid and effective for a period of 8 years commencing from the Adoption Date. Pursuant to the rules of the scheme, the Company has appointed a trustee, Law Debenture Trust (Asia) Limited, for purpose of administering the scheme and holding the awarded shares.

On 22 March 2013, the directors resolved to grant, and the Company granted, a total of 1,678,000 shares ("2013 Incentive Shares") in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the defined qualification period. On the same date, 263,200 shares ("2013 Awarded Shares") were allocated from the 2013 Incentive Shares as the 2013 Awarded Shares. The vesting period of such grant, which is the qualification period, was from 22 March 2013 to 16 December 2013.

On 16 December 2013, 1,389,200 shares of the 2013 Incentive Shares were issued and 25,600 shares were forfeited and unallocated by the Company. 263,200 shares of the 2013 Awarded Shares were vested on the same date.

On 25 March 2014, the directors resolved to grant, and the Company granted, a total of 2,137,800 shares ("2014 Incentive Shares") in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the defined qualification period. On the same date, 211,100 shares ("2014 Awarded Shares") were allocated from the 2014 Incentive Shares as the 2014 Awarded Shares. The vesting period of such grant, which is the qualification period, was from 25 March 2014 to 15 December 2014.

On 15 December 2014, 1,885,000 shares of the 2014 Incentive Shares were issued and 41,700 shares were forfeited and unallocated by the Company. 211,100 shares of the 2014 Awarded Shares were vested on the same date.

## 34. EMPLOYEE SHARE INCENTIVE SCHEME (Continued)

The fair value of the 2013 Incentive Shares and 2014 Incentive Shares granted was determined with reference to market value of the shares at the grant date taking into account the exclusion of the expected dividends as the employees are not entitled to receive dividends paid during the vesting period, while for the 2014 Awarded Shares, its fair value of HK$15,858,000 (2013 Awarded Shares: HK$22,822,000) was determined with reference to the cost of purchase from the market including transaction costs, which is not significantly different from the fair value at the grant date. The total estimated fair value of the 2014 Incentive Shares and the 2014 Awarded Shares at the grant date amounted to HK$146,300,000 (2013: HK$142,418,000) charged to profit or loss.

Movement of the shares granted to employees and members of the management of the Group under the Employee Share Incentive Scheme:

| | **Number of Shares** '000 |
|---|---|
| Outstanding as at 1 January 2013 | – |
| Shares granted on 22 March 2013 | 1,678 |
| Allocated as Awarded Shares on 22 March 2013 *(Note)* | (263) |
| Shares entitlement forfeited on 16 December 2013 | (26) |
| Shares issued on 16 December 2013 | (1,389) |
| Outstanding as at 31 December 2013 and 1 January 2014 | – |
| Shares granted on 25 March 2014 | 2,138 |
| Allocated as Awarded Shares on 25 March 2014 *(Note)* | (211) |
| Shares entitlement forfeited on 15 December 2014 | (42) |
| Shares issued on 15 December 2014 | (1,885) |
| Outstanding as at 31 December 2014 | – |

*Note:* Movement of Awarded Shares purchased is as follows:

| | **Number of shares purchased** '000 | **Cost of purchase** HK$'000 |
|---|---|---|
| At 1 January 2013 | – | – |
| Shares purchased from the market during the year | 263 | 22,822 |
| Awarded Shares vested | (263) | (22,822) |
| At 31 December 2013 and 1 January 2014 | – | – |
| Shares purchased from the market during the year | 211 | 15,858 |
| Awarded Shares vested | (211) | (15,858) |
| At 31 December 2014 | – | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 35. 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 which has been increased from HK$20,000 to HK$25,000 with effective from 1 June 2012 and further increased from HK$25,000 to HK$30,000 with effective from 1 June 2014 per employee, which contribution is matched by the employees.

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$177,597,000 (2013: HK$159,666,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of HK$72,000 (2013: HK$20,000) arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2014 and 2013, there were no forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years.

### Defined benefit plans

Certain ASM AS Entities operate funded defined benefits pension scheme for all their qualified employees.

Pension benefits provided by ASM AS Entities are currently organized 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.

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

The plan of ASM AS Entities exposes the Group to actuarial risks such as investment risk, interest rate risk and longevity risk.

| | |
|---|---|
| Investment risk | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund. |
| Interest rate risk | A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. |
| Longevity risk | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. |

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 2014 by independent qualified actuaries, Aon Hewitt GmbH, a member of the International Actuarial Association.

In the case of unfunded plans, the recognized pension liability is equal to the DBO adjusted by unrecognized 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 unrecognized past service cost, is recognized as a pension liability or prepaid pension asset.

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

| | 31 December | |
|---|---|---|
| | **2014** | 2013 |
| Discount rate | **2.40%** | 3.70% |
| Average longevity at retirement age | **63 years** | 63 years |
| Expected rate of compensation increase | **2.25%** | 2.25% |
| Expected rate of pension progression | **1.75%** | 1.75% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 35. RETIREMENT BENEFIT PLANS (Continued)

**Defined benefit plans** (Continued)

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans comprise:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Principal pension benefit plans | 127,803 | 61,337 |
| Other post-employment benefit plans | 18,505 | 17,782 |
| Other retirement benefit obligations | 3,839 | 4,014 |
| | 150,147 | 83,133 |

Net amount recognized in other comprehensive (expense) income (net of tax) are as follows:

**For the year ended 31 December 2014**

| | Principal pension benefit plans HK$'000 | Other post–employment benefit plans HK$'000 | Other retirement benefit obligations HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Remeasurement losses | (76,625) | (2,031) | (95) | (78,751) |
| Income tax effect | 25,363 | 670 | (102) | 25,931 |
| | (51,262) | (1,361) | (197) | (52,820) |

For the year ended 31 December 2013

| | Principal pension benefit plans HK$'000 | Other post–employment benefit plans HK$'000 | Other retirement benefit obligations HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Remeasurement gains (losses) | 17,861 | 275 | (174) | 17,962 |
| Income tax effect | (5,844) | (90) | 80 | (5,854) |
| | 12,017 | 185 | (94) | 12,108 |

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**Principal pension benefit plans**

A reconciliation of the funded status of the principal pension benefit plans to the amount recognized in the consolidated statement of financial position at 31 December 2014 and 2013 are as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Fair value of plan assets | **335,772** | 327,746 |
| Total present value of DBO | | |
| Defined benefit obligation (funded) | **(459,053)** | (385,067) |
| Defined benefit obligation (unfunded) | **(4,522)** | (4,016) |
| Net liability arising from defined benefit obligation | **(127,803)** | (61,337) |

The actuarial valuation showed that market value of the plan assets was HK$335,772,000 (2013: HK$327,746,000) and that the actuarial value of these represented 72% (2013: 84%) of the benefits that had accrued to members.

The following table shows the movements in the present value of the plan assets for the years ended:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| At 1 January | **327,746** | 276,458 |
| Currency realignment | **(39,537)** | 12,770 |
| Interest income | **11,248** | 10,692 |
| Return on plan assets (excluding amounts included in net interest expenses) | **15,361** | 10,048 |
| Employer contribution | **20,954** | 17,778 |
| At 31 December | **335,772** | 327,746 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**Principal pension benefit plans** (Continued)

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Asset class** | | |
| Fixed income and corporate bonds | **224,967** | 224,439 |
| Equity securities | **93,210** | 97,768 |
| Cash and other assets | **17,595** | 5,539 |
| | **335,772** | 327,746 |

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

The actual return on defined benefit plan assets for the year ended 31 December 2014 was a gain of HK$26,609,000 (2013: HK$20,740,000).

The movements in the present value of the DBO for the years ended are as follows:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| At 1 January | **389,083** | 347,551 |
| Currency realignment | **(48,925)** | 15,840 |
| Current service cost | **19,559** | 23,012 |
| Interest cost | **12,722** | 12,750 |
| Remeasurement losses (gains) | | |
| Actuarial losses (gains) arising from changes in financial assumptions | **84,846** | (12,102) |
| Actuarial losses arising from experience adjustments | **7,140** | 4,289 |
| Transfer out | **–** | (772) |
| Benefits paid | **(850)** | (1,485) |
| At 31 December | **463,575** | 389,083 |

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**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.

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Defined benefit obligation (unfunded) | **18,505** | 17,782 |

The movements in the present value of the defined benefit obligation for the other post-employment benefits for the years ended are as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| At 1 January | **17,782** | 16,712 |
| Currency realignment | **(2,178)** | 759 |
| Current service cost | **526** | 588 |
| Interest cost | **569** | 597 |
| Remeasurement losses (gains) | | |
| Actuarial losses (gains) arising from changes in financial assumptions | **1,651** | (271) |
| Actuarial losses (gains) arising from experience adjustments | **380** | (4) |
| Benefits paid | **(225)** | (599) |
| At 31 December | **18,505** | 17,782 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**Other post-employment benefit plans** (Continued)

Significant actuarial assumptions for the determination of the defined obligation of the principal pension benefit plans and other post-employment benefit plans are discount rate and expected pension increase. The sensitivity analyzes below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by HK$36,111,000 (increase by HK$42,112,000).

- If the expected rate of pension in payment increases (decreases) by 50 basis point, the defined benefit obligation would increase by HK$23,541,000 (decrease by HK$21,215,000).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the fund is asset mix based on 30% equity instruments and 70% debt instruments.

There has been no change in the process used by the Group to manage its risks from prior periods.

The Group's subsidiaries fund the service costs expected to be earned on a yearly basis.

The average duration of the benefit obligation at 31 December 2014 is 16.68 years (2013: 15.04 years).

The Group expects to make a contribution of HK$19,132,000 (2013: HK$23,198,000) to the defined benefit plans during the next financial year.

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**Other post-employment benefit plans** (Continued)

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

**For the year ended 31 December 2014**

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Service cost: | | | |
| Current service cost | 19,559 | 526 | 20,085 |
| Net interest expense | 1,474 | 569 | 2,043 |
| Components of defined benefit costs recognized in profit or loss | 21,033 | 1,095 | 22,128 |
| Remeasurement losses: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | (15,361) | – | (15,361) |
| Actuarial losses arising from changes in financial assumptions | 84,846 | 1,651 | 86,497 |
| Actuarial losses arising from experience adjustments | 7,140 | 380 | 7,520 |
| Components of defined benefit costs recognized in other comprehensive income | 76,625 | 2,031 | 78,656 |
| Total | 97,658 | 3,126 | 100,784 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 35. RETIREMENT BENEFIT PLANS (Continued)

### Defined benefit plans (Continued)

**Other post-employment benefit plans** (Continued)

For the year ended 31 December 2013

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Service cost: | | | |
| Current service cost | 23,012 | 588 | 23,600 |
| Net interest expense | 2,058 | 597 | 2,655 |
| Components of defined benefit costs recognized in profit or loss | 25,070 | 1,185 | 26,255 |
| Remeasurement (gains) losses: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | (10,048) | – | (10,048) |
| Actuarial gains arising from changes in financial assumptions | (12,102) | (271) | (12,373) |
| Actuarial losses (gains) arising from experience adjustments | 4,289 | (4) | 4,285 |
| Components of defined benefit costs recognized in other comprehensive income | (17,861) | (275) | (18,136) |
| Total | 7,209 | 910 | 8,119 |

Service cost and net interest expense for pension are allocated among functional costs (cost of sale, selling and distribution expenses, general and administrative expenses and research and development expenses).

The remeasurement of the net defined benefit liability is included in other comprehensive income.

**Other retirement benefit obligations**

As at 31 December 2014, the consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Italy and Austria and national pension fund in Korea and United Kingdom amounting to HK$3,839,000 (2013: HK$4,014,000).

## 36. DEFERRED TAXATION

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

| | Depreciation/ amortization HK$'000 *(Note a)* | Tax losses HK$'000 | Retirement benefit obligations HK$'000 *(Note b)* | Inventories HK$'000 *(Note c)* | Trade receivables HK$'000 *(Note c)* | Provisions HK$'000 *(Note b)* | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 3,824 | 2,343 | 50,279 | 82,088 | 5,956 | 22,000 | (3,667) | 162,823 |
| Credit (charge) to profit or loss for the year | 3,883 | 29,531 | 2,996 | 7,012 | (2,319) | 22,046 | 13,563 | 76,712 |
| Charge to other comprehensive income for the year | – | – | (5,854) | – | – | – | – | (5,854) |
| Currency realignment | (42) | (494) | 2,162 | 782 | 53 | 606 | (104) | 2,963 |
| At 31 December 2013 | 7,665 | 31,380 | 49,583 | 89,882 | 3,690 | 44,652 | 9,792 | 236,644 |
| Acquisition of subsidiaries | (61,524) | 741 | – | (1,047) | 30 | – | 771 | (61,029) |
| Credit (charge) to profit or loss for the year | 10,695 | 171 | 1,956 | 19,933 | (787) | (995) | (1,490) | 29,483 |
| Credit to other comprehensive income for the year | – | – | 25,931 | – | – | – | – | 25,931 |
| Currency realignment | 20 | (1,740) | (6,676) | (3,917) | 22 | (1,180) | 4,020 | (9,451) |
| At 31 December 2014 | (43,144) | 30,552 | 70,794 | 104,851 | 2,955 | 42,477 | 13,093 | 221,578 |

*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 2013, the tax depreciation was less than accounting depreciation. A deductible temporary difference arose, and resulted in a deferred tax asset.

(b) The deductible temporary difference arising from retirement benefit obligations and provisions would be reversed upon the settlement of the related obligations and provisions.

(c) The deductible temporary difference mainly arising from allowances of inventories and trade receivables and unrealized profit of inventories would be reversed upon sales of inventories and write off of respective inventories and receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 36. 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:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **317,448** | 242,427 |
| Deferred tax liabilities | **(95,870)** | (5,783) |
| | **221,578** | 236,644 |

At 31 December 2014, the Group had unused tax losses of HK$418,157,000 (2013: HK$462,306,000) available to offset future taxable profits. At 31 December 2014, a deferred tax asset amounting to HK$30,552,000 (2013: HK$31,380,000) was recognized for tax losses amounting to HK$207,419,000 (2013: HK$180,383,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$210,738,000 (2013: HK$281,923,000) due to the unpredictability of future profit streams. At 31 December 2013, included in the unrecognized tax losses are losses of HK$60,037,000 that would expire in 2017 (2014: nil). 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$1,804,543,000 (2013: HK$1,245,008,000) 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.

## 37. CONVERTIBLE BONDS

On 28 March 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of HK$2,400,000,000. Interest of 2.00% per annum will be paid semi-annually with the first interest payment date falls on 28 September 2014. The net proceeds from the issue of convertible bonds are primarily used to pay for the purchase consideration in relation to the acquisition of the DEK Business (as defined in Note 38), and for general working capital purposes.

The convertible bonds may be converted into ordinary shares of the Company, at the option of the holder thereof, at any time on and after 8 May 2014 up to the close of business on the day falling ten days prior to 28 March 2019 (the "Maturity Date") (both days inclusive) or if such convertible bonds shall have been called for redemption before the Maturity Date, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption thereof, at an initial conversion price (subject to adjustment for among other things, consolidation and subdivision of shares, capitalization of profits or reserves, right issues, distributions and certain other dilutive events) of HK$98.21 per share.

The Company will redeem the convertible bonds on the Maturity Date at their principal amount outstanding together with accrued and unpaid interest thereon.

## 37. CONVERTIBLE BONDS (Continued)

The Company may, having given not less than 30 nor more than 60 days' notice (the "Redemption Notice"), redeem in whole, but not in part, of the convertible bonds at the principal amount together with interest accrued on such redemption date, provided that

(i) at any time after 28 March 2017 and prior to the Maturity Date, the closing price of an ordinary share of the Company, for 20 out of the 30 consecutive trading days immediately prior to the date upon which the Redemption Notice is given is at least 130% of the conversion price, or

(ii) at any time, prior to the date the Redemption Notice is given, at least 90% in principal amount of the convertible bonds has already been converted, redeemed or purchased and cancelled.

The Company will, at the option of the bond holder, redeem all or some of that convertible bonds on 28 March 2017 at their principal amount together with interest accrued to such date but unpaid.

The bond holder may request immediate redemption of the convertible bonds at their principal amount then outstanding together with accrued interest upon occurrence of certain events. Details of the issue of convertible bonds were set out in the Company's announcement dated 4 March 2014.

The net proceeds received from the issue of the convertible bonds have been split between a liability component and an equity component in its initial recognition as follows:

(i) Liability component is initially measured at fair value amounted to approximately HK$2,128,539,000, which represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, with the bondholder redemption option but without the conversion option. It is subsequently measured at amortized cost by applying an effective interest rate of 6.786% per annum after considering the effect of the transaction costs;

(ii) In the opinion of the directors of the Company, the economic characteristics and risks of the early redemption options are closely related to the host debt contract of the convertible bonds. Therefore, the Company do not account for the early redemption options separately; and

(iii) Equity component, which is equal to the difference between the net proceeds received and the fair value of the liability component, amounted to approximately HK$266,932,000 which is presented in equity as convertible bond equity reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 37. CONVERTIBLE BONDS (Continued)

The movements of the liability component and equity component of the convertible bonds for the year are set out below:

| | Liability component HK$'000 | Equity component HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2014 | – | – | – |
| Convertible bonds issued on 28 March 2014 | 2,128,539 | 271,461 | 2,400,000 |
| Transaction costs incurred | (35,471) | (4,529) | (40,000) |
| Interest charge during the year *(Note 12)* | 107,826 | – | 107,826 |
| Interest paid | (24,000) | – | (24,000) |
| At 31 December 2014 | 2,176,894 | 266,932 | 2,443,826 |

Liability component of the convertible bonds is analyzed for reporting purposes as:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Current liabilities (included in trade and other payables) | 12,690 | – |
| Non-current liabilities | 2,164,204 | – |
| | 2,176,894 | – |

## 38. ACQUISITION OF BUSINESSES

### Acquisition of Advanced Laser Separation International (ALSI) B.V. ("ALSI")

On 12 February 2014, the Group entered into a purchase agreement to acquire the business of ALSI, a Dutch technology company specializing in multi-beam laser-cutting and low-K wafer grooving at a consideration of EUR2,113,000 (equivalent to approximately HK$22,180,000) ("ALSI Acquisition"). Through this ALSI Acquisition, the Group has set up an advanced laser technology center in the Netherlands to develop technology and machines to serve the laser sawing market. The ALSI Acquisition was completed during the year and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$1,155,000 have been excluded from the cost of ALSI Acquisition and have been recognized directly as an expense in the period and included in the "general and administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

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

| | HK$'000 |
|---|---|
| Property, plant and equipment | 2,085 |
| Intangible assets | 6,985 |
| Inventories | 32,391 |
| Trade and other receivables | 13,012 |
| Trade and other payables | (30,717) |
| Deferred tax liabilities | (1,576) |
| | 22,180 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 38. ACQUISITION OF BUSINESSES (Continued)
### Acquisition of Advanced Laser Separation International (ALSI) B.V. ("ALSI") (Continued)

| | HK$'000 |
|---|---|
| Net cash outflow arising on acquisition: | |
| Consideration paid in cash | 22,180 |

No goodwill is arisen on ALSI Acquisition.

The fair value of intangible assets acquired from the ALSI Acquisition of HK$6,985,000 representing patents which were determined by the management of the Company with reference to the valuation report, based on the multi-period excess earnings method, prepared by independent professional valuers on the patents as at 12 February 2014. That calculation uses cash flow projections based on financial budgets approved by management covering the useful lives of the patents at a discount rate of 19%. Other key assumptions of the value in use calculations relating to the estimation of cash inflow/outflows include budgeted sales and gross margin. Such estimation is based on past performance and management's expectations for the market development.

### Acquisition of DEK Business
On 2 July 2014, pursuant to a master sale and purchase agreement (the "S&P Agreement") entered into with Dover Printing & Identification, Inc. and Dover Corporation (the "Sellers"), the Company acquired the screen printing and processes business currently operated by the Sellers ("DEK Business" or "Printing Business") which comprises all the shares in the companies currently operating the DEK Business ("Target Companies") ("DEK Acquisition"). The product portfolio of the DEK Business consists of surface mount technology assembly equipment for the electronics industry, metallization equipment for solar and fuel cells industry and a portfolio of the following recurring revenue products: consumables, replacement screens, stencils, parts and services.

The purchase consideration comprises the base purchase price of US$170,000,000 (equivalent to approximately HK$1,317,602,000) adjusted by the amount of working capital, capital expenditures and cash and cash equivalents of the Target Companies upon completion pursuant to the terms specified in the S&P Agreement; and plus a contingent consideration totalling up to US$30,000,000 (equivalent to approximately HK$232,518,000) that are linked to the actual revenue of the Target Companies earned during the measurement period specified in the S&P Agreement.

## 38. ACQUISITION OF BUSINESSES (Continued)

**Acquisition of DEK Business** (Continued)

Acquisition-related costs have been excluded from the costs of acquisition of DEK Acquisition and recognized as an expense in the period when incurred within the "general and administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income. Cumulative acquisition-related costs in respect of DEK Acquisition amounted to HK$41,050,000, of which HK$2,411,000 was charged to profit or loss in the current year with the remaining amount charged to profit or loss in prior year.

| | HK$'000 |
|---|---|
| Consideration transferred: | |
| Cash paid | 1,350,515 |
| Contingent consideration arrangement *(Note)* | – |
| | 1,350,515 |

*Note:* The contingent consideration requires the Group to pay the Sellers an additional HK$232,518,000 if the sales of the Target Companies can exceed the amount of revenue specified in the S&P Agreement in 2014 calendar year or 12-month period ending 31 March 2015. In accordance to the estimated sales performance and profit forecast of the DEK Business, the directors do not consider it is probable that this payment will be required. The estimated fair value of this obligation is nil.

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

| | HK$'000 |
|---|---|
| Property, plant and equipment | 105,406 |
| Intangible assets | 635,627 |
| Deferred tax assets | 2,344 |
| Inventories | 194,140 |
| Trade and other receivables | 208,685 |
| Income tax recoverable | 6,155 |
| Bank balances and cash | 39,401 |
| Trade and other payables | (173,048) |
| Provisions | (5,601) |
| Income tax payable | (6,146) |
| Deferred tax liabilities | (61,797) |
| | 945,166 |

The receivables acquired (which principally comprised trade receivables) in this acquisition with a fair value of HK$208,685,000 had gross contractual amount of HK$212,198,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is HK$3,513,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 38. ACQUISITION OF BUSINESSES (Continued)

**Acquisition of DEK Business** (Continued)

The fair value of intangible assets acquired from the DEK Acquisition of HK$635,627,000 representing trade name, technology, customer bases and sales backlog were determined by the management of the Company with reference to the valuation report, based on the multi-period excess earnings method, and prepared by independent professional valuers as at 2 July 2014. That calculation uses cash flow projections based on financial budgets approved by management covering the estimated useful lives of the intangible assets at a discount rate of 16%. Other key assumptions of the value in use calculations relating to the estimation of cash inflow/outflows include budgeted sales and gross margin. Such estimation is based on past performance and management's expectations for the market development.

Goodwill arising on acquisition:

| | **HK$'000** |
|---|---|
| Consideration transferred | 1,350,515 |
| Less: fair value of identified net assets acquired | (945,166) |
| | 405,349 |

Goodwill arose in DEK Acquisition because of the cost of the combination include a control premium. In addition, the consideration paid for the combination effectively included amount in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of DEK business. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising from this acquisition is not expected to be deductible for tax purposes.

| | **HK$'000** |
|---|---|
| Net cash outflow on DEK Acquisition: | |
| Consideration paid in cash | 1,350,515 |
| Less: cash and cash equivalent balances acquired | (39,401) |
| | 1,311,114 |

The fair values of the assets, liabilities and contingent liabilities of the subsidiaries acquired, and the goodwill arising on the acquisition, if any, are measured based on provisional values and are subject to change pending the finalization of the professional valuations. The finalization of those valuations could affect the amounts assigned to the assets, liabilities and the related depreciation and amortization charges for the assets and the amount of goodwill on acquisition of the subsidiaries.

## 38. ACQUISITION OF BUSINESSES (Continued)

### Impact of acquisitions on the results of the Group

Included in the profit for the year is loss of HK$84,466,000 attributable to ALSI and DEK Business. Revenue for the year includes HK$650,393,000 attributable to ALSI and Printing Business. Printing Business operates at profit during the year before including the impacts of amortization of fair value increment of assets acquired from DEK Acquisition while ALSI is operating at loss during the year.

Had the acquisitions of ALSI and Printing Business been effected at the beginning of the year, the total amount of revenue of the Group for the year would have been HK$14,787,401,000, and the amount of the profit for the year would have been HK$1,627,562,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at the beginning of the year, nor is it intended to be a projection of future results.

## 39. CONTINGENT LIABILITIES

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Guarantees given to the Singapore government for work permits of foreign workers in Singapore | **2,500** | 2,671 |

In addition, a supplier raised a claim in 2009 against a group entity which was acquired by the Group in 2011. The management estimated the expected financial effect to be an amount of EUR2,500,000 (equivalent to approximately HK$26,733,000 at 31 December 2013) and the amount was recognized as a liability as of 31 December 2013. During the year ended 31 December 2014, the directors consider that it has become highly unlikely that there is still a risk arising from alleged claims of a supplier for which legal provision was made. Therefore, the accrued liability of HK$26,372,000 (equivalent to EUR2,500,000) was reversed during the year ended 31 December 2014. The Group is not aware of any other legal proceedings that would have an adverse or material impact on the Group's financial results.

## 40. CAPITAL AND OTHER COMMITMENTS

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment: | | |
| – authorized but not contracted for | **–** | 72,259 |
| – contracted for but not provided in the consolidated financial statements | **417,431** | 113,725 |
| Other commitment in respect of acquisition of land use right: | | |
| – contracted for but not provided in the consolidated financial statements | **–** | 26,904 |
| Other commitment in respect of acquisitions of subsidiaries *(see note 38)*: | | |
| – contracted for but not provided in the consolidated financial statements | **–** | 1,550,760 |
| | **417,431** | 1,763,648 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 41. 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:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Land and buildings HK$'000 | Motor vehicles and others HK$'000 | Total HK$'000 | Land and buildings HK$'000 | Motor vehicles and others HK$'000 | Total HK$'000 |
| Within one year | **180,245** | **10,365** | **190,610** | 192,329 | 7,537 | 199,866 |
| In the second to fifth years inclusive | **213,669** | **13,796** | **227,465** | 326,994 | 13,388 | 340,382 |
| Over five years | **12,272** | **–** | **12,272** | 18,642 | – | 18,642 |
| | **406,186** | **24,161** | **430,347** | 537,965 | 20,925 | 558,890 |

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 five years (2013: two to five years).

## 42. CONNECTED AND RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Short-term benefits | **19,396** | 26,667 |
| Post-employment benefits | **1,146** | 1,260 |
| Share-based payments | **19,636** | 27,092 |
| | **40,178** | 55,019 |

Certain shares of the Company were issued to key management under the Employee Share Incentive Scheme which has a term of 10 years starting from March 1990. The Scheme was extended for a further term of 10 years up to 23 March 2010 pursuant to an extraordinary general meeting of the Company on 25 June 1999. The Employee Share Incentive Scheme was further extended for another term of 10 years up to 23 March 2020 pursuant to an annual meeting of the Company on 24 April 2009. The estimated fair value of such shares has been included in share-based payments for both years.

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

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2014 and 2013 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 |
|---|---|---|---|---|---|
| | | Ordinary shares/ registered capital | Directly | Indirectly | |
| 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 Systems GmbH & Co. KG *(Note a)* | Germany | EUR20,200,000 | – | 100% | Manufacture and sale of surface mount technology equipment and trading of semiconductor equipment |
| ASM Assembly Systems, LLC | Delaware, United States | – | – | 100% | 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% | Trading of surface mount technology equipment |
| ASM Assembly Systems Singapore Pte. Ltd. | Singapore | S$33,000,001 | – | 100% | Manufacture and sale of surface mount technology equipment |
| 先進電子裝配系統製造(深圳)有限公司 (ASM Assembly Systems Manufacturing (Shenzhen) Co., Ltd.)* | PRC | US$750,000 | – | 100% *(Note b)* | Manufacture and sale of surface mount technology equipment |
| ASM Assembly Systems Switzerland GmbH | Switzerland | CHF500,000 | – | 100% *(Note b)* | Trading of surface mount technology equipment |
| ASM Assembly Systems Weymouth Limited | United Kingdom | GBP80,000 | – | 100% *(Note b)* | Manufacture of surface mount technology equipment |
| ASM Assembly Technology Co., Ltd. | Japan | JPY10,000,000 | 100% | – | Trading of semiconductor equipment |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2014

## 43. 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 |
|---|---|---|---|---|---|
| | | 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 (Holding) Limited | 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% | – | Trading of semiconductor equipment, surface mount technology equipment and materials in Hong Kong and marketing service in Korea |
| 先進半導體材料(深圳)有限公司 (ASM Materials China Limited)* | PRC | US$42,722,392 (2013: US$41,672,392) | – | 100% | Manufacture of semiconductor equipment and materials |
| ASM Technology Asia Limited | Hong Kong | HK$2 | 100% | – | Investment holding and agency services and also provision of logistics and purchasing services to group companies |
| 先進科技(中國)有限公司 (ASM Technology China Limited)* | PRC | US$26,058,159 | – | 100% | Research and development of semiconductor equipment |
| ASM Technology Hong Kong Limited | Hong Kong | HK$10,000,000 | 100% | – | Manufacture of semiconductor equipment and provision of research and development services |
| 先進科技(惠州)有限公司 (ASM Technology (Huizhou) Co., Ltd.)* | PRC | US$107,737,691 | – | 100% | Manufacture of semiconductor equipment and surface mount technology equipment |

## 43. 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 |
|---|---|---|---|---|---|
| | | Ordinary shares/ registered capital | Directly | Indirectly | |
| ASM Technology (M) Sdn. Bhd. | Malaysia | MYR74,000,000 | 100% | – | Manufacture of semiconductor equipment, materials and surface mount technology equipment |
| ASM Technology Singapore Pte Ltd. | Singapore | S$53,000,000 | 100% | – | Manufacture and sale of semiconductor equipment and materials |
| 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., Ltd.) | PRC | *(Note c)* | – | *(Note c)* | Manufacture of semiconductor equipment and surface mount technology equipment |

*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 (i.e. 7 January 2011) 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 2013, no loan was advanced to ASM AS KG and the retained profits of ASM AS KG amounted to EUR23,148,000 (equivalent to approximately HK$247,534,000).

(b) These entities were acquired on 2 July 2014 through the DEK Acquisition *(see note 38)*.

(c) Under a joint venture agreement, the Group has committed to contribute 100% of the registered capital of HK$718,300,000 (2013: HK$718,300,000) in 深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Ltd.) ("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 2014, the Group has paid up HK$712,500,000 (2013: HK$712,500,000) as registered capital of MET. The Group has to bear the entire risk and liabilities of MET and has power over MET. Also, the Group is exposed and has rights, to variable returns from its involvement with MET. Other than annual amount of HK$10,301,000 (2013: HK$10,201,000) attributable to assets provided by the PRC joint venture partner, the Group 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 2014 and 2013 in note 41.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2014

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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

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.

## 44. 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:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Assets | | |
| Unlisted investments in subsidiaries | **464,199** | 464,199 |
| Loans to subsidiaries | **1,904,873** | 759,379 |
| Pledged bank deposit | **188,340** | 213,866 |
| Amounts due from subsidiaries | **3,873,895** | 2,580,485 |
| Other current assets | **11,025** | 117,353 |
| | **6,442,332** | 4,135,282 |
| Liabilities | **(2,678,344)** | (971,292) |
| | **3,763,988** | 3,163,990 |
| Capital and reserves | | |
| Share capital *(see note 33)* | **40,252** | 40,063 |
| Reserves *(Note)* | **3,723,736** | 3,123,927 |
| | **3,763,988** | 3,163,990 |

## 44. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY (Continued)

*Note:* Movement in reserves

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Shares held for share award scheme HK$'000 | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Retained profits HK$'000 | Dividend reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 825,265 | – | – | 155 | 56,143 | – | 1,868,773 | 119,773 | 2,870,109 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 393,869 | – | 393,869 |
| Sub-total | 825,265 | – | – | 155 | 56,143 | – | 2,262,642 | 119,773 | 3,263,978 |
| Recognition of equity-settled share-based payments | – | 142,418 | – | – | – | – | – | – | 142,418 |
| Purchase of shares under the Employee Share Incentive Scheme | – | – | (22,822) | – | – | – | – | – | (22,822) |
| Shares vested under the Employee Share Incentive Scheme | – | (22,822) | 22,822 | – | – | – | – | – | – |
| Shares issued under the Employee Share Incentive Scheme | 119,458 | (119,596) | – | – | – | – | – | – | (138) |
| 2012 final dividend paid | – | – | – | – | – | – | – | (119,773) | (119,773) |
| 2013 interim dividend paid | – | – | – | – | – | – | (139,736) | – | (139,736) |
| 2013 final dividend proposed | – | – | – | – | – | – | (200,317) | 200,317 | – |
| At 31 December 2013 and 1 January 2014 | 944,723 | – | – | 155 | 56,143 | – | 1,922,589 | 200,317 | 3,123,927 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 723,448 | – | 723,448 |
| Sub-total | 944,723 | – | – | 155 | 56,143 | – | 2,646,037 | 200,317 | 3,847,375 |
| Recognition of equity-settled share-based payments | – | 146,300 | – | – | – | – | – | – | 146,300 |
| Purchase of shares under the Employee Share Incentive Scheme | – | – | (15,858) | – | – | – | – | – | (15,858) |
| Shares vested under the Employee Share Incentive Scheme | – | (15,858) | 15,858 | – | – | – | – | – | – |
| Shares issued under the Employee Share Incentive Scheme | 130,253 | (130,442) | – | – | – | – | – | – | (189) |
| Recognition of equity component of convertible bonds | – | – | – | – | – | 266,932 | – | – | 266,932 |
| 2013 final dividend paid | – | – | – | – | – | – | – | (200,317) | (200,317) |
| 2014 interim dividend paid | – | – | – | – | – | – | (320,507) | – | (320,507) |
| 2014 final dividend proposed | – | – | – | – | – | – | (523,274) | 523,274 | – |
| At 31 December 2014 | 1,074,976 | – | – | 155 | 56,143 | 266,932 | 1,802,256 | 523,274 | 3,723,736 |

# FIVE YEAR FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Turnover | **14,229,177** | 10,841,166 | 10,460,558 | 12,915,194 | 9,515,089 |
| Profit before taxation | **2,028,463** | 673,010 | 868,678 | 3,289,444 | 3,219,647 |
| Income tax expense | **(428,509)** | (114,421) | (179,684) | (357,464) | (377,613) |
| Profit for the year | **1,599,954** | 558,589 | 688,994 | 2,931,980 | 2,842,034 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and Liabilities** | | | | | |
| Non-current assets | **3,656,279** | 2,721,609 | 2,698,143 | 2,470,652 | 1,656,547 |
| Current assets | **10,839,979** | 8,018,860 | 7,525,837 | 7,141,054 | 5,960,609 |
| Current liabilities | **(3,758,619)** | (3,303,270) | (3,351,939) | (3,158,289) | (2,476,396) |
| Net current assets | **7,081,360** | 4,715,590 | 4,173,898 | 3,982,765 | 3,484,213 |
| Non-current liabilities | **(2,532,445)** | (355,934) | (315,367) | (187,622) | (610) |
| Equity attributable to owners of the Company | **8,205,194** | 7,081,265 | 6,556,674 | 6,265,795 | 5,140,150 |

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