ENABLING THE DIGITAL WORLD
開拓數碼世界

ASM Pacific Technology
(STOCK CODE 股份代號: 0522)

SEIZING OPPORTUNITY in the DATA-CENTRIC ERA
抓緊先機・開拓數據新紀元

ASM Pacific Technology Limited

ASMPT SETS MANY NEW RECORDS IN 2017
於二零一七年創下多項新紀錄

2017

- Record Group revenue of US$2.25 billion, representing an increase of 23.0% over the preceding year
- Net profit of HK$2.80 billion and earnings per share of HK$6.90, representing a surge of 94.4% over the preceding year
- Record Back-end equipment revenue of US$1.11 billion, representing an increase of 19.5% over 2016
- Record Materials revenue of US$275.2 million, representing an increase of 14.5% over 2016
- Record SMT solutions revenue of US$865.9 million, representing an increase of 30.9% over 2016
- Record new order bookings of US$2.34 billion, representing an increase of 24.7% over 2016
- Book to bill ratio was 1.04
- Cash and bank deposits of HK$3.06 billion at the end of December 2017

二零一七年

- 集團收入創新高達22.5億美元，較前年增加23.0%
- 盈利為港幣28.0億元，每股盈利為港幣6.90元，較前年激增94.4%
- 後工序設備業務收入創新高達11.1億美元，較二零一六年增加19.5%
- 物料業務收入創新高達2.752億美元，較二零一六年增加14.5%
- SMT解決方案業務收入創新高達8.659億美元，較二零一六年增加30.9%
- 新增訂單總額創新高達23.4億美元，較二零一六年增加24.7%
- 訂貨對付運比率為1.04
- 於二零一七年十二月底的現金及銀行存款結存為港幣30.6億元

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Independent Non-Executive Directors:

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

Non-Executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Executive Directors:

Lee Wai Kwong
Tsui Ching Man, Stanley
Robin Gerard Ng Cher Tat

SECRETARY

So Sau Ming

AUDITOR

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

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

REGISTERED OFFICE

Whitehall House
238 North Church Street
P.O. Box 1043, George Town
Grand Cayman KY1-1102
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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

New address effective from 30 April 2018:
19/F, Gateway ts
8 Cheung Fai Road
Tsing Yi, 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

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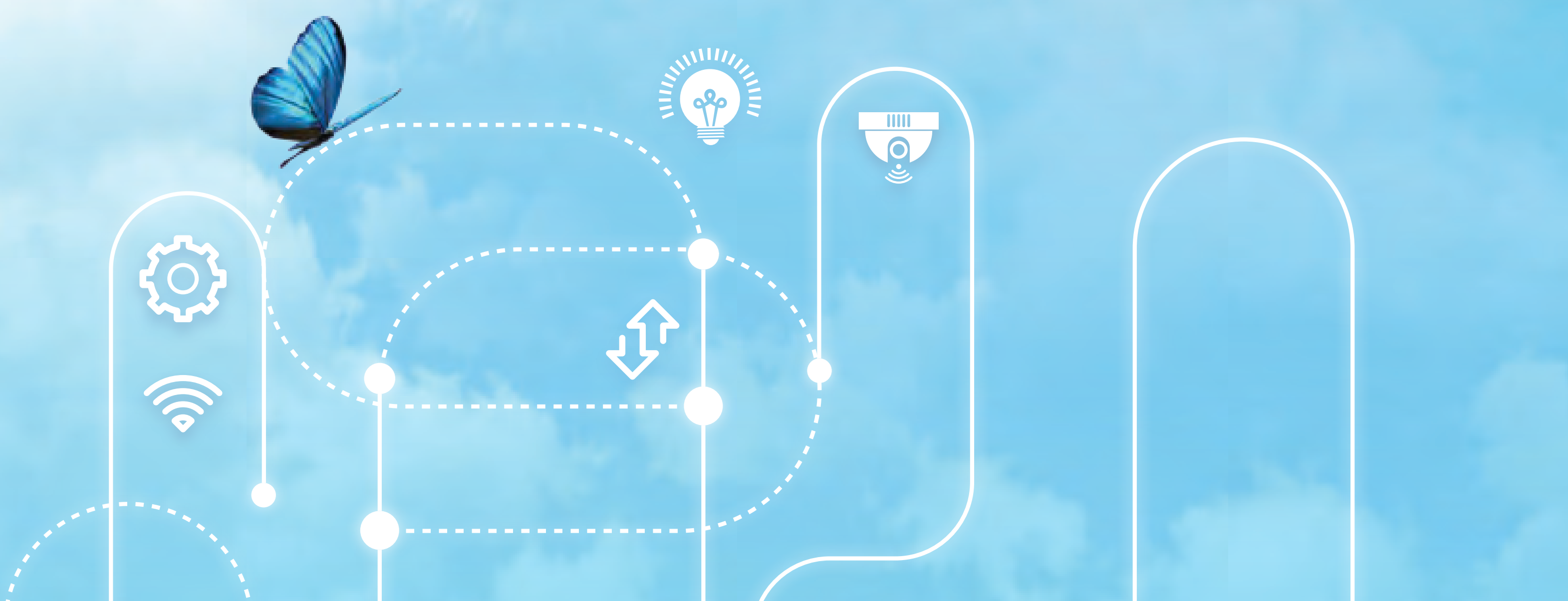
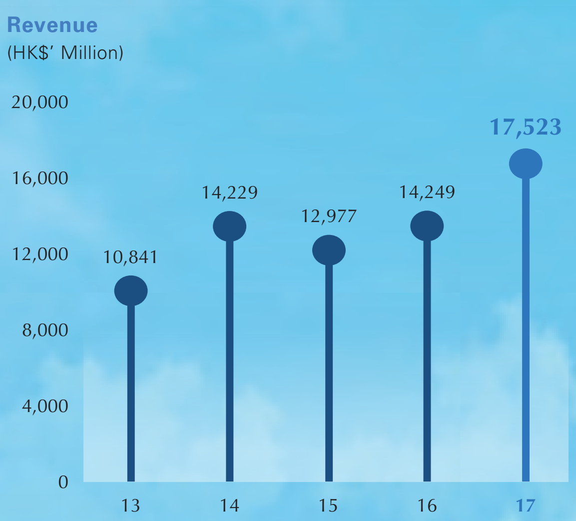
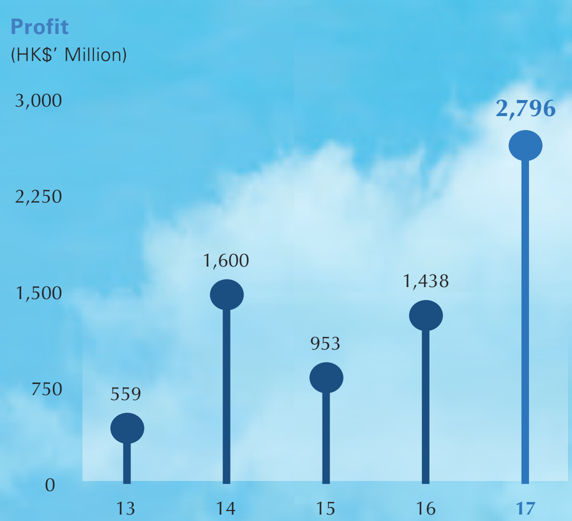
Telephone	: (852) 2424 2021
Fax	: (852) 2481 3367



FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2017 HK$'000	2016 HK$'000
Revenue	**17,522,713**	14,249,093
Cost of sales	**(10,471,339)**	(8,891,618)
Gross profit	**7,051,374**	5,357,475
Other income	**88,410**	78,433
Selling and distribution expenses	**(1,497,944)**	(1,277,326)
General and administrative expenses	**(937,624)**	(785,079)
Research and development expenses	**(1,436,191)**	(1,242,775)
Other gains and losses	**(33,360)**	(51,348)
Restructuring costs	**–**	(97,899)
Adjustment of liability component of convertible bonds	**202,104**	–
Finance costs	**(162,489)**	(188,532)
Profit before taxation	**3,274,280**	1,792,949
Income tax expense	**(478,578)**	(354,567)
Profit for the year	**2,795,702**	1,438,382
Profit for the year attributable to:		
Owners of the Company	**2,815,473**	1,463,864
Non-controlling interests	**(19,771)**	(25,482)
	2,795,702	1,438,382
Earnings per share		
— Basic	**HK$6.90**	HK$3.61
— Diluted	**HK$6.35**	HK$3.60





CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") achieved revenue of **HK$17.52 billion** (**US$2.25 billion**) in the fiscal year ended 31 December 2017, which was 23.0% higher than the revenue of HK$14.25 billion (US$1.84 billion) in the previous year. The Group's consolidated profit after taxation for the year is **HK$2.80 billion**; which is a surge of 94.4% from the previous year's net profit of HK$1.44 billion. Basic earnings per share (EPS) for the year amounted to **HK$6.90** (2016: HK$3.61).

DIVIDEND

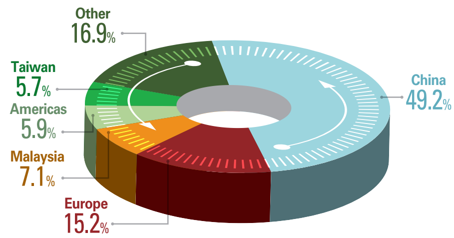
We continue to believe in returning excess cash to our shareholders as dividends. After considering the Group's short term needs and our cash on hand, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$1.30** (2016: final dividend of HK$1.10) per share. Together with the interim dividend of HK$1.20 (2016: HK$0.80) per share paid in August 2017, the total dividend payment for year 2017 will be **HK$2.50** (2016: HK$1.90) per share.

REVIEW

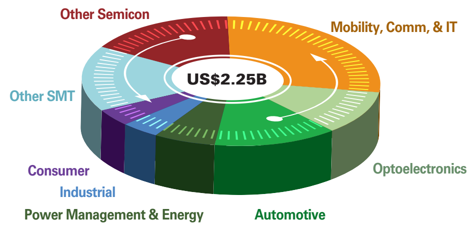
2017 has been a record year for ASMPT. The Group and all three business segments achieved new record revenue. Group net profit was at a level very close to its historical peak. The SMT Solutions Segment achieved record segment profit. At the same time, the Group received recognitions and awards such as: Technological Achievement Grand Award of the Hong Kong Awards for Industries (HKIA) 2017; Directors of the Year Awards 2017; Hong Kong Outstanding Enterprise 2017; 2017 All Stars of the Semiconductor Industry by VLSI Research; ranked 1st in Assembly Equipment Supplier and among the 10 Best Chip Making Equipment Suppliers from the VLSI Research Customers Satisfaction Survey 2017. In the 2018 inaugural Thomson-Reuters report, ASMPT was named as one of the Top 100 Global Technology Leaders.

During 2017, Group revenue grew 23.0% year-on-year to US$2.25 billion. The strong performance of the Group was driven mainly by the robust demand for IC/Discrete and CMOS Imaging Sensor (CIS) equipment, lead frames and SMT Solutions. Likewise, Group booking sets a new record with US$2.34 billion, representing a growth of 24.7% year-on-year. The book-to-bill ratio was 1.04. Group backlog as of end of 2017 rose to US$538.6 million, representing a growth of 27.2% year-on-year.

By geographical distribution, the top five markets for ASMPT in 2017 were China (49.2%), Europe (15.2%), Malaysia (7.1%), Americas (5.9%) and Taiwan (5.7%). Even though China remained as the largest market for the Group last year, our other major markets grew much faster than the China market, except Americas, reflecting a generally strong global market momentum and our success in gaining market shares on a broad basis.



By application market, Mobility, Communications and IT, and Automotive and Optoelectronics are the three largest market segments served by the Group. Its combined contributions to the Group's revenue have grown from around 50.0% in 2016 to around 51.9% in 2017. Following that, Power Management and Energy, Industrial and Consumers are the next key market segments for the Group.



ENTERING A DATA-CENTRIC ERA

REVIEW (CONTINUED)

In 2017, net profit for the Group amounted to HK$2.80 billion, representing a surge of 94.4% over the preceding year. Gross margin of the Group grew 2.6% (264bps) to 40.2%, the highest achieved since 2010. Gross margin of the Back-end Equipment Segment improved to a six-year high.

The Group ended the year with a strong momentum as all three business segments delivered positive year-on-year revenue growth. Group revenue for Q4 last year amounted to US$541.5 million, representing a growth of 20.1% against the same period of 2016. Group revenue in Q4 2017 contracted 17.3% quarter-on-quarter due to seasonality. Q4 Group booking grew 5.5% year-on-year to US$496.5 million, beyond the Group's expectation. On the other hand, due to seasonality, Group booking for Q4 2017 experienced a drop of 13.6% quarter-on-quarter. Judging by the prevailing market sentiment and momentum, the Group is confident that Group booking in Q1 2018 will display a strong rebound over Q4 2017.

Group revenue for the second half last year amounted to US$1.20 billion, setting a new half-yearly record. It represented growths of 21.0% and 14.1% against the second half of 2016 and the preceding six months. Group booking for the second half of 2017 amounted to US$1.07 billion, representing a year-on-year growth of 18.1%.

Group	FY 2017	2H 2017		Q4 2017	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+24.7%	−15.6%	+18.1%	−13.6%	+5.5%
Revenue	+23.0%	+14.1%	+21.0%	−17.3%	+20.1%
Gross Margin	+264bps	−50bps	+143bps	−139bps	+167bps
Net Profits	+94.4%	−11.1%	+37.6%	−47.5%	+19.8%

ASMPT continued to build its business on a diversified customer base. In 2017, no customer accounted for more than 10% of the Group's revenue. Top 5 customers combined contributed 17.5% of the Group's revenue. 80% of the Group's revenue came from 144 customers. Out of the top 20 customers, 3 were from the SMT Solutions Segment while 3 were key customers from both the Back-end business and the SMT Solutions Segment. The top 20 customers of the Group consisted of customers from different market segments such as the world's leading IDMs, tier-1 OSATs, major OSATs in China, major camera module makers, key LED players, top EMS and automotive components suppliers.

Back-end Equipment Segment

Our Back-end Equipment Segment did very well in 2017 with an achievement of new record in revenue and a six-year high gross margin.

Our Back-end Equipment Segment continued to retain its number one position in the global market. This is the accolade that we have been holding for the past sixteen years since 2002, with 2012 being the only exception. Revenue of the Back-end Equipment Segment grew 19.5% last year to US$1.11 billion, contributing to 49.3% of the Group's total revenue.

AN ACHIEVEMENT OF RECORDS FOR 2017

REVIEW (CONTINUED)

Back-end Equipment Segment (Continued)

Last year, the IC/Discrete market led the growth of our Back-end Equipment Segment. It was the largest market for the Group in terms of revenue and delivered the highest year-on-year growth rate. It reflected a healthy market driven by smart phones, automotive, IoT (Internet of Things), and power management applications. The next leading key pillars are the CIS and the LED markets. They achieved similar levels of revenue. The CIS market delivered a strong growth rate. Following heavy investment made by customers in the previous year, 2017 was a year of digestion for the LED market. As compared with 2016, the contraction of the LED market in 2017 was mainly due to the higher base of comparison and the fact that customers needed time to digest their new capacity installed in 2016.

ASMPT continued to enjoy a dominant position in the Power Management market driven by strong demands generated by electric cars, wireless charging and other mobile related battery management. Our efforts in developing the Advanced Packaging business are well on track. Shipment of the Thermal Compression Bonder (TCB) picked up strongly since the second half of 2017 and would continue into 2018. Billing for Flip Chip Bonder reached an all-time high with an impressive year-on-year growth rate of more than 140%. New order booking for our Laser Singulation Equipment attained a new record, setting a strong momentum for this year. Our Nucleus pick and place machine for Panel-Level Fan-Out (PLFO) and Wafer-Level Fan-Out (WLFO) packages have penetrated multiple customer accounts. We anticipate that the strong order intake for Sunbird, the test and pack equipment, would drive revenue of our Post Encapsulation business to a new high in 2018. In addition, the System in Package (SiP) market with equipment served by the SMT Solutions Segment also achieved a very strong growth in 2017. We are confident that both the Advanced Packaging and the Power Management markets will grow to become additional pillars of our Back-end Equipment business going forward.

The Group continued to enjoy a strong position in the CIS market, for both the assembly equipment and the active alignment (AA) machines. Dual camera and 3D Sensing will continue to be the growth drivers of our CIS business. The Group has become the partner of choice for our customers in CIS and customers who are developing new applications for 3D Sensing, Augmented Reality (AR) and Virtual Reality (VR).

We expect our LED business to make a rebound this year. LED general lighting and display panels will continue to drive the growth of our LED business. The Group has been working with leading customers in the development of solutions for both mini-LED and micro-LED displays.

Last year, the Group gained market share in the IC/Discrete ball bonder market, achieved a year-on-year growth rate of around 70% in revenue.

During the second half last year, Back-end Equipment revenue amounted to US$539.0 million, represented a growth of 6.3% against the second half of 2016 and a contraction of 4.7% compared with the preceding six months. Back-end Equipment revenue for Q4 last year grew 13.1% year-on-year and contracted 13.1% quarter-on-quarter to US$250.8 million, respectively.

New order bookings for Back-end Equipment last year grew by 20.0% as compared with 2016. New order bookings for the second half last year contracted 27.4% as compared with the first half of last year but grew 6.5% against the same period in 2016. New order bookings for Q4 last year contracted 5.6% and 10.4% as compared with the same period in 2016 and the preceding quarter, respectively.

Profitability of our Back-end Equipment Segment continued to improve last year. Gross margin of this segment improved to 47.9% last year, a six-year high since 2011. Profit of the Back-end Equipment Segment surged 45.8% when compared with the previous year while segment profit margin improved by 4.5% (453bps) to 25.1%. The improvement in this segment was primarily due to the positive contribution from the strategic transformations that the Group carried out in the past few years.

ENHANCE PRODUCTIVITY THROUGH ROBOTICS AUTOMATION AND SMART MANUFACTURING

REVIEW (CONTINUED)

Back-end Equipment Segment (Continued)

In 2017, business generated from traditional die and wire bonders for the assembly of semiconductor and LED devices contributed less than 45% of our Back-end Equipment business. The rest was made up of business mainly from packaging related equipment, test handlers, flip chip bonders, TCB bonders, clip bonders for Power Management applications, CIS assembly and active alignment equipment, laser grooving and dicing systems and other advanced packaging equipment. We believe that we have put in place the right products and technology portfolio to take advantage of the continuous technology transition and to capture new growth opportunities.

Back-end Equipment Segment	FY 2017	2H 2017		Q4 2017	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+20.0%	−27.4%	+6.5%	−10.4%	−5.6%
Revenue	+19.5%	−4.7%	+6.3%	−13.1%	+13.1%
Gross Margin	+456bps	+118bps	+439bps	+65bps	+616bps
Segment Profit	+45.8%	−11.5%	+15.3%	−29.0%	+25.3%
Segment Profit Margin	+453bps	−184bps	+187bps	−485bps	+210bps

Materials Business Segment

ASMPT's Materials Business Segment attained many new records in 2017, in particular, in revenue year-on-year and the second half of 2017. Last year, revenue of the Materials Business Segment amounted to US$275.2 million, representing a growth of 14.5% from the year before. The Materials Business Segment contributed 12.2% of the Group's total revenue in 2017.

During the second half last year, revenue of the Materials Business Segment amounted to US$139.3 million, representing growths of 12.8% and 3.1% against the second half of 2016 and the preceding six months, respectively. Revenue of the Materials Business Segment for the fourth quarter of last year contracted 12.3% from the preceding quarter but grew 8.1% year-on-year to US$65.1 million.

New order bookings of the Materials Business Segment in 2017 set a new record, representing a growth of 13.5% as compared with 2016. New order bookings for the second half last year contracted slightly by 2.9% and 17.9% as compared with the same period in 2016 and the first half of last year, respectively. New order bookings of the Materials Business Segment in Q4 last year contracted 11.0% and 3.1% as compared with the same period in 2016 and the preceding quarter, respectively.

Materials Business Segment	FY 2017	2H 2017		Q4 2017	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+13.5%	−17.9%	−2.9%	−3.1%	−11.0%
Revenue	+14.5%	+3.1%	+12.8%	−12.3%	+8.1%
Gross Margin	−179bps	−3bps	−74bps	−238bps	−202bps
Segment Profit	−24.7%	−27.9%	−33.0%	−83.7%	−82.0%
Segment Profit Margin	−311bps	−212bps	−338bps	−649bps	−746bps

INVEST AHEAD OF CURVE FOR A SUSTAINABLE FUTURE

REVIEW (CONTINUED)

SMT Solutions Segment

Last year, SMT Solutions Segment set new records in billings, bookings and segment profit. Revenue grew 30.9% to US$865.9 million, and contributed 38.5% of the Group's revenue.

Revenue of the SMT Solutions Segment set a new record during the second half of last year. Amounted to US$517.1 million, it represented growths of 44.6% and 49.0% compared with the same period in 2016 and the preceding six months, respectively. During Q4 last year, revenue of the SMT Solutions Segment amounted to US$225.6 million, representing a growth of 33.5% against the same period in 2016 and a contraction of 22.7% as compared with the preceding quarter.

Bookings of the SMT Solutions Segment in 2017 grew 35.4%. Bookings for the second half of last year attained a new record. It increased 43.0% and 1.9% over the same period in 2016 and the preceding six months, respectively. During Q4 last year, bookings of the SMT Solutions Segment grew 29.5% year-on-year but contracted 19.4% quarter-on-quarter, respectively.

Strong demand from the Automotive and Industrial Electronics markets drove the revenue of our SMT Solutions Segment to a high level. This Segment has further benefited from the latest smartphone upgrade cycle last year due to its superior technology and innovation. Over the past few years, we made very good progress in the Advanced Packaging market with product offerings from the SMT Solutions Segment. We offer high performance screen printers and placement equipment to the SiP, WLFO and PLFO application markets. We expect that the demand from Advanced Packaging, smartphones, Automotive and Industrial Electronics markets will continue to drive our SMT business going forward.

Last year, the gross margin of the SMT Solutions Segment improved 1.3% (129 bps) year-on-year to 38.9%. The SMT Solutions Segment achieved segment result margin of 16.1% last year, an improvement of 4.8% (485bps) over 2016.

In 2016, the Group set up additional SMT manufacturing facilities in its Malaysia factory. They contributed strongly to the growth of the SMT Solutions Segment in 2017.

SMT Solutions Segment	FY 2017	2H 2017		Q4 2017	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+35.4%	+1.9%	+43.0%	−19.4%	+29.5%
Revenue	+30.9%	+49.0%	+44.6%	−22.7%	+33.5%
Gross Margin	+129bps	−158bps	−81bps	−342bps	−281bps
Segment Profit	+87.4%	+71.4%	+80.5%	−64.3%	+17.7%
Segment Profit Margin	+485bps	+222bps	+338bps	−1,192bps	−137bps

CUSTOMERS' PARTNER OF CHOICE

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank deposits as of 31 December 2017 decreased by 4.8% to HK$3.06 billion (2016: HK$3.21 billion). During 2017, HK$939.0 million was paid as dividends (2016: HK$486.7 million). Capital addition during the period amounted to HK$638.9 million (2016: HK$425.4 million), which was partially funded by the year's depreciation and amortization of HK$477.7 million (2016: HK$440.4 million). Day sales outstanding increased to 108.6 days (2016: 91.0 days) as a result of higher sales in 2017.

As of 31 December 2017, the current ratio was 3.05, with a debt-equity ratio of 19.8% (debts include all bank borrowings and convertible bonds). The Group had available banking facilities of HK$1.75 billion (US$223.6 million) in the form of bank loans and overdraft facilities. As of 31 December 2017, the Group had bank borrowings of HK$117.2 million (US$15.0 million), all of which was utilization of committed facilities. The Group's shareholders' funds increased to HK$11.38 billion as at 31 December 2017.

In 2017, the Group launched a share buyback program. Up to 26 January 2018, the Group has purchased 4,193,700 shares of the Company on The Stock Exchange of Hong Kong Limited for a total consideration of HK$452.7 million.

The Group has convertible bonds with a principal amount of HK$2.25 billion that will become due on 28 March 2019. They represent a potential cash outlay of the Group should bond holders elect to redeem their bonds then. However, if the Company's share price remains above the conversion price (the prevailing conversion price: HK$94.33), it is unlikely that bond holders would seek redemption of their bonds.

In terms of currency exposure, the majority of our sales were denominated in U.S. dollars, Euros and Chinese renminbi. On the other hand, disbursements in respect of operating expenses and purchases were mainly in U.S. dollars, Euros, Hong Kong and Singapore dollars, Malaysia ringgit, Chinese renminbi, British pounds and Japanese yen.

We continue to believe in returning excess cash to our shareholders. The Group has adopted a dividend policy of paying out sustainable and gradually increasing dividends. After considering our mid-to-short term needs and cash on hand, the Board recommends a final dividend of HK$1.30 (2016: final dividend of HK$1.10) per share. The total dividend payout for 2017 is HK$2.50 per share (2016: HK$1.90).

HUMAN RESOURCES

Behind every strong team stands its people. Hence at ASMPT, we strive to nurture and retain our talented employees. Besides offering competitive remuneration packages that are in line with the market, the Group also placed strong focus in providing extensive training programs and an inclusive and positive working environment. Salary review is conducted on an annual basis and in addition to salary payout, employees are provided with other forms of benefits including medical, training subsidies, provident funds scheme, and team bonding activities that promote camaraderie and strengthen the relationship among colleagues. Discretionary bonus and incentives shares are also granted to eligible employees based on the Group's financial performance and individual staff performances.

To build stable leadership for the future, the Group has put in place a succession plan that aims to develop a strong and cohesive leadership team that will lead the Group in a sustainable manner. To ensure that the leaders are future-ready, executives who have been identified as having the qualities to join the next generation management team must undergo job rotation, mentoring and training programs that will prepare them to take over the helm at the right time.

WELL-ACCREDITED BY THE INDUSTRY

2018 THOMSON REUTERS
TOP 100
GLOBAL TECH LEADER

HUMAN RESOURCES (CONTINUED)

Recognizing the importance of creating opportunities to nurture and groom young engineering talent in locations where ASMPT operates, the Group has been collaborating closely with local universities and technical institutes in the region through internship programs and scholarship opportunities. The ASM Technology Award in Hong Kong was launched three years ago to recognize and reward students with outstanding Final Year Projects. Apart from sustaining the students' interest in technology innovation, the Group hopes to develop an industry-ready pipeline of talent in the market through inspiring the students to begin a career with ASMPT.

As we grow our business and expand our global footprint, we also encourage our employees to proactively give back to the communities in which we operate through voluntary work and donations. In 2017, the Group devoted about 100,000 hours on volunteer work.

As of 31 December 2017, the total worldwide headcount for the Group was approximately 16,400, which included 1,900 temporary or short-term contract employees and outsourced workers. Of the total workforce, around 1,300 were based in Hong Kong, 9,400 in Mainland China, 1,600 in Singapore, 1,300 in Germany, 1,500 in Malaysia, 500 in United Kingdom, with the remainder based in other parts of the world.

The total manpower costs for the Group in 2017 were HK$4.60 billion, as compared with HK$3.96 billion in 2016.

PROSPECTS

Judging from the prevailing market sentiment and momentum, we anticipate that Group booking in Q1 2018 will rebound strongly over Q4 2017. Booking of the Back-end Equipment segment is expected to take the lead.

Group billing in Q1 2018 is expected to achieve a year-on-year growth rate in the range of a high single digit to a low double digit percentage. All three business segments are likely to deliver positive year-on-year growth rate. Generally, our customers are optimistic about the business environment in the first half of this year.

Many people in the industry are of the opinion that the semiconductor industry is experiencing a super cycle, driven by broad-based drivers such as IoT, smart city, smart factory, Industry 4.0, Artificial Intelligence (AI), Big Data Analytics, 5G network and automotive. The world is expected to enter the Data Centric era. The future will be about Data. Huge amount of data will be collected, transmitted, stored, processed and displayed. This will in turn drive up the demand for semiconductor devices.

We believe that the Group has made the necessary investments and transformations to its business strategies and organization. It is now well positioned to capture the growth opportunities that will be brought about by the new Data Centric era.

APPRECIATION

2017 has been a great year for the Group. Without the support from our customers, employees, suppliers, business partners, shareholders, and all other stakeholders, we would not have been able to achieve such a good result. On behalf of the Board, I would like to thank all of them for their unwavering support, and, more particularly, I thank all our employees worldwide for their dedication and hard work that have translated into a solid performance for ASMPT.

Orasa Livasiri
Chairman
28 February 2018

SOARING TO GREAT HEIGHT WITH THE RIGHT TEAM

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are very pleased that the strategic transformations that we have implemented over the past few years have enabled the Group to reach new heights.

The Group achieved many new financial records and was conferred a number of awards and accolades in 2017. Among other things, the Group attained new records in full year Group billings and bookings. Group gross margin last year was the highest since 2010. In the 2018 inaugural Thomson-Reuters report, ASMPT was named as one of the Top 100 Global Technology Leaders. The Group also received the Technological Achievement Grand Award of the Hong Kong Awards for Industries (HKIA) 2017 and the Directors of the Year Awards 2017.

Group billing in 2017 amounted to US$2.25 billion, which was 23.0% higher than the US$1.84 billion obtained in 2016. All three business segments achieved record revenue. New order bookings were US$2.34 billion, an improvement of 24.7% from the preceding year. Both the Materials Business and the SMT Solutions Segment achieved record bookings. Group net profit surged 94.4% year-on-year to HK$2.80 billion. The SMT Solutions Segment achieved a record segment profit.

The Group implements strategic transformations to position itself for sustainable growth and continuous innovation. The changes are bearing fruits.

Our decision to pursue a dual growth engine strategy, internal organic growth and strategic M&A, has been working very well for the Group. Our acquisition of the SMT equipment business from Siemens AG in 2011 and Dover Inc. in 2014 turns out to be a big success. It has expanded the Group's Total Serviceable Market (TAM) by more than US$3 billion. The SMT Solutions Segment has now solidly established itself as one of the Group's growth engines and contributed significantly to the Group's top and bottom line. Last year, revenue of our SMT Solutions Segment amounted to US$865.9 million, contributed to 38.5% of the Group's revenue. Segment profit amounted to HK$1.08 billion. The acquisition of the ALSI Laser grooving and dicing business in 2014 has expanded the Group's product portfolio for the Advanced Packaging market and heightened the Group's technology leadership image. This business has been developing well. New order bookings for this business attained a new record last year, setting a strong momentum into this year. Since the acquisition of the SMT equipment business, we re-organized the Group into three business segments with dedicated P&L responsibilities. We are pleased that all three business segments attained new records in revenue last year.

Recognizing that the market has become more volatile with shorter cycles, we shifted our manufacturing strategy from 100% internal vertical integration to a balanced internal and external manufacturing. We aim at increasing our flexibility to cope with the volatile market demand. The changes led to significant improvement, as well as more stability, in the gross margin for our Back-end Equipment Segment in the past three years. Last year, gross margin of the Back-end Equipment Segment reached a new high since 2011. In fact, our manufacturing and supply chain management operations demonstrated great flexibility last year. It has well supported the significant increase of US$412.6 million in Group revenue last year, over 2016. The Group is now aggressively pursuing robotic automation and smart manufacturing to further enhance productivity. Our goal is to achieve "lights off" manufacturing in some of our workshops in future.

With a clear focus of creating new values for our customers through innovation, the Group engages lead customers in the development of new cutting edge technologies and solutions. It leads to the Group to enjoy dominant market positions in thermal compression bonding (TCB) for advanced packaging market and active alignment (AA) for CIS. Last year, CIS became the second largest pillar of our Back-end Equipment Segment by revenue. The Group continues to engage other lead customers in the development of solutions for 3D Sensing, folded camera, Panel Level Fan-Out (PLFO), Wafer Level Fan-Out (WLFO), mini-LED and micro-LED display. Backed by our depth and breadth in enabling technologies, extensive product portfolio and our strong financial resources, ASMPT has become the partner of choice for many of our customers.

OVERVIEW (CONTINUED)

Our strategic transformations, coupled with our resolve to continuously reinvent ourselves, has enabled us to respond quickly to the rapid changes in the industry landscape and leverage the opportunities arising from demands for new applications such as IoT, 3D Sensing, artificial intelligence (AI), augmented reality (AR), Cloud Computing, big data analytics, 5G network, smart city, smart factory, Industry 4.0 and electric cars. We believe that we are in a good position to ride on the major market trends and to reap the rewards of new growth opportunities.

MARKET AND PRODUCT DEVELOPMENT

Back-End Equipment Segment

The Back-end Equipment segment achieved US$1.11 billion in revenue last year. It contributed to 49.3% of the Group's total revenue. Billings improved by 19.5% and new order bookings increased by 20.0%. Gross margin and segment profit margin increased by 456bps and 453bps, respectively.

Currently our Back-end Equipment segment is supported by three major pillars, namely IC/Discrete, CIS and Optoelectronics. Last year, IC/Discrete continued to be the biggest revenue contributor to the Back-end Equipment Segment and it achieved the highest year-on-year growth rate. It was driven by strong demands for smart phones, automotive, industrial electronics, IoT and power management solutions. In general, semiconductor content has increased for many electronic modules and automotive. We believe this trend will continue and will drive further growth of our Back-end Equipment business.

Underpinned by the increasing penetration rate of dual cameras as well as the development of 3D sensing technology and applications, our CIS equipment business has grown to become the next leading pillar of our Back-end Equipment segment. The Group enjoys more than 50% market share in the CIS market and has become the partner of choice for our customers in CIS and customers who are developing new applications for 3D Sensing, AR and VR.

Following heavy investment made by customers in 2016, last year was a year of digestion for the LED market. As compared with 2016, the contraction of the LED market in 2017 was mainly due to the higher base of comparison, and the fact that customers needed time to digest their new capacity installed in 2016. We expect our LED business to make a rebound this year. LED general lighting and large display panels will continue to drive the growth of our LED business. The Group has been working with leading customers in the development of solutions for both mini-LED and micro-LED displays.

Concurrently, our investment in developing a comprehensive and unparalleled product portfolio for the Advanced Packaging market has begun to reap the fruits of success. Shipment of the Thermal Compression Bonder (TCB) picked up strongly since the second half of 2017 and will continue into 2018. As many companies are developing AI processors, we believe the Group is in a unique position to benefit from it due to the advanced technology and innovation we are offering. Billing for Flip Chip Bonder reached an all-time high with an impressive year-on-year growth rate of more than 140%. New order bookings for our Laser Singulation Equipment attained a new record, setting a strong momentum for this year. Our Nucleus pick and place machine for PLFO and WLFO packages have penetrated into multiple customer accounts. We anticipate that the strong order intake for Sunbird, the test and pack equipment, would drive revenue of our Post Encapsulation business to a new high in 2018. We are confident that Advanced Packaging will continue to grow to become the next pillar to support our Back-end Equipment business.

The Group continued to enjoy a dominant position in the Power Management market driven by strong demands generated by electric cars, wireless charging and other mobile related battery management. We expect this market will continue to experience strong growth over the next few years. The Group has over 90% market share in Clip bonding, an important interconnect technology for power modules.

The Memory market has high growth potential though the Group has yet to gain significant presence. Hence the Group is addressing this market on multi-front: wire bonding, panel level fan-out, TCB for high bandwidth memory (HBM) and laser dicing for ultra-thin memory wafers.

MARKET AND PRODUCT DEVELOPMENT (CONTINUED)

Back-End Equipment Segment (Continued)

We continue to invest in the development of Automatic Optical Inspection (AOI) business. Last year, its revenue grew by more than 200% over the preceding year.

While we invest to capture future growth opportunities, concurrently we make continuous improvements to gain market share in legacy products. Last year, the Group gained market share in wire bonder in the IC/Discrete market, achieved a year-on-year growth rate of around 80% in revenue.

Materials Business Segment

Last year, our Material Business Segment achieved a record revenue of US$275.2 million as well as new record in bookings. Materials segment contributed 12.2% to the Group's total revenue. Our Materials Business Segment continues to be the world's top four lead frames suppliers.

With the continued growth in revenue and strategic deployment to keep product cost down over the past few years, we have successfully developed a lean manufacturing structure for this business segment, which in turn enables the Group to continue to gain market share in the lead frames business.

Last year, the Group faced challenges from rising price pressure in copper, which affected the gross margin of this business segment. The Group has taken necessary actions to control its costs, optimizing its manufacturing process and efficiency. Most importantly, the Group manages to seek support from customers to share the burden of increased copper price.

The Group seeks to diversify its Materials Business beyond lead frames. With the set-up of ASM Advanced Packaging Materials Pte Ltd (AAPM) in 2015, we brought benefits and values to our customers by offering them the Molded Interconnect Substrate ("MIS") technology, which is a new technology that serves as an alternative to traditional lead frames and Ball Grid Array (BGA) substrates. MIS can also support multi-chip packages in meeting the critical requirements of advanced packaging applications such as SiP, IoT and power management modules.

SMT Solutions Segment

The acquisition of the SMT Solutions Business marked an important milestone for ASMPT as the Group repositioned the newly acquired operation, enhanced its efficiency and successfully integrated it as one of the Group's core businesses. Over the years, we had roughly doubled our market share and surpassed our competitors in revenue to become the number one in the global market.

Taking full advantage of the changing technological landscape, 2017 was a fruitful year for our SMT Solutions business as we set many new records in billings, bookings and segment profit. Last year, revenue grew 30.9% to US$865.9 million and contributed 38.5% of the Group's revenue. Strong demand from the Automotive and Industrial Electronics markets drove the revenue of our SMT Solutions Segment to a high level. This Segment has further benefited from the latest smartphone upgrade cycle in 2017 due to its superior technology and innovation.

The Group holds a strong position in the Automotive and Industrial Electronics markets, commanding the highest shares in these two markets. Our SMT Solutions Segment is going to benefit from the growing movement to eventually ban combustion engine cars and from the improving macro economy.

MARKET AND PRODUCT DEVELOPMENT (CONTINUED)

SMT Solutions Segment (Continued)

The Group has improved its position in the smartphone market as we now command the top market share in the highest end smartphones. Last year, the Group also gained market share in the lower end smartphone market with more cost effective solutions.

Over the past few years, we made very good progress in the Advanced Packaging market with product offerings from the SMT Solutions Segment. We offer high performance screen printers and placement equipment to the SiP, WLFO and PLFO application markets. We expect the demand from Advanced Packaging, smartphones, Automotive and Industrial Electronics markets will continue to drive our SMT business going forward.

Last year, the gross margin of the SMT Solutions Segment improved 1.3% (129 bps) year-on-year to 38.9%. The SMT Solutions Segment achieved record segment profit of HK$1.08 billion. Segment result margin improved by 4.8% (485 bps) to 16.1%.

In 2016, the Group set up additional SMT manufacturing facilities in its Malaysia factory. They contributed strongly to the growth of the SMT Solutions Segment in 2017. With the setup of this new manufacturing facility in Malaysia, the Group aims to achieve reduction in production costs and carbon emission, increase its flexibility to react to fast changing market demand, and to moderate the impact of exchange rate fluctuation between euro and US dollars.

FINANCIAL

Cash and bank deposits as of 31 December 2017 decreased by 4.8% to HK$3.06 billion (2016: HK$3.21 billion). During 2017, HK$939.0 million was paid as dividends (2016: HK$486.7 million). Capital addition during the period amounted to HK$638.9 million (2016: HK$425.4 million), which was partially funded by the year's depreciation and amortization of HK$477.7 million (2016: HK$440.4 million). Day sales outstanding increased to 108.6 days (2016: 91.0 days) as a result of higher sales in 2017.

As of 31 December 2017, the current ratio was 3.05, with a debt-equity ratio of 19.8% (debts include all bank borrowings and convertible bonds). The Group had available banking facilities of HK$1.75 billion (US$223.6 million) in the form of bank loans and overdraft facilities. As of 31 December 2017, the Group had bank borrowings of HK$117.2 million (US$15.0 million), all of which was utilization of committed facilities. All of the bank borrowings were repayable in 2018. The Group's shareholders' funds increased to HK$11.38 billion as at 31 December 2017.

Bank borrowings, which are mainly arranged to support day-to-day operations and capital expenditure, are denominated in U.S. dollars. As of 31 December 2017, cash holdings of the Group are mainly in U.S. dollars, Euros, Chinese renminbi, Singapore dollars, British pounds and Hong Kong dollars. The Group's SMT Solutions Business segment enters into U.S. dollar and Euro hedging contracts to mitigate the foreign currency risks as a significant portion of the production of SMT equipment and its suppliers are located in Europe while a substantial part of the Group's revenue for SMT equipment is denominated in U.S. dollars.

In 2017, the Group launched a share buyback program. Up to 26 January 2018, the Group has purchased 4,193,700 shares of the Company on The Stock Exchange of Hong Kong Limited for a total consideration of HK$452.7 million.

FINANCIAL (CONTINUED)

The Group has convertible bonds with a principal amount of HK$2.25 billion with an annual coupon rate of 2.00% that will become due on 28 March 2019. They represent a potential cash outlay of the Group should bond holders elect to redeem their bonds then. However, if the Company's share price remains above the conversion price (the prevailing conversion price: HK$94.33), it is unlikely that bondholders would seek redemption of their bonds.

In terms of currency exposure, the majority of our sales were denominated in U.S. dollars, Euros and Chinese renminbi. On the other hand, disbursements, in respect of operating expenses and purchases were mainly in U.S. dollars, Euros, Hong Kong and Singapore dollars, Malaysia ringgit, Chinese renminbi, British pounds and Japanese yen.

We continue to believe in returning excess cash to our shareholders. The Group has adopted a dividend policy of paying out sustainable and gradually increasing dividends. After considering our mid-to-short term needs and cash on hand, the Board recommends a final dividend of HK$1.30 (2016: final dividend of HK$1.10) per share. The total dividend payout for 2017 is HK$2.50 per share (2016: HK$1.90).

RISK MANAGEMENT

As a global organization, the Group faces various risks and uncertainties in its business, financial conditions and operations. Since 2016, the Group has put in place a risk management framework (Framework), which is based on the "Three Lines of Defence" model and includes a process of Strategic Risk Review. The Framework gives the Board and Management a clear overview of the effectiveness of internal controls and risk management. The Framework is a structured, systematic and effective risk and control system that manages the strategic, operational, financial, financial reporting and compliance risks and enhance clarity at all levels of the Group. The Board and Management are aware that the Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board oversees the Framework, receives and reviews reports from the Strategic Risk Review Committee (SRRC) on a regular basis. The SRRC consists of executives and senior managers appointed by the Group's Executive Committee (Exco).

More information on the Framework can be found under the Corporate Governance Report of this Annual Report on pages 50 to 51.

CAPACITY AND PLANT DEVELOPMENT

The Group has made adjustment to its 100% internal vertical integration manufacturing model and supplement it with a significant portion of external manufacturing while at the same time build up a more flexible workforce. Such strategic transformations have resulted in incremental cost efficiencies, operational effectiveness and most importantly, give the Group the flexibility to react quickly to changing market conditions. With the scalable manufacturing workforce, we are able to quickly reduce or expand production operations easily. Last year, slightly more than 10% of the Group's total workforce was flexible workers including temporary or short-term contract employees and outsourced workers.

Over the last few years, wages in China have been rising at a rapid rate, which affects its attractiveness as a manufacturing base. Malaysia, on the other hand, has increasingly become a more attractive location to focus on due to its overall lower manufacturing costs and favorable exchange rate. As a result of its close proximity to our Singapore operations, a new SMT machine assembly factory has been set up to support the expansion of our SMT Solutions business. A second building in Malaysia is slated to commence operations by the beginning of 2019 and the Malaysia plant will be expected to take on a bigger role in the Group's manufacturing activities.

CAPACITY AND PLANT DEVELOPMENT (CONTINUED)

The Group has also been actively pursuing automation/robotics and adopting smart manufacturing to increase productivity in our factories in China, Malaysia, Singapore and Europe. The ultimate goal is for ASMPT to eventually transform all its production sites into smart factories where our global manufacturing infrastructure would integrate seamlessly with advanced planning and manufacturing execution software solutions.

RESEARCH AND DEVELOPMENT

The Group's relentless effort in R&D has been recognized. In the 2018 inaugural Thomson-Reuters report, ASMPT was named as one of the Top 100 Global Technology Leaders. Thomson-Reuters considers that the Top 100 Global Technology Leaders are the organizations poised to propel the future of technology. The Group has also clinched the Grand Award in Technological Achievement in the 2017 Hong Kong Industries Awards for the third time.

Over the years, ASMPT has invested aggressively in R&D to create higher values for our customers, strengthen our core competencies, and develop new cutting-edge solutions. Today, ASMPT operates seven R&D centers worldwide with locations in Chengdu, Hong Kong, Taiwan, Singapore, Munich (Germany), Weymouth (United Kingdom) and Beuningen (The Netherlands). The Group employs more than 1,800 R&D professionals with about 51% holding a Master or Doctorate degree.

In 2017, a total of HK$1.44 billion were spent on technology research and product development, which represented an increase of 15.6% as compared with 2016. This is in accordance with our long standing policy of spending about 10% of our equipment revenue in Research and Development.

In addition, the Group formed a consortium with industry leaders such as Huawei Technologies, Jianyin Changdian Advanced Packaging (JCAP), the Indium Corporation of America (INDIUM), Rohm and Haas Electronics Materials (RHEM) and Unimicron Technology Corporation (UMTC) to develop a low-cost and high throughput manufacture process for WLFO and PLFO. With the extensive research and findings, we achieved breakthrough in resolving some of the challenges in WLFO and PLFO and gained a deeper understanding of the processes that could bring about an enhancement to the Advanced Packaging Technologies. In order to share and benefit the industry with our findings, proceeding papers and archival journals papers were published. Including the patents filed from this consortium, the Group holds more than 1,100 patents generated by our various R&D Centers.

In order to stay in the forefront of Industry 4.0 development, ASMPT has formed a joint venture, the ADAMOS, with well-known industrial and software companies in Germany with the aim to address opportunities that the Industry Internet of Things (IIoT) offers. This strategic alliance brings together the most up-to-date IT technology and industry knowledge and enables engineering companies to offer "tried and tested solutions" for digitally networked production to their customers. Through this collaboration, the Group aims to set standards and drive development in machines and plant building related digitalization.

HUMAN RESOURCES

Behind every strong team stands its people. Hence at ASMPT, we strive to nurture and retain our talented employees. Besides offering competitive remuneration packages that are in line with the market, the Group also placed strong focus in providing extensive training programs and an inclusive and positive working environment. Salary review is conducted on an annual basis and in addition to salary payout, employees are provided with other forms of benefits including medical, training subsidies, provident funds scheme, and team bonding activities that promote camaraderie and strengthen the relationship among colleagues. Discretionary bonus and incentives shares are also granted to eligible employees based on the Group's financial performance and individual staff performances.

HUMAN RESOURCES (CONTINUED)

To build stable leadership for the future, the Group has put in place a succession plan that aims to develop a strong and cohesive leadership team that will lead the Group in a sustainable manner. To ensure that the leaders are future-ready, executives who have been identified as having the qualities to join the next generation management team must undergo job rotation, mentoring and training programs that will prepare them to take over the helm at the right time

Recognizing the importance of creating opportunities to nurture and groom young engineering talent in locations where ASMPT operates, the Group has been collaborating closely with local universities and technical institutes in the region through internship programs and scholarship opportunities. The ASM Technology Award in Hong Kong was launched three years ago to recognize and reward students with outstanding Final Year Projects. Apart from sustaining the students' interest in technology innovation, the Group hopes to develop an industry-ready pipeline of talent in the market through inspiring the students to begin a career with ASMPT.

As we grow our business and expand our global footprint, we also encourage our employees to proactively give back to the communities in which we operate through voluntary work and donations. In 2017, the Group devoted about 100,000 hours on volunteer work.

As of 31 December 2017, the total worldwide headcount for the Group was approximately 16,400, which included 1,900 temporary or short-term contract employees and outsourced workers. Of the total workforce, around 1,300 were based in Hong Kong, 9,400 in Mainland China, 1,600 in Singapore, 1,300 in Germany, 1,500 in Malaysia, 500 in United Kingdom, with the remainder based in other parts of the world.

The total manpower costs for the Group in 2017 were HK$4.60 billion, as compared with HK$3.96 billion in 2016.

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 2017.

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 (2016: Final dividend of HK$1.10) per share which, together with the interim dividend of HK$1.20 (2016: Interim dividend of HK$0.80) per share paid during the year, makes a total dividend for the year of HK$2.50 (2016: HK$1.90) per share.

Details of the results and the financial position of the Group are set out in the consolidated financial statements on pages 66 to 153.

BUSINESS REVIEW

A review of the business of the Group during the year, an analysis of the Group's performance during the year using financial key performance indicators, a discussion on the Group's future business development, and a description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 16 and pages 18 to 24 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Sustainability Report on pages 55 to 57 of the annual report.

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 154 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 20 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 are set out in note 44 to the consolidated financial statements.

SHARE CAPITAL

On 15 December 2017, 2,238,100 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme. During the year ended 31 December 2017, the Company purchased 3,245,800 shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 38 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2017 are set out in note 33 to the consolidated financial statements.

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

The Company was authorized at its 2017 AGM to repurchase its own ordinary shares not exceeding 4% of the total number of its issued shares as at the date of the resolution being passed.

During the year, the Company repurchased an aggregate of 3,245,800 ordinary shares for a total consideration of approximately HK$348.6 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. All the shares repurchased were subsequently cancelled. Details of the share repurchase are as follows:

Month of repurchase in 2017	Number of shares repurchased	Consideration per share		Aggregate consideration paid
		Highest (HK$)	Lowest (HK$)	(HK$'000)
September 2017	221,800	110.00	105.00	23,980
November 2017	24,000	115.00	113.50	2,752
December 2017	3,000,000	110.00	101.20	321,835
	3,245,800			348,567

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES (CONTINUED)

Subsequent to the balance sheet date of 31 December 2017 and up to the date of this annual report, the Company repurchased a total of 947,900 shares on the Stock Exchange for an aggregate consideration (excluding relevant trading costs directly attributable to the share repurchase) of HK$104.1 million. Such repurchased shares were subsequently cancelled. The number of issued shares of the Company as at the date of this annual report is 406,288,133 shares. Particulars of the shares repurchased on the Stock Exchange after the balance sheet date are as follows:

Month of repurchase in 2018	Number of shares repurchased	Consideration per share		Aggregate consideration paid
		Highest (HK$)	Lowest (HK$)	(HK$'000)
January 2018	947,900	110.00	107.90	104,124

The Directors of the Company believe that the above repurchases are in the best interests of the Company and its shareholders and that such repurchases would lead to an enhancement of the earnings per share of the Company.

During the year ended 31 December 2017, 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 Stock Exchange a total of 323,000 shares in the Company. The cost of purchase of these shares amounted to HK$34.1 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders amounted to HK$1,150,118,000 (2016: HK$1,262,641,000) as at 31 December 2017. 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:

Independent Non-Executive Directors:
Miss Orasa Livasiri, Chairman
Mr. Lok Kam Chong, John
Mr. Wong Hon Yee
Mr. Tang Koon Hung, Eric
Mr. Patrick Shuang Kung (retired on 9 May 2017)

Non-Executive Directors:
Mr. Charles Dean del Prado
Mr. Petrus Antonius Maria van Bommel

Executive Directors:
Mr. Lee Wai Kwong, Chief Executive Officer
Mr. Chow Chuen, James, Executive Vice President, Business Excellence (retired on 9 May 2017)
Mr. Tsui Ching Man, Stanley, Chief Operating Officer (appointed on 9 May 2017)
Mr. Robin Gerard Ng Cher Tat, Chief Financial Officer

In accordance with Article 113 and 114 of the Company's Articles of Association, 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:

Miss Orasa Livasiri, Independent Non-Executive Director and Chairman of the Company, aged 62, was appointed to the Board as an Independent Non-Executive Director in 1994, became acting Chairman of the Company on 9 May 2016. She was appointed as Chairman of the Company on 2 March 2017. She was a practising solicitor for more than 30 years and retired from the profession in 2012.

Mr. Lok Kam Chong, John, Independent Non-Executive Director, aged 54, 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.

Mr. Wong Hon Yee, Independent Non-Executive Director, aged 70, 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.

DIRECTORS (CONTINUED)

Mr. Tang Koon Hung, Eric, Independent Non-Executive Director, aged 72, 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 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.

Mr. Patrick Shuang Kung, Independent Non-Executive Director, aged 66, was appointed as an Independent Non-Executive Director on 11 May 2016 and retired on 9 May 2017. Mr. Kung has extensive knowledge and working experience in the electronics and high-tech industries. He began his career as an engineer at Motorola Inc. in 1980 in the United States of America and became the General Manager of one of Motorola's subsidiaries in China in 1996. Thereafter, Mr. Kung served in various senior positions in different regions managing Motorola's various businesses in China and Asia. From 2004 to 2007, he was Motorola's Corporate Vice President and General Manager, North Asia. Mr. Kung joined Royal Philips N.V. in 2008 as Executive Vice President and Chief Executive Officer, Greater China and was appointed a member of the Executive Committee of Royal Philips N.V. in 2011 and remained in that position until his retirement in 2015. Mr. Kung received his Bachelor degree in Electrical Engineering from Tatung Institute of Technology, Taiwan in 1974 and his Master's degree in Electrical Engineering from the Tennessee Technological University, United States of America in 1980.

Mr. Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 56, was appointed as a Non-Executive Director of the Company on 29 April 2010. He is a member of the Management Board of ASM International N.V. ("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. During his thirty-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 Thermal ALD product lines. 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 to 1996, Mr. Charles Dean del Prado had assignments in sales and global account management at IBM Nederland N.V.. Mr. Charles Dean del Prado has a Master of Science degree in Industrial Engineering and Technology Management from the University of Twente in the Netherlands.

DIRECTORS (CONTINUED)

Mr. Petrus Antonius Maria van Bommel (He is also known as "Mr. Peter van Bommel"), aged 61, was appointed as a 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 thirty 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 2016, Mr. van Bommel was reappointed as a member of the Supervisory Board of the Royal KPN N.V., and also became Chairman of its Audit Committee. In April 2015, Mr. van Bommel was appointed as a member of the Supervisory Board of Neways Electronics International N.V. (a company listed on Euronext Amsterdam, stock code: NEWAY). From May 2017, Mr. Petrus Antonius Maria van Bommel is also an Executive Director of Stichting Bernhoven.

Mr. Lee Wai Kwong, aged 63, was appointed to the Board as an Executive Director and 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.

Mr. Chow Chuen, James, aged 61, was appointed to the Board as an Executive Director on 1 January 2007 and retired on 9 May 2017. He was appointed as Chief Operating Officer of the Group on 1 January 2007 and stepped down from that position effective from 1 May 2016. Thereafter, he assumes the position of Executive Vice President, Business Excellence and remains as a member of the Group's senior management team. 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.

Mr. Tsui Ching Man, Stanley, aged 61, was appointed to the Board as an Executive Director on 9 May 2017. He was also appointed as the Chief Operating Officer of the Group on 1 May 2016. He is also an Executive Vice President of the Group, Chief Executive Officer of the Group's Material Business Segment Group. Mr. Tsui has over 35 years of working experience in the semiconductor industry. Before joining the Group in 1987, he had worked for several major semiconductor companies in Hong Kong and Singapore. Mr. Tsui graduated from the National Taiwan University with a Bachelor of Science degree in Mechanical Engineering. He also holds three Master degrees in Manufacturing Technology, Information System, and Business Administration, respectively.

Mr. Robin Gerard Ng Cher Tat, aged 54, was appointed to the Board as an Executive Director on 28 April 2011. He was also appointed Chief Financial Officer of the Group on 1 February 2010. Mr. Ng holds a Bachelor of Accountancy from the National University of Singapore and a Master of Laws (Commercial Law) from the University of Derby, the United Kingdom. Mr. Ng has more than 30 years of experience in finance, audit and accounting. He is a Fellow Chartered Accountant of Singapore with the Institute of Singapore Chartered Accountants.

SENIOR MANAGEMENT

For the year ended 31 December 2017, the Group's senior management team includes, other than the Executive Directors, the following persons. Their biographical information is as follows:

Mr. Wong Yam Mo, aged 58, is an Executive Vice President and 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. He also holds a Master degree in Precision Engineering from the Nanyang Technological University, Singapore. Mr. Wong joined the Group in 1983.

Mr. Chan Hung, Lawrence, aged 63, is an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (IC, Discrete & CIS). He holds a Diploma in Company Secretaryship & Administration from the Hong Kong Polytechnic, which was later renamed the Hong Kong Polytechnic University, Hong Kong. Mr. Chan joined the Group in 1978.

Mr. Tang Yui Kin, aged 64, was an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (Opto, COB & Display) before he retired on 4 July 2017. He graduated from the Hong Kong Polytechnic, which was later re-named the Hong Kong Polytechnic University, Hong Kong. He joined the Group in 1978 as a product designer and held management positions in Manufacturing, Field Engineering, Sales and Marketing before heading the business segment of LED, COB and Display Equipment. He has a wealth of experience in the semiconductor industry and has lectured at the Hong Kong Polytechnic University and at the Hong Kong University of Science and Technology (HKUST).

Mr. Guenter Walter Lauber, aged 56, is an Executive Vice President of the Group and Chief Executive Officer of the Group's SMT Solutions Segment. Mr. Lauber has over 20 years of working experience in the SMT equipment industry. In 2007, Mr. Lauber took charge of the SMT business that was subsequently acquired by the Group in 2011. He joined the Group following the acquisition. He has a degree in Electrical Engineering (Dipl-Ing. FH) from the Fachhochschule Augsburg (Augsburg University of Applied Sciences), Germany.

Mr. Lim Tia Song, Patrick, aged 64, is an Executive Vice President (Corporate Operations) of the Group. Mr. Lim joined the Group in 1995. He has a Bachelor of Science (Honours) degree in Production Management and Mechanical Technology and a Master of Science degree in Operational Research, both from the University of Strathclyde, the United Kingdom.

Mr. Joseph Poh Tson Cheong, aged 50, is a Senior Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (Opto, COB & Display). He graduated from The University of Sydney, Australia in 1989 with a Degree in Mechanical Engineering. He received a Master Degree in Engineering Business Management from the University of Warwick, England in 1999. Mr. Poh joined the Group in 1991 as a Service Engineer and was promoted to the Senior Vice President position in January 2016. For the past 26 years that he has been with the Group, he has held various positions in IC, CIS, SMT Solutions and Opto Business Units. His wide exposure to the electronics supply chain has given him ample opportunities to develop extensive customer contacts, a good understanding on market needs and an ability to provide solutions that satisfy customers' current and future requirements.

EMPLOYEE SHARE INCENTIVE SCHEME

The Group has an Employee Share Incentive Scheme (the "Scheme") for the benefit of the Group's employees and members of management. The Scheme 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 except that for the period from 24 March 2010 to 23 March 2015, 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) is to be subscribed for or purchased pursuant to the Scheme.

On 17 March 2017, the Directors resolved, amongst others, that the Company should contribute HK$34.6 million to the Scheme, enabling the trustees of the Scheme to subscribe or purchase a total of 3,363,300 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 2016, such shares to vest upon expiration of the respective defined qualification periods, of which 2,631,200 shares relate to the qualification period expiring on 15 December 2017 ("2017 qualification period"); 488,200 shares relate to the qualification period expiring on 14 December 2018, and 243,900 shares relate to the qualification period expiring on 16 December 2019. Out of the 3,363,300 shares in the Company to be subscribed or purchased, 366,500 shares ("Award Shares") were allocated to be purchased at market price as soon as practicable on the Stock Exchange.

The Board also resolved to instruct an independent professional trustee appointed by the Board under the Scheme to purchase the Award Shares. These Award Shares represented the aggregate number of shares to which the three Executive Directors, namely, Mr. Lee Wai Kwong, Mr. Tsui Ching Man, Stanley and Mr. Robin Gerard Ng Cher Tat, and other connected persons of the Company as defined under the Listing Rules would be eligible to receive pursuant to the Scheme, and subject to the 2017 qualification period, the Award Shares would be held on trust for them.

In March 2017, the independent trustee purchased a total of 323,000 Award Shares, which represented approximately 0.079% of total issued share capital of the Company at the date of purchase, at total consideration of HK$34.1 million on the Stock Exchange. In December 2017, the Board resolved to cancel and revoke the grant of 43,500 Award Shares to eight employees and members of management of the Group and pay a cash bonus to each of them in such sum as the Executive Directors of the Board may deem reasonable. The 323,000 Award Shares purchased by the independent trustee on the Stock Exchange, together with the 3,000 unallocated Award Shares brought forward from year 2016 were transferred to the said Executive Directors and the connected persons at no cost upon the expiration of 2017 qualification period.

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 2017 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions

Shares of HK$0.10 each of the Company:

		Long positions	
Name of director	**Capacity**	**Number of shares held**	**Percentage of shareholding in the Company**
Lee Wai Kwong *(Note 1)*	Beneficial Owner	1,537,100	0.38%
Tsui Ching Man, Stanley *(Note 2)*	Beneficial Owner & interest of spouse	223,800	0.05%
Robin Gerard Ng Cher Tat *(Note 3)*	Beneficial Owner	160,000	0.04%

Notes:

1. Pursuant to the Scheme, on 17 March 2017, the Board of Directors resolved to allocate shares to the management and employees of the Company in respect of their service with respective vesting periods expiring on 15 December 2017, 14 December 2018 and 16 December 2019. The Company agreed on 17 March 2017 to allocate to Mr. Lee a total of 236,000 shares in respect of his service, such shares to vest at the end of the respective vesting periods expiring on 15 December 2017 (118,000 shares), 14 December 2018 (78,700 shares) and 16 December 2019 (39,300 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Lee in relation to this allocation. 118,000 shares vested on 15 December 2017. His interest of 1,537,100 shares includes the 78,700 shares and 39,300 shares to vest upon the expiration of the vesting period in 2018 and 2019 respectively.

2. Mr. Tsui was the beneficial owner of 221,800 shares and he was deemed to be interested in 2,000 shares through the interests of his spouse, Soh Lay Hoon. Pursuant to the Scheme, on 17 March 2017, the Company agreed to allocate to Mr. Tsui and his spouse, who is employed as an accounting manager of a subsidiary of the Group, a total of 72,000 shares in respect of their service, such shares to vest at the end of the respective vesting periods expiring on 15 December 2017 (37,000 shares), 14 December 2018 (23,300 shares) and 16 December 2019 (11,700 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Tsui and his spouse in relation to this allocation. 37,000 shares vested on 15 December 2017. His interest of 223,800 shares includes the 23,300 shares and 11,700 shares to vest upon the expiration of the vesting period in 2018 and 2019 respectively.

3. Pursuant to the Scheme, on 17 March 2017, the Company agreed to allocate to Mr. Ng a total of 80,000 shares in respect of his service, such shares to vest at the end of the respective vesting periods expiring on 15 December 2017 (40,000 shares), 14 December 2018 (26,700 shares) and 16 December 2019 (13,300 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Ng in relation to this allocation. 40,000 shares vested on 15 December 2017. His interest of 160,000 shares includes the 26,700 shares and 13,300 shares to vest upon the expiration of the vesting period in 2018 and 2019 respectively.

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 2017, 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 in the Company or had exercised any such right during the year. At no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement 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 2017, 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	103,003,000	25.18%	–	–	–	–
ASM Pacific Holding B.V.	Beneficial owner	103,003,000	25.18%	–	–	–	–
Citigroup Inc.	*(Note 2)*	28,891,454 *(Note 2)*	7.06%	3,699,948 *(Note 2)*	0.90%	24,192,758	5.91%
Commonwealth Bank of Australia *(Note 3)*	Interest of a controlled corporation	28,517,578	6.97%	–	–	–	–
FMR LLC *(Note 4)*	Interest of a controlled corporation	24,610,211 *(Note 4)*	6.02%	–	–	–	–
JPMorgan Chase & Co.	*(Note 5)*	21,856,818 *(Note 5)*	5.34%	13,315,976 *(Note 5)*	3.26%	5,463,742	1.34%
GIC Private Limited	Investment manager	20,458,036	5.00%	–	–	–	–

Notes:

1. ASM International N.V. is deemed interested in 103,003,000 shares, through the shares held by its wholly owned subsidiary, ASM Pacific Holding B.V..

2. The interests held by Citigroup Inc. were held in the following capacities:

Capacity	**Number of shares (Long position)**	**Number of shares (Short position)**	**Number of shares (Lending pool)**
Person having a security interest in shares	450,345	–	–
Interest of a controlled corporation	4,248,351	3,699,948	–
Approved lending agent	24,192,758	–	24,192,758

The long position of 28,891,454 shares includes derivative interests in 2,848,747 underlying shares of the Company, of which 614,862 underlying shares are derived from listed and convertible instruments, 72,128 underlying shares are derived from unlisted and physically settled derivatives and 2,161,757 underlying shares are derived from unlisted and cash settled derivatives.

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes: (Continued)

2. (Continued)

The short position of 3,699,948 shares includes derivative interests in 239,728 underlying shares of the Company, of which 72,128 underlying shares are derived from unlisted and physically settled derivatives and 167,600 underlying shares are derived from unlisted and cash settled derivatives.

3. Commonwealth Bank of Australia is deemed interested in 28,517,578 shares, through the shares held by its wholly owned subsidiaries, including ASB Holdings Limited, Colonial Holding Company Limited, ASB Bank Limited, Commonwealth Insurance Holdings Limited, ASB Group Investments Limited, Capital 121 Pty Limited, Colonial First State Group Ltd, Colonial First State Investments Limited, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Limited, First State Investments (UK Holdings) Limited, Realindex Investments Pty Limited, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investment Management (UK) Limited and First State Investments International Limited.

4. FMR LLC is deemed interested in 24,610,211 shares, through the shares held by its subsidiaries (wholly owned or otherwise), including Fidelity Management & Research Company, FMR Co., Inc., Fidelity Management & Research (U.K.) Inc., FMR Investment Management (UK) Limited, Fidelity Management & Research (Hong Kong) Limited, FIAM Holdings Corp., Fidelity Institutional Asset Management Trust Company, FIAM LLC, Fidelity Investments Money Management, Inc., Fidelity Management Trust Company, Fidelity Selectco, LLC, Strategic Advisers, Inc., Fidelity Canada Investors LLC, 483A Bay Street Holdings LP, BlueJay Lux 1 S.a.r.l., FIC Holdings ULC, Fidelity Investments Canada ULC.

The long position of 24,610,211 shares includes derivative interests in 39 underlying shares of the Company which are derived from listed and physically settled derivatives.

5. 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	14,140,394	13,315,976	–
Investment manager	2,252,682	–	–
Approved lending agent	5,463,742	–	5,463,742

The long position of 21,856,818 shares includes derivative interests in 3,235,148 underlying shares of the Company, of which 572,469 underlying shares are derived from listed and physically settled derivatives and 2,662,679 underlying shares are derived from unlisted and physically settled derivatives.

The short position of 13,315,976 shares includes derivative interests in 3,405,951 underlying shares of the Company, of which 11 underlying shares are derived from listed and physically settled derivatives, 45,230 underlying shares are derived from listed and cash settled derivatives, 328,840 underlying shares are derived from unlisted and physically settled derivatives and 3,031,870 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, as at 31 December 2017, 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 interest or short position in the shares or underlying shares of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR 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 transactions, arrangements or 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 35 to the consolidated financial statements.

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, every director shall be indemnified out of the funds of the Company against all liability incurred by him/her as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

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 revenue 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$1,055,000.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of 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 to be independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

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

28 February 2018

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 (the "Stock Exchange") ("Listing Rules") throughout the year ended 31 December 2017.

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 2017, the Company has nine 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, Thailand 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 2017:

Independent Non-Executive Directors	
Orasa Livasiri	(Chairman of the Board, Chairman of Nomination Committee, Member of Audit Committee and Remuneration Committee)
Lok Kam Chong, John	(Chairman of Audit Committee, Member of Remuneration Committee and Nomination Committee)
Wong Hon Yee	(Chairman of Remuneration Committee and Member of Nomination Committee)
Tang Koon Hung, Eric*	(Member of Audit Committee and Remuneration Committee)
Patrick Shuang Kung**	(Member of Remuneration Committee and Nomination Committee)
Non-Executive Directors	
Charles Dean del Prado	(Member of Remuneration Committee and Nomination Committee)
Petrus Antonius Maria van Bommel	(Member of Audit Committee)
Executive Directors	
Lee Wai Kwong	(Chief Executive Officer)
Chow Chuen, James***	(Executive Vice President, Business Excellence)
Tsui Ching Man, Stanley****	(Chief Operating Officer)
Robin Gerard Ng Cher Tat	(Chief Financial Officer)

THE BOARD (CONTINUED)

Board composition (Continued)

* Mr. Tang Koon Hung, Eric was appointed as Member of Nomination Committee with effect from 1 February 2018.

** Mr. Patrick Shuang Kung retired as Independent Non-Executive Director and Member of Remuneration Committee and Nomination Committee with effect from 9 May 2017.

*** Mr. Chow Chuen, James retired as Executive Director of the Company with effect from 9 May 2017.

**** Mr. Tsui Ching Man, Stanley was appointed as Executive Director of the Company with effect from 9 May 2017.

None of the members of the Board is related to one another.

During the year ended 31 December 2017, 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 to the benefits of diversity on the Board.

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

THE BOARD (CONTINUED)

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 CG 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.

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 Miss Orasa Livasiri, while the position of Chief Executive Officer is held by Mr. Lee Wai Kwong during the year ended 31 December 2017. 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.

THE BOARD (CONTINUED)

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 retire at the third annual general meeting following his election. The Director retiring shall be eligible for re-election at, and shall retain office until the close of, the general meeting at which he retires.

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

As at 31 December 2017, the Nomination Committee comprises four members, 3 of whom are independent non-executive directors, namely, Miss Orasa Livasiri who is the Committee Chairman, Mr. Lok Kam Chong, John, and Mr. Wong Hon Yee, and one non-executive director, Mr. Charles Dean del Prado. Mr. Tang Koon Hung, Eric was appointed as Member of Nomination Committee with effect from 1 February 2018.

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 2017 and the attendance record is set out under "Directors' attendance records" on page 44.

THE BOARD (CONTINUED)

Induction and continuing development for directors

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

The directors are given updates on 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 have provided a record of training they received for the year ended 31 December 2017 to the Company.

The individual training record of each Director received for the year ended 31 December 2017 is summarized as below:

Participation in Continuous Professional Development Programme in 2017

Directors	Reading Regulatory Updates	Attending briefings/ seminars/ conferences relevant to the business	Attending training/briefing on regulatory development, directors' duties or other relevant topics
Independent Non-Executive Directors			
Orasa Livasiri	✓	✓	✓
Lok Kam Chong, John	✓	✓	✓
Wong Hon Yee	✓	✓	✓
Tang Koon Hung, Eric	✓	✓	✓
Patrick Shuang Kung (retired on 9 May 2017)	N/A	N/A	N/A
Non-Executive Directors			
Charles Dean del Prado	✓	✓	✓
Petrus Antonius Maria van Bommel	✓	✓	✓
Executive Directors			
Lee Wai Kwong	✓	✓	
Chow Chuen, James (retired on 9 May 2017)	✓	✓	✓
Tsui Ching Man, Stanley	✓	✓	✓
Robin Gerard Ng Cher Tat	✓	✓	

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 personal assistant to 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

Nine 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 2017 Annual General Meeting, during the year ended 31 December 2017 is set out below:

		Attendance/Number of Meetings held during the tenure of directorship				
Directors		**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**2017 Annual General Meeting**
Independent Non-Executive Directors						
Orasa Livasiri	(Chairman of the Board and Nomination Committee)	9/9	4/4	1/1	3/3	1/1
Lok Kam Chong, John	(Chairman of Audit Committee)	9/9	4/4	1/1	3/3	1/1
Wong Hon Yee	(Chairman of Remuneration Committee)	9/9	N/A	1/1	3/3	1/1
Tang Koon Hung, Eric		9/9	4/4	N/A	3/3	1/1
Patrick Shuang Kung	(retired as Independent Non-Executive Director and Member of Remuneration Committee and Nomination Committee on 9 May 2017)	1/5	N/A	1/1	1/2	0/1
Non-Executive Directors						
Charles Dean del Prado		7/9	N/A	1/1	2/3	0/1
Petrus Antonius Maria van Bommel		9/9	4/4	N/A	N/A	1/1
Executive Directors						
Lee Wai Kwong		9/9	N/A	N/A	N/A	1/1
Chow Chuen, James	(retired on 9 May 2017)	5/5	N/A	N/A	N/A	1/1
Tsui Ching Man, Stanley	(appointed on 9 May 2017)	3/4	N/A	N/A	N/A	0/0
Robin Gerard Ng Cher Tat		8/9	N/A	N/A	N/A	1/1

THE BOARD (CONTINUED)

Model code for securities transactions

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

Specific enquiry has been made to all directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

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.

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 revenue, 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.

DELEGATION OF MANAGEMENT FUNCTIONS (CONTINUED)

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 2017, 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 the 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 2017 are set out on pages 113 to 114 in note 16 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee has five members as at 31 December 2017. Mr. Wong Hon Yee, independent non-executive director, is the Chairman. One non-executive director, Mr. Charles Dean del Prado, and three independent non-executive directors, Miss Orasa Livasiri, Mr. Lok Kam Chong, John and Mr. Tang Koon Hung, Eric, are the other four members of the Remuneration Committee.

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.

REMUNERATION OF DIRECTORS (CONTINUED)

Remuneration Committee (Continued)

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.

The Remuneration Committee held three meetings during the year ended 31 December 2017 and the attendance records are set out under "Directors' attendance records" on page 44.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company and the remuneration packages of the executive directors and senior management 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 and senior management.

Details of the remuneration of each director for the year ended 31 December 2017 are set out in note 16 to the consolidated financial statements.

Details of the annual remuneration of members of the senior management (including Executive Directors) by band for the year ended 31 December 2017 is as follows:

	Number of employees
HK$2,000,001 to HK$2,500,000	1
HK$4,500,001 to HK$5,000,000	2
HK$5,500,001 to HK$6,000,000	1
HK$6,500,001 to HK$7,000,000	1
HK$7,500,001 to HK$8,000,000	1
HK$8,500,001 to HK$9,000,000	1
HK$10,000,001 to HK$10,500,000	1
HK$12,500,001 to HK$13,000,000	1
HK$24,500,001 to HK$25,000,000	1

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 2017.

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 her audit findings and her 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 2017. Mr. Lok Kam Chong, John, independent non-executive director, is the Chairman of the Audit 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 2017, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 44. The following is a summary of the tasks completed by the Audit Committee during 2017:

- reviewed the Group's financial reports for the year ended 31 December 2016, for the six months ended 30 June 2017, and for the quarters ended 31 March 2017 and 30 September 2017;

- reviewed the financial reporting system;

- reviewed the effectiveness of internal controls system;

- reviewed risk management system;

- reviewed work plan for 2017 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.

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 pages 58 to 65.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, amounted to HK$11,938,000 in respect of audit services; HK$1,465,000 in respect of assurance related services and HK$2,370,000 in respect of non-audit services, all of 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.

RISK MANAGEMENT

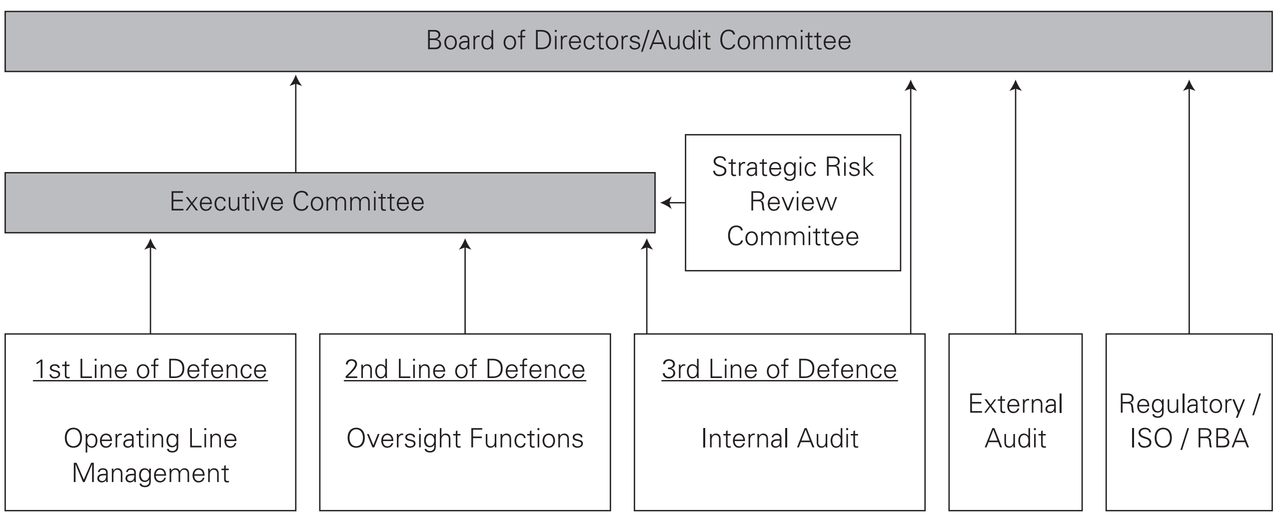
The Board of Directors acknowledges that it is responsible for the Group's risk management and for reviewing its effectiveness. The Board evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensures that the Group establishes and maintains appropriate and effective risk management system. The Board oversees the Company's Management in the design, implementation and monitoring of the risk management system on an on-going basis. Management on the other hand, provides confirmation to the Board on the effectiveness of these systems.

Management is delegated by the Board to advise the Board on the Group's risk-related matters. Management is also responsible for assessing the effectiveness of the Group's risk control/management system.

Risk Management and Control System

In 2016, the Group put in place a risk management framework ("Framework"), which is based on the "Three Lines of Defence" model and includes a process of Strategic Risk Review. The Framework gives the Board and Management a clear overview of the effectiveness of internal controls and risk management. The Framework is a structured, systematic and effective risk and control system that manages the strategic, operational, financial, financial reporting and compliance risks and enhance clarity at all levels of the Group. The Board and Management are aware that the Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Framework



RISK MANAGEMENT (CONTINUED)

Risk Management and Control System (Continued)

The Framework (Continued)

The Three Lines of Defence sets out clear responsibility for overseeing and co-ordinating risk assessment and mitigation on a Group-wide basis so as to ensure that risks faced by the Group are effectively identified, measured, monitored, and controlled.

- *1st Line of Defence — Operating Line Management*
  Line management own and manage risk, and are responsible for undertaking and establishing appropriate controls to operate effectively on a daily basis. There are adequate management controls in place to monitor on going compliance and to highlight control breakdowns.

- *2nd Line of Defence — Oversight Functions*
  These oversight functions support Management by bringing expertise, process excellence, and management monitoring alongside the 1st Line of Defence in outlining the principles, governance, roles and responsibilities, and help ensure that the risk and control procedures are operating as intended. Oversight functions involve Finance and Tax, Information Technology, Human Resources, Legal and Compliance, and Operational Excellence that includes Quality and Inspection.

- *3rd Line of Defence — Internal Audit*
  Group Internal Audit provides an independent and objective assurance to Management on the effectiveness and adequacy of the Group's internal control systems. Group Internal Audit has a primary reporting line and reports regularly to the Board through the Audit Committee.

The Framework also takes into consideration the COSO Internal Control — Integrated Framework in managing risks to the achievement of objectives.

As a complement to the Three Lines of Defence, the Strategic Risk Review Committee reports directly to the Group's Executive Committee, which comprises the Group CEO and other senior management members of the Group. The Strategic Risk Review Committee for the year 2017 was chaired by a Senior Vice President of the Group and comprised management representatives from different Business Segments who are responsible for various key functions within the Group. The Strategic Risk Review Committee is tasked with identifying and assessing risks that would hinder the Group from achieving its objectives, and analysing and recommending how risks are to be managed. This will enhance risk management in order that all material risks faced by the Group are identified, reviewed and appropriately managed. The Strategic Risk Review Committee reports the key risks to the Executive Committee on a regular basis and to the Board on an annual basis. Task forces have been formed and assigned to study in detail the key risks identified and recommend appropriate courses of actions to manage identified risks.

The Board, with the assistance of the Executive Committee, oversees the Company's Framework and review the Group's top risks and emerging risks on an ongoing basis. During the year, the Board has performed a review of the Group's Framework, process of risk identification and assessment and risk management, the Group's top risks and key emerging risks and the controls in place to mitigate such risks.

INSIDE INFORMATION

With respect to procedures and internal control for handling and dissemination of inside information, the Company is aware of its obligation under the Securities and Futures Ordinance and the Listing Rules, and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The Company makes reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012 in handling and dissemination of inside information.

The Company has included in its Code of Business Conduct a strict prohibition on the unauthorized use of confidential or inside information.

The Company has also established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorized to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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 500 meetings with analysts and fund managers were held in 2017.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

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.

The most recent shareholders' meeting was the 2017 annual general meeting held on 9 May 2017 at Room 3–5, United Conference Centre, 10/F United Centre, 95 Queensway, Hong Kong. All the resolutions proposed at that meeting 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 Tuesday, 8 May 2018, 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 as "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. The Company's principal place of business will relocate to 19/F, Gateway ts, 8 Cheung Fai Road, Tsing Yi, New Territories, Hong Kong with effect from 30 April 2018.

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.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

Procedures for putting forward proposals at shareholders' meetings (Continued)

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

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 Limited
12/F, Watson Centre,
16–22 Kung Yip Street,
Kwai Chung, New Territories,
Hong Kong
Attn: Investor Relationship Department

New address effective from 30 April 2018:
19/F, Gateway ts,
8 Cheung Fai Road,
Tsing Yi, New Territories,
Hong Kong

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

At the 2017 annual general meeting held on 9 May 2017, proposed amendments to the Articles of Association of the Company were approved by the shareholders of the Company and the Amended and Restated Memorandum and Articles was adopted by the Company on the same day.

The amendments included certain amendments to bring the Company's Articles of Association in line with the Listing Rules, the current provisions of the Hong Kong Companies Ordinance and of Cayman Islands law, and some housekeeping amendments proposed by the Board. Details of the amendments to the Articles of Association was set out in the circular to shareholders sent together with 2016 Annual Report on 30 March 2017.

On behalf of the Board
Lee Wai Kwong
DIRECTOR

28 February 2018

SUSTAINABILITY REPORT

This report covers our 2017 fiscal year information and it underpins our commitment to integrate sustainable practices into the Group's area of focus such as Corporate Governance, Risk Management, Environmental Protection, People Development, Workplace Safety and Products & Services. Adopting a stakeholder-centric approach, we actively engage the different groups of stakeholders through various open and transparent communication channels to keep them updated and informed of the latest development in ASMPT.

ENVIRONMENT

ASMPT is committed to comply fully with all applicable environmental laws and regulations and to make the earth cleaner and safer. Our environment charter highlights our commitment to safeguarding the environment through energy efficient practices and technologies, resource conservation, recycling and pollution prevention.

The Group is ISO 14001 certified on an annual basis for our environmental management system in our main business locations in China, Germany, United Kingdom, Singapore and Malaysia. The ISO 14001 standard specifies the requirements for an environmental management system that an organisation can use to enhance its environmental performance, fulfils its compliance obligations and achieves its environmental objectives.

The Group is not aware that there has been any incident in 2017 of non-compliance with the relevant laws and regulations relating to environmental protection in all the countries in which we operate that would have a significant impact on the Group.

Some of the measures implemented to improve energy efficiency and reduce energy consumption include:

- Replaced old chiller plant for efficiency upgrade
- Replaced fluorescent tubes with energy-efficient LED lights
- Replaced the old heat pump with a new control system that improves efficiency
- Replaced heat supplied by electric heaters for plating lines with Heat Recovery System from air compressors
- Adopted variable speed drive technology in constant speed air compressors for energy saving
- Adopted time controls and adjusted the temperature of air-conditioning systems to one degree higher
- Production equipment not in used are being switched off instead of being put on standby mode

Employees are constantly reminded to switch off lights, computers and other office equipment when not in use. The company also advocates communications via video conferencing in order to minimise overseas travel.

The Group recognizes that cargo transportation is one of the major sources of carbon emission in the Group's business process. After in-depth analysis, the Group decided to set up new manufacturing facilities in Malaysia for the production of its SMT equipment. The goal is to fulfil delivery to its customers in Asia from the Malaysia facility. The Group estimated that with this implementation, it will help to cut down carbon emission by around six tons per year.

Water is utilized in the manufacturing process of lead frames and precision machinery products. In order to prevent water pollution and ensure effective use of water, the Group has installed water treatment and recycling facilities in its lead frame manufacturing plants in China, Malaysia and Singapore to process waste water for the plating lines. We also monitor our water consumption to ensure any leaks are detected early.

ENVIRONMENT (CONTINUED)

To further enhance environmental awareness among employees, the "Bin the Bin" initiative has been launched at our Singapore and Hong Kong offices. As the name suggests, "Bin the Bin" is designed to replace employees' standard desk-side bins and employees are to take their waste to a centralised recycling point to be segregated into different waste bins. This will help to maximize the amount that is recycled and to improve the quality of recycling. As employees will now need more effort to dispose their waste, they become more conscious and hence less likely to create waste unnecessarily.

SOCIAL

Employees

ASMPT is committed to the well-being of our employees who play a fundamental role in helping to drive the growth of the company. We uphold fair employment practices and create a work culture that motivates and empowers every employee to be innovative, creative and able to work both independently and effectively in a team.

As an international global organisation with presence in more than 30 countries, we have in place an integrated human capital strategy that ensures fair employment practices. There are equal opportunities for employment, advancement and promotions for all staff. The Group believes that regardless of gender, ethnicity, age, religious beliefs, nationality, marital status, disabilities, sexual orientation and/or other aspects, employees can make significant contributions based on their expertise, experience and dedication. In addition, the Group has zero tolerance towards sexual harassment in the workplace and does not condone such unlawful conduct. No incidence of sexual harassment was reported in 2017.

ASMPT has a well-structured and open annual performance appraisal system. Remuneration is benchmarked against the industry market rate and commensurates with individual performance, scope of responsibilities, qualification, working experience and ability.

Salary and career development reviews are conducted on an annual basis to ensure competitiveness. Discretionary bonus and incentive shares may be granted to eligible employees based on the Group's financial results and each individual's performance. Other employees' benefits include contributions to mandatory provident fund schemes, medical and training subsidies.

Recognising that work-life balance is imperative in developing a motivated and dedicated workforce, the Group regularly organizes activities such as Family Day, Volunteer work and Kids Soccer Academy that encourage participation by both the employees and their family members, thereby promoting family cohesion and bonding.

Customers

True to our mission of delivering the highest value and innovative solutions to our customers through products and solutions with advanced technologies and excellent quality, ASMPT has always been taking an active role in ensuring that our products and solutions are environmentally-friendly, production efficient and cost effective.

The Group is ISO 9001 certified for our quality management system at our main business locations in China, Germany, United Kingdom, Singapore and Malaysia. All equipment has to go through stringent tests and certifications by both the Quality and Reliability Departments. We build trust with our customers by having in place a holistic upgrading program that will provide customers with immediate support should any issue with the products arise.

SOCIAL (CONTINUED)

Suppliers

At ASMPT, we are committed to ensuring our procurement process encourages fair competition and to applying a high level of objectivity and impartiality in supplier selection. Suppliers are selected based on their price, services, quality, technology, capability, cost effectiveness, business integrity, sustainability, growth potential and management system. Together with our worldwide regular partners and suppliers, we constantly look into improving our supply chain management processes to bring about a sustainable experience for our customers.

We believe in building close and long lasting relationships with our partners and suppliers through common ground and shared values. Hence, we expect all of our suppliers to adhere to the same high standards for ethics, labour rights, health and safety, and the environment that we set for ourselves. Our Supplier Code of Conduct, which is based on the Responsible Business Alliance (RBA) Code of Conduct, sets out clear expectations that we have of our suppliers in areas such as supplier relationship, child labour, forced/coerced labour, human rights, environment, health and safety, as well as bribery and corruption. The content of our Supplier Code of Conduct has been developed to align with the ASMPT's culture, core values and business practises and are updated regularly to ensure its relevance. In addition, the Supplier Code of Conduct is also available on ASMPT's official website and we conduct assessments and checks on our suppliers as part of our regular business reviews.

Community

ASMPT believes in active contribution to the communities in which we operate and focuses on three main areas — community well-being, youth empowerment through education and, last but not least, promotion of eco-friendly initiatives. For many years, we have been supporting charities as well as non-profit organizations through donations and staff volunteerism. In 2017, the Group participated, sponsored and/or donated to 76 CSR-related activities and spent approximately 100,000 hours of volunteer service to the communities where we operate.

ASMPT has been awarded both the "Caring Company" Logo by the Hong Kong Council of Social Service and the "18 Districts Caring Employers" award in recognition of its commitment in caring for the community, employees and environment in Hong Kong since 2012. The Group was also awarded the "Happiness-at-work Label" by the Promoting Happiness Index Foundation (the Foundation) and the Hong Kong Productivity Council (HKPC) in recognition of its efforts in enhancing "Happiness-at-work" through implementing activities in the four areas, namely "Corporate Love", "Corporate Insight", "Corporate Fortitude" and "Corporate Engagement". In addition, various activities such as charity run, blood donation drives and visit to welfare homes have been organised by our employees from various plants such as Singapore, China, Malaysia and Europe to help raise funds for medical treatment and welfare assistance.

The Group believes in the power of education to positively impact the lives of individuals. In order to work towards the Group's vision of "ENABLING THE DIGITAL WORLD", we create opportunities to nurture and groom young engineering talents. As such, we have been collaborating closely with local universities and technical institutes in the region through internship programs and scholarship opportunities. In 2017, 192 students have benefited from our scheme and programs. Three years ago, we started our ASM Technology Award to recognize and reward students with outstanding Final Year Projects that demonstrate excellence in technology and innovation. For 2017, a total of 10 teams from various universities in Hong Kong participated where not only ASM Pacific Technology Scholarships were given to the top three winning teams but the top winning educational institution as well.

Full details of the Group's CSR programmes will be available in the Environmental, Social and Governance (ESG) Report that will be published on our official website in May 2018.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF ASM PACIFIC TECHNOLOGY LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

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 66 to 153, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business	
We identified the impairment testing of goodwill and intangible asset allocated to surface mount technology solutions business as a key audit matter due to its complexity and significant judgment exercised by the Group's management on the impairment testing. As detailed in note 24 to the consolidated financial statements, for the purposes of impairment testing, the carrying amounts of goodwill and intangible asset with indefinite useful life allocated to the surface mount technology solutions business as at 31 December 2017 were HK$408,696,000 and HK$246,628,000 respectively. Determining the amount of impairment for goodwill and intangible asset requires an estimation of the recoverable amount, which is the value in use of the cash-generating units ("CGUs") to which goodwill and intangible asset have been allocated. The value in use is determined based on the cash flow projection for the group of CGUs discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the economic outlook, relevant industry growth forecasts and financial budgets approved by the directors covering a five-year period from the unit's past performance and management's expectations for the market development. The management of the Group determines that there was no impairment recognized with respect to the goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business during the year ended 31 December 2017.	Our procedures in relation to assessing the appropriateness of the impairment testing of goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business included: • Understanding the Group's impairment testing process, including the valuation model adopted, CGUs allocation and assumptions used; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved financial budgets, the management's business plan, the available industry and market data; • Evaluating the historical accuracy of the financial budgets prepared by management by comparing the historical financial budgets with the actual performance; and • Engaging our valuation expert to evaluate the appropriateness of the discount rate and terminal growth rate used.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for taxation in relation to Tax Affairs	
We identified the provision for taxation in relation to the Tax Affairs (as defined below) as a key audit matter due to critical judgment exercised by the management to assess the tax provision. As detailed in note 14 to the consolidated financial statements, the Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during 31 December 2017 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company (the "Tax Affairs"). The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax; or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2017, the Group has purchased tax reserve certificates amounting to HK$371,113,000. Based on legal and other professional advice that the Company has sought, the directors of the Company are of the opinion that sufficient provision for taxation and tax-related expenses have been made in the consolidated financial statements.	Our procedures in relation to evaluating the appropriateness of the provision for taxation in relation to Tax Affairs included: • Engaging our tax expert to assess the appropriateness of the basis of provision for taxation of the Tax Affairs by considering the recent similar tax cases in Hong Kong, correspondences of the Group with the HKIRD and the legal and other professional advice sought by the Company; • Ascertaining the adequacy of the income tax provision based on the basis of provision for taxation of the Tax Affairs estimated by the Company; and • Considering the adequacy of the disclosures in the consolidated financial statements in respect of the Tax Affairs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Warranty provision	
We identified warranty provision as a key audit matter due to the significant estimates involved by the Group's management in determining the provision related to the cost of rectification work under the warranty period, mainly for a period of maximum of 2 years for back-end equipment and surface mount technology equipment. As detailed in note 4 to the consolidated financial statements, 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 was more likely than not that such a warranty obligation would result in outflow of resources and whether the amount of the obligation could be reliably estimated. As at 31 December 2017, the Group recognized a warranty provision amounting to HK$327,048,000 relating to back-end equipment and surface mount technology equipment which is the best estimate of the Group's liability based on relevant correspondences and contracts with customers and estimated cost for rectification work from the Group's experience.	Our procedures in relation to evaluating the appropriateness of the warranty provision included: • Understanding how the Group's management estimate warranty provision; • Discussing with the Group's management and evaluating the management process to identify and assess the warranty provision with reference to the relevant correspondences and contracts with customers; • Interviewing management to understand its cost estimation basis for rectification work and evaluating the reasonableness of the cost estimates for rectification work with regard to the Group's experience in addressing such matters; and • Evaluating the historical accuracy of the warranty provision assessed by management by comparing the actual expenditure and the historical warranty provision made.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Allowance of inventories	
We identified allowance of inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the nature of inventories is subject to technology changes. The Group's management identifies obsolete inventories as a result of technology change, and then applied allowances on those obsolete inventories by considering the recoverable amount. The Group's management also reviews the inventory age listing to identify slow-moving and obsolete inventories and then estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand as a result of changes in current market conditions and technology, and the latest invoice prices. As at 31 December 2017, the carrying amount of inventories, net of allowance, was HK$5,368,889,000.	Our procedures in relation to evaluating the appropriateness of the allowance of inventories included: • Understanding of how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Understanding and evaluating the appropriateness of the basis of identification of the obsolete inventories and the projected excessive quantity of inventories estimated by the Group's management; • Testing the accuracy of the aging analysis of inventories, on a sample basis; • Evaluating the historical accuracy of allowance of inventories assessed by management by comparing the actual loss to historical allowance recognized, on a sample basis; and • Assessing the accuracy of the net realizable value, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Lam Ching.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	7	**17,522,713**	14,249,093
Cost of sales		**(10,471,339)**	(8,891,618)
Gross profit		**7,051,374**	5,357,475
Other income		**88,410**	78,433
Selling and distribution expenses		**(1,497,944)**	(1,277,326)
General and administrative expenses		**(937,624)**	(785,079)
Research and development expenses	9	**(1,436,191)**	(1,242,775)
Other gains and losses	11	**(33,360)**	(51,348)
Restructuring costs	12	**–**	(97,899)
Adjustment of liability component of convertible bonds	10	**202,104**	–
Finance costs	13	**(162,489)**	(188,532)
Profit before taxation		**3,274,280**	1,792,949
Income tax expense	14	**(478,578)**	(354,567)
Profit for the year	15	**2,795,702**	1,438,382
Profit for the year attributable to:			
Owners of the Company		**2,815,473**	1,463,864
Non-controlling interests		**(19,771)**	(25,482)
		2,795,702	1,438,382
Earnings per share	19		
— Basic		**HK$6.90**	HK$3.61
— Diluted		**HK$6.35**	HK$3.60

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
Profit for the year		**2,795,702**	1,438,382
Other comprehensive income (expense)			
— exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss		**575,484**	(213,983)
— remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss	*36*	**3,023**	(23,634)
Other comprehensive income (expense) for the year		**578,507**	(237,617)
Total comprehensive income for the year		**3,374,209**	1,200,765
Total comprehensive income for the year attributable to:			
Owners of the Company		**3,393,984**	1,226,175
Non-controlling interests		**(19,775)**	(25,410)
		3,374,209	1,200,765

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	20	**2,426,005**	2,157,965
Investment property	21	**60,340**	57,718
Goodwill	22	**408,696**	428,052
Intangible assets	23	**542,101**	571,528
Prepaid lease payments	25	**115,046**	20,461
Other investment	26	**18,502**	–
Pledged bank deposits	30	**2,153**	–
Deposits paid for acquisition of property, plant and equipment		**33,263**	32,198
Rental deposits paid		**36,120**	44,506
Deferred tax assets	37	**361,673**	307,015
Other non-current assets		**24,761**	101,633
		4,028,660	3,721,076
Current assets			
Inventories	27	**5,368,889**	4,254,541
Trade and other receivables	28	**6,058,686**	4,421,318
Prepaid lease payments	25	**3,849**	780
Derivative financial instruments	29	**13,289**	1,113
Income tax recoverable		**66,553**	29,830
Pledged bank deposits	30	**3,351**	–
Bank deposits with original maturity of more than three months	30	**691,018**	1,071,408
Bank balances and cash	30	**2,365,911**	2,138,886
		14,571,546	11,917,876
Current liabilities			
Trade and other payables	31	**4,020,855**	3,265,973
Derivative financial instruments	29	**234**	24,664
Provisions	32	**295,825**	272,513
Income tax payable		**349,999**	332,734
Convertible bonds	38	**–**	2,224,895
Bank borrowings	33	**117,219**	116,334
		4,784,132	6,237,113
Net current assets		**9,787,414**	5,680,763
		13,816,074	9,401,839

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	*34*	**40,908**	40,824
Dividend reserve		**528,175**	449,068
Other reserves		**10,808,542**	8,532,315
Equity attributable to owners of the Company		**11,377,625**	9,022,207
Non-controlling interests		**(149)**	4,056
Total equity		**11,377,476**	9,026,263
Non-current liabilities			
Convertible bonds	*38*	**2,121,830**	–
Retirement benefit obligations	*36*	**183,277**	161,249
Provisions	*32*	**50,242**	46,349
Bank borrowings	*33*	**–**	77,556
Deferred tax liabilities	*37*	**39,996**	55,725
Other liabilities and accruals		**43,253**	34,697
		2,438,598	375,576
		13,816,074	9,401,839

The consolidated financial statements on pages 66 to 153 were approved and authorized for issue by the Board of Directors on 28 February 2018 and are signed on its behalf by:

Lee Wai Kwong	**Robin Gerard Ng Cher Tat**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 35)*	Treasury share reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000 *(Note)*	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	40,453	1,228,718	–	–	–	155	72,979	–	266,932	(640,706)	6,876,176	161,812	8,006,519	29,466	8,035,985
Profit for the year	–	–	–	–	–	–	–	–	–	–	1,463,864	–	1,463,864	(25,482)	1,438,382
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	(214,055)	–	–	(214,055)	72	(213,983)
Remeasurement of defined benefit retirement plans, net of tax (note 36), which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	(23,634)	–	(23,634)	–	(23,634)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	(214,055)	1,440,230	–	1,226,175	(25,410)	1,200,765
Sub-total	40,453	1,228,718	–	–	–	155	72,979	–	266,932	(854,761)	8,316,406	161,812	9,232,694	4,056	9,236,750
Conversion of convertible bonds	157	161,063	–	–	–	–	–	–	(16,683)	–	–	–	144,537	–	144,537
Recognition of equity-settled share-based payments	–	–	153,664	–	–	–	–	–	–	–	–	–	153,664	–	153,664
Purchase of shares under the Employee Share Incentive Scheme ("Scheme")	–	–	–	(21,992)	–	–	–	–	–	–	–	–	(21,992)	–	(21,992)
Shares vested under the Scheme	–	–	(20,505)	21,794	–	–	–	–	–	–	(1,289)	–	–	–	–
Shares issued under the Scheme	214	132,945	(133,159)	–	–	–	–	–	–	–	–	–	–	–	–
2015 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(161,812)	(161,812)	–	(161,812)
2016 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(324,884)	–	(324,884)	–	(324,884)
2016 final dividend proposed	–	–	–	–	–	–	–	–	–	–	(449,068)	449,068	–	–	–
At 31 December 2016 and 1 January 2017	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(854,761)	7,541,165	449,068	9,022,207	4,056	9,026,263
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,815,473	–	2,815,473	(19,771)	2,795,702
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	575,488	–	–	575,488	(4)	575,484
Remeasurement of defined benefit retirement plans, net of tax (note 36), which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	3,023	–	3,023	–	3,023
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	575,488	2,818,496	–	3,393,984	(19,775)	3,374,209
Sub-total	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(279,273)	10,359,661	449,068	12,416,191	(15,719)	12,400,472
Recognition of equity-settled share-based payments	–	–	303,223	–	–	–	–	–	–	–	–	–	303,223	–	303,223
Purchase of shares under the Scheme	–	–	–	(34,064)	–	–	–	–	–	–	–	–	(34,064)	–	(34,064)
Shares vested under the Scheme	–	–	(34,165)	34,262	–	–	–	–	–	–	(97)	–	–	–	–
Shares issued under the Scheme	224	234,329	(234,553)	–	–	–	–	–	–	–	–	–	–	–	–
Cancellation of the grant under the Scheme	–	–	(4,628)	–	–	–	–	–	–	–	–	–	(4,628)	–	(4,628)
Arising on additional interest in a subsidiary	–	–	–	–	–	–	–	(15,570)	–	–	–	–	(15,570)	15,570	–
Shares repurchased and cancelled	(140)	(149,435)	–	–	–	140	–	–	–	–	(140)	–	(149,575)	–	(149,575)
Shares repurchased but not yet cancelled	–	–	–	–	(198,992)	–	–	–	–	–	–	–	(198,992)	–	(198,992)
2016 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(449,068)	(449,068)	–	(449,068)
2017 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(489,892)	–	(489,892)	–	(489,892)
2017 final dividend proposed	–	–	–	–	–	–	–	–	–	–	(528,175)	528,175	–	–	–
At 31 December 2017	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(279,273)	9,341,357	528,175	11,377,625	(149)	11,377,476

Note: Other reserve represents the change in the non-controlling interest in a subsidiary arising from issuing of new shares to the Group upon the capitalization of loans to the subsidiary.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before taxation	**3,274,280**	1,792,949
Adjustments for:		
Depreciation	**421,502**	395,018
Release of prepaid lease payments	**1,388**	780
Amortization of intangible assets	**52,279**	41,911
Release of land license fee	**2,497**	2,725
Impairment loss recognized in respect of goodwill	**22,596**	–
Gains on disposal/write-off of property, plant and equipment	**(6,766)**	(6,084)
(Gain) loss on fair value change of derivative financial instruments	**(32,842)**	18,352
Warranty provision expenses	**195,723**	229,119
Adjustment of liability component of convertible bonds	**(202,104)**	–
Restructuring costs	**–**	97,899
Share-based payments under the Scheme	**298,595**	153,664
Interest income	**(31,041)**	(26,410)
Interest expense	**162,489**	188,532
Effect of foreign exchange rate changes on inter-company balances	**52,347**	45,927
Operating cash flows before movements in working capital	**4,210,943**	2,934,382
(Increase) decrease in pledged bank deposits	**(5,504)**	9,826
Increase in inventories	**(899,436)**	(839,404)
Increase in trade and other receivables	**(1,466,974)**	(243,987)
(Increase) decrease in other non-current assets	**(2,316)**	1,729
Increase in trade and other payables	**579,930**	903,005
Increase (decrease) in other liabilities and accruals	**4,063**	(2,023)
(Decrease) increase in provisions	**(13)**	4,482
Utilization of warranty provision	**(168,252)**	(275,173)
Payment for restructuring provision	**(28,904)**	(69,959)
Increase in retirement benefit obligations	**3,648**	2,442
Purchase of shares under the Scheme	**(34,064)**	(21,992)
Cash generated from operations	**2,193,121**	2,403,328
Income taxes paid	**(578,468)**	(459,321)
Income taxes refunded	**6,432**	13,591
Net cash from operating activities	**1,621,085**	1,957,598

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Investing activities		
Interest received	**31,041**	26,410
Proceeds on disposals of property, plant and equipment	**27,347**	26,343
Purchase of property, plant and equipment	**(558,894)**	(393,168)
Deposits paid for acquisition of property, plant and equipment	**(33,263)**	(32,198)
Additions of intangible assets	**(16,146)**	(8,681)
Placement of bank deposits with original maturity of more than three months	**(798,072)**	(1,497,152)
Withdrawal of bank deposits with original maturity of more than three months	**1,239,019**	635,332
Payment for other non-current assets	**(11,081)**	–
Addition of other investment	**(18,502)**	–
Net cash used in investing activities	**(138,551)**	(1,243,114)
Financing activities		
Payment for repurchase of shares	**(322,656)**	–
Bank borrowings raised	**77,579**	70,033
Repayment of bank borrowings	**(156,045)**	(55,020)
Dividends paid	**(938,960)**	(486,696)
Interest paid	**(63,418)**	(84,430)
Net cash used in financing activities	**(1,403,500)**	(556,113)
Net increase in cash and cash equivalents	**79,034**	158,371
Cash and cash equivalents at beginning of the year	**2,138,886**	2,020,145
Effect of foreign exchange rate changes	**147,991**	(39,630)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**2,365,911**	2,138,886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

ASM Pacific Technology Limited ("the Company") is an exempted company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("The Stock Exchange"). 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 44.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures of changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of liabilities arising from financing activities including these items is provided in note 42. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 42, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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 and the Related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) — INT 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) — INT 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs and an Interpretation mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

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

HKFRS 9 "Financial Instruments" (Continued)

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognized financial assets that are within the scope of HKFRS 9 are required to be 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at 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.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognized 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Equity investments classified as available-for-sale investment (i.e. other investment) carried at cost less impairment as disclosed in note 26: these equity investments qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these equity investments at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognized as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to this equity investment would be adjusted to investments revaluation reserve as at 1 January 2018.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

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

HKFRS 9 "Financial Instruments" (Continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables as required or permitted under HKFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognized by Group as at 1 January 2018 would not be significantly increased as compared to the accumulated amount recognized under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and no material impact on the financial assets at amortized cost. Such further impairment recognized under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

HKFRS 15 "Revenue from Contracts with Customers"

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The directors of the Company have assessed the impact on application of HKFRS 15 and have identified the following areas that will be affected:

Currently under HKAS 18, the Group recognizes revenue from sales of back-end equipment when the goods are delivered and titles have passed to the customer and the significant risks and rewards of ownership of the equipment have been transferred to the customer. The Group has assessed that under the transfer-of-control approach in HKFRS 15, revenue from sales of new or highly customized products will generally be recognized when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the equipment and obtain substantially all of the remaining benefits of the equipment. This will result in revenue from sales of new and highly customized equipment being recognized at a later date than current practice.

For contracts of equipment sales that have multiple deliverables (including installation, service-type warranty, training services and right to purchase certain amounts of spare parts for free) which represent separate performance obligations from sale of equipment, revenue will be recognized for each of these performance obligations when control over the corresponding goods and services is transferred to the customers. HKFRS 15 requires the transaction price to be allocated to the different performance obligations on a relative stand-alone selling price basis. The revenue relating to the undelivered elements of the arrangements is deferred until delivery of these elements. This will result in part of the revenue (installation and training services) being recognized at a later date than current practice.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognized in the opening balance of equity at 1 January 2018.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

HKFRS 16 "Leases" (Continued)

Under HKAS 17, the Group has already recognized prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$1,538,038,000 as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$55,547,000 and refundable rental deposits received of HK$1,285,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the deposits would be recognized initially at fair value with the difference between fair value and nominal amount considered as additional lease payments and be included in the carrying amount of right-of-use assets. Similar adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

HK(IFRIC)—"INT 22 Foreign Currency Transactions and Advance Consideration"

HK(IFRIC) — INT 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability.

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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.

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 from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

Changes in the Group's ownership interests in existing subsidiary

Changes in the Group's ownership interests in existing subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. 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 acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination (Continued)

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.

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 to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, other similar allowances and sales related taxes.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Sales of equipment that result in spare credits (i.e. right to purchase certain amounts of spare parts for free) are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the equipment supplied and the spare credits granted. The consideration allocated to the spare credits is measured by reference to the fair value of the spare parts. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the related spare parts are supplied and the Group's obligations have been fulfilled.

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.

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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 property, plant and equipment under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Construction in progress is 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 construction in progress 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Buildings under development for future owner-occupied purpose

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

Investment property

Investment property is property held to earn rentals and/or for capital appreciation. Investment property is initially 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.

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 that are acquired separately are carried at cost less any subsequent 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 with finite useful life are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequently accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or 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.

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.

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any. 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.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

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 (or a cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

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.

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. Net realizable value represent the estimated selling price for inventories less all estimate costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. When 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is 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 those deductible temporary differences can be utilized. Such deferred tax 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

Current and deferred tax are recognized in profit or loss, except when they relate 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 recognized 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 of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Leasehold land and buildings

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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

Financial assets are classified into loans and receivables and available-for-sale financial assets. The classification 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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 certain other non-current assets, pledged bank deposits, trade and other receivables, bank deposits with original maturity of more than three months, and bank balances and cash) are measured at amortized cost using the effective interest method, less any identified impairment (see accounting policy on impairment of 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.

Available-for-sale financial asset

Available-for-sale financial asset is non-derivatives that is either designated as available-for-sale or is not classified as financial asset at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investment.

Available-for-sale financial assets are equity investments and that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less any identified impairment losses at the end of each reporting period. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when 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.

For all other financial assets, 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.

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 the financial asset's original effective interest rate.

For financial assets carried at cost (including available-for-sale equity investment), the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

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.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue of the Company's own equity instruments.

Financial liabilities at amortized cost

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.

Convertible bonds

The components parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A 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 an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Convertible bonds (Continued)

At the date of issue, the fair value of the liability component (including any embedded non-equity derivative features) is estimated by measuring the fair value of similar liability that does not have an associated equity component. 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.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are 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.

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, if not designated as at FVTPL 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 over the guarantee period.

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 recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset, 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 have expired. 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 recognized 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 arising on the settlement of monetary items, and on the retranslation of 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 or partially disposal of the Group's interest.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, 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 (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, 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 on an acquisition of a foreign operation are treated as assets and liabilities of that 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting periods, based on the Group's estimate of equity instruments that will eventually vest, 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 equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

At the time when the equity instruments 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 equity instruments granted shall be accounted for as the repurchase of the equity instruments, 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.

Award shares held under Share Award Scheme granted to members of the management of the Group for their services 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 award 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 award shares are vested, the difference on the amounts previously recognized in shares held for Share Award Scheme and the amount recognized in employee share-based compensation reserve is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Retirement benefit costs and termination benefits

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 consolidated 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 or 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.

A liability for a termination benefit is recognized at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognizes any related restructuring costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term and other long-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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.

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. Where the future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill as at 31 December 2017 was HK$408,696,000 (2016: HK$428,052,000). Details of the recoverable amount calculations are set out in note 24.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 assets with indefinite useful lives 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 2017 was HK$542,101,000 (2016: HK$571,528,000). Details of the impairment testing on intangible assets with indefinite useful lives are set out in note 24.

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.

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 2017, the deferred tax assets recognized is HK$361,673,000 (2016: HK$307,015,000) (see note 37).

Inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to technological changes. As at 31 December 2017, the carrying amount of inventories, net of allowance, was HK$5,368,889,000 (2016: HK$4,254,541,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving and obsolete inventories. The management estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand, the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions, and the recoverable amount. 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)

Estimated 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. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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 2017, the carrying amount of trade receivables was HK$5,212,686,000 (2016: HK$3,540,968,000).

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 2017, net remeasurement gains before tax effect amounting to HK$4,577,000 (2016: net remeasurement losses before tax effect amounting to HK$35,085,000) are recognized directly in equity in the period in which they occur (see note 36).

Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings. 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 warranty service will result an outflow of resources and whether the amount of the obligation can be reliably estimated with reference to the relevant correspondences and contracts with customers. The management estimates the cost for rectification work with regard to the Group's experience in addressing such matters. As at 31 December 2017, the Group recognized a warranty provision amounting to HK$327,048,000 (2016: HK$276,402,000) (see note 32).

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 management would work 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 21 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

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**8,413,338**	6,845,420
Available-for-sale financial assets	**18,502**	–
Derivative financial instruments	**13,289**	1,113
Financial liabilities		
Amortized cost	**4,765,859**	4,739,632
Derivative financial instruments	**234**	24,664

Financial risk management objectives and policies

The Group's financial instruments include other investment, other non-current assets, pledged bank deposits, bank deposits with original maturity of more than three months, 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.

Foreign currency risk management

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 42% and 45% 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.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

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

	Currency	Assets		Liabilities	
		2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
The Group					
US dollar *(Note a)*	US$	3,074,016	2,234,208	92,744	71,689
Euro	EUR	143,657	170,585	56,699	47,279
Renminbi	RMB	778,187	774,076	597,960	568,792
Singapore dollar	S$	76,172	82,015	146,319	128,980
Japanese Yen	JPY	9,952	4,561	159,214	150,281
Others		51,793	57,104	157,806	209,229
Inter-company balances					
US dollar *(Note b)*	US$	3,396,187	2,351,792	2,099,710	1,276,425
Euro	EUR	56,568	60,775	25,390	6,607
Renminbi	RMB	1,256,659	853,145	2,746	5,978
Singapore dollar	S$	64	–	6,784	4,830
Japanese Yen	JPY	41,316	1,395	–	14,786
Others		37,094	20,564	62,796	53,317
Loan to foreign operations that form parts of a net investment					
US dollar	US$	–	–	52,495	49,451
Euro	EUR	156,911	134,602	69,104	59,754
British Pounds	GBP	342,300	299,536	–	–

Notes:

(a) Included in the balances are US dollar financial assets and financial liabilities of HK$1,127,446,000 and HK$74,229,000 (2016: HK$747,863,000 and HK$67,398,000), respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

(b) Included in the balances are US dollar financial assets and financial liabilities of HK$1,585,822,000 and HK$967,029,000 (2016: HK$630,985,000 and HK$496,699,000), 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 Hong Kong dollars is linked up with US dollar 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.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Foreign currency sensitivity analysis

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

A subsidiary of the Company entered into several foreign currency forward contracts to manage its exposure to exchange rate fluctuations of the US dollar denominated receivables and bank deposits against its functional currency, Euro (see note 29).

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)		British pounds impact (vi)	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
(Decrease) increase in post-tax profit	**(4,241)**	(7,103)	**(55,503)**	(26,817)	**(69,022)**	(51,000)	**5,055**	7,525	**3,471**	2,403	**–**	–
(Decrease) increase in exchange reserve	**(4,392)**	(3,743)	**2,625**	2,473	**–**	–	**–**	–	**–**	–	**(17,115)**	(14,977)

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

(ii) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables, trade and other payables, inter-company balances and loans to foreign operations denominated in US dollar at the year end.

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

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

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Foreign currency sensitivity analysis (Continued)

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

(vi) This is mainly attributable to the exposure on outstanding loans to foreign operations denominated in British Pounds at the year end.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits and convertible bonds (see note 38). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances (see note 30) and bank borrowings (see note 33). 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") 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 2017 would decrease/increase by HK$93,000 (2016: HK$476,000) and HK$486,000 (2016: HK$805,000) 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 2017 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 the 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.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

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.

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 principal and interest cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

At 31 December 2017

	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	–	411,109	2,083,129	–	2,494,238	2,494,238
Other non-current liabilities	–	–	–	20,674	20,674	20,674
Bank borrowings	2.540	–	118,594	–	118,594	117,219
Convertible bonds	6.786	–	45,000	2,272,500	2,317,500	2,133,727
		411,109	2,246,723	2,293,174	4,951,006	4,765,858
Derivatives — net settlement						
Foreign exchange forward contracts	–	–	234	–	234	234

At 31 December 2016

	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	–	493,102	1,801,742	–	2,294,844	2,294,844
Other non-current liabilities	–	–	–	14,106	14,106	14,106
Bank borrowings	2.058	–	119,587	78,315	197,902	193,890
Convertible bonds	6.786	–	2,272,500	–	2,272,500	2,236,792
		493,102	4,193,829	92,421	4,779,352	4,739,632
Derivatives — net settlement						
Foreign exchange forward contracts	–	–	24,664	–	24,664	24,664

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

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

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

Some of the Group's financial assets and 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 assets and liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and financial liabilities	Fair value as at 2017	Fair value as at 2016	Fair value hierarchy	Valuation techniques and key inputs
Foreign currency forward contracts classified as derivative instruments on the consolidated statement of financial position *(note 29)*	**Asset – HK$13,289,000 and liability – HK$234,000**	Asset – HK$1,113,000 and liability – HK$24,664,000	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.

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

The fair values of the financial assets and liabilities included in the level 2 category 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. REVENUE

Revenue represents the amounts received or receivable for goods sold to customers during the year, less returns, rebates, other similar allowances and sales related taxes.

8. SEGMENT INFORMATION

The Group has three (2016: three) operating segments: development, production and sales of (1) back-end equipment, (2) surface mount technology solutions and (3) materials. 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 (2016: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

8. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

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

	2017 HK$'000	2016 HK$'000
Segment revenue from external customers		
Back-end equipment	**8,629,922**	7,219,722
Surface mount technology solutions	**6,749,007**	5,157,306
Materials	**2,143,784**	1,872,065
	17,522,713	14,249,093
Segment profit		
Back-end equipment	**2,168,988**	1,487,204
Surface mount technology solutions	**1,084,235**	578,454
Materials	**128,392**	170,410
	3,381,615	2,236,068
Interest income	**31,041**	26,410
Adjustment of liability component of convertible bonds	**202,104**	–
Finance costs	**(162,489)**	(188,532)
Unallocated other expenses	**(3,023)**	(1,171)
Unallocated net foreign exchange losses	**(13,554)**	(55,873)
Unallocated general and administrative expenses	**(161,414)**	(126,054)
Restructuring costs	**–**	(97,899)
Profit before taxation	**3,274,280**	1,792,949

No analysis of the Group's assets and liabilities by operating segments is disclosed as they are not regularly provided to the CODM 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, adjustment of liability component of convertible bonds, finance costs, unallocated other expenses, unallocated net foreign exchange losses, unallocated general and administrative expenses and restructuring costs.

All of the segment revenue derived by the 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)

2017

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment	379,515	140,571	102,644	–	622,730
Additions of intangible assets	–	16,146	–	–	16,146
Amounts included in the measure of segment profit:					
Amortization for intangible assets	1,278	51,001	–	–	52,279
Depreciation of property, plant and equipment	230,804	106,643	82,630	–	420,077
Depreciation of investment property	1,425	–	–	–	1,425
Impairment loss recognized in respect of goodwill	–	–	22,596	–	22,596
Gains on disposal/write-off of property, plant and equipment	(6,588)	(67)	(111)	–	(6,766)
Release of prepaid lease payments	869	270	249	–	1,388
Release of land license fee	2,497	–	–	–	2,497
Research and development expenses	832,497	593,807	9,887	–	1,436,191
Share-based payments	207,743	24,811	20,303	50,366	303,223

8. SEGMENT INFORMATION (CONTINUED)

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

2016

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment	232,678	105,392	78,621	–	416,691
Additions of intangible assets	–	8,681	–	–	8,681
Amounts included in the measure of segment profit:					
Amortization for intangible assets	1,278	40,633	–	–	41,911
Depreciation of property, plant and equipment	225,446	89,797	78,443	–	393,686
Depreciation of investment property	1,332	–	–	–	1,332
(Gain) loss on disposal/write-off of property, plant and equipment	(5,844)	(437)	197	–	(6,084)
Release of prepaid lease payments	546	107	127	–	780
Release of land license fee	2,725	–	–	–	2,725
Research and development expenses	721,231	512,959	8,585	–	1,242,775
Share-based payments	108,942	12,541	10,014	22,167	153,664

Geographical information

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

	Non-current assets	
	2017 HK$'000	2016 HK$'000
Mainland China	**1,316,008**	1,301,938
Singapore	**1,047,599**	1,061,932
Europe	**398,595**	356,268
— Germany	**188,039**	145,245
— United Kingdom	**184,003**	189,700
— Others	**26,553**	21,323
Malaysia	**276,991**	182,675
Hong Kong	**175,861**	67,728
Americas	**8,242**	7,830
— United States of America	**5,208**	3,963
— Others	**3,034**	3,867
Korea	**6,314**	4,402
Others	**8,026**	3,236
	3,237,636	2,986,009

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

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	
	2017 **HK$'000**	2016 HK$'000
Mainland China	**7,468,942**	6,498,189
Europe	**2,664,991**	2,234,506
— Germany	**906,062**	724,874
— Hungary	**281,915**	193,572
— Romania	**192,925**	154,299
— France	**178,978**	160,003
— Poland	**136,396**	84,126
— Others	**968,715**	917,632
Malaysia	**1,246,681**	913,938
Hong Kong	**1,159,685**	1,277,663
Americas	**1,041,569**	1,091,263
— United States of America	**630,980**	684,305
— Mexico	**212,108**	227,794
— Others	**198,481**	179,164
Taiwan	**1,005,291**	600,521
Thailand	**709,755**	464,201
Korea	**691,421**	306,371
Philippines	**498,675**	315,241
Japan	**441,943**	239,868
Vietnam	**232,453**	89,666
Singapore	**194,320**	121,288
Others	**166,987**	96,378
	17,522,713	14,249,093

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$39,865,000 (2016: HK$37,399,000), rental of land and buildings under operating leases of HK$28,134,000 (2016: HK$27,959,000) and staff costs of HK$988,538,000 (2016: HK$855,492,000) for the year ended 31 December 2017.

10. ADJUSTMENT OF LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 28 March 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of HK$2,400,000,000. The Company would, at the option ("Put Option") of the bond holder, redeem all or some of the convertible bonds on 28 March 2017 at their principal amount together with interest accrued to such date but unpaid. The Put Option lapsed on 28 March 2017. The estimated date of payment in relation to the convertible bonds is revised from 28 March 2017 to 28 March 2019. Accordingly, the carrying amount of the liability component of the convertible bonds is adjusted from HK$2,250,000,000 to HK$2,047,896,000 on 28 March 2017 to reflect the revised estimated cash outflows that is recalculated by computing the present value of estimated future cash flows at its original effective interest rate of 6.786% per annum. The adjustment of the carrying value of the liability component of the convertible bonds amounting to HK$202,104,000 is recognized in profit or loss for the year.

11. OTHER GAINS AND LOSSES

	2017 **HK$'000**	2016 HK$'000
The gains and losses comprise:		
Net foreign exchange losses	**(100,066)**	(38,977)
Gain (loss) on fair value change of foreign currency forward contracts	**82,717**	(16,896)
Gains on disposal/write-off of property, plant and equipment	**6,766**	6,084
Impairment loss recognized in respect of goodwill *(note 24)*	**(22,596)**	–
Others	**(181)**	(1,559)
	(33,360)	(51,348)

12. RESTRUCTURING COSTS

During the year ended 31 December 2016, included in restructuring costs were mainly plant relocation costs for moving manufacturing facilities located in Yantian, Shenzhen, China to Longgang, Shenzhen, China. Due to the local authorities' redevelopment plans, 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. The relocation was completed during the year ended 31 December 2017. In connection with this plant relocation, the Group recorded HK$92,851,000 restructuring costs for the year ended 31 December 2016, which primarily related to severance payments of HK$63,139,000 and incentive payments and other compensation of HK$22,323,000 to employees for relocation to new premises of the Group.

13. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on convertible bonds *(note 38)*	**144,039**	150,364
Interest on bank borrowings	**4,508**	4,020
Interest on discounted bills without recourse	**13,590**	31,551
Others	**352**	2,597
	162,489	188,532

14. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	**53,128**	50,783
PRC Enterprise Income Tax	**122,184**	87,531
Other jurisdictions	**364,321**	256,043
	539,633	394,357
Under(over) provision in prior years:		
Hong Kong	**459**	(208)
PRC Enterprise Income Tax	**2,194**	(7,355)
Other jurisdictions	**(9,777)**	(12,962)
	(7,124)	(20,525)
Deferred tax credit *(note 37)*	**(53,931)**	(19,265)
	478,578	354,567

14. 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% (2016: 25%), except for ASM Technology China Limited ("ATC"). On 28 October 2015, ATC was recognized as an advanced technology service enterprise ("ATSE") by the Chengdu Science and Technology Bureau for a period of 3 years, i.e. from 2015 to 2017. According to the tax circular Caishui [2014] No. 59, ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15% from 2015 to 2017, subject to fulfillment of recognition criteria for ATSE during the relevant period.

(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.

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% (2016: 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% (2016: 15.00%) plus 5.50% (2016: 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) rates for the Group's subsidiaries in Germany vary from 14.800% to 17.015% (2016: 12.495% to 17.015%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 30.625% and 32.840% (2016: 28.320% and 32.840%).

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

14. 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 as follows:

	2017 HK$'000	2016 HK$'000
Profit before taxation	**3,274,280**	1,792,949
Tax at the domestic income tax rate of 16.5% (2016: 16.5%)	**540,256**	295,837
Tax effect of expenses not deductible in determining taxable profit	**68,615**	59,369
Tax effect of income not taxable in determining taxable profit	**(18,342)**	(8,702)
Tax effect of tax losses not recognized	**16,522**	18,075
Tax effect of utilization of tax losses previously not recognized	**(10,622)**	(18,694)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**188,008**	158,202
Effect of tax exemption and concessions for ATC under ATSE and ATS under PC and IHA granted by EDB	**(212,814)**	(125,860)
Effect of other tax concessions	**(27,783)**	(8,291)
Overprovision in prior years	**(7,124)**	(20,525)
Tax effect of adjustment of liability component of convertible bonds	**(33,347)**	–
Others	**(24,791)**	5,156
Tax charge for the year	**478,578**	354,567

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

The Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during the year ended 31 December 2017 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2017, the Group purchased tax reserve certificates amounting to HK$371,113,000 (2016: HK$370,049,000), as disclosed in note 28.

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 2017

15. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Minimum lease payments under operating leases		
— Land and buildings	**200,817**	191,419
— Motor vehicles and others	**15,248**	14,969
	216,065	206,388
Directors' remunerations *(note 16)*	**45,146**	29,821
Other staff		
— Salaries, wages, bonus and other benefits	**4,054,041**	3,564,372
— Pension costs	**226,019**	222,170
— Share-based payments under the Scheme	**274,393**	139,552
Total staff costs	**4,599,599**	3,955,915
Auditors' remuneration		
— Deloitte Touche Tohmatsu network member firms	**11,938**	12,499
— Other auditors	**312**	409
	12,250	12,908
Depreciation for property, plant and equipment	**420,077**	393,686
Depreciation for investment property	**1,425**	1,332
Amortization for intangible assets		
— Included in research and development expenses	**10,746**	2,788
— Included in selling and distribution expenses	**15,635**	15,519
— Included in cost of sales	**25,898**	23,604
Release of prepaid lease payments	**1,388**	780
Release of land license fee	**2,497**	2,725
	477,666	440,434
Gross rental income from investment property	**(5,811)**	(343)
Less: Direct operating expenses from investment property that generate rental income	**1,356**	–
	(4,455)	(343)
Government grants *(Note)*	**(43,614)**	(39,801)
Interest income on bank deposits	**(31,041)**	(26,410)

Note: Government grants for the year ended 31 December 2017 included amounts of HK$29,521,000 (2016: HK$24,339,000) and HK$1,265,000 (2016: HK$3,902,000) which are government subsidies received from local authorities in the PRC relating to import of high technology products and support for stabilizing employment.

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Year ended 31 December 2017											
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*			Non-Executive Directors *(Note g)*		Independent Non-executive Directors *(Note h)*					
	Lee Wai Kwong HK$'000 *(Note b)*	Chow Chuen, James HK$'000 *(Note c)*	Robin Gerard Ng Cher Tat HK$'000	Tsui Ching Man, Stanley HK$'000 *(Note d)*	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Orasa Livasiri HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000	Tang Koon Hung, Eric HK$'000	Patrick Shuang Kung HK$'000 *(Note e)*	Total HK$'000
Fees	–	–	–	–	350	300	500	450	400	350	125	2,475
Other emoluments												
Salaries and other benefits	22,414	2,811	8,291	5,715	–	–	–	–	–	–	–	39,231
Contributions to retirement benefits schemes	85	6	167	12	–	–	–	–	–	–	–	270
Performance related incentive bonus payments *(Note i)*	2,085	283	542	260	–	–	–	–	–	–	–	3,170
Total emoluments	24,584	3,100	9,000	5,987	350	300	500	450	400	350	125	45,146

	Year ended 31 December 2016											
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*		Non-Executive Directors *(Note g)*			Independent Non-executive Directors *(Note h)*					
	Lee Wai Kwong HK$'000 *(Note b)*	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Arthur H. del Prado HK$'000 *(Note f)*	Orasa Livasiri HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000	Tang Koon Hung, Eric HK$'000	Patrick Shuang Kung HK$'000 *(Note e)*	Total HK$'000
Fees	–	–	–	350	300	278	482	450	364	350	224	2,798
Other emoluments												
Salaries and other benefits	12,329	7,342	4,856	–	–	–	–	–	–	–	–	24,527
Contributions to retirement benefits schemes	85	240	156	–	–	–	–	–	–	–	–	481
Performance related incentive bonus payments *(Note i)*	1,053	600	362	–	–	–	–	–	–	–	–	2,015
Total emoluments	13,467	8,182	5,374	350	300	278	482	450	364	350	224	29,821

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

(a) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(b) 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.

(c) Mr. Chow Chuen, James retired as an executive director of the Company on 9 May 2017.

(d) Mr. Tsui Ching Man, Stanley was appointed as an executive director of the Company on 9 May 2017.

(e) Mr. Patrick Shuang Kung was appointed as an independent non-executive director of the Company on 11 May 2016 and retired as an independent non-executive director of the Company on 9 May 2017.

(f) Mr. Arthur H. del Prado ceased to be an executive director and re-designated as a non-executive director of the Company on 9 May 2016. He passed away on 9 September 2016.

(g) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(h) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

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

During the year ended 31 December 2017, 506,000 (2016: 226,700) Award Shares (as defined in note 35) were granted to certain executive directors in respect of their services to the Group under the Scheme. The Group recognized total expenses of HK$28,830,000 (2016: HK$14,112,000) in relation to the Share Award Scheme (as defined in note 35) which amortized to the consolidated statement of profit or loss during the year, was included in salaries and other benefits above. The market value for these Award Shares as at their vesting date was amounted to HK$26,919,000 (2016: HK$17,207,000), which was calculated with reference to the closest trading price of the Company's share of HK$106.4 (2016: HK$75.9) per share. For details regarding the Award Shares, please refer to note 35.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

17. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**59,549**	33,868
Contributions to retirement benefits schemes	**448**	1,065
Performance related incentive bonus payments	**4,305**	3,031
	64,302	37,964

For the year ended 31 December 2017, 596,000 shares (2016: 286,700 shares) of the Company were granted to five highest paid employees in respect of their services to the Group under the Scheme. Details of the Scheme are set out in note 35 to the Group's consolidated financial statements. The Group recognized expenses of these shares amounting to HK$43,391,000 (2016: HK$17,847,000) in relation to the Share Award Scheme (as defined in note 35) which was included in salaries and other benefits above for the year ended 31 December 2017.

The five highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–
HK$10,000,001 to HK$10,500,000	**1**	–
HK$12,500,001 to HK$13,000,000	**1**	–
HK$13,000,001 to HK$13,500,000	**–**	1
HK$24,500,001 to HK$25,000,000	**1**	–

During the year ended 31 December 2017, the five highest paid employees of the Group included four (2016: three) directors (including two executive directors who have not served as directors throughout the year ended 31 December 2017). Details of the emoluments of the directors for services rendered by them as director are set out in note 16.

18. DIVIDENDS

	2017	2016
	HK$'000	HK$'000
Dividend recognized as distribution during the year		
Interim dividend for 2017 paid of HK$1.20 (2016: HK$0.80) per share on 408,243,733 (2016: 406,104,633) shares	**489,892**	324,884
Final dividend for 2016 paid of HK$1.10 (2016: final dividend for 2015 paid of HK$0.40) per share on 408,243,733 (2016: 404,529,500) shares	**449,068**	161,812
	938,960	486,696

Subsequent to the end of the reporting period, a final dividend of HK$1.30 (2016: final dividend of HK$1.10) per share in respect of the year ended 31 December 2017 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2017	2016
	HK$'000	HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2017 of HK$1.30 (2016: HK$1.10) per share on 406,288,133 (2016: 408,243,733) shares	**528,175**	449,068

19. 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:

	2017 HK$'000	2016 HK$'000
Earnings for the purpose of calculating basic earnings per share (Profit for the year attributable to owners of the Company)	**2,815,473**	1,463,864
Less: Adjustment of liability component of convertible bonds *(Note)*	**(202,104)**	–
Add: Interest expenses on convertible bonds *(Note)*	**144,039**	–
Earnings for the purpose of calculating diluted earnings per share	**2,757,408**	1,463,864

	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**407,964**	405,357
Effect of dilutive potential shares:		
— The Scheme	**2,227**	1,837
— Convertible bonds *(Note)*	**23,712**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**433,903**	407,194

Note: In the calculation of the diluted earnings per share for the year ended 31 December 2017, the Company's outstanding convertible bonds are assumed to have been fully converted into ordinary shares and the profit for the year attributable to owners of the Company is adjusted to exclude the items comprising the adjustment of liability component of convertible bonds and the interest expense relating to the convertible bonds.

The computation of diluted earnings per share for the year ended 31 December 2016 did not assume the conversion of the Company's outstanding convertible bonds because the assumed conversion would result in an increase in diluted earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2017

20. PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK$'000	Buildings outside Hong Kong HK$'000	Leasehold improvements/ Leasehold improvements in progress 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 2016	16,058	794,055	701,947	3,672,194	54,289	250,704	5,489,247
Currency realignment	(519)	(32,019)	(8,718)	(73,749)	(1,621)	174	(116,452)
Additions	–	666	65,921	289,533	6,668	53,903	416,691
Disposals	–	–	(130)	(113,241)	(30)	–	(113,401)
Write-off	–	(1,764)	(3,702)	(16,227)	(901)	–	(22,594)
Transfer	–	304,781	–	–	–	(304,781)	–
At 31 December 2016	15,539	1,065,719	755,318	3,758,510	58,405	–	5,653,491
Currency realignment	374	37,602	13,008	124,666	2,202	–	177,852
Additions	–	–	197,005	388,275	15,045	22,405	622,730
Disposals	–	–	(2,267)	(104,149)	(691)	–	(107,107)
Write-off	–	–	(59,718)	(23,957)	(1,817)	–	(85,492)
At 31 December 2017	15,913	1,103,321	903,346	4,143,345	73,144	22,405	6,261,474
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	–	263,429	531,936	2,440,663	35,058	–	3,271,086
Currency realignment	–	(3,741)	(6,156)	(42,892)	(721)	–	(53,510)
Provided for the year	–	34,197	61,579	289,591	8,319	–	393,686
Eliminated on disposals	–	–	(130)	(96,296)	(25)	–	(96,451)
Eliminated on write-off	–	(922)	(3,500)	(14,178)	(685)	–	(19,285)
At 31 December 2016	–	292,963	583,729	2,576,888	41,946	–	3,495,526
Currency realignment	–	8,313	8,963	72,838	1,770	–	91,884
Provided for the year	–	35,635	66,256	311,791	6,395	–	420,077
Eliminated on disposals	–	–	(2,266)	(88,109)	(640)	–	(91,015)
Eliminated on write-off	–	–	(58,242)	(21,160)	(1,601)	–	(81,003)
At 31 December 2017	–	336,911	598,440	2,852,248	47,870	–	3,835,469
CARRYING VALUES							
At 31 December 2017	15,913	766,410	304,906	1,291,097	25,274	22,405	2,426,005
At 31 December 2016	15,539	772,756	171,589	1,181,622	16,459	–	2,157,965

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Buildings	2% to 4.5% or over the lease terms if shorter
Leasehold improvements	10% to $33^1/_3$% or over the lease terms if shorter
Plant and machinery	10% to $33^1/_3$%
Furniture, fixtures and equipment	10% to 20%

As at 31 December 2016 and 2017, 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.

21. INVESTMENT PROPERTY

	HK$'000
COST	
At 1 January 2016	68,735
Currency realignment	(4,359)
At 31 December 2016	64,376
Currency realignment	4,514
At 31 December 2017	68,890
DEPRECIATION	
At 1 January 2016	5,687
Currency realignment	(361)
Provided for the year	1,332
At 31 December 2016	6,658
Currency realignment	467
Provided for the year	1,425
At 31 December 2017	8,550
CARRYING VALUES	
At 31 December 2017	60,340
At 31 December 2016	57,718

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.

21. INVESTMENT PROPERTY (CONTINUED)

The fair value of the Group's investment property at 31 December 2017 was HK$101,087,000 (2016: HK$93,345,000). The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield 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 using income capitalization approach (2016: direct comparison approach). The income approach is more appropriate as most of the units were leased out during the year ended 31 December 2017. The income capitalization approach is calculated by capitalizing the rental income derived from the existing tenancies with due provision for any reversionary income potential. The direct comparison approach assumes sale of property interest in its existing state by reference to market evidence of transaction prices for similar properties.

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 the end of the reporting period are as follows:

	Level 3 HK$'000	Fair value as at 31.12.2017 HK$'000
Research and development center located in the PRC	**101,087**	**101,087**

	Level 3 HK$'000	Fair value as at 31.12.2016 HK$'000
Research and development center located in the PRC	93,345	93,345

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

22. GOODWILL

	HK$'000
COST	
At 1 January 2016	427,754
Currency realignment	298
At 31 December 2016	428,052
Currency realignment	3,240
At 31 December 2017	431,292
IMPAIRMENT	
At 1 January 2016 and 31 December 2016	–
Impairment loss recognized for the year	22,596
At 31 December 2017	22,596
CARRYING VALUES	
At 31 December 2017	408,696
At 31 December 2016	428,052

Particulars regarding impairment testing on goodwill are disclosed in note 24.

23. INTANGIBLE ASSETS

	Trade name HK$'000	Technology HK$'000	Customer bases HK$'000	Licenses and similar rights HK$'000	Total HK$'000
COST					
At 1 January 2016	244,596	177,563	217,083	55,689	694,931
Currency realignment	170	119	151	(2,126)	(1,686)
Additions	–	–	–	8,681	8,681
At 31 December 2016	244,766	177,682	217,234	62,244	701,926
Currency realignment	1,862	1,304	1,653	9,070	13,889
Additions	–	–	–	16,146	16,146
At 31 December 2017	246,628	178,986	218,887	87,460	731,961
AMORTIZATION					
At 1 January 2016	–	28,141	23,259	38,643	90,043
Currency realignment	–	18	16	(1,590)	(1,556)
Charge for the year	–	18,418	15,519	7,974	41,911
At 31 December 2016	–	46,577	38,794	45,027	130,398
Currency realignment	–	326	295	6,562	7,183
Charge for the year	–	18,548	15,635	18,096	52,279
At 31 December 2017	–	65,451	54,724	69,685	189,860
CARRYING VALUES					
At 31 December 2017	246,628	113,535	164,163	17,775	542,101
At 31 December 2016	244,766	131,105	178,440	17,217	571,528

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

The trade name is with indefinite useful life as the directors of the Company are of opinion that the Group could use the trade name continuously and has the ability to do so, and the other intangible assets are amortized on a straight-line basis at below rates per annum:

Technology	10%
Customer bases	7%
Licenses and similar rights	20% to $33^{1}/_{3}$%

24. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and trade name with indefinite useful lives set out in notes 22 and 23, respectively, have been allocated to group of cash generating units ("CGUs"), comprising certain subsidiaries in the surface mount technology solutions ("SMT") and materials segments. The carrying amounts of goodwill and trade name as at 31 December 2017 and 2016 allocated to these groups of CGUs are as follows:

	Goodwill		Trade name	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
SMT Solutions Business	**408,696**	405,610	**246,628**	244,766
Materials — Molded interconnect substrates business ("MIS Business")	**–**	22,442	**–**	–

For SMT Solutions Business, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful live during the year ended 31 December 2017 and 2016.

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

SMT Solutions 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 15% (2016: 16%). The cash flows beyond the five-year period are extrapolated using a steady 2.5% (2016: 2.5%) growth rate. This growth rate is based on the economic outlook and relevant industry growth forecasts. 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 SMT Solutions Business to exceed the aggregate recoverable amount of SMT Solutions Business.

MIS 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 15% (2016: 15%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2016: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts. 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.

24. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIVES (CONTINUED)

MIS Business (Continued)

As it has taken longer than expected to grow the MIS business, the cash flow projections and valuations assumptions were adjusted to reflect a softer near term outlook of this business. Hence the recoverable amount was determined to be lower than its carrying amount of the assets allocated to the MIS Business and an impairment loss of HK$22,596,000 (2016: nil) was recognized and was allocated fully to the goodwill.

25. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent property interests in leasehold land outside Hong Kong. During the year, prepayments for land license fee amounting to HK$94,380,000 and HK$2,996,000 included in 'Other non-current assets' and 'Prepayments' (current assets), respectively, were transferred to prepaid lease payments upon obtaining the land license from the government.

Analyzed for reporting purposes as:

	2017 HK$'000	2016 HK$'000
Current	**3,849**	780
Non-current	**115,046**	20,461
	118,895	21,241

26. OTHER INVESTMENT

	2017 HK$'000	2016 HK$'000
Unlisted investment		
Equity investment	**18,502**	–

The above unlisted equity investment represents investment in an unlisted equity investment issued by a private entity incorporated in Germany which is denominated in Euro. It is measured at cost less impairment at the end of the reporting period because it is not quoted in an active market and the directors of the Company are of the opinion that its fair value cannot be measured reliably.

27. INVENTORIES

The carrying amount of the inventories, net of allowance, is made of below:

	2017 HK$'000	2016 HK$'000
Raw materials	**1,196,525**	958,278
Work in progress	**2,631,108**	2,315,347
Finished goods	**1,541,256**	980,916
	5,368,889	4,254,541

28. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables *(Note a)*	**5,212,686**	3,540,968
Amount recoverable from Siemens AG *(Note b)*	**–**	21,788
Value added tax recoverable	**292,344**	313,510
Tax reserve certificate recoverable	**371,113**	370,049
Other receivables, deposits and prepayments	**182,543**	175,003
	6,058,686	4,421,318

The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the due date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Not yet due	**3,863,809**	2,749,780
Overdue within 30 days	**449,604**	348,160
Overdue within 31 to 60 days	**389,295**	153,323
Overdue within 61 to 90 days	**113,655**	125,749
Overdue over 90 days	**396,323**	163,956
	5,212,686	3,540,968

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

(a) The amount included notes receivables amounting to HK$777,905,000 (2016: HK$410,358,000).

(b) Pursuant to the Master Sale and Purchase Agreement of the acquisition entered into between Siemens Aktiengesellschaft ("Siemens AG") and the Company, Siemens AG undertook to pay to the Group such amount as was necessary to indemnify 13 former direct and indirect subsidiaries of Siemens AG ("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 represented the aggregate amount of the tax liabilities of ASM AS Entities covered under the tax indemnity and was therefore recoverable from Siemens AG. It was due for settlement once the Group paid the related taxes and received the tax demand notes from tax authorities. The amount was settled during the year ended 31 December 2017.

Credit policy:

Before accepting any new customer, the Group assesses the potential customer's credit quality and pre-sets maximum credit limit for each customer. Limits and credit quality attributed to customers are reviewed regularly. 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.

Included in the Group's trade receivables are amounts totaling HK$1,348,877,000 (2016: HK$791,188,000) 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.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Foreign currency forward contracts	**13,289**	**234**	1,113	24,664

The foreign currency forward contracts were mainly related to the purchase of Euro and the sale of US dollar at contract rates ranging from US$1.0785 to US$1.2162 (2016: US$1.0511 to US$1.1437) per one Euro with future maturity dates ranging from 17 January 2018 to 19 December 2018 (2016: 25 January 2017 to 20 December 2017) at an aggregate notional amount of US$83,500,000, equivalent to approximately HK$652,519,000 (2016: US$90,500,000, equivalent to approximately HK$701,882,000).

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

The pledged bank deposits at 31 December 2017 represent bank deposits pledged for the purpose of securing the bank guarantee for certain subsidiaries.

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0% to 14.6% (2016: 0% to 8.8%) per annum during the year ended 31 December 2017.

31. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**1,579,912**	1,686,043
Deferred revenue	**121,450**	131,344
Accrued salaries and wages	**298,040**	235,958
Other accrued charges	**804,375**	478,846
Deposits received from customers	**642,595**	282,380
Accrual for tax-related expense *(Note)*	**168,400**	168,400
Payables arising from acquisition of property, plant and equipment	**150,395**	111,092
Payable in relation to repurchase of shares	**25,911**	–
Other payables	**229,777**	171,910
	4,020,855	3,265,973

Note: As detailed in note 14, the Group continued to receive letters from the HKIRD during the year ended 31 December 2017 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 accrual has been provided accordingly.

The following is an aging analysis of trade payables presented based on the due date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Not yet due	**1,168,803**	1,192,941
Overdue within 30 days	**201,374**	274,202
Overdue within 31 to 60 days	**88,887**	123,046
Overdue within 61 to 90 days	**56,314**	57,856
Overdue over 90 days	**64,534**	37,998
	1,579,912	1,686,043

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.

32. PROVISIONS

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

	2017 HK$'000	2016 HK$'000
Current	**295,825**	272,513
Non-current	**50,242**	46,349
	346,067	318,862

The Group's provisions mainly comprise warranty provision of HK$327,048,000 (2016: HK$276,402,000) and restructuring provision of nil (2016: HK$28,550,000). The movement of the warranty provision and restructuring provision are as follows:

	Warranty provision HK$'000	**Restructuring provision HK$'000**
At 1 January 2016	333,292	3,242
Currency realignment	(11,075)	(2,632)
Additions	229,358	97,899
Utilization	(275,173)	(69,959)
At 31 December 2016	276,402	28,550
Currency realignment	23,143	354
Additions	195,755	–
Utilization	(168,252)	(28,904)
At 31 December 2017	327,048	–

The warranty provision represents management's best estimate of the Group's liability under the warranty period, mainly for a period of maximum of 2 years for back-end equipment and surface mount technology equipment based on management's prior experience.

See note 12 for details of the restructuring provision for prior year.

33. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Carrying amount repayable:		
Within one year	**117,219**	116,334
More than one year, but not exceeding two years	**–**	77,556
	117,219	193,890
Less: Amounts due within one year shown under current liabilities	**(117,219)**	(116,334)
Amounts shown under non-current liabilities	**–**	77,556

At 31 December 2017, all bank borrowings bear interest at LIBOR plus a margin per annum, at a weighted average effective interest rate of 2.540% (2016: 2.058%) per annum.

34. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2017 '000	2016 '000	2017 HK$'000	2016 HK$'000
Issued and fully paid:				
At 1 January	**408,244**	404,529	**40,824**	40,453
Shares issued upon conversion of convertible bonds on 20 May 2016	**–**	1,576	**–**	157
Share repurchased and cancelled	**(1,399)**	–	**(140)**	–
Shares issued under the Scheme	**2,238**	2,139	**224**	214
At 31 December	**409,083**	408,244	**40,908**	40,824

The authorized share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each, at 31 December 2017 and 2016 and 1 January 2016.

34. SHARE CAPITAL OF THE COMPANY (CONTINUED)

During the year ended 31 December 2017, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchased	Number of shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
September	221,800	110.0	105.0	23,980
November	24,000	115.0	113.5	2,752
December	3,000,000	110.0	101.2	321,835
	3,245,800			348,567

During the year, 1,398,800 shares of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

The Company repurchased 1,847,000 shares of its own shares between 21 December 2017 to 28 December 2017. The total amount paid for the repurchase of the shares was HK$198,992,000, and has been deducted from shareholders' equity. The shares were subsequently cancelled in January 2018. The amount paid for these 1,847,000 shares were recognized as treasury share reserve at 31 December 2017.

From 1 January 2018 to the approval date of the consolidated financial statements, the Company repurchased and cancelled 947,900 of its shares on the Stock Exchange at a total consideration of HK$104,124,000.

During the year, 2,238,100 (2016: 2,139,100) shares were issued at par to eligible employees and members of management under the Scheme.

35. 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 except that for the period from 24 March 2010 to 23 March 2015, 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) is to be subscribed for or purchased pursuant to the Scheme.

35. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

On 28 March 2012 (the "Adoption Date"), and by virtue of the Scheme, 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 Scheme ("Award Shares"). The Share Award Scheme is valid and effective for a period of 8 years commencing from the Adoption Date. Pursuant to the rules of the Share Award Scheme, the Company has appointed a trustee, Law Debenture Trust (Asia) Limited ("Trustee"), to administer the Share Award Scheme and to purchase and hold the Award Shares during the defined qualification period.

On 21 March 2016, the directors resolved to grant and the Company granted 2,501,100 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. Out of the 2,501,100 shares granted pursuant to the Scheme, 332,400 shares were allocated to be purchased by the Trustee under the Share Award Scheme as Award Shares. The vesting period of such grant, that is, the qualification period, was from 21 March 2016 to 15 December 2016.

On 15 December 2016, out of the 2,501,100 shares granted on 21 March 2016 pursuant to the Scheme, 2,139,100 shares were issued and 29,600 shares were forfeited and unallocated by the Company. 329,400 Award Shares vested on the same date and the remaining 3,000 Award Shares were forfeited and unallocated by the Company and to be held for the benefit of future grantee.

On 17 March 2017, the directors resolved to grant and the Company granted 3,363,300 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 respective defined qualification periods, wherein 2,631,200 shares relate to the qualification period expiring on 15 December 2017, 488,200 shares relate to the qualification period expiring on 14 December 2018 and 243,900 shares relate to qualification period expiring on 16 December 2019. The respective vesting period of such grant, that is, the qualification period, was from 17 March 2017 to 15 December 2017, 14 December 2018 and 16 December 2019 respectively. The directors also resolved to allocate 369,500 shares out of the 3,363,300 shares granted pursuant to the Scheme, to be purchased by the Trustee under the Share Award Scheme as Award Shares.

On 15 December 2017, out of the 3,363,300 shares granted on 17 March 2017 pursuant to the Scheme, 2,238,100 shares were issued and 23,600 shares were forfeited and unallocated by the Company. 326,000 Award Shares vested on the same date.

In December 2017, the Board resolved to cancel and revoke the grant of 43,500 Award Shares to eight employees and members of the management of the Group and to pay cash bonus to these employees at management's discretion. The Group paid a cash bonus amounting to HK$4,628,000 to them. The amount of cash bonus paid was equivalent to the closing price of the shares on 15 December 2017, multiplying by the total number of shares cancelled and revoked.

The fair value of the shares granted pursuant to the Scheme in 2016 and 2017 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 periods.

The Group recognized share-based payments amounting to HK$303,223,000 (2016: HK$153,664,000) for the year ended 31 December 2017 in relation to the shares granted pursuant to the Scheme in 2017 by the Company, such an amount being determined by the fair value of the shares granted at the grant date.

35. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2017 are as follows:

		Number of shares					
Date of grant	**Vesting period**	**At 1 January 2017**	**Granted on 17 March 2017**	**Allocated as Award Shares on 17 March 2017**	**Shares issued on 15 December 2017**	**Shares entitlement forfeited on 15 December 2017**	**At 31 December 2017**
17 March 2017	17 March 2017 to 15 December 2017	–	2,631,200	(369,500)	(2,238,100)	(23,600)	–
17 March 2017	17 March 2017 to 14 December 2018	–	488,200	–	–	–	488,200
17 March 2017	17 March 2017 to 16 December 2019	–	243,900	–	–	–	243,900
		–	3,363,300	(369,500)	(2,238,100)	(23,600)	732,100

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2016 are as follows:

		Number of shares					
Date of grant	Vesting period	At 1 January 2016	Granted on 21 March 2016	Allocated as Award Shares on 21 March 2016	Shares issued on 15 December 2016	Shares entitlement forfeited on 15 December 2016	At 31 December 2016
21 March 2016	21 March 2016 to 15 December 2016	–	2,501,100	(332,400)	(2,139,100)	(29,600)	–

Movement of Award Shares purchased is as follows:

	Number of shares purchased '000	**Cost of purchase HK$'000**
At 1 January 2016	–	–
Shares purchased from the market during the year	332	21,992
Award Shares vested	(329)	(21,794)
At 31 December 2016 and 1 January 2017	3	198
Shares purchased from the market during the year	323	34,064
Award Shares vested	(326)	(34,262)
At 31 December 2017	–	–

36. 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 of HK$30,000 per employee per month, 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$198,426,000 (2016: HK$193,326,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans. For the year ended 31 December 2017 and 2016, there were no forfeitures arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2017 and 2016, 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.

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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.

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 2017 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.

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

	31 December 2017	2016
Discount rate	**1.80%**	1.90%
Average longevity at retirement age	**63 years**	63 years
Expected rate of compensation increase	**2.25%**	2.25%
Expected rate of pension progression	**1.50%**	1.50%

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

	2017 HK$'000	2016 HK$'000
Principal pension benefit plans *(Note a)*	**154,817**	137,158
Other post-employment benefit plans *(Note b)*	**22,151**	18,211
Other retirement benefit obligations *(Note c)*	**6,309**	5,880
	183,277	161,249

Notes:

(a) 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 2017 and 2016 are as follows:

	2017 HK$'000	2016 HK$'000
Fair value of plan assets	**459,069**	351,077
Total present value of DBO		
Defined benefit obligation (funded)	**(609,368)**	(483,288)
Defined benefit obligation (unfunded)	**(4,518)**	(4,947)
Net liability arising from defined benefit obligation	**(154,817)**	(137,158)

The actuarial valuation showed that market value of the plan assets was HK$459,069,000 (2016: HK$351,077,000) and that the actuarial value of these represented 75% (2016: 72%) of the benefits that had accrued to members.

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

(a) Principal pension benefit plans (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**351,077**	336,208
Currency realignment	**51,417**	(10,458)
Interest income	**7,998**	8,197
Return on plan assets (excluding amounts included in net interest expenses)	**23,728**	(3,950)
Benefits paid	**(81)**	(70)
Employer contribution	**24,930**	21,150
At 31 December	**459,069**	351,077

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

	2017 HK$'000	2016 HK$'000
Asset class		
Fixed income and corporate bonds	**251,111**	199,412
Equity securities	**138,180**	100,759
Cash and other assets	**69,778**	50,906
	459,069	351,077

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 2017 was a net gain of HK$31,726,000 (2016: HK$4,247,000).

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

(a) Principal pension benefit plans (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**488,235**	440,025
Currency realignment	**71,224**	(13,929)
Current service cost	**28,111**	22,129
Past service cost	**(848)**	–
Interest cost	**10,721**	10,308
Remeasurement losses (gains)		
Actuarial losses arising from changes in financial assumptions	**9,057**	34,936
Actuarial loss (gain) arising from experience adjustments	**9,621**	(4,177)
Actuarial losses arising from changes in demographic assumptions	**–**	7
Benefits paid	**(2,235)**	(1,064)
At 31 December	**613,886**	488,235

(b) 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:

	2017 HK$'000	2016 HK$'000
Defined benefit obligation (unfunded)	**22,151**	18,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2017

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

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

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

	2017 HK$'000	2016 HK$'000
At 1 January	**18,211**	17,652
Currency realignment	**2,667**	(549)
Current service cost	**629**	519
Interest cost	**381**	392
Remeasurement losses (gains)		
Actuarial loss arising from changes in financial assumptions	**118**	531
Actuarial loss (gain) arising from experience adjustments	**355**	(187)
Benefits paid	**(210)**	(147)
At 31 December	**22,151**	18,211

(c) Other retirement benefit obligations

As at 31 December 2017, the consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Austria and national pension fund in Korea and United Kingdom amounting to HK$6,309,000 (2016: HK$5,880,000).

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 progression. 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$42,586,000 (increase by HK$49,309,000) (2016: decrease by HK$37,511,000 (increase by HK$43,502,000)).
- If the expected rate of pension progression increases (decreases) by 50 basis points, the defined benefit obligation would increase by HK$29,705,000 (decrease by HK$26,794,000) (2016: increase by HK$26,151,000 (decrease by HK$23,626,000)).

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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 2017 is 14.74 years (2016: 15.60 years).

The Group expects to make a contribution of HK$27,605,000 (2016: HK$22,335,000) to the defined benefit plans during the next financial year.

Amount of remeasurement of defined benefit retirement plans, net of tax, recognized in other comprehensive income (expense) are as follows:

For the year ended 31 December 2017

	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)	5,050	(473)	–	4,577
Income tax effect	(1,648)	155	(61)	(1,554)
	3,402	(318)	(61)	3,023

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

For the year ended 31 December 2016

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Remeasurement losses	(34,716)	(344)	(25)	(35,085)
Income tax effect	11,353	113	(15)	11,451
	(23,363)	(231)	(40)	(23,634)

Amounts recognized in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

For the year ended 31 December 2017

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	28,111	629	28,740
Past service cost	(848)	–	(848)
Net interest expense	2,723	381	3,104
Components of defined benefit costs recognized in profit or loss	29,986	1,010	30,996
Remeasurement (gains) losses:			
Return on plan assets (excluding amounts included in net interest expense)	(23,728)	–	(23,728)
Actuarial losses arising from changes in financial assumptions	9,057	118	9,175
Actuarial losses arising from experience adjustments	9,621	355	9,976
Components of defined benefit costs recognized in other comprehensive (income) expense	(5,050)	473	(4,577)
Total	24,936	1,483	26,419

36. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

For the year ended 31 December 2016

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	22,129	519	22,648
Net interest expense	2,111	392	2,503
Components of defined benefit costs recognized in profit or loss	24,240	911	25,151
Remeasurement losses (gains):			
Loss on plan assets (excluding amounts included in net interest expense)	3,950	–	3,950
Actuarial losses arising from changes in financial assumptions	34,936	531	35,467
Actuarial gains arising from experience adjustments	(4,177)	(187)	(4,364)
Actuarial losses arising from changes in demographic assumptions	7	–	7
Components of defined benefit costs recognized in other comprehensive expense	34,716	344	35,060
Total	58,956	1,255	60,211

Service cost and net interest expense for pension are allocated among functional costs (cost of sales, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2017

37. 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 2016	(55,302)	37,236	71,037	122,076	11,033	47,426	(5,282)	228,224
Credit (charge) to profit or loss for the year	8,613	(16,105)	8,936	13,829	(1,989)	(4,405)	10,386	19,265
Credit to other comprehensive income for the year	–	–	11,451	–	–	–	–	11,451
Currency realignment	(423)	24	(2,245)	(1,673)	(520)	(2,306)	(507)	(7,650)
At 31 December 2016	(47,112)	21,155	89,179	134,232	8,524	40,715	4,597	251,290
Credit (charge) to profit or loss for the year	17,966	(3,355)	8,821	8,223	10,247	(6,731)	18,760	53,931
Charge to other comprehensive income for the year	–	–	(1,554)	–	–	–	–	(1,554)
Currency realignment	(646)	1,289	12,644	2,283	742	3,136	(1,438)	18,010
At 31 December 2017	(29,792)	19,089	109,090	144,738	19,513	37,120	21,919	321,677

Notes:

(a) The deferred tax arose from the temporary difference between the carrying amounts of intangible assets, property, plant and equipment and their tax base.

(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.

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**361,673**	307,015
Deferred tax liabilities	**(39,996)**	(55,725)
	321,677	251,290

37. DEFERRED TAXATION (CONTINUED)

At 31 December 2017, the Group had unused tax losses of HK$446,990,000 (2016: HK$367,464,000), subject to the approval by the relevant tax authorities, available to offset future taxable profits. At 31 December 2017, a deferred tax asset amounting to HK$19,089,000 (2016: HK$21,155,000) was recognized for tax losses amounting to HK$97,867,000 (2016: HK$88,028,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$349,123,000 (2016: HK$279,436,000) due to the unpredictability of future profit streams. At 31 December 2017, included in the unrecognized tax losses are losses of HK$27,386,000 that would expire during 2020 to 2024 (2016: HK$59,239,000 that will expire during 2020 to 2024). 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$4,204,684,000 (2016: HK$3,215,223,000) 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.

38. 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 in September and March, respectively.

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 conversion price was adjusted to HK$96.54 per share with effect from 20 May 2015 as a result of the aggregate distributions of HK$2.10 per share made by the Company to the shareholders for the year ended 31 December 2014. The conversion price was further adjusted to HK$95.23 per share with effect from 18 May 2016 as a result of aggregate distributions of HK$1.40 per share made by the Company to the shareholders for the year ended 31 December 2015. In addition, the conversion price was further adjusted to HK$94.33 per share with effect from 17 August 2017 as a result of aggregate distributions of HK$1.90 per share made by the Company to the shareholders for the year ended 31 December 2016 and an interim dividend of HK$1.20 per share made by the Company to the shareholders for the year ended 31 December 2017. Details of the adjustments to conversion price of the convertible bonds were set out in the Company's announcements dated 13 May 2015, 11 May 2016 and 17 August 2017.

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

38. 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, was 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 would, at the option of the bond holder, redeem all or some of that convertible bonds on 28 March 2017 (the "Put Option Date") at their principal amount together with interest accrued to such date but unpaid. To exercise such Put Option, the bond holder should serve notice of redemption to the Company not earlier than 60 days and not later than 30 days prior to the Put Option Date. As the Company did not have an unconditional right to defer settlement of the convertible bonds in more than twelve months from the end of December 2016, the entire balance of liability component of the convertible bonds was classified as current liabilities as at 31 December 2016. The Company did not receive any notice of redemption up to end of February 2017 and the Put Option has lapsed accordingly. Therefore, the convertible bonds due 2019 were reclassified to non-current liabilities as at 31 December 2017. Upon lapse of the Put Option, the carrying value of the liability component of the convertible bonds is adjusted to reflect the revised estimated cash flows (details set out in note 10).

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 was split between a liability component and an equity component in its initial recognition as follows:

(i) Liability component was initially measured at fair value and 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 did not account for the early redemption options separately; and

(iii) Equity component, which was 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 was presented in equity as convertible bond equity reserve.

38. CONVERTIBLE BONDS (CONTINUED)

On 20 May 2016, convertible bonds with principal amount of HK$150,000,000 were converted into the Company's shares at the prevailing adjusted conversion price of HK$95.23 per share. As a result, a total number of 1,575,133 shares of the Company were issued and credited as fully paid and the relevant portion of convertible bonds equity reserve of HK$16,683,000 was transferred to share premium during the year ended 31 December 2016.

None of the convertible bonds was redeemed or converted during the year ended 31 December 2017.

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 2016	2,277,465	266,932	2,544,397
Conversion of convertible bonds	(144,537)	(16,683)	(161,220)
Interest charge during the year *(note 13)*	150,364	–	150,364
Interest paid	(46,500)	–	(46,500)
At 31 December 2016 and 1 January 2017	2,236,792	250,249	2,487,041
Adjustment of liability component of convertible bonds *(note 10)*	(202,104)	–	(202,104)
Interest charge during the year *(note 13)*	144,039	–	144,039
Interest paid	(45,000)	–	(45,000)
At 31 December 2017	2,133,727	250,249	2,383,976

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

	2017 HK$'000	2016 HK$'000
Current liabilities		
Interest payable on convertible bonds (included in trade and other payables)	**11,897**	11,897
Convertible bonds	**–**	2,224,895
Non-current liabilities		
Convertible bonds	**2,121,830**	–
	2,133,727	2,236,792

39. CONTINGENT LIABILITIES

(a) As at 31 December 2017, the Group has provided guarantees amounting to HK$2,837,000 (2016: HK$2,445,000) to the Singapore government for work permits of foreign workers in Singapore.

(b) As at 31 December 2016, a subsidiary of the Group was involved in a litigation with a third party for which the High Court ruled in favor of the third party. The directors of the Company had sought their legal counsels' advice and were of the opinion that there was reasonable basis for appeal and defending the case and no provision was made accordingly.

During the year ended 31 December 2017, the subsidiary filed an appeal to the Court of Appeal against the judgment of the High Court. In January 2018, the Court of Appeal released its judgment dismissing the appeal and specifying that the subsidiary's liability for either damages or an account of profits at the option of the counterparty. Provision for the expected cost to be awarded for the High Court trial and the claim are recognized at the directors' best estimate of the expenditure required to settle the Group's obligation.

40. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**470,891**	108,914

41. OPERATING LEASE COMMITMENTS

The Group as lessee

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:

	2017			2016		
	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	**210,654**	**12,722**	**223,376**	167,421	11,937	179,358
In the second to fifth years inclusive	**567,463**	**8,584**	**576,047**	414,357	6,288	420,645
Over five years	**738,615**	**–**	**738,615**	626,566	–	626,566
	1,516,732	**21,306**	**1,538,038**	1,208,344	18,225	1,226,569

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 fifteen years (2016: two to fifteen years).

41. OPERATING LEASE COMMITMENTS (CONTINUED)

The Group as lessor

Operating leases relate to the investment property owned by the Group with lease terms of 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Group from its investment property for the year is set out in note 15.

At the end of the reporting period, the Group has future minimum lease income receivables under non-cancellable operating lease as follows:

	2017 HK$'000	2016 HK$'000
Within one year	5,610	4,082
In second to fifth years inclusive	23,501	17,186
Over five years	23,960	26,484
	53,071	47,752

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK$'000	Payables in relation to repurchase of shares HK$'000	Interest payables HK$'000	Bank borrowings HK$'000 *(note 33)*	Convertible bonds HK$'000 *(note 38)*	Total HK$'000
At 1 January 2017	–	–	11,897	193,890	2,224,895	2,430,682
Financing cash flows	(938,960)	(322,656)	(18,418)	(78,466)	(45,000)	(1,403,500)
Currency realignment	–	–	–	1,795	–	1,795
Interest expenses	–	–	18,450	–	144,039	162,489
Adjustment of liability component of convertible bonds *(note 10)*	–	–	–	–	(202,104)	(202,104)
Share repurchased	–	348,567	–	–	–	348,567
Dividend declared	938,960	–	–	–	–	938,960
Others	–	–	(32)	–	–	(32)
At 31 December 2017	–	25,911	11,897	117,219	2,121,830	2,276,857

43. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Short-term benefits	**32,767**	30,500
Post-employment benefits	**1,219**	1,365
Share-based payments	**54,556**	23,020
	88,542	54,885

Certain shares of the Company were issued to key management under the Scheme (see note 35 for details of the Scheme). The estimated fair value of such shares has been included in share-based payments for both years. The vesting periods of the shares granted to key management during the year ended 31 December 2017 span multiple years with such vesting periods expiring on 15 December 2017, 14 December 2018 and 16 December 2019, respectively. The vesting period for the shares granted during the year ended 31 December 2016 vested within one year.

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

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2017 and 2016 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 Advanced Packaging Materials Pte. Ltd.	Singapore	US$20,832,840 (2016: US$10,832,840)	–	86% *(Note a)*	Manufacturing of materials
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	Germany	EUR20,200,000	–	100%	Manufacture and sale of surface mount technology equipment and trading of semiconductor equipment
ASM Assembly Systems Austria GmbH	Austria	EUR35,000	–	100%	Trading of surface mount technology 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% *(Note b)*	– *(Note b)*	Manufacture and sale of surface mount technology equipment
ASM Assembly Systems Weymouth Limited	United Kingdom	GBP1,680,000	–	100%	Trading and manufacture of surface mount technology equipment
ASM Assembly Technology Co., Ltd.	Japan	JPY10,000,000	100%	–	Trading of semiconductor equipment
ASM Laser Separation International (ALSI) B.V.	Netherlands	EUR100	–	100%	Research and development, manufacture and sale of semiconductor equipment
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2017

44. 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 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$45,170,000	–	100%	Manufacture of semiconductor equipment and materials
ASM Technology Asia Limited	Hong Kong	HK$1,900,000,002	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 and property investment
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$108,606,872	–	100%	Manufacture of semiconductor equipment and surface mount technology equipment
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) Company 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	HK$718,300,000	–	100% *(Note c)*	Manufacture of semiconductor equipment and surface mount technology equipment

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Notes:

(a) ASM Advanced Packaging Materials Pte. Ltd. ("AAPM") issued 20,000,000 ordinary shares to the Group at an aggregate subscription price of US$10,000,000 by capitalization of loans from its immediate holding company during the year. The Company held 61% equity interest in AAPM indirectly as at 31 December 2016 before the capitalization of loans.

(b) The Company held 100% equity interest in ASM Assembly Systems Singapore Pte. Ltd. indirectly as at 31 December 2016. Subsequent to the completion of reorganization during the year ended 31 December 2017, ASM Assembly Systems Singapore Pte. Ltd. became a directly wholly-owned subsidiary of the Company.

(c) Under a joint venture agreement which was terminated in July 2016, the Group had committed to contribute 100% of the registered capital of 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 2015, the Group had paid up HK$712,500,000 as registered capital of MET. The Group had to bear the entire risk and liabilities of MET and had power over MET. Also, the Group was exposed and had rights, to variable returns from its involvement with MET. Other than amount of HK$5,555,000 attributable to the factory premises ("Assets") provided by the PRC joint venture partners for the period from January to July 2016 which was included in the minimum lease payments, the Group was entitled to the entire profit or loss of MET. Pursuant to the shareholders resolution passed on 10 March 2016, upon the approval by the government authority in the PRC, the Assets would be returned to the PRC joint venture partners and in return, the joint venture partners would transfer their respective shareholders' equity rights to the Group at nil consideration (the "Proposed Transfer"). On 12 July 2016, the Proposed Transfer was approved by the government authority. Effective from 13 July 2016, MET is a wholly foreign owned enterprise in the PRC. The Group has paid up HK$718,300,000 as registered capital of MET as at 31 December 2016 and 2017.

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

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

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 insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2017

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	2017 HK$'000	2016 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**3,590,990**	3,590,990
Loans to subsidiaries	**550,435**	483,589
	4,141,425	4,074,579
Current assets		
Other receivables and prepayments	**10,222**	15,662
Amounts due from subsidiaries	**644,285**	638,442
Bank deposits with original maturity of more than three months	**632,710**	655,089
Bank balances and cash	**444,243**	420,414
	1,731,460	1,729,607
Current liabilities		
Other payables	**75,730**	25,163
Amounts due to subsidiaries	**423,562**	421,588
Loan from a subsidiary	**315,545**	–
Convertible bonds	**–**	2,224,895
	814,837	2,671,646
Net current assets (liabilities)	**916,623**	(942,039)
	5,058,048	3,132,540
Capital and reserves		
Share capital *(note 34)*	**40,908**	40,824
Reserves *(Note)*	**2,895,310**	3,091,716
	2,936,218	3,132,540
Non-current liability		
Convertible bonds	**2,121,830**	–
	5,058,048	3,132,540

45. STATEMENT OF FINANCIAL POSITION AND RESERVES 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$'000	Treasury share reserve HK$'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 2016	1,228,718	–	–	–	155	56,143	266,932	1,841,809	161,812	3,555,569
Loss and total comprehensive expense for the year	–	–	–	–	–	–	–	(252,995)	–	(252,995)
Sub-total	1,228,718	–	–	–	155	56,143	266,932	1,588,814	161,812	3,302,574
Conversion of convertible bonds	161,063	–	–	–	–	–	(16,683)	–	–	144,380
Recognition of equity-settled share-based payments	–	153,664	–	–	–	–	–	–	–	153,664
Purchase of shares under the Scheme	–	–	(21,992)	–	–	–	–	–	–	(21,992)
Shares vested under the Scheme	–	(20,505)	21,794	–	–	–	–	(1,289)	–	–
Shares issued under the Scheme	132,945	(133,159)	–	–	–	–	–	–	–	(214)
2015 final dividend paid	–	–	–	–	–	–	–	–	(161,812)	(161,812)
2016 interim dividend paid	–	–	–	–	–	–	–	(324,884)	–	(324,884)
2016 final dividend proposed	–	–	–	–	–	–	–	(449,068)	449,068	–
At 31 December 2016 and 1 January 2017	1,522,726	–	(198)	–	155	56,143	250,249	813,573	449,068	3,091,716
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	826,674	–	826,674
Sub-total	1,522,726	–	(198)	–	155	56,143	250,249	1,640,247	449,068	3,918,390
Recognition of equity-settled share-based payments	–	303,223	–	–	–	–	–	–	–	303,223
Purchase of shares under the Scheme	–	–	(34,064)	–	–	–	–	–	–	(34,064)
Shares vested under the Scheme	–	(34,165)	34,262	–	–	–	–	(97)	–	–
Shares issued under the Scheme	234,329	(234,553)	–	–	–	–	–	–	–	(224)
Cancellation of the grant under the Scheme	–	(4,628)	–	–	–	–	–	–	–	(4,628)
Shares repurchased and cancelled	(149,435)	–	–	–	140	–	–	(140)	–	(149,435)
Shares repurchased but not yet cancelled	–	–	–	(198,992)	–	–	–	–	–	(198,992)
2016 final dividend paid	–	–	–	–	–	–	–	–	(449,068)	(449,068)
2017 interim dividend paid	–	–	–	–	–	–	–	(489,892)	–	(489,892)
2017 final dividend proposed	–	–	–	–	–	–	–	(528,175)	528,175	–
At 31 December 2017	1,607,620	29,877	–	(198,992)	295	56,143	250,249	621,943	528,175	2,895,310

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**17,522,713**	14,249,093	12,977,289	14,229,177	10,841,166
Profit before taxation	**3,274,280**	1,792,949	1,363,376	2,028,463	673,010
Income tax expense	**(478,578)**	(354,567)	(410,462)	(428,509)	(114,421)
Profit for the year	**2,795,702**	1,438,382	952,914	1,599,954	558,589
Loss attributable to non-controlling interests	**19,771**	25,482	3,277	–	–
Profit attributable to owners of the Company	**2,815,473**	1,463,864	956,191	1,599,954	558,589

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**4,028,660**	3,721,076	3,773,749	3,656,279	2,721,609
Current assets	**14,571,546**	11,917,876	10,093,894	10,839,979	8,018,860
Current liabilities	**(4,784,132)**	(6,237,113)	(3,132,775)	(3,758,619)	(3,303,270)
Net current assets	**9,787,414**	5,680,763	6,961,119	7,081,360	4,715,590
Non-current liabilities	**(2,438,598)**	(375,576)	(2,698,883)	(2,532,445)	(355,934)
Total equity	**11,377,476**	9,026,263	8,035,985	8,205,194	7,081,265
Non-controlling interests	**149**	(4,056)	(29,466)	–	–
Equity attributable to owners of the Company	**11,377,625**	9,022,207	8,006,519	8,205,194	7,081,265

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