ASM Pacific Technology

(STOCK CODE : 0522)

2019 Annual Report

ASM Pacific Technology Limited

(Incorporated in the Cayman Islands with limited liability)

Powered by Twin Engines,

Rising Above Challenges

ENABLING THE DIGITAL WORLD

Welcome to ASM Pacific Technology Limited's 2019 Annual Report. As in previous years, our annual report has been the primary channel for us to provide a comprehensive view of our strategy, plans and performance covering financial, market, environmental, social and corporate governance to our stakeholders.

We aspire to use our resources and the talent and energy of our over 15,000 people, to help connect people and processes through digital technologies to share information and knowledge, to exchange ideas and opinions - thus creating a world of new opportunities. Learn more at www.asmpacific.com.

ABOUT ASM PACIFIC TECHNOLOGY LIMITED

ASM Pacific Technology Limited (ASMPT) (HKEX stock code: 0522) is a global technology and market leader that develops and provides leading edge hardware and software solutions, through back-end equipment, materials, surface mount technologies and smart factory technologies for the semiconductor assembly and packaging industries.

Listed on the Hong Kong Stock Exchange since 1989, ASMPT is currently one of the constituent stocks on the Hang Seng Composite MidCap Index under the Hang Seng Composite Size Indexes, the Hang Seng Composite Information Technology Industry Index under Hang Seng Composite Industry Indexes, the Hang Seng Hong Kong 35 Index and the Hang Seng Global Composite Index.

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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

COMPANY SECRETARY

Kong Choon, Jupiter

AUDITOR

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
MUFG Bank, Ltd.
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
Commerzbank AG

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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Tsing Yi, New Territories
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE AND CONTACT

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CHOICE OF LANGUAGE OR MEANS OF RECEIPT OF CORPORATE COMMUNICATIONS

This Annual Report is now available in printed form in English and in Chinese, and on the website of the Company. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means by reasonable notice in writing to the Company c/o the Share Registrar. Shareholders who have chosen to receive the Annual Report using electronic means but for any reason have difficulty in receiving or gaining access to the Annual Report, the Company or the Share Registrar will, upon written request, send the printed form to you in the selected language version(s) free of charge.

Financial Highlights

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Revenue	**15,883,042**	19,550,590
Cost of sales	**(10,359,167)**	(12,113,813)
Gross profit	**5,523,875**	7,436,777
Other income	**93,359**	96,126
Selling and distribution expenses	**(1,590,273)**	(1,660,893)
General and administrative expenses	**(960,933)**	(1,013,345)
Research and development expenses	**(1,710,858)**	(1,610,225)
Other gains and losses	**(54,774)**	(78,455)
Restructuring costs	**(109,540)**	(19,067)
Finance costs	**(215,122)**	(177,762)
Profit before taxation	**975,734**	2,973,156
Income tax expense	**(353,356)**	(761,428)
Profit for the year	**622,378**	2,211,728
Profit (loss) for the year attributable to:		
Owners of the Company	**619,249**	2,216,062
Non-controlling interests	**3,129**	(4,334)
	622,378	2,211,728
Earnings per share		
— Basic	**HK$1.52**	HK$5.47
— Diluted	**HK$1.52**	HK$5.44

2019

- **Group revenue of US$2.03 billion decreased 18.8% over 2018**
- **Net profit of HK$622.4 million decreased 71.9% over 2018**
- **Earnings per share of HK$1.52**
- **Back-end equipment revenue of US$893.6 million decreased 24.4% over 2018**
- **Materials revenue of US$236.4 million decreased 17.8% over 2018**
- **SMT solutions revenue of US$896.6 million decreased 12.6% over 2018**
- **New order bookings of US$2.02 billion decreased 21.5% over 2018**
- **Book to bill ratio of 1.00**
- **Cash and bank deposits of HK$2.33 billion at the end of December 2019**

Chairman's Statement

"ASMPT continues to focus on building a strong business foundation and have the financial wherewithal to continue to strengthen its portfolio and position in the industry."

Orasa Livasiri
Chairman

Dear Shareholders, Staff and Stakeholders,

On behalf of the Board, we would like to thank you for your continued support and contributions in 2019.

The Group achieved HK$622.4 million profit for financial year 2019 (FY 2019), with a notable improvement of 149.1% in the second half of the year when compared with the first half. Group profit continued to be underpinned by increasing contributions from higher growth segments and acquisitions made in the last few years.

Specifically, the Group has now established leading positions, beyond the traditional die and wire bonders market, in the areas of CMOS Image Sensors and Advanced Packaging.

In addition, the Group recorded good momentum with new technologies such as Silicon Photonics, Industrial Internet of Things, Mini and Micro LED Solutions and Automated Optical Inspection.

As a result of these efforts, ASMPT was able to rebound in the second half of the year with a strong 18.3% revenue growth when compared with the first half of the year. More importantly, we believe the Group is now better positioned to compete in the growing segments of the market, particularly those driven by 5G, Industry 4.0, Artificial Intelligence and Big Data Analytics.

The Group's Return on Equity was 5.2% for FY 2019 (FY 2018: 18.8%). ASMPT has a policy of growing dividends on a sustainable basis. However, in view of the COVID-19 outbreak situation, the Board is taking a more prudent stance during this exceptional period and is proposing a final dividend of HK$0.70 per share for FY 2019. This should not be perceived as a departure from the Group's current dividend policy, and the Board will consider paying a higher dividend at a later date when the economic condition improves.

ROBUST FINANCIAL POSITION

Our financial position remains strong. We ended 2019 with an increased consolidated cash and bank deposits of HK$2.33 billion (2018: HK$2.25 billion). During 2019, HK$1.1 billion was paid as dividends (2018: HK$1.05 billion). Capital addition during the period amounted to HK$684.7 million (2018: HK$813.3 million), which was partially funded by the year's depreciation and amortization of HK$621.1 million (2018: HK$575.4 million) excluding the depreciation of right-of-use assets of HK$221.5 million as per HKFRS 16 in the current period. Day sales outstanding decreased to 99.4 days (2018: 102.6 days).

This provides the Group with the financial strength and agility to respond quickly to emerging and new investment opportunities.

A RESILIENT BUSINESS — TWIN ENGINES OF GROWTH

With a robust financial foundation, ASMPT continues to pursue growth through the twin engines of organic growth and strategic mergers and acquisitions. This will continue to create long term sustainable value and enhanced returns to all stakeholders.

In terms of capacity expansion, the Group signed an agreement with Jiujiang Municipal Government to build a factory for its Materials business in the Jiujiang Economic and Technological Development Zone. This will allow the Group to tap on the increasing demands from local companies in China to localize their supply chain amid an escalating trade war. In addition, with the completion of the building extension in our Malaysian plant in Sep 2019, the Group has further diversified its manufacturing location and more than doubled the production footprint in this location.

In 2019, ASMPT also marked the opening of its new Hong Kong office in Tsing Yi, after almost four decades at its old office in Kwai Chung. Occupying more than 300,000 sq. ft., the new facility houses the Group's Hong Kong Research & Development (R&D) and other key business functions. With about 30% of ASMPT's total R&D headcount, the R&D centre in Hong Kong is the largest of ASMPT's ten R&D centres around the globe. Almost 50% of about 1,300 employees in Hong Kong work in R&D.

LEADER IN THE INDUSTRY

ASMPT is recognized as an industry leader because of our leading innovation, our comprehensive portfolio of products and services, our exceptional and comprehensive customer support, and our track record of consistently executing on our clear vision of "Enabling the Digital World".

Amongst the numerous awards the Group has garnered in 2019, 5 notable ones are:

1) Forbes Asia "Best Over a Billion" — Awarded for being one of the top-performing listed companies in Asia Pacific region with revenues of US$1 billion or more

2) Grand Award of the 2019 HKMA Quality Award

3) Singapore Quality Award 2019 for Business Excellence

4) 2019 Productronica Innovation Award

5) IPC APEX EXPO Innovation Award — new DEK printing platform for the electronics industry that increases speed and accuracy while decreasing factory footprint

This is clear, undisputed, and important validation that ASMPT has the right strategy, the right technology, and the right people to execute. It is an important report card on the success of the Group.

ACKNOWLEDGEMENTS

Mr. Lee Wai Kwong, who has served with distinction as the Chief Executive Officer of ASMPT for the last thirteen years, will retire at the conclusion of the next annual general meeting of the Company that is expected to be held in May 2020.

The Board would like to express our appreciation and gratitude to Mr. Lee for his immense contributions during his tenure of office through his leadership and insight and in building a solid foundation for the Company's future growth.

In passing the baton to Mr. Robin Ng, who is the incumbent Chief Financial Officer of ASMPT, Mr. Lee has laid the ground for the smooth succession of leadership that will bring the Group to the next level of growth.

IN CLOSING

FY 2019 was a year of progress for ASMPT as we recorded momentum in higher growth markets and new technologies. The foundation has been laid for ASMPT to generate improved revenue and earnings growth in fiscal year 2020.

To close, I would like to thank the worldwide ASMPT team, our customers, suppliers and business partners for their continued support. I would also like to thank all my fellow Directors for their wise counsel and active involvement and the Management team for their resolute diligence and determination that led to the achievements of the past years.

We are confident in our ability to create both short and long-term shareholder value. To our shareholders, thank you for your support and the confidence you continue to show in our company.

Orasa Livasiri
Chairman
Hong Kong, 25 February 2020

Management Discussion and Analysis

"ASMPT is confident that it is well positioned to take advantage of this unique window of opportunity. Its aggressive early investment approach to be prepared for trends has enabled the Group to improve its competitive position and increase its market opportunities."

Lee Wai Kwong
CEO

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") achieved a revenue of **HK$15.88 billion (US$2.03 billion)** in the fiscal year ended 31 December 2019, which was 18.8% lower than the revenue of HK$19.55 billion (US$2.49 billion) in the previous year. The Group's consolidated profit after taxation for the year is **HK$622.4 million**, which was a decrease of 71.9% from the previous year's net profit of HK$2.21 billion. Basic earnings per share (EPS) for the year amounted to **HK$1.52** (2018: HK$5.47).

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$0.70** (2018: final dividend of HK$1.40) per share. Together with the interim dividend of HK$1.30 (2018: HK$1.30) per share paid in August 2019, the total dividend payment for year 2019 will be **HK$2.00** (2018: HK$2.70) per share.

REVIEW

Group Results

Group:	FY 2019	YoY	2H 2019	HoH	YoY	Q4 2019	QoQ	YoY
Bookings (US$m)	2,021.2	-21.5%	959.0	-9.7%	-12.2%	445.2	-13.3%	-6.1%
Revenue (US$m)	2,026.6	-18.8%	1,099.3	+18.3%	-13.3%	568.0	+7.0%	-6.7%
Gross Margin	34.8%	-326 bps	34.8%	-5 bps	-73 bps	34.8%	+3 bps	+181 bps
Net Profit (HK$m)	622.4	-71.9%	444.1	+149.1%	-45.5%	221.9	-0.2%	+4.5%
Net Profit Margin	3.9%	-739 bps	5.2%	+271 bps	-304 bps	5.0%	-36 bps	+54 bps

In 2019, the semiconductor industry went through a slowdown largely due to global economic uncertainties amid the trade war and weaker demand from some end-markets such as Optoelectronics and Automotive.

Despite the challenging economic conditions, ASMPT made good progress during the year as a result of successfully implementing a range of initiatives such as focusing on higher growth markets and realigning operations to reduce costs. The Group managed to re-establish momentum in its business in the second half of the year with a strong 18.3% revenue growth and 149.1% improvement in net profit over the first half of the year.

In the 4th quarter, the Back-end Equipment Segment revenue increased quarter-on-quarter ("QoQ") and year-on-year ("YoY"), which was better than our guidance. SMT Solutions Segment revenue achieved QoQ growth, which was better than guidance but YoY declined as guided. Materials Segment performed in line with guidance with revenue growth for both QoQ and YoY. Group bookings declined 13.3% QoQ due to seasonal pattern and the decline was in line with guidance.

Group gross margin for the 4th quarter at 34.8% was flat QoQ, which was better than our guidance. On a YoY basis, it improved 181 bps. On a full year basis, Group gross margin was lower compared with prior year mainly due to lower revenue and production capacity utilization in all the three segments and higher revenue contribution from the SMT Solutions Segment, which had a lower gross margin compared to the Back-end Equipment Segment.

5G infrastructure construction and China's smartphone development spur SMT performance

REVIEW (CONTINUED)

Group Results (Continued)

A restructuring cost was booked in the 4th quarter. The restructuring cost relates to the relocation of the lead frame operations from Singapore to Malaysia and discontinuation of the MIS business (see page 15, "Restructuring Impact"). The restructuring cost comprised mainly impairment of property, plant and equipment, compensation to employees and other costs. If this restructuring cost of HK$106.9 million (tax-effected) was excluded, the net profit for the 4th quarter and full year would have been HK$328.7 million and HK$729.2 million respectively.

Diverse Customer Base

Having a diverse customer base continues to add value to the Group's business. In 2019, no single customer accounted for over 10% of the Group's revenue. Our top five customers combined contributed 15.3% (2018: 18.0%) of the Group's revenue and 80% of the Group's revenue came from 200 (2018: 166) customers.

The Group's top 20 customers came from different market segments including the world's leading Information and Communication Technology Infrastructure and Smart Devices provider, Integrated Device Manufacturers, Tier-1 Outsourced Semiconductor Assembly and Test companies ("OSATs"), major OSATs in China, camera modules manufacturers, top Electronics and Manufacturing Services providers and automotive components suppliers. Among them, 5 were SMT Solutions Segment customers and 4 were common for the Back-end Equipment and SMT Solutions Segments.

The acquisition of NEXX has also introduced a new customer base comprising leading substrate makers into the top 20 customer mix.

Geographically, China (inclusive of Hong Kong), Europe, the Americas, Malaysia and Japan were the top five markets for the Group in 2019.

By application market, the Mobility, Communications and IT segment remains the largest application market by revenue in 2019. While second half of the year revenue from all other application markets declined YoY, Mobility, Communications and IT segment recorded a strong double-digit growth attributable mainly to the demand from China and 5G infrastructure build-up. Automotive segment was the second largest application market despite a slowdown of the automotive industry.

Increasing revenue contribution from Advanced Packaging to the Back-end Equipment Segment

Value-added Acquisitions

The Group also recorded good progress from businesses that it acquired over the past few years, in particular, ASM NEXX, which provides advanced deposition tools to the Advanced Packaging market, and Critical Manufacturing, which provides Manufacturing Execution System software solutions. Both made a significant achievement by turning in profits in FY 2019.

The Catalysts for Growth

There are several factors contributing to our out-performance of the market in FY 2019 and these factors are expected to continue to drive our business momentum.

Demand levels in our major markets are expected to improve. In China, there is a perceptible momentum from local companies to localize their production amid an escalating trade war. This move is also supported by government policies, which advocate for supply chain localization.

The other immediate growth driver is the deployment of 5G infrastructure and the advent of 5G smartphones. The acceleration of these factors is propelling the industry — not only because of the direct impact on semiconductor chip demand — but also due to the wider benefits from the 5G wireless technology on global businesses and economies.

REVIEW (CONTINUED)

Group Results (Continued)

The Catalysts for Growth (Continued)

For the longer-term outlook, innovations enabled by 5G such as Augmented and Virtual Reality ("AR/VR"), autonomous vehicles, and Internet of Things will drive the increase in economic activities. These drivers will push up the demand for semiconductors.

Furthermore, Advanced Packaging and Heterogeneous Integration are shifting the value-add from the front-end to the back-end of the semiconductor industry. Our investment in Advanced Packaging is bearing fruit.

Startups Pioneering Technologies of Tomorrow

With the accelerating pace of technological change, ASMPT has made investments in startups a key part of its corporate strategy.

In 2019, the Group invested in a 3D laser printing company based in Israel whose cutting-edge technology may potentially disrupt the SMT printing industry.

In 2018, the Group invested in a Silicon Valley startup whose technology allows high speed x-ray inspection of advanced semiconductor packages. This will help make 100% real time inspection possible for Advanced Packaging.

Such investments would accelerate ASMPT's access to innovation that could be integrated into its portfolio offerings in the future.

Strengthening Competitive Position

ASMPT continues to focus on building a strong business foundation and have the financial wherewithal to continue to strengthen its portfolio and position in the industry. Its relentless innovation in key growth areas combined with the acquisitions and investments made in new technologies has enabled it to improve its competitive position against competitors.

Specifically, the Group has market leading positions in:

- **CMOS Image Sensors ("CIS")** — As camera technology and multiple cameras continue to be the key selling points for smartphones, ASMPT is well-poised to capture this increasing demand;

- **Advanced Packaging** — The proliferation of advanced logic, AI, high performance computing and 5G-driven applications will drive demand for our Advanced Packaging tools; and

- **Power Management Semiconductor** — Used in a wide array of applications for mobile devices, consumer goods, industrial and automotive.

Innovative smartphone developments are driving demand for CIS products

The Group has also invested in several other new technologies such as:

- **Silicon Photonics** — through the acquisition of AMICRA Microtechnologies to capture demand for future data center bandwidth growth and next generation 5G deployments;

Significant business expansion through strategic acquisitions and investments

REVIEW (CONTINUED)

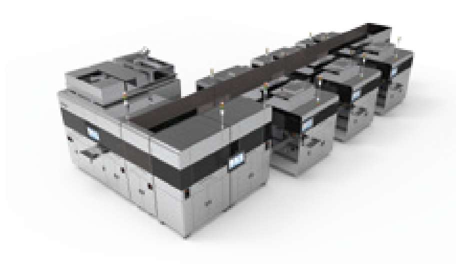
Group Results (Continued)

Strengthening Competitive Position (Continued)

- **Industrial Internet of Things** — through the acquisition in Critical Manufacturing to capture demand for SMART Factory software solutions and connected smart machines. The Group is also working with an advanced analytics company to jointly develop and promote a smart solution that will help semiconductor and electronics manufacturers capture, analyze and operationalize high volumes of data and apply sophisticated analytics to analyze risk, optimize processes and predict failure;

- **Mini and Micro LED Solutions** — to capture demand for devices that require mini or micro LED such as those used in indoor and outdoor displays, smart watches and AR/VR; and

- **Automated Optical Inspection** — tools that registered billings growth of more than 4 times YoY due primarily to demand from CIS customers for inspection of foreign particles and bonding quality.



Mini/Micro LED solutions well received by leading players

In summary, the Group's enhanced and broadening product portfolio is key to driving its business momentum. ASMPT is prepared to take advantage of all these new developments as it has created an unparalleled product and solution portfolio through internal development, investments and acquisitions over the past few years. The Group has a resilient and balanced portfolio of businesses, strong capabilities and a good position in some of the world's fastest growing markets.

Back-end Equipment Segment

	FY 2019	YoY	2H 2019	HoH	YoY	Q4 2019	QoQ	YoY
Bookings (US$m)	910.8	- 27.6%	441.0	- 6.1%	- 11.2%	178.6	- 31.9%	- 23.2%
Revenue (US$m)	893.6	- 24.4%	491.6	+22.0%	- 8.4%	258.7	+11.1%	+10.8%
Gross Margin	41.1%	- 472 bps	42.1%	+203 bps	- 128 bps	40.8%	- 263 bps	- 226 bps
Segment Profit (HK$m)	476.6	- 76.3%	357.2	+199.1%	- 44.8%	178.2	- 0.5%	+8.0%
Segment Profit Margin	6.8%	- 1,491 bps	9.3%	+549 bps	- 611 bps	8.8%	- 102 bps	- 23 bps

In 2019, this segment contributed 44.1% (2018: 47.4%) of the Group's total revenue. It continued to hold the No. 1 position in the global market, a position it first attained in 2002. It has also further widened the revenue gap with the closest rival.

On a full year basis, gross margin of this segment was adversely impacted because of lower revenue and lower manufacturing capacity utilization. However, demand momentum for traditional tools, in particular Wire Bonders, started to pick up in the second half of the year. Traditional tools typically have lower margins compared to Advanced Packaging and CIS tools. This coupled with higher IC and LED but lower CIS customer mix pulled down the gross margin for the 4th quarter.

Increased application of robotics and automation to drive cost reductions

REVIEW (CONTINUED)

Back-end Equipment Segment (Continued)

Advanced Packaging tools contributed to more than 20% (2018: more than 10%) of the revenue of this segment for this fiscal year. CIS and Advanced Packaging tools collectively contributed to more than 50% of the segment's revenue. Billings for CIS and Advanced Packaging grew YoY despite the soft market condition in 2019.

CIS billings continued its momentum in 2019, brought about by the rising adoption of smartphones with higher resolution cameras, multi-camera, 3D sensing, Time of Flight camera, wide Field of View and telescopic lens features. In fact, full year billings for CIS grew YoY while billings for IC and Discrete and LED declined.

ASM NEXX made a significant contribution to the bookings and billings of the IC and Discrete business in 2019. It has also strengthened ASMPT's position in the Advanced Packaging market. The Group remains confident that its investments in Advanced Packaging over the past few years has put ASMPT well ahead of its peers. Today, ASMPT has become the "go-to" partner of many of our customers who are developing Advanced Packaging solutions.

With effect from FY 2020, we will rename the Back-end Equipment Segment to Semiconductor Solutions Segment. This is to better reflect the inclusion of the ASM NEXX business, acquired in October 2018, which served the mid-end deposition tools market. ASM NEXX has grown to become a significant part of the Group's business in the Group's transition to an integrated hardware and software solutions provider for the semiconductor packaging market.

Materials Segment

	FY 2019	YoY	2H 2019	HoH	YoY	Q4 2019	QoQ	YoY
Bookings (US$m)	238.7	-2.5%	133.6	+27.2%	+42.4%	70.1	+10.2%	+75.6%
Revenue (US$m)	236.4	-17.8%	128.8	+19.5%	-5.9%	66.0	+5.0%	+10.2%
Gross Margin	10.1%	-135 bps	9.4%	-159 bps	-15 bps	8.5%	-187 bps	+79 bps
Segment Profit (HK$m)	58.3	-48.7%	28.1	-7.2%	-5.3%	9.8	-46.2%	+194.5%
Segment Profit Margin	3.1%	-190 bps	2.8%	-80 bps	+2 bps	1.9%	-181 bps	+119 bps

In 2019, the Materials Segment contributed 11.7% (2018: 11.5%) of the Group's total revenue. This segment recorded four consecutive quarters of QoQ growth in bookings. The semiconductor industry is clearly on the path of recovery.

Gross margin in the 4th quarter was adversely impacted by the increase in commodity price, in particular Copper and Palladium. On a full year basis, gross margin declined, largely due to the drop in revenue.

Restructuring Impact

As part of our ongoing effort to drive for greater efficiencies and to reduce costs, the Group decided to relocate the lead frame operations in Singapore to the newly expanded plant in Malaysia. The relocation of the lead frame operations started in Q1 2020 and is expected to complete by mid-2021. The Group also decided to discontinue the MIS business in Q1 2020 after an extensive evaluation of the competitive landscape of this business. The Group is of the opinion that the conventional substrate has an edge over MIS in terms of price and technical features like finer line spacing and higher I/O's capabilities. This discontinuation is expected to have minimal impact on the Group's revenue. These two initiatives that we have undertaken would have a positive impact on this segment's gross margin and profitability going forward.

REVIEW (CONTINUED)

SMT Solutions Segment

	FY 2019		2H 2019			Q4 2019		
		YoY		HoH	YoY		QoQ	YoY
Bookings (US$m)	871.7	-18.7%	384.4	-21.1%	-23.5%	196.6	+4.6%	-2.7%
Revenue (US$m)	896.6	-12.6%	478.9	+14.5%	-19.5%	243.3	+3.4%	-22.8%
Gross Margin	34.9%	-154 bps	34.1%	-184 bps	-28 bps	35.5%	+282 bps	+521 bps
Segment Profit (HK$m)	926.6	-27.3%	504.4	+19.5%	-31.3%	278.0	+22.8%	-6.9%
Segment Profit Margin	13.2%	-267 bps	13.4%	+56 bps	-231 bps	14.6%	+231 bps	+250 bps

This segment contributed 44.2% (2018: 41.1%) to the Group's revenue in 2019. Despite the headwinds of weak economic conditions and the slowdown in automotive demand, the SMT Solutions Segment benefitted from the increase in 5G infrastructure-related investments.

However, the higher revenue contribution from China as a result of market share gain for China-branded smartphones and the slowdown of the automotive industry adversely impacted the gross margin of this segment on a full year basis. To mitigate this, this segment has looked at ways to lower its cost of operations. One initiative was to increase the volume of assembly work done in Malaysia after the Group has expanded the plant in Malaysia. The other initiative was to deploy a satellite operation in Hungary to support the assembly operations in Munich, Germany. This segment recorded an improvement in gross margin QoQ and YoY for the 4th quarter due partly to warranty provisions write-back, which indicated that the tools sold were reliable and thus less warranty claims. There was also a one-off charge in Q4 2018 relating to the discontinuation of the Solar business, which pulled down the gross margin in that quarter.

Being the leading supplier of SMT equipment and solutions since 2015, the Group was also the first to launch integrated and open data communication from the individual machine to the line, the factory, and the cloud in 2019. This means electronics manufacturers can now take a step-by-step transformation into an integrated smart factory and meet their Industry 4.0 goals.

Expansion of Malaysian plant will help improve profitability

Endless business opportunities with Industry 4.0 and smart manufacturing

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank deposits as of 31 December 2019 increased slightly by 3.4% to HK$2.33 billion (2018: HK$2.25 billion). During 2019, HK$1.1 billion was paid as dividends (2018: HK$1.05 billion). Capital addition during the period amounted to HK$684.7 million (2018: HK$813.3 million), which was partially funded by the year's depreciation and amortization of HK$621.1 million (2018: HK$575.4 million), excluding the depreciation of right-of-use assets of HK$221.5 million as per HKFRS 16 in the current period. Day sales outstanding decreased to 99.4 days (2018: 102.6 days).

As of 31 December 2019, the current ratio was 3.02 (2018: 1.95), with a debt-to-equity ratio of 26.2% (debts include all bank borrowings and obligations under finance leases) (2018: 28.7% with debts that included all bank borrowings, convertible bonds and obligations under finance leases). The Group had available banking facilities of HK$2.25 billion (US$289.4 million) in the form of bank loans and overdraft facilities. Bank borrowings, which are mainly arranged to support day-to-day operations and capital expenditure, are denominated in Hong Kong dollars and Euros.

The Company has fully redeemed all the outstanding convertible bonds with the principal amount of HK$2.25 billion (which were denominated in Hong Kong dollars, raised in year 2014 with an annual coupon rate of 2.00%) upon maturity on 28 March 2019. A syndicated loan of HK$2.5 billion was arranged to finance the redemption of the convertible bonds, and it is a flexible-rate borrowing. The repayment of the syndicated loan will commence from March 2022 to March 2024. The Group shareholders' funds was HK$11.6 billion as at 31 December 2019.

As of 31 December 2019, cash holdings of the Group were mainly in US dollars, Euros, Chinese RMB and Singapore dollars. The Group's SMT Solutions Segment entered into US dollars and Euros 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 was denominated in US dollars.

In terms of currency exposure, the Group was moderately exposed. The majority of our sales were denominated in US dollars, Euros and Chinese RMB. On the other hand, disbursements in respect of operating expenses and purchases were mainly in US dollars, Euros and Chinese RMB.

The Group is committed to paying dividends that are sustainable and gradually increasing over time while maintaining an optimal capital structure. However, in light of the COVID-19 outbreak situation, the Board recommends a final dividend of HK$0.70 per share, which is HK$0.70 less than what we would have paid if the dividend is sustained at the same level as 2018 final dividend of HK$1.40 per share. The Board opines that it is in the interest of all stakeholders to take a more prudent stance during this exceptional period and will consider paying a higher dividend at a later date when the economic condition improves. This should not be perceived as a departure from the Group's current dividend policy.

The total dividend payout for 2019 is HK$2.00 per share (2018: HK$2.70 per share). This represents a payout ratio of 132% for 2019.

HUMAN RESOURCES

Our people are key in helping our customers to successfully enable the digital world. At ASMPT, we strive to attract, nurture and retain our talented employees through a holistic approach of competitive remuneration packages, long-term employee development and having an inclusive and positive work environment. Other than annual salary reviews, employees receive a range of benefits including medical, training subsidies and team bonding activities that promote camaraderie and strengthen the relationships at work. Discretionary bonus and incentives shares are also granted to eligible employees based on the Group's financial performance and individual staff performance.

As of 31 December 2019, the total headcount for the Group was approximately 15,200, which included 1,300 temporary or short-term contract employees and outsourced workers. Of the total workforce, around 1,300 based in Hong Kong, 7,700 in Mainland China, 1,400 in Singapore, 1,300 in Germany, 1,600 in Malaysia, 400 in United Kingdom, 300 in the United States, with the rest based in other parts of the world.

The total manpower costs for the Group in 2019 was HK$4.90 billion, as compared with HK$5.00 billion in 2018.

Collaborating with Educational Institutions

The Group works closely with local universities and technical institutions globally on events, internship programs, scholarship opportunities, sponsorships and lectures to increase students' interest in technology and innovation. The aim is to develop an industry-ready pipeline of talent through inspiring students to start their career with ASMPT.

Developing Careers

We partner with our employees to develop their talents and passions into new opportunities that advance their careers. Our career development framework and tools guide our people through their journey, helping them to discover who they are, identify in which areas they want to grow, and develop an action plan to get there.

In 2019, we continued our strategic investment in developing our leaders. The Group has put in place a succession plan to identify and develop a strong and cohesive leadership team that will lead the group in a sustainable manner. These earmarked high potential executives must undergo job rotation, mentoring and training programs that will prepare them to take over the helm at the right time.

Giving Back to Society

The Group also actively encourages employees to proactively give back to the communities in which we operate, through voluntary work and donations. In 2019, the Group devoted approximately 25,000 hours to volunteer work.

Maintaining market leadership through forward-looking R&D investments

PROSPECTS

The Group ended the year with increased optimism that the global semiconductor industry is expected to stage a 2020 recovery and set a high in 2021. There are several other factors contributing to this optimism — pickup in demand from the Chinese manufacturers to localize their supply chains, the accelerated deployment of 5G infrastructure, the roll out of 5G handsets and the progress the Group is making on capturing new market opportunities such as Advanced Packaging, Silicon Photonics, Industrial Internet of Things, mini and micro LED solutions, Power semiconductors, Industry 4.0 solutions and Automated Optical Inspection.

OUTLOOK

January 2020 booking momentum prior to the Chinese New Year ("CNY") was very strong for all the three segments. In fact, SMT Solutions Segment's booking was the highest ever recorded for the month of January. While the booking momentum was certainly tempered by the COVID-19 outbreak, we are still cautiously optimistic that Q1 2020 Group booking would achieve a YoY growth.

The outbreak has certainly hit China's economy hard in the past weeks. The Group's manufacturing and sales operations and supply chains were disrupted as a result. The Group's manufacturing operations in China were shut down during the extended CNY holidays imposed by the Chinese government in its effort to contain the spread of the virus. While we have started to ramp up manufacturing activities, we anticipate that we would lose around 1/3 of our production capacities in China in Q1 2020. On a full year basis, we estimate the impact to be less than 10%.

It is challenging to render a revenue forecast in view that the situation is still evolving. Based on our best estimation at the time of this report, we anticipate that Q1 2020 Group revenue will be in the range of between US$370 million to US$450 million, and more than likely the Group will record a loss for Q1 2020.

Unique Window of Opportunity

ASMPT is confident that it is well positioned to take advantage of this unique window of opportunity. Its aggressive early investment approach to be prepared for trends has enabled the Group to improve its competitive position and increase its market opportunities.

ASMPT continues to focus on building a strong business foundation and have the financial wherewithal to continue to strengthen its portfolio and position in the industry.

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 2019.

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. Details of the Company's principal subsidiaries as at 31 December 2019 are set out in note 49 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$0.70 (2018: final dividend of HK$1.40) per share which, together with the interim dividend of HK$1.30 (2018: interim dividend of HK$1.30) per share paid during the year, makes a total dividend for the year of HK$2.00 (2018: HK$2.70) per share.

Details of the results and the financial position of the Group are set out in the consolidated financial statements on pages 58 to 163.

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 face are provided in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 7 and pages 8 to 21 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 46 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 49 to 51 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 164 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 17 to the consolidated financial statements.

SHARE CAPITAL

On 16 December 2019, 2,224,200 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme (the "Scheme"). Details of the movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

CONVERTIBLE BONDS

All convertible bonds of the Company were fully redeemed on 28 March 2019. Details of the convertible bonds are set out in note 34 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in note 35 to the consolidated financial statements.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that an independent professional trustee appointed by the Board under the Scheme, pursuant to the terms of the rules and trust deed of the Scheme, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 386,400 shares in the Company at a total consideration of approximately HK$33.9 million (excluding ancillary trading fees, costs and expenses directly attributable to the purchase).

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution to shareholders amounted to HK$2,430,901,000 (2018: HK$1,743,923,000). In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

DIRECTORS

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

Independent Non-Executive Directors
Miss Orasa Livasiri, Chairman
Mr. Lok Kam Chong, John
Mr. Wong Hon Yee
Mr. Tang Koon Hung, Eric

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

Executive Directors
Mr. Lee Wai Kwong, Chief Executive Officer
Mr. Tsui Ching Man, Stanley, Chief Operating Officer
Mr. Robin Gerard Ng Cher Tat, Chief Financial Officer

In accordance with Article 113 of the Company's Articles of Association, Mr. Lee Wai Kwong, Mr. Tsui Ching Man, Stanley and Mr. Robin Gerard Ng Cher Tat will retire from office as Directors at the forthcoming annual general meeting. Mr. Robin Gerard Ng Cher Tat, being eligible, will offer himself for re-election as a Director at the forthcoming annual general meeting pursuant to Article 114 of the Company's Articles of Association. Mr. Lee Wai Kwong and Mr. Tsui Ching Man, Stanley have informed the Board of their intention not to seek re-election as Directors at the forthcoming annual general meeting.

On 25 February 2020, the Board resolved to recommend the appointment of Mr. Guenter Walter Lauber as a Director of the Company at the forthcoming annual general meeting. If so appointed, Mr. Lauber would serve as an Executive Director of the Company. The Nomination Committee and the Board have considered the biographical details of Mr. Lauber and are of the view that his extensive experience and knowledge in the industry will benefit the Group.

DIRECTORS (CONTINUED)

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 64, 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 56, 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 72, 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.

Mr. Tang Koon Hung, Eric, Independent Non-Executive Director, aged 74, 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. Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 58, 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 63, 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 again in May 2018 for a period of 4 years. He holds a Master's degree in economics from the Erasmus University, Rotterdam, the Netherlands. He has more than 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 65, was appointed to the Board as an Executive Director and the Chief Executive Officer of the Group on 1 January 2007. He holds 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 Master of Business Administration degree 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. Beyond his role at ASMPT, Mr. Lee is also actively involved in contributing his time and effort to his alma mater, The Chinese University of Hong Kong ("CUHK"). He serves as a Board Member of the Global Alumni Advisory Board, chaired by the Vice-Chancellor of CUHK. Mr. Lee is also the Chairman of the Advisory Committee, and an Adjunct Associate Professor, of the Department of Electronic Engineering of CUHK.

Mr. Tsui Ching Man, Stanley, aged 63, 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 56, 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 with the Institute of Singapore Chartered Accountants.

SENIOR MANAGEMENT

For the year ended 31 December 2019, the Group's senior management team includes, other than the Executive Directors, the following persons. Their biographical details are as follows:

Mr. Chow Chuen, James, aged 63, was an Executive Director and the Group Chief Operating Officer from 1 January 2007. On 1 May 2016, he stepped down from his role as Group Chief Operating Officer and passed the baton to Mr. Stanley Tsui. Mr. Chow was subsequently re-designated as Executive Vice President, Business Excellence where he remains to-date. On 9 May 2017, he retired as an Executive Director of the Group. Mr. Chow 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 35 years of experience in the electronics and semiconductor industry.

Mr. Wong Yam Mo, aged 60, 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 65, was an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (IC, Discrete & CIS), but stepped down from these senior management positions effective from 1 July 2019. 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. Guenter Walter Lauber, aged 58, 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 66, 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 52, 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 28 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.

Mr. Lim Choon Khoon, aged 60, was promoted to Senior Vice President of the Group and Chief Executive Officer, Back-end Equipment Segment (IC, Discrete and CIS) on 1 July 2019. He holds a Bachelor of Science (Honours) in Production Engineering and Production Management from the University of Nottingham, UK and has served the Group for most of his career. Mr. Lim started his career with the Group in Malaysia, and was posted to Hong Kong and Singapore. He left the Group for a short spell to pursue increased responsibilities in regional and global functional roles in other multinational companies. Mr. Lim re-joined the Group in July 2006, to manage sales and marketing of the encapsulation business. Since January 2015, he was the Vice President responsible for Key Account Management and Advanced Packaging. His last role from late 2017 was the Deputy Chief Executive Officer of the Back-end Equipment Segment (IC, Discrete & CIS) and he was responsible for overseeing the newly-acquired ASM NEXX business from October 2018 onwards.

EMPLOYEE SHARE INCENTIVE SCHEME

The Group has adopted the Scheme for the benefit of the Group's employees and members of management. The Scheme had an initial 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.

The Scheme was further extended for another 10 years up to 23 March 2020 pursuant to an annual general meeting of the Company on 24 April 2009, which allowed 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) was to be subscribed for or purchased pursuant to the Scheme.

During the year, the Directors resolved to contribute HK$53.6 million to the Scheme, enabling the trustees of the Scheme to subscribe or purchase a total of 1,946,900 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 2018, such shares to vest upon the expiration of the qualification period on 16 December 2019.

The Board also resolved to instruct an independent professional trustee (the "Trustee") appointed by the Board under the Scheme to purchase 386,400 shares ("Award Shares") at market price as soon as practicable on the Stock Exchange. 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 Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules") would be eligible to receive pursuant to the Scheme, and subject to the expiration of the qualification period on 16 December 2019. The Trustee would hold the Award Shares on trust for the said Executive Directors and the connected persons until the expiration of the said qualification period.

In May 2019, the Trustee purchased a total of 386,400 Award Shares, which represented approximately 0.095% of total issued share capital of the Company at the date of purchase, at total consideration of HK$33.9 million on the Stock Exchange. On 16 December 2019, 384,900 Award Shares were transferred at no cost to the said Executive Directors and the connected persons who were with the employment of the Group.

Further, a new employee share incentive scheme was approved by the shareholders of the Company at an annual general meeting on 7 May 2019, which shall replace and supersede the Scheme with effect from 24 March 2020. Details of the new employee share incentive scheme were set out in the circular dated 1 April 2019 which was dispatched to shareholders.

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 (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2019 as recorded in the register that is kept by the Company pursuant to Section 352 of 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 (the "Model Code") were as follows:

Long positions

Shares of HK$0.10 each of the Company:

Name of director	Capacity	Number of shares held	Percentage of shareholding in the Company
Lee Wai Kwong	Beneficial owner	1,665,100	0.41%
Tsui Ching Man, Stanley	Beneficial owner & interests of spouse	263,100 *Note*	0.06%
Robin Gerard Ng Cher Tat	Beneficial owner	200,000	0.05%

Note: Mr. Tsui was the beneficial owner of 256,800 shares and he was deemed to be interested in 6,300 shares through the interests of his spouse, Ms. Soh Lay Hoon, who is an accounting manager of a subsidiary of the Group.

Save as disclosed above, as at 31 December 2019, none of the Directors, 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' INTERESTS IN SHARES

As at 31 December 2019, 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	
Name of shareholder	**Capacity**	**Number of shares held**	**Percentage of shareholding in the Company**
ASM International N.V.	Interest of a controlled corporation	103,003,000 *Note 1*	25.19%
ASM Pacific Holding B.V.	Beneficial owner	103,003,000 *Note 1*	25.19%
Schroders Plc	Investment manager	40,625,300 *Note 2*	9.94%
Mitsubishi UFJ Financial Group, Inc.	Interest of a controlled corporation	28,283,100 *Note 3*	6.92%

Notes:

1. ASM International N.V. was deemed to be interested in 103,003,000 shares, through the shares held by its wholly owned subsidiary, ASM Pacific Holding B.V. Thus, their respective shareholdings represented the same block of shares.

2. The long position of 40,625,300 shares held by Schroders Plc included derivative interests in 110,300 underlying shares of the Company derived from unlisted and cash settled derivatives.

3. Mitsubishi UFJ Financial Group, Inc. was deemed to be interested in 28,283,100 shares, through the shares held by its wholly owned subsidiaries, including Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., Carol Australia Holdings Pty Limited, Realindex Investments Pty Limited, First State Investment Managers (Asia) Limited, First State Investments (Hong Kong) Ltd, FSIB Ltd, First State Investments Holdings (Singapore) Limited and First State Investments (Singapore).

Save as disclosed above, as at 31 December 2019, 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.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No connected transaction (defined under Chapter 14A of the Listing Rules) has been entered into by the Group during the year. None of the related party transactions as disclosed in note 48 to the consolidated financial statements constituted a discloseable connected transaction as defined under Chapter 14A of the Listing Rules.

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 or an entity connected with a Director 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 37 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 is no provision for pre-emptive rights in the Company's Articles of Association although there is no restriction 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$1,482,000.

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 Listing Rules. The Company considers all of the Independent Non-Executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float throughout the year ended 31 December 2019.

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

25 February 2020

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 (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2019.

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 2019, 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 the business, financial, legal, technical and industrial fields, 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 2019:

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, 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)
Tsui Ching Man, Stanley	(Chief Operating Officer)
Robin Gerard Ng Cher Tat	(Chief Financial Officer)

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

During the year ended 31 December 2019, 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.

THE BOARD (CONTINUED)

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.

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.

- 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.
- To develop and review the Company's policies and practices on corporate governance.
- To review and monitor the training and continuous professional development of Directors and senior management.
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors.
- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.
- To appoint any other committees that the Board decides are needed and delegate to those committees any appropriate powers of the Board.
- 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 2019. 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, 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. Lee Wai Kwong, Mr. Tsui Ching Man, Stanley and Mr. Robin Gerard Ng Cher Tat shall retire from office as Directors at the forthcoming annual general meeting in accordance with Article 113 of the Company's Articles of Association. Mr. Robin Gerard Ng Cher Tat, being eligible, will offer himself for re-election as a Director at the forthcoming annual general meeting pursuant to Article 114 of the Company's Articles of Association. Mr. Lee Wai Kwong and Mr. Tsui Ching Man, Stanley have informed the Board of their intention not to seek re-election as Directors at the forthcoming annual general meeting.

Nomination Committee

As at 31 December 2019, the Nomination Committee comprises five members, four of whom are Independent Non-Executive Directors, namely, Miss Orasa Livasiri who is the Committee Chairman, Mr. Lok Kam Chong, John, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric, and one Non-Executive Director, Mr. Charles Dean del Prado.

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

The major duties of the Nomination Committee include the following:

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

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

- To assess the independence of Independent Non-Executive Directors.

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

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

The Nomination Committee held one meeting during the year ended 31 December 2019 and the attendance record is set out under "Directors' attendance records" on page 38.

THE BOARD (CONTINUED)

Nomination Policy

The Company has formally adopted a Nomination Policy which sets out the criteria and procedures for the Nomination Committee to identify, evaluate and recommend suitable candidates for directorship with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Selection Criteria

The Nomination Committee will propose a candidate for nomination or a Director for re-election based on merit, including but not limited to the following considerations:

- The candidate's skills, knowledge and experience which are relevant to the operations of the Company and its subsidiaries.
- The Company's Board Diversity Policy, the balance of skills and experience in the composition of the Board and the requirements under the Listing Rules.
- The ability of the candidate or the re-elected Director to commit and devote sufficient time and attention to the Company's affairs.
- The candidate's character, experience and integrity, and ability to demonstrate a standard of competence commensurate with the position of a director of the Company.

Nomination Process and Procedures

For appointment of a new Director, the nomination process and procedures are:

- The Nomination Committee, with or without assistance from the Company's Human Resources Department and external agencies, identifies candidates in accordance with the selection criteria set out in the Nomination Policy.
- The Nomination Committee evaluates candidates and recommends to the Board the appointment of appropriate candidates for directorship.
- The Board decides on the appointment based upon the recommendation of the Nomination Committee.
- The letter of appointment, or the key terms and conditions of the appointment, should be approved by Remuneration Committee.
- The Company Secretary or a delegate designated by the Company Secretary shall ensure that all disclosure obligations under the Listing Rules regarding the said appointment or re-election are duly complied with.

For re-election of a Director, the nomination process and procedures are:

- The Nomination Committee reviews the overall contribution of the retiring Director to the Company.
- The Nomination Committee also reviews and determines whether the retiring Director continues to meet the selection criteria set out in the Nomination Policy.
- The Nomination Committee shall make its recommendation to the Board, which shall in turn decide whether to recommend the proposed re-election of the Director to the Company's shareholders at a general meeting.

THE BOARD (CONTINUED)

Nomination Policy (continued)

Nomination Process and Procedures (continued)

For nomination of a new Director by shareholders, please refer to the procedures for shareholders to propose a person for election as a Director on the Company's website (www.asmpacific.com). For any person who is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the selection criteria set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee shall make its recommendation to the Board, which shall in turn decide whether to recommend such person to be elected as a Director at a general meeting.

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 2019 to the Company.

THE BOARD (CONTINUED)

Induction and continuing development for Directors (continued)

The individual training record of each Director received for the year ended 31 December 2019 is summarized as below:

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	✓	✓	✓
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	✓	✓	

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 and Audit Committee meetings are kept by the Company Secretary while minutes of Board meetings relating to the Employee Share Incentive Scheme, Remuneration Committee meetings and Nomination Committee meetings are kept by the Chief Executive Officer's secretary. 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 of Association 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 close associates have a material interest.

THE BOARD (CONTINUED)

Board meetings (continued)

Directors' attendance records

Seven Board meetings were held during the year. The Chairman also held a meeting with the Independent Non-Executive Directors, in the absence of other Directors, to consider issues in an informal setting.

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 2019 Annual General Meeting, during the year ended 31 December 2019 is set out below:

		Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	2019 Annual General Meeting
Number of Meetings		**7**	**4**	**1**	**2**	**1**
Total Duration (Approximate Number of Hours)		**23**	**10**	**2**	**2**	**0.5**
Directors		**Attendance/Number of Meetings held during the tenure of directorship**				
Independent Non-Executive Directors						
Orasa Livasiri	(Chairman of the Board and Nomination Committee)	7/7	4/4	1/1	1/2	1/1
Lok Kam Chong, John	(Chairman of Audit Committee)	7/7	4/4	1/1	2/2	1/1
Wong Hon Yee	(Chairman of Remuneration Committee)	7/7	N/A	1/1	2/2	1/1
Tang Koon Hung, Eric		7/7	4/4	1/1	2/2	1/1
Non-Executive Directors						
Charles Dean del Prado		7/7	N/A	1/1	2/2	1/1
Petrus Antonius Maria van Bommel		7/7	4/4	N/A	N/A	1/1
Executive Directors						
Lee Wai Kwong		7/7	N/A	N/A	N/A	1/1
Tsui Ching Man, Stanley		7/7	N/A	N/A	N/A	1/1
Robin Gerard Ng Cher Tat		7/7	N/A	N/A	N/A	1/1

Note: The Company's external and internal auditors participated in every Audit Committee Meeting and in the 2019 Annual General Meeting.

THE BOARD (CONTINUED)

Model code for securities transactions

The Company has adopted 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 2019.

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 inside 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. He 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 affairs. He was appointed by the Board in May 2019. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors may call upon him 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 no less 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.

During the year under review, the Board approved a delegation of authority to the Company's management to deal with small merger and acquisition opportunities, subject to an annual cap by transaction value in aggregate that the Company deemed fit for its business and growth strategies. The annual cap by transaction value in aggregate will be reviewed by the Board annually.

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 2019, 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 websites 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 2019 are set out on pages 107 to 108 in note 13 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee has five members as at 31 December 2019. 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 are 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 a model wherein 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 follows:

- 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 two meetings during the year ended 31 December 2019 and the attendance records are set out under "Directors' attendance records" on page 38.

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 2019 are set out in note 13 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 2019 is as follows:

	Number of employees
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	1
HK$3,500,001 to HK$4,000,000	2
HK$5,000,001 to HK$5,500,000	1
HK$5,500,001 to HK$6,000,000	2
HK$6,000,001 to HK$6,500,000	1
HK$6,500,001 to HK$7,000,000	1
HK$14,500,001 to HK$15,000,000	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 2019.

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, which is independent of the Company's management, provides 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.

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 2019. 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.

ACCOUNTABILITY AND AUDIT (CONTINUED)

Audit Committee (continued)

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 an 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 2019, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 38. The following is a summary of the tasks completed by the Audit Committee during 2019:

- reviewed the Group's financial reports for the year ended 31 December 2018, for the six months ended 30 June 2019, and for the quarters ended 31 March 2019 and 30 September 2019;
- reviewed the financial reporting system;
- reviewed the effectiveness of internal controls system;
- reviewed risk management system;
- reviewed work plan for 2019 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.

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 52 to 57.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, amounted to HK$15,055,000 in respect of audit services; HK$1,416,000 in respect of assurance related services and HK$1,092,000 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

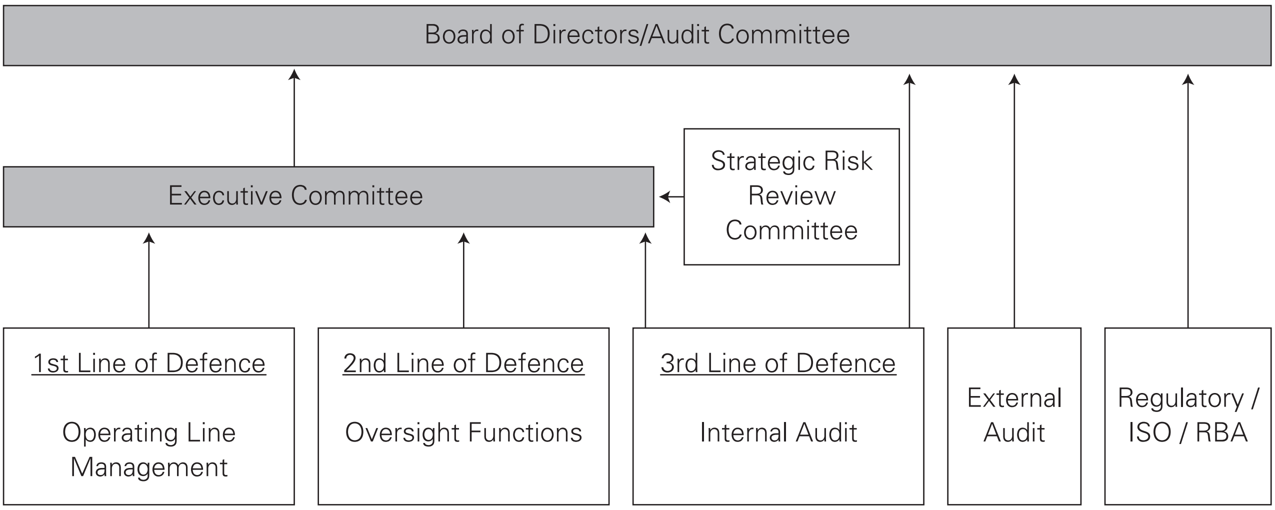
The Board of Directors acknowledges that it is responsible for the Group's risk management and for reviewing its effectiveness. The Board evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensures that the Group establishes 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

The Group has 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



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 personnel 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 ongoing 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.

RISK MANAGEMENT (CONTINUED)

Risk Management and Control System (continued)

The Framework (continued)

- *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, with a primary reporting line 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 2019 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 reviews 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 controls 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 recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

Shareholders Communication Policy

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

All announcements and notices are published on the websites of the Company (www.asmpacific.com) and the Stock Exchange (www.hkex.com.hk). 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, approximately 428 meetings/calls with analysts and fund managers were held in 2019.

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

Dividend Policy

The Group has adopted a dividend policy of paying out sustainable and gradually increasing dividends. The actual dividend payout from year to year will be subject to upward or downward adjustments as decided by the Board after taking into account of the Group's immediate as well as expected prevailing financial performance, cash flow, financial position, capital commitments and future requirements as well as the general business and economic environments. The Board will review this policy for change from time to time with reference to its future prospect, capital requirements and other changing circumstances both internally and externally.

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 2019 annual general meeting held on 7 May 2019 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 (www.asmpacific.com) and the website of the Stock Exchange (www.hkex.com.hk).

The next annual general meeting will be held on Tuesday, 12 May 2020, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

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 (www.asmpacific.com) and the Stock Exchange (www.hkex.com.hk) following the shareholders' meeting.

Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Company's Articles of Association, 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 19/F, Gateway ts, 8 Cheung Fai Road, Tsing Yi, New Territories, Hong Kong.

If the Directors do not, within 21 days from the date of the requisition, duly proceed 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 date of requisition.

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

Procedures for putting enquiries to the Board

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

ASM Pacific Technology Limited
19/F, Gateway ts
8 Cheung Fai Road
Tsing Yi, New Territories
Hong Kong
Attn.: Investor Relationship Department

Telephone: (852) 2424 2021; (852) 2970 6329
Fax: (852) 2481 3367
Email: investor.relation@asmpt.com

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

Articles of Association of the Company

There was no change in the Articles of Association of the Company for the year ended 31 December 2019.

On behalf of the Board
Lee Wai Kwong
Director

25 February 2020

Sustainability Report

At ASMPT, we strive to build a sustainable future that will create long-lasting value for our business, stakeholders, community and the environment.

The Group has integrated sustainable practices into six key areas of the business — Corporate Governance, Risk Management, Environmental Protection, People Development, Workplace Safety and Products & Services. It actively engages with the different stakeholders through open and transparent communications to discuss the latest developments in a timely manner.

Since 2018, ASMPT has been looking at how it can contribute to the global sustainable development agenda as defined in the United Nations Sustainable Development Goals (SDG). The four pillars we have identified comprise 1) nurturing our employees, 2) supporting our communities, 3) creating value through innovation and 4) managing environmental impact.

The Group believes that this will not only enable us to retain our leadership position, but also empower us to contribute effectively to the communities in which we operate.

ENVIRONMENT

ASMPT takes its environmental responsibilities seriously and strives to be a role model for sustainable business operations. We believe that by running cleaner and greener operations we can make a difference to our planet. Our environment charter focuses on energy efficient practices and technologies, resource conservation, recycling and pollution prevention.

The Group is ISO 14001 certified yearly for our environmental management system at our main business locations in China (including Hong Kong), Germany, United Kingdom, Singapore, and Malaysia. The ISO 14001 standard specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance, fulfil its compliance obligations and achieve its environmental objectives.

For its continuous efforts to be more energy efficient, ASMPT won the Best Practices Award in 2019 at the annual Energy Efficiency National Partnership (EENP) Awards in Singapore. This accolade recognizes one of the Group's initiatives to install variable speed drives (VSD) technology in ageing air compressors at its facility in Singapore. The project proved to be a success as the Group exceeded its target of reducing electricity usage by 22 per cent of the Singapore operations total electricity consumption. This translated to an annual energy saving of 923 MWh and a payback period of less than a year.

SOCIAL

Employees

Our success depends on our ability to attract and retain talented and skilled employees to create the technology of the future and delight our customers. We are also committed to create a diverse, inclusive and safe work environment where our employees can deliver their workplace best every day. As of 31 December 2019, the Group's global workforce is approximately 15,200 across 30 countries of which 24% were female. In terms of age group mix, 27% were aged 30 and below, 61% were aged between 30 and 50, and 12% were above 50.

All employees are responsible for upholding the POWER Values, which form the foundation of our policies and practices. They are provided with a wide range of opportunities to support their ongoing career development. For the past few years, the Group has tracked and publicly reported on key human capital metrics, including workforce demographics, diversity and inclusion data, turnover, and training data.

SOCIAL (CONTINUED)

Employees (Continued)

The Group implements fair employment practices in our operations worldwide, with equal opportunities for employment, advancement and promotion, regardless of gender, race, age, religious beliefs, ethnicity, nationality, marital status, disabilities, and sexual orientation etc. Additionally, the Group does not tolerate any form of sexual harassment in the workplace and does not condone such unlawful conduct. No incidence of such harassment was reported in 2019.

Recognizing that work-life balance contributes to a happy and motivated workforce, the Group regularly runs activities such as Family Day, Volunteer Work, Annual Dinner and Kids Soccer Academy that encourage participation by not only the employees but also their families, thus promoting a sense of belonging and bonding.

Customers

At ASMPT our mission is to deliver the highest value and most innovative solutions to our customers through our products, solutions and services. We take an active role in ensuring that what we produce and provide to our customers are environmentally-friendly, production efficient and cost-effective.

This pursuit of quality excellence has been the driving force behind the quality awards the Group garnered in 2019. These include the "Grand Award of the 2019 HKMA Quality Award", "Singapore Quality Award 2019", "Manufacturing Excellence in Printing Solutions" and "Smart SMT Factory Award".

The Group is also ISO 9001 certified for our quality management system at our main business locations in China (including Hong Kong), Germany, United Kingdom, Singapore and Malaysia. All products have to undergo 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 them with immediate support should any issue with the products arise.

Suppliers

In working with suppliers, the Group is committed to a fair procurement process where selection is based on multiple criteria such as cost effectiveness, business integrity and sustainability. Together with our worldwide pool of partners and suppliers, we constantly look into improving our supply chain management processes to bring about a sustainable experience for our customers. The Group believes that long-term, trusting business relationships are built on honesty, integrity and good business ethics.

The Group expects 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 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. It has been developed to align with ASMPT's culture, core values and business practices and are updated regularly to ensure its relevance. In addition, the Supplier Code of Conduct is also available on the Company's website and we conduct assessments and checks on our suppliers as part of our regular business reviews.

Community

The Group is a strong advocate of active community contribution. Three areas we focus on are: community well-being, youth empowerment through education, and promotion of eco-friendly initiatives. In 2019, the Group participated in, sponsored and donated to more than 160 CSR-related activities and provided approximately 25,000 hours of volunteer service to the communities where we operate.

The Group also 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 young engineering talent.

SOCIAL (CONTINUED)

Community (Continued)

We have been collaborating closely with over 70 local universities and technical institutes globally through internship programmes and scholarship opportunities that benefitted 551 students in 2019.

Into its fifth year, the ASM Technology Award in Hong Kong awards university students with outstanding Final Year Projects. The award included a trip to Singapore for the six student winners and their supervising professors to learn more about the technologies and business development of the Group and other high-tech companies in Singapore.

Awards & Honours

Here are the awards achieved in 2019 by ASMPT in recognition of the Group's CSR and Corporate Governance initiatives:

1) **Asia's Outstanding Companies Poll 2019**
   Awarded by Asiamoney

2) **Hong Kong Corporate Citizenship Award Scheme (Enterprise Category): Merit Award**
   Awarded by Hong Kong Productivity Council — HKET

3) **Hong Kong Outstanding Enterprises Parade 2019**

4) **Best Office Facilities Award: Platinum Award**
   CTgoodjobs' Best HR Awards in 2019

5) **2019 Junzi Corporate Award**

6) **Singapore EENP Awards 2019 — Best Practices**
   Awarded by Energy Efficiency National Partnership (EENP) — A National Environment Agency (NEA) programme

More details of the Group's Sustainability and Corporate Social Responsibility programmes will be available in the Environmental, Social and Governance (ESG) Report that will be published on websites of the Company (www.asmpacific.com) and the Stock Exchange (www.hkex.com.hk) by the end of June 2020.

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 58 to 163, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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	
We identified the impairment testing of goodwill and intangible asset 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 22 to the consolidated financial statements, for the purposes of impairment testing, the carrying amounts of goodwill and intangible asset with indefinite useful life as at 31 December 2019 were HK$1,047,851,000 and HK$389,260,000 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 units' 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 back-end equipment business and surface mount technology solutions business during the year ended 31 December 2019.	Our procedures in relation to assessing the appropriateness of the impairment testing of goodwill and intangible asset with indefinite useful life 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
Allowance for inventories	
We identified allowance for 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 2019, the carrying amount of inventories, net of allowance, was HK$6,291,276,000.	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.

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.

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

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 Tsang Chi Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 February 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5, 6	**15,883,042**	19,550,590
Cost of sales		**(10,359,167)**	(12,113,813)
Gross profit		**5,523,875**	7,436,777
Other income		**93,359**	96,126
Selling and distribution expenses		**(1,590,273)**	(1,660,893)
General and administrative expenses		**(960,933)**	(1,013,345)
Research and development expenses	7	**(1,710,858)**	(1,610,225)
Other gains and losses	8	**(54,774)**	(78,455)
Restructuring costs	9	**(109,540)**	(19,067)
Finance costs	10	**(215,122)**	(177,762)
Profit before taxation		**975,734**	2,973,156
Income tax expense	11	**(353,356)**	(761,428)
Profit for the year	12	**622,378**	2,211,728
Profit (loss) for the year attributable to:			
Owners of the Company		**619,249**	2,216,062
Non-controlling interests		**3,129**	(4,334)
		622,378	2,211,728
Earnings per share	16		
— Basic		**HK$1.52**	HK$5.47
— Diluted		**HK$1.52**	HK$5.44

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
Profit for the year		**622,378**	2,211,728
Other comprehensive (expense) income			
— exchange differences arising on translation of foreign operations, which may be reclassified subsequently to profit or loss		**(121,415)**	(273,227)
— remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss	*38*	**(55,916)**	3,400
— fair value gain on investments in equity instruments at fair value through other comprehensive income, which will not be reclassified to profit or loss		**8,020**	—
Other comprehensive expense for the year		**(169,311)**	(269,827)
Total comprehensive income for the year		**453,067**	1,941,901
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**452,016**	1,948,645
Non-controlling interests		**1,051**	(6,744)
		453,067	1,941,901

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	17	**2,916,415**	2,850,450
Right-of-use assets	18	**1,632,626**	—
Investment property	19	**53,645**	56,206
Goodwill	20	**1,047,851**	1,057,816
Intangible assets	21	**1,190,072**	1,305,622
Prepaid lease payments	23	**—**	126,732
Other investments	24	**93,471**	56,355
Deposits paid for acquisition of property, plant and equipment		**92,888**	40,672
Rental deposits paid		**32,888**	42,033
Deferred tax assets	39	**384,624**	355,210
Other non-current assets		**19,979**	16,343
		7,464,459	5,907,439
Current assets			
Inventories	25	**6,291,276**	6,541,939
Trade and other receivables	26	**4,710,170**	6,324,901
Prepaid lease payments	23	**—**	3,863
Derivative financial instruments	27	**3,482**	1,852
Income tax recoverable		**49,604**	44,134
Pledged bank deposits	28	**—**	2,054
Bank deposits with original maturity of more than three months	28	**9,053**	9,198
Bank balances and cash	28	**2,317,543**	2,240,022
		13,381,128	15,167,963
Current liabilities			
Trade liabilities and other payables	29	**2,670,411**	3,165,478
Advance payments from customers	30	**861,766**	718,694
Derivative financial instruments	27	**9,295**	32,697
Lease liabilities/obligations under finance leases	31, 32	**188,633**	410
Provisions	33	**283,696**	330,933
Income tax payable		**97,134**	533,701
Convertible bonds	34	**—**	2,224,652
Bank borrowings	35	**321,364**	786,021
		4,432,299	7,792,586
Net current assets		**8,948,829**	7,375,377
		16,413,288	13,282,816

	Notes	**2019 HK$'000**	2018 HK$'000
Capital and reserves			
Share capital	*36*	**40,889**	40,667
Dividend reserve		**286,227**	569,340
Other reserves		**11,301,200**	11,557,541
Equity attributable to owners of the Company		**11,628,316**	12,167,548
Non-controlling interests		**3,376**	(6,893)
Total equity		**11,631,692**	12,160,655
Non-current liabilities			
Lease liabilities/obligations under finance leases	*31, 32*	**1,362,169**	736
Retirement benefit obligations	*38*	**260,551**	171,515
Provisions	*33*	**53,024**	48,528
Bank borrowings	*35*	**2,722,118**	473,740
Deferred tax liabilities	*39*	**233,788**	250,783
Other liabilities and accruals	*40*	**149,946**	176,859
		4,781,596	1,122,161
		16,413,288	13,282,816

The consolidated financial statements on pages 58 to 163 were approved and authorized for issue by the Board of Directors on 25 February 2020 and are signed on its behalf by:

Lee Wai Kwong
DIRECTOR

Robin Gerard Ng Cher Tat
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 37)*	Treasury share reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Fair value through other comprehensive income reserve HK$'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 2018 (restated)	40,908	1,607,620	29,877	–	(198,992)	295	72,979	–	(15,570)	250,249	(279,273)	9,291,078	528,175	11,327,346	(149)	11,327,197
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	2,216,062	–	2,216,062	(4,334)	2,211,728
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	–	(270,817)	–	–	(270,817)	(2,410)	(273,227)
Remeasurement of defined benefit retirement plans, net of tax *(note 38)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	–	3,400	–	3,400	–	3,400
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	–	(270,817)	2,219,462	–	1,948,645	(6,744)	1,941,901
Sub-total	40,908	1,607,620	29,877	–	(198,992)	295	72,979	–	(15,570)	250,249	(550,090)	11,510,540	528,175	13,275,991	(6,893)	13,269,098
Acquisition of business	–	–	–	–	–	–	–	–	–	–	–	–	–	–	92,644	92,644
Recognition of equity-settled share-based payments	–	–	289,031	–	–	–	–	–	–	–	–	–	–	289,031	–	289,031
Gross obligation to acquire non-controlling interests *(note 40)*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(92,644)	(92,644)
Purchase of shares under the Scheme	–	–	–	(40,473)	–	–	–	–	–	–	–	–	–	(40,473)	–	(40,473)
Shares vested under the Scheme	–	–	(37,150)	40,473	–	–	–	–	–	–	–	(3,323)	–	–	–	–
Shares issued under the Scheme	224	242,745	(242,969)	–	–	–	–	–	–	–	–	–	–	–	–	–
Shares repurchased and cancelled	(465)	(504,022)	–	–	198,992	465	–	–	–	–	–	(465)	–	(305,495)	–	(305,495)
2017 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	–	(525,753)	(525,753)	–	(525,753)
2018 interim dividend paid	–	–	–	–	–	–	–	–	–	–	–	(523,331)	(2,422)	(525,753)	–	(525,753)
2018 final dividend proposed	–	–	–	–	–	–	–	–	–	–	–	(569,340)	569,340	–	–	–
At 31 December 2018	40,667	1,346,343	38,789	–	–	760	72,979	–	(15,570)	250,249	(550,090)	10,414,081	569,340	12,167,548	(6,893)	12,160,655
Adjustments due to adopting of new standards (note 2)	–	–	–	–	–	–	–	–	–	–	–	(40,210)	–	(40,210)	–	(40,210)
At 1 January 2019 (restated)	40,667	1,346,343	38,789	–	–	760	72,979	–	(15,570)	250,249	(550,090)	10,373,871	569,340	12,127,338	(6,893)	12,120,445
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	619,249	–	619,249	3,129	622,378
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	–	(119,337)	–	–	(119,337)	(2,078)	(121,415)
Remeasurement of defined benefit retirement plans, net of tax *(note 38)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	–	(55,916)	–	(55,916)	–	(55,916)
Fair value gain on investments in equity instruments at fair value through other comprehensive income, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	8,020	–	–	–	–	–	8,020	–	8,020
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	8,020	–	–	(119,337)	563,333	–	452,016	1,051	453,067
Sub-total	40,667	1,346,343	38,789	–	–	760	72,979	8,020	(15,570)	250,249	(669,427)	10,937,204	569,340	12,579,354	(5,842)	12,573,512
Recognition of equity-settled share-based payments	–	–	196,039	–	–	–	–	–	–	–	–	–	–	196,039	–	196,039
Arising on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(15,019)	–	–	–	–	(15,019)	9,218	(5,801)
Purchase of shares under the Scheme	–	–	–	(34,045)	–	–	–	–	–	–	–	–	–	(34,045)	–	(34,045)
Shares vested under the Scheme	–	–	(39,820)	33,913	–	–	–	–	–	–	–	5,907	–	–	–	–
Shares issued under the Scheme	222	194,786	(195,008)	–	–	–	–	–	–	–	–	–	–	–	–	–
Redemption of convertible bonds	–	–	–	–	–	–	–	–	–	(250,249)	–	250,249	–	–	–	–
2018 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	–	(569,340)	(569,340)	–	(569,340)
2019 interim dividend paid	–	–	–	–	–	–	–	–	–	–	–	(528,673)	–	(528,673)	–	(528,673)
2019 final dividend proposed	–	–	–	–	–	–	–	–	–	–	–	(286,227)	286,227	–	–	–
At 31 December 2019	40,889	1,541,129	–	(132)	–	760	72,979	8,020	(30,589)	–	(669,427)	10,378,460	286,227	11,628,316	3,376	11,631,692

Note: Other reserve represents (i) 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 in 2017 and (ii) acquiring non-controlling interest in a subsidiary during the year.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit before taxation	**975,734**	2,973,156
Adjustments for:		
Depreciation of property, plant and equipment	**513,143**	462,063
Depreciation of right-of-use assets	**221,541**	—
Release of prepaid lease payments	**—**	3,863
Amortization of intangible assets	**107,950**	109,479
Gains on disposal/write-off of property, plant and equipment	**(4,269)**	(9,154)
(Gain) loss on fair value change of derivative financial instruments	**(22,951)**	47,192
Warranty provision expenses	**140,240**	210,145
Restructuring costs	**109,540**	19,067
Share-based payments under the Scheme	**196,039**	289,031
Interest income	**(23,660)**	(31,003)
Finance costs	**215,122**	177,762
Effect of foreign exchange rate changes on inter-company balances	**34,968**	(34,191)
Operating cash flows before movements in working capital	**2,463,397**	4,217,410
Decrease in pledged bank deposits	**2,054**	3,196
Decrease (increase) in inventories	**176,072**	(961,940)
Decrease (increase) in trade and other receivables	**1,142,984**	(171,603)
(Increase) decrease in other non-current assets	**(5,194)**	914
Decrease in trade liabilities and other payables	**(454,567)**	(330,051)
Increase (decrease) in advance payments from customers	**153,362**	(4,914)
Increase in other liabilities and accruals	**3,784**	3,916
Increase in provisions	**286**	2,774
Utilization of warranty provision	**(211,057)**	(206,314)
Utilization of restructuring provision	**(10,507)**	(15,158)
Increase in retirement benefit obligations	**10,039**	1,037
Purchase of shares under the Scheme	**(34,045)**	(40,473)
Cash generated from operations	**3,236,608**	2,498,794
Income taxes paid	**(456,592)**	(594,968)
Income taxes refunded	**53,666**	38,513
Net cash from operating activities	**2,833,682**	1,942,339

Consolidated Statement of Cash Flows *(continued)*
For the year ended 31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
Investing activities			
Interest received		**23,660**	31,003
Proceeds on disposals of property, plant and equipment		**40,051**	37,200
Purchase of property, plant and equipment		**(691,540)**	(762,686)
Deposits paid for acquisition of property, plant and equipment		**(92,888)**	(40,324)
Additions of intangible assets		**(4,348)**	(15,312)
Net cash outflow arising on acquisitions of subsidiaries	*41*	**(28,302)**	(1,546,061)
Payments for right-of-use assets		**(14,363)**	—
Payments for rental deposits		**(2,911)**	—
Additions of other investments		**(19,470)**	(39,224)
Payment to non-controlling interests for additional shares		**(5,801)**	—
Placement of bank deposits with original maturity of more than three months		**—**	(33,023)
Withdrawal of bank deposits with original maturity of more than three months		**—**	705,935
Net cash used in investing activities		**(795,912)**	(1,662,492)
Financing activities			
Bank borrowings raised		**2,500,000**	1,854,330
Repayment of bank borrowings		**(714,887)**	(767,917)
Payment on redemption of convertible bonds	*34*	**(2,250,000)**	—
Repayment of lease liabilities/obligations under finance leases		**(183,581)**	(264)
Dividends paid		**(1,098,013)**	(1,051,506)
Payments for finance costs		**(188,898)**	(72,981)
Payment for repurchase of shares		**—**	(305,495)
Net cash used in financing activities		**(1,935,379)**	(343,833)
Net increase (decrease) in cash and cash equivalents		**102,391**	(63,986)
Cash and cash equivalents at beginning of the year		**2,240,022**	2,365,911
Effect of foreign exchange rate changes		**(24,870)**	(61,903)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**2,317,543**	2,240,022

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 electronics assembly industries. The principal subsidiaries and their activities are set out in note 49.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

2.1 HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, 1 January 2019.

Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 3.57%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	1,982,665
Lease liabilities discounted at relevant incremental borrowing rates	1,515,515
Add: Lease extension options reasonably certain to be exercised	159,672
Less: Recognition exemption — short-term leases	(13,352)
Recognition exemption — low-value assets (excluding short-term leases of low-value assets)	(8,692)
Lease liabilities relating to operating leases recognized upon application of HKFRS 16	1,653,143
Add: Obligations under finance leases recognized at 31 December 2018	1,146
Lease liabilities as at 1 January 2019	1,654,289
Analyzed as	
Current	173,333
Non-current	1,480,956
	1,654,289

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets HK$'000**
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16		1,587,266
Reclassified from prepaid lease payments	*(a)*	130,595
Adjustments included in property, plant and equipment under HKAS 17		
— Restoration and reinstatement costs	*(b)*	27,652
Adjustments on rental deposits at 1 January 2019	*(c)*	11,540
		1,757,053

The following table summarizes the impacts of transition to HKFRS 16 on retained profits at 1 January 2019.

	Notes	**Impact of adopting HKFRS 16 at 1 January 2019 HK$'000**
Retained profits		
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16		1,587,266
Lease liabilities relating to operating leases recognized upon application of HKFRS 16		(1,653,143)
Adjustment on rental deposits at 1 January 2019	(c)	(35)
Adjustment on prepaid and accrued lease payments	(e)	13,360
Tax effects		12,342
Impact at 1 January 2019		(40,210)

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

Impacts on assets, (liabilities) and (reserve) as at 1 January 2019

	Notes	**Carrying amounts previously reported at 31 December 2018 HK$'000 (Audited)**	**Impacts of adopting HKFRS 16 HK$'000**	**Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000 (Restated)**
Deferred tax assets		355,210	12,342	367,552
Property, plant and equipment		2,850,450	(27,652)	2,822,798
Right-of-use assets		—	1,757,053	1,757,053
Prepaid lease payments — non-current	*(a)*	126,732	(126,732)	—
Prepaid lease payments — current	*(a)*	3,863	(3,863)	—
Rental deposits paid	*(c)*	42,033	(11,575)	30,458
Trade and other receivables	*(d)*	6,324,901	(1,651)	6,323,250
Trade liabilities and other payables	*(e)*	(3,165,478)	15,011	(3,150,467)
Lease liabilities — current		—	(172,923)	(172,923)
Lease liabilities — non-current		—	(1,480,220)	(1,480,220)
Retained profits		(10,414,081)	40,210	(10,373,871)

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

(a) Upfront payments for leasehold lands for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the non-current and current portion of prepaid lease payments amounting to HK$126,732,000 and HK$3,863,000 respectively were reclassified to right-of-use assets.

(b) In relation to the leases of offices that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to HK$27,652,000 as at 1 January 2019 were included as right-of-use assets.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$11,540,000, HK$35,000 and HK$11,575,000 were adjusted to right-of-use assets, retained profits and rental deposits paid, respectively.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

(d) *Prepayments for rent*

These relate to prepaid lease expense for leases of properties before the expense incurred. The carrying amount of the prepaid lease expenses as at 1 January 2019 was adjusted to right-of-use assets at transition.

(e) *Rent-free period*

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities under trade liabilities and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[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 1	Classification of Liabilities as Current or Non-Current[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
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 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to references to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, other investments (classified as equity instruments at FVTOCI upon application of HKFRS 9) and certain financial liabilities 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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equal the transaction price.

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.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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 subsidiaries, 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 liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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.

When the consideration transferred by the Group in a business combination includes 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. 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Revenue from contracts with customers

HKFRS 15 introduces a 5-step approach when recognizing revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or services.

A contract liability, i.e. advance payments from customers and deferred income (included in trade liabilities and other payables), represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligation (including sales of goods, installation of equipment, training services and rights to purchase certain amounts of spare parts for free), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Refund liabilities

The Group recognizes a refund liability if the Group expects to refund some or all of the consideration received from customers.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

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. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated and are measured at cost less subsequent accumulated impairment losses.

Depreciation is recognized so as to write off the cost of assets 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Buildings under development for future owner-occupied purpose

Buildings in the course of construction for production or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values 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 "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation. Effective 1 January 2019, investment properties also include leased properties which are being recognized as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

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 its 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. Effective 1 January 2019, a leased property which is recognized as a right-of-use asset upon application of HKFRS 16 is derecognized if the Group as intermediate lessor classifies the sublease as a finance lease. 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 asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

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)

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 property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these 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.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, 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. In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, 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.

Research and development expenditure

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of back-end equipment and materials 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 estimated 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 assurance-type warranty obligations under the relevant sale of contracts with customers for sales of goods 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 tax 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxable entity by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, equipment and offices that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are presented as separate line item.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment property.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Leasing (prior to 1 January 2019)

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 (prior to 1 January 2019)

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.

The Group as lessee (prior to 1 January 2019)

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

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.

Leasehold land and buildings (prior to 1 January 2019)

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for financial assets and are presented as other income.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI, i.e. other investments, are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, rental deposits paid, pledged bank deposits, bank deposits with original maturity of more than three months and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk of financial assets except trade receivables has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions or the counterparty can meet the financial commitment.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when the instrument except trade receivables is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables, are each assessed as separate groups);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

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.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the available-for-sale revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Debt and equity instruments 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 the Company 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 or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities at amortized cost

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

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.

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.

Obligation arising from a contract to acquire non-controlling interests

The gross financial liability arising from contract to acquire non-controlling interests is recognized when contractual obligation to repurchase the shares in a subsidiary is established. The liability for the share redemption amount is initially recognized and measured at present value of the estimated repurchase price with the corresponding debit to the non-controlling interests. Subsequent to initial recognition, the remeasurement of the present value of the estimated gross obligation under the forward contract to the non-controlling shareholders is recognized in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derivative financial instruments (Continued)

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

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 HKFRS 9; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition of financial liabilities

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. 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements (Continued)

Award shares held under Share Award Scheme granted to members of the management of the Group for their services to the Group (Continued)

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.

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

Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income 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 or curtailment and a gain or loss on settlement is recognized when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs and termination benefits (Continued)

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

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.

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, annual leave and sick 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 judgements, 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.

Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

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, or changes in facts and circumstances which result in downward revision of the discounted cash flows, a material impairment loss may arise.

The carrying amount of goodwill as at 31 December 2019 was HK$1,047,851,000 (2018: HK$1,057,816,000). Details of the recoverable amount calculations are set out in note 22.

Impairment of intangible assets

In accounting for intangible assets, management of the Group considers the potential impairment based on the fair value of the assets and the cash flows generated. The intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable; the intangible 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 2019 was HK$1,190,072,000 (2018: HK$1,305,622,000). Details of the impairment testing on intangible assets with indefinite useful lives are set out in note 22.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Income taxes (Continued)

The Group has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each year-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future development are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will be recovered. 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 2019, the deferred tax assets recognized is HK$384,624,000 (2018: HK$355,210,000) (see note 39).

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 2019, the carrying amount of inventories, net of allowance, was HK$6,291,276,000 (2018: HK$6,541,939,000). 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. The amount of allowance would be changed as a result of changes in current market conditions and technology subsequently.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable, and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, certain balances of trade receivables and those credit-impaired balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimation of future cash flows. The information about the ECL and the Group's trade receivables are disclosed in note 46.

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 2019, net remeasurement loss before tax effect amounting to HK$82,977,000 (2018: net remeasurement gain before tax effect amounting to HK$5,176,000) are recognized directly in equity in the period in which they occur (see note 38).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to plants and offices. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and the relevant lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant contractual penalty.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group;
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

Provisions

Significant estimates are involved in the determination of provision related to warranty costs, restructuring 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, restructuring and legal proceedings 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/counterparties. The management estimates the cost for rectification work, restructuring and legal proceedings with regard to the Group's experience in addressing such matters. As at 31 December 2019, the Group recognized provisions, including warranty provision and restructuring provision amounting to HK$251,366,000 (2018: HK$329,783,000) and HK$35,258,000 (2018: HK$3,909,000) respectively (see note 33).

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. For fair values determined based on unobserved inputs using valuation techniques, judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs.

Notes 19 and 46 provide detailed information about the valuation techniques, inputs and key assumption used in the determination of the fair value of various assets and liabilities.

5. REVENUE

Disaggregation of revenue from contracts with customers

	2019 HK$'000	2018 HK$'000
Sales of goods and services		
Back-end equipment	**7,003,454**	9,259,791
Surface mount technology solutions	**7,026,715**	8,035,577
Materials	**1,852,873**	2,255,222
	15,883,042	19,550,590

The Group sells different equipment and materials in the semiconductor and electronics assembly industries.

The revenue from back-end equipment business mainly includes the sales of standard equipment, and new or highly customized equipment. The revenue also includes service income from the provision of equipment installation services and training services.

The revenue from surface mount technology solutions business mainly includes the sales of highly customized equipment. The revenue also includes service income from the provision of training services, and sales of software and provision of software services.

The revenue from sales of standard products, including standard equipment and software, are recognized when control of the goods has transferred, being the time when the goods have been delivered.

The revenue from sales of new or highly customized products is 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.

The revenue from sales of customer-specific-software is recognized over time (percentage of completion by reference to direct costs incurred). The Group's work on the customer-specific-software does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for the performance completed to date. Revenue from maintenance services, provision of equipment installation services and training service are recognized over time, which is over the term of the relevant contract or service period as the customer simultaneously receives and consumes the benefits provided by the entity.

The performance obligations of goods and services provided by the Group are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Sales-related warranties associated with equipment cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" consistent with its previous accounting treatment.

The revenue from sales of materials mainly includes the sales of lead frames and molded interconnect substrate technology. Revenue is recognized when control of the goods has transferred, being the time when the goods have been delivered.

6. SEGMENT INFORMATION

The Group has three (2018: 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 (2018: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

Segment revenues and results

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

	2019 HK$'000	2018 HK$'000
Segment revenue from external customers		
Back-end equipment	**7,003,454**	9,259,791
Surface mount technology solutions	**7,026,715**	8,035,577
Materials	**1,852,873**	2,255,222
	15,883,042	19,550,590
Segment profit		
Back-end equipment	**476,611**	2,010,791
Surface mount technology solutions	**926,604**	1,274,552
Materials	**58,316**	113,745
	1,461,531	3,399,088
Interest income	**23,660**	31,003
Finance costs	**(215,122)**	(177,762)
Unallocated other income (expenses)	**13,696**	(557)
Unallocated net foreign exchange losses and fair value change of foreign currency forward contracts	**(92,200)**	(86,142)
Unallocated general and administrative expenses	**(127,912)**	(173,407)
Unallocated adjustment on contingent consideration for acquisitions	**21,621**	—
Restructuring costs	**(109,540)**	(19,067)
Profit before taxation	**975,734**	2,973,156

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, finance costs, unallocated other income (expenses), unallocated net foreign exchange losses and fair value change of foreign currency forward contracts, unallocated general and administrative expenses, unallocated adjustment on contingent consideration for acquisitions and restructuring costs.

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

6. SEGMENT INFORMATION (CONTINUED)

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

2019

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses/ restructuring costs HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment	385,206	141,587	153,586	–	680,379
Additions of intangible assets	25	4,323	–	–	4,348
Amounts included in the measure of segment profit:					
Amortization for intangible assets	46,044	61,906	–	–	107,950
Depreciation for property, plant and equipment and right-of-use assets	400,942	208,178	122,854	1,379	733,353
Depreciation for investment property	1,331	–	–	–	1,331
Impairment loss recognized in respect of property, plant and equipment and right-of-use assets	–	–	–	67,763	67,763
(Gains) losses on disposal/write-off of property, plant and equipment	(4,579)	(87)	397	–	(4,269)
Research and development expenses	1,115,166	587,599	8,093	–	1,710,858
Share-based payments	146,052	16,263	12,402	21,322	196,039

2018

	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					
— Additions during the year	536,266	149,270	142,441	—	827,977
— Arising from acquisitions of subsidiaries	121,685	3,252	—	—	124,937
Additions of intangible assets					
— Additions during the year	484	14,828	—	—	15,312
— Arising from acquisitions of subsidiaries	657,664	207,034	—	—	864,698
Amounts included in the measure of segment profit:					
Amortization for intangible assets	55,623	53,856	—	—	109,479
Depreciation for property, plant and equipment	257,908	112,828	89,967	—	460,703
Depreciation for investment property	1,360	—	—	—	1,360
Release of prepaid lease payments	2,685	370	808	—	3,863
(Gains) losses on disposal/write-off of property, plant and equipment	(10,891)	94	1,643	—	(9,154)
Research and development expenses	979,681	622,242	8,302	—	1,610,225
Share-based payments	201,582	24,190	18,542	44,717	289,031

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

	Non-current assets	
	2019 HK$'000	2018 HK$'000
Mainland China	**1,727,785**	1,319,513
Europe	**1,182,435**	864,511
— Germany	**766,115**	475,830
— Portugal	**179,498**	188,645
— United Kingdom	**172,282**	173,268
— Others	**64,540**	26,768
Hong Kong	**945,130**	312,251
Singapore	**944,722**	1,040,409
Malaysia	**612,431**	433,780
Americas	**481,378**	446,354
— United States of America ("USA")	**474,208**	442,573
— Others	**7,170**	3,781
Korea	**20,658**	4,667
Taiwan	**9,901**	10,462
Others	**14,073**	6,111
	5,938,513	4,438,058

Note: Non-current assets excluded unallocated goodwill, other investments and deferred tax assets.

6. SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

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

	Revenue from external customers	
	2019	2018
	HK$'000	HK$'000
Mainland China	**6,412,768**	8,021,217
Europe	**2,552,102**	3,082,821
— Germany	**923,484**	1,154,340
— Hungary	**222,348**	265,605
— France	**147,245**	239,718
— Romania	**155,685**	179,981
— Poland	**88,748**	106,512
— Others	**1,014,592**	1,136,665
Americas	**1,462,226**	1,409,523
— USA	**1,080,690**	914,301
— Mexico	**218,978**	307,607
— Others	**162,558**	187,615
Malaysia	**1,046,089**	1,469,408
Hong Kong	**941,408**	1,493,132
Japan	**676,598**	375,111
Taiwan	**598,900**	855,496
Vietnam	**594,927**	463,056
Korea	**497,801**	530,725
Thailand	**437,494**	739,305
Philippines	**328,166**	364,868
India	**153,021**	538,257
Singapore	**114,078**	160,943
Others	**67,464**	46,728
	15,883,042	19,550,590

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

7. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are mainly depreciation for property, plant and equipment of HK$64,159,000 (2018: HK$57,990,000), and staff costs of HK$1,151,653,000 (2018: HK$1,108,789,000) for the year ended 31 December 2019.

8. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
The gains and losses comprise:		
Net foreign exchange losses	**(37,404)**	(21,020)
Losses on fair value change of foreign currency forward contracts	**(54,796)**	(65,122)
Gains on disposal/write-off of property, plant and equipment and right-of-use assets	**4,079**	9,154
Gain (loss) on contingent consideration for acquisitions	**21,621**	(2,220)
Others	**11,726**	753
	(54,774)	(78,455)

9. RESTRUCTURING COSTS

During the year ended 31 December 2019, the Group recorded a restructuring cost of HK$109,540,000 related to the shift of lead frame operations from Singapore to Malaysia and discontinuation of the Molded Interconnect Substrate business which was a part of Materials segment business. The restructuring costs are primarily related to impairment of property, plant and equipment of HK$56,897,000, estimated compensation to employees of HK$23,552,000 and impairment of right-of-use assets of HK$10,866,000.

During the year ended 31 December 2018, the Group incurred a restructuring cost of HK$19,067,000 related to the discontinuation of the solar business which was a part of Surface Mount Technology Solutions segment business. The restructuring costs are mainly related to estimated compensation to employees of HK$8,400,000 and written off of property, plant and equipment of HK$8,000,000.

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	**87,322**	25,792
Interest on convertible bonds *(note 34)*	**35,951**	147,822
Interest on lease liabilities/obligation under finance leases	**57,187**	42
Loans arrangement fee	**23,617**	—
Others	**11,045**	4,106
	215,122	177,762

11. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	**37,879**	76,874
PRC Enterprise Income Tax	**61,079**	119,420
Other jurisdictions	**227,241**	481,327
	326,199	677,621
Under(over) provision in prior years:		
Hong Kong	**81,151**	105,552
PRC Enterprise Income Tax	**(17,247)**	1,853
Other jurisdictions	**(25,771)**	(885)
	38,133	106,520
Deferred tax credit *(note 39)*	**(10,976)**	(22,713)
	353,356	761,428

(a) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, starting from the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million.

11. INCOME TAX EXPENSE (CONTINUED)

(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% (2018: 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. ATC passed the ATSE re-assessment launched by Sichuan Science and Technology Bureau in May 2018 and obtained a new ATSE Certificate in July 2018. According to the tax circular Caishui [2017] No. 79 (for the year ended 31 December 2018: Caishui [2017] No. 79), ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15%. The renewed ATSE recognition has no expiry date while ATC shall keep proper records for its fulfilment of recognition criteria as an ATSE.

(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 12 July 2010, 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% (2018: 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% (2018: 15.00%) plus 5.50% (2018: 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 13.970% to 17.150% (2018: 14.380% to 17.150%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 29.795% to 32.975% (2018: 30.210% to 32.975%).

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

11. 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:

	2019 HK$'000	2018 HK$'000
Profit before taxation	**975,734**	2,973,156
Tax at the domestic income tax rate of 16.5% (2018: 16.5%) *(Note)*	**160,996**	490,571
Tax effect of expenses not deductible in determining taxable profit	**37,749**	99,843
Tax effect of income not taxable in determining taxable profit	**(5,209)**	(12,074)
Tax effect of tax losses not recognized	**17,522**	18,724
Tax effect of utilization of tax losses previously not recognized	**(550)**	(3,964)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**118,046**	227,311
Effect of tax exemption and concessions for ATC under ATSE and ATS under PC and IHA granted by EDB	**(2,592)**	(156,069)
Effect of other tax concessions	**(11,744)**	(17,437)
Underprovision in prior years	**38,133**	106,520
Others	**1,005**	8,003
Tax charge for the year	**353,356**	761,428

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.

As disclosed in prior years, the Group received letters from the Hong Kong Inland Revenue Department (the "HKIRD") seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might have led 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.

Based on professional advice that the Company has sought, the Group considered that it would be more beneficial for the Group from a commercial perspective to settle the tax dispute with the HKIRD on a compromised approach. In this regards, the Group submitted via its tax advisor a settlement proposal to the HKIRD. The HKIRD accepted the settlement proposal and issued revised assessment for the years of assessment 2000/01 to 2017/18 in December 2019.

In the settlement proposal, key tax adjustments are: i) certain profits earned offshore by the subsidiaries were deemed as profits arising in or derived from Hong Kong; and ii) notwithstanding that the profits earned by the Hong Kong subsidiaries should be at least accepted as arm's length from Transfer Pricing perspective, additional profits were deemed to be earned by Hong Kong subsidiaries; iii) deductions on prescribed fixed assets and depreciation allowances on fixed assets used in China manufacturing sites were disallowed. As at 31 December 2018, the Group held tax reserve certificates amounting to HK$381,166,000. During the year ended 31 December 2019, tax reserve certificates amounting to HK$20,264,000 were purchased and HK$397,602,000 were utilized by offsetting the tax liabilities. As at 31 December 2019, the remaining balance amounted to HK$3,828,000 would be refunded by the HKIRD.

12. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remunerations *(note 13)*	**28,253**	42,125
Other staff		
— Salaries, wages, bonus and other benefits	**4,392,779**	4,403,426
— Pension costs	**289,176**	287,486
— Share-based payments under the Scheme	**185,858**	265,659
Total staff costs	**4,896,066**	4,998,696
Auditors' remuneration		
— Deloitte Touche Tohmatsu network member firms	**15,055**	16,119
— Other auditors	**367**	631
	15,422	16,750
Depreciation for property, plant and equipment	**511,812**	460,703
Depreciation for right-of-use assets	**221,541**	—
Depreciation for investment property	**1,331**	1,360
Amortization for intangible assets		
— Included in general and administrative expenses	**105**	79
— Included in research and development expenses	**5,715**	5,702
— Included in selling and distribution expenses	**40,415**	66,291
— Included in cost of sales	**61,715**	37,407
Release of prepaid lease payments	**—**	3,863
	842,634	575,405
Gross rental income from investment property	**(6,465)**	(6,741)
Less: Direct operating expenses from investment property that generate rental income	**1,088**	1,139
	(5,377)	(5,602)
Government grants *(Note)*	**(72,811)**	(56,327)
Interest income on bank deposits	**(23,660)**	(31,003)

Note: Government grants for the year ended 31 December 2019 included amounts of HK$36,172,000 (2018: HK$34,250,000), HK$11,444,000 (2018: nil), HK$5,469,000 (2018: HK$6,335,000) and HK$2,083,000 (2018: HK$1,485,000) which are government subsidies received from local authorities in the PRC or Singapore relating to import of high technology products, research incentives, power consumption cost reduction and support for stabilizing employment, respectively.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Year ended 31 December 2019									
	Executive Director and chief executive *(Note a)*	Executive Directors *((Note a)*		Non-executive Directors *(Note c)*		Independent Non-executive Directors *(Note d)*				
	Lee Wai Kwong HK$'000 *(Note b)*	Robin Gerard Ng Cher Tat HK$'000	Tsui Ching Man, Stanley HK$'000	Charles Dean del Prado HK$'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$'000	Total HK$'000
Fees	–	–	–	350	300	500	450	400	400	2,400
Other emoluments										
Salaries and other benefits	11,996	4,818	4,549	–	–	–	–	–	–	21,363
Contributions to retirement benefits schemes	74	152	18	–	–	–	–	–	–	244
Performance related incentive bonus payments *(Note e)*	2,601	917	728	–	–	–	–	–	–	4,246
Total emoluments	14,671	5,887	5,295	350	300	500	450	400	400	28,253

	Year ended 31 December 2018									
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*		Non-executive Directors *(Note c)*		Independent Non-executive Directors *(Note d)*				
	Lee Wai Kwong HK$'000 *(Note b)*	Robin Gerard Ng Cher Tat HK$'000	Tsui Ching Man, Stanley HK$'000	Charles Dean del Prado HK$'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$'000	Total HK$'000
Fees	–	–	–	350	300	500	450	400	396	2,396
Other emoluments										
Salaries and other benefits	20,128	7,448	6,805	–	–	–	–	–	–	34,381
Contributions to retirement benefits schemes	87	170	18	–	–	–	–	–	–	275
Performance related incentive bonus payments *(Note e)*	3,111	1,059	903	–	–	–	–	–	–	5,073
Total emoluments	23,326	8,677	7,726	350	300	500	450	400	396	42,125

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

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

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

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

During the year ended 31 December 2018, 203,000 (2019: nil) Award Shares (as defined in note 37) were granted to certain executive directors in respect of their services to the Group under existing Employee Share Incentive Scheme ("the Scheme"). The Group recognized total expenses of HK$10,181,000 (2018: HK$23,372,000) in relation to the Share Award Scheme (as defined in note 37) 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$21,996,000 (2018: HK$15,192,000), which was calculated with reference to the closest trading price of the Company's share of HK$110.20 (2018: HK$77.35) per share. For details regarding the Award Shares, please refer to note 37.

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

14. FIVE HIGHEST PAID EMPLOYEES

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

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**32,173**	52,168
Contributions to retirement benefits schemes	**851**	459
Performance related incentive bonus payments	**6,117**	6,774
	39,141	59,401

For the year ended 31 December 2019, 280,400 (2018: 296,000) 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 37 to the Group's consolidated financial statements. The Group recognized expenses of these shares amounting to HK$14,236,000 (2018: HK$34,897,000) in relation to the Share Award Scheme (as defined in note 37) which was included in salaries and other benefits above for the year ended 31 December 2019.

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

	Number of employees	
	2019	2018
HK$5,500,001 to HK$6,000,000	**2**	—
HK$6,000,001 to HK$6,500,000	**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$9,000,001 to HK$9,500,000	**—**	1
HK$10,000,001 to HK$10,500,000	**—**	1
HK$14,500,001 to HK$15,000,000	**1**	—
HK$23,000,001 to HK$23,500,000	**—**	1

During the year ended 31 December 2019, the five highest paid employees of the Group included two (2018: three directors) directors. Details of the emoluments of the directors for services rendered by them as director are set out in note 13.

15. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Dividend recognized as distribution during the year		
Interim dividend for 2019 paid of HK$1.30 (2018: HK$1.30) per share on 406,671,333 (2018: 404,425,433) shares	**528,673**	525,753
Final dividend for 2018 paid of HK$1.40 (2018: final dividend for 2017 paid of HK$1.30) per share on 406,671,333 (2018: 404,425,433) shares	**569,340**	525,753
	1,098,013	1,051,506

Subsequent to the end of the reporting period, a final dividend of HK$0.70 (2018: final dividend of HK$1.40) per share in respect of the year ended 31 December 2019 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2019 HK$'000	2018 HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2019 of HK$0.70 (2018: HK$1.40) per share on 408,895,533 (2018: 406,671,333) shares	**286,227**	569,340

16. 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:

	2019 HK$'000	2018 HK$'000
Earnings for the purpose of calculating basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**619,249**	2,216,062

	Number of shares (in thousands)	
	2019	2018
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**406,533**	404,900
Effect of dilutive potential shares:		
— The Scheme	**2,096**	2,310
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**408,629**	407,210

Note: The calculation of diluted earnings per share for the year ended 31 December 2018 and 31 December 2019 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.

17. 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$'000	Leased machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2018	15,913	1,103,321	903,346	4,143,345	73,144	—	22,405	6,261,474
Currency realignment	(117)	(21,292)	(9,582)	(53,083)	(3,464)	—	(414)	(87,952)
Acquired on acquisition of subsidiaries *(note 41)*	—	—	1,368	120,479	3,090	—	—	124,937
Additions	—	345	196,481	474,429	17,184	—	139,538	827,977
Transfer from inventories	—	—	—	—	—	8,505	—	8,505
Disposals	—	—	(907)	(244,609)	(721)	—	—	(246,237)
Write-off	—	—	(63,045)	(56,607)	(3,064)	—	—	(122,716)
At 31 December 2018	15,796	1,082,374	1,027,661	4,383,954	86,169	8,505	161,529	6,765,988
Adjustment due to adopting HKFRS 16	—	—	(30,000)	—	—	—	—	(30,000)
At 1 January 2019 (restated)	15,796	1,082,374	997,661	4,383,954	86,169	8,505	161,529	6,735,988
Currency realignment	(7)	(12,610)	(4,747)	(25,966)	(42)	(279)	707	(42,944)
Additions	—	—	73,388	441,954	13,134	—	151,903	680,379
Transfer	—	263,609	1,030	—	2,597	—	(267,236)	—
Transfer from inventories	—	—	—	—	—	39,781	—	39,781
Disposals	—	—	(328)	(144,205)	(789)	—	—	(145,322)
Write-off	—	—	(11,207)	(22,931)	(2,234)	—	—	(36,372)
At 31 December 2019	15,789	1,333,373	1,055,797	4,632,806	98,835	48,007	46,903	7,231,510
DEPRECIATION AND IMPAIRMENT								
At 1 January 2018	—	336,911	598,440	2,852,248	47,870	—	—	3,835,469
Currency realignment	—	(2,904)	(4,838)	(30,690)	(1,295)	—	—	(39,727)
Provided for the year	—	34,933	85,314	331,435	8,998	23	—	460,703
Eliminated on disposals	—	—	(907)	(225,877)	(585)	—	—	(227,369)
Eliminated on write-off	—	—	(62,315)	(48,435)	(2,788)	—	—	(113,538)
At 31 December 2018	—	368,940	615,694	2,878,681	52,200	23	—	3,915,538
Adjustment due to adopting HKFRS 16	—	—	(2,348)	—	—	—	—	(2,348)
At 1 January 2019 (restated)	—	368,940	613,346	2,878,681	52,200	23	—	3,913,190
Currency realignment	—	(2,430)	(2,576)	(15,484)	65	—	—	(20,425)
Provided for the year	—	36,145	87,624	374,041	9,767	4,235	—	511,812
Eliminated on disposals	—	—	(328)	(115,150)	(708)	—	—	(116,186)
Eliminated on write-off	—	—	(10,033)	(18,010)	(2,150)	—	—	(30,193)
Impairment loss recognized in profit or loss	—	—	311	56,473	113	—	—	56,897
At 31 December 2019	—	402,655	688,344	3,160,551	59,287	4,258	—	4,315,095
CARRYING VALUES								
At 31 December 2019	15,789	930,718	367,453	1,472,255	39,548	43,749	46,903	2,916,415
At 31 December 2018	15,796	713,434	411,967	1,505,273	33,969	8,482	161,529	2,850,450

17. 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%
Leased machinery	25%

As at 31 December 2018 and 2019, the directors of the Company are of the opinion that there is neither any indicator of additional impairment nor any indicator that impairment previously recorded should be reversed.

The net book value of property, plant and equipment includes an amount of HK$461,000 (2018: HK$634,000) in respect of assets held under finance leases.

18. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	Land and buildings HK$'000	Motor vehicles HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2019 (restated)					
Carrying amount	135,781	1,602,849	16,542	1,881	1,757,053
As at 31 December 2019					
Carrying amount	141,500	1,457,172	21,446	12,508	1,632,626
For the year ended 31 December 2019					
Depreciation charge	7,779	201,958	10,059	1,745	221,541
Impairment recognized	—	10,866	—	—	10,866
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16					19,516
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets					3,613
Total cash outflow for leases *(Note)*					263,496
Additions to right-of-use assets					124,943

Note: Amount includes payments of principal of HK$206,309,000 and interest portion of HK$57,187,000 of lease liabilities, short-term leases and low-value assets. These amounts are presented in operating, investing or financing cash flows.

18. RIGHT-OF-USE ASSETS (CONTINUED)

For both years, the Group leases leasehold lands, land and buildings, motor vehicles and others for its operations. Lease contracts are entered into for fixed term of 1 to 30 years, but may have extension and termination options. Certain leases of motor vehicles were accounted for as finance leases during the year ended 31 December 2018 and carried interest ranged from 3.30% to 6.78%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are reclassified to right-of-use assets upon initial application of HKFRS 16.

Extension and termination options

The Group has extension and/or termination options in a number of leases for various premises, motor vehicles and others. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Group is not reasonably certain to exercise and (ii) termination options in which the Group is not reasonably certain not to exercise is summarized below:

	Lease liabilities recognized as at 31 December 2019 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) HK$'000
Premises	931,513	4,019
Motor vehicles	1,825	—
Others	55	—

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

19. INVESTMENT PROPERTY

	HK$'000
COST	
At 1 January 2018	68,890
Currency realignment	(3,167)
At 31 December 2018	65,723
Currency realignment	(1,440)
At 31 December 2019	64,283
DEPRECIATION	
At 1 January 2018	8,550
Currency realignment	(393)
Provided for the year	1,360
At 31 December 2018	9,517
Currency realignment	(210)
Provided for the year	1,331
At 31 December 2019	10,638
CARRYING VALUES	
At 31 December 2019	53,645
At 31 December 2018	56,206

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

The fair value of the Group's investment property at 31 December 2019 was HK$98,793,000 (2018: HK$100,320,000). 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. The income capitalization approach is calculated by capitalizing the rental income derived from the existing tenancies with due provision for any reversionary income potential. There has been no change from the valuation technique used in the prior year.

19. INVESTMENT PROPERTY (CONTINUED)

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$'000	**Fair value as at 31.12.2019 HK$'000**
Research and development center located in the PRC	**98,793**	**98,793**

	Level 3 HK$'000	Fair value as at 31.12.2018 HK$'000
Research and development center located in the PRC	100,320	100,320

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

20. GOODWILL

	HK$'000
COST	
At 1 January 2018	431,292
Currency realignment	(4,961)
Arising on acquisitions of subsidiaries *(note 41)*	654,081
At 31 December 2018	1,080,412
Currency realignment	(9,965)
At 31 December 2019	1,070,447
IMPAIRMENT	
At 1 January 2018, 31 December 2018 and 31 December 2019	22,596
CARRYING VALUES	
At 31 December 2019	1,047,851
At 31 December 2018	1,057,816

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

21. INTANGIBLE ASSETS

	Sales backlog HK$'000	Trade name HK$'000	Technology HK$'000	Customer bases HK$'000	Licenses and similar rights HK$'000	Total HK$'000
COST						
At 1 January 2018	—	246,628	178,986	218,887	87,460	731,961
Currency realignment	(77)	(207)	(4,030)	(1,648)	(3,795)	(9,757)
Acquired on acquisitions of subsidiaries *(note 41)*	50,622	145,630	400,742	267,428	276	864,698
Additions	—	—	97	—	15,215	15,312
At 31 December 2018	50,545	392,051	575,795	484,667	99,156	1,602,214
Currency realignment	(421)	(2,791)	(5,430)	(4,298)	(2,434)	(15,374)
Additions	—	—	40	—	4,308	4,348
At 31 December 2019	50,124	389,260	570,405	480,369	101,030	1,591,188
AMORTIZATION						
At 1 January 2018	—	—	65,451	54,724	69,685	189,860
Currency realignment	6	—	134	121	(3,008)	(2,747)
Charge for the year	41,269	—	34,013	25,022	9,175	109,479
At 31 December 2018	41,275	—	99,598	79,867	75,852	296,592
Currency realignment	(345)	—	(693)	(526)	(1,862)	(3,426)
Charge for the year	5,666	—	49,975	40,415	11,894	107,950
At 31 December 2019	46,596	—	148,880	119,756	85,884	401,116
CARRYING VALUES						
At 31 December 2019	3,528	389,260	421,525	360,613	15,146	1,190,072
At 31 December 2018	9,270	392,051	476,197	404,800	23,304	1,305,622

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

The trade name is an intangible asset 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. The other intangible assets are amortized on a straight-line basis at below rates per annum:

Sales backlog	100%
Technology	7% to 10%
Customer bases	7% to 10%
Licenses and similar rights	20% to $33^1/_3$%

22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIFE

For the purposes of impairment testing, goodwill and trade name with indefinite useful life set out in notes 20 and 21, respectively, have been allocated to group of cash generating units ("CGUs"), comprising certain subsidiaries in the back-end equipment and surface mount technology solutions ("SMT") Businesses. The carrying amounts of goodwill and trade name as at 31 December 2019 and 2018 allocated to these groups of CGUs are as follows:

	Goodwill		Trade name	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Back-end Equipment Business				
AMICRA *(defined in note 41)*	**224,510**	225,822	**38,280**	38,503
NEXX *(defined in note 41)*	**217,450**	218,721	**78,510**	78,969
	441,960	444,543	**116,790**	117,472
SMT Solutions Business				
Placement and printing business	**407,221**	409,601	**245,739**	247,175
Manufacturing execution software business	**198,670**	203,672	**26,731**	27,404
	605,891	613,273	**272,470**	274,579

For back-end equipment and SMT solutions businesses, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful life during the years ended 31 December 2019 and 2018.

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

Back-end Equipment Business

The recoverable amount of these units have been determined based on a value in use calculation. These calculations use cash flow projections based on financial budgets approved by the directors covering a five-year period, and pre-tax discount rate of 19.3% (2018: 19.3%) for AMICRA and 18.2% (2018: 17.5%) for NEXX. The cash flows beyond the five-year period are extrapolated using a steady 3% (2018: 3%) growth rate. These growth rates are 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.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the CGUs to exceed their respective recoverable amount.

22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIFE (CONTINUED)

SMT Solutions Business

The recoverable amount of these units have been determined based on a value in use calculation. For placement and printing business, that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and pre-tax discount rate of 20.7% (2018: 21.2%). The cash flows beyond the five-year period are extrapolated using a steady 2.5% (2018: 2.5%) growth rate. For manufacturing execution software business, that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and pre-tax discount rate of 21.7% (2018: 21.5%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2018: 3%) growth rate. These growth rates are 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 carrying amount of each of the CGUs to exceed their respective recoverable amount.

23. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represented property interests in leasehold land outside Hong Kong. Upon the adoption of HKFRS 16 "Leases" on 1 January 2019, prepaid lease payments were reclassified as "right-of-use assets".

Analyzed for reporting purposes as:

	2019 HK$'000	2018 HK$'000
Current	–	3,863
Non-current	–	126,732
	–	130,595

24. OTHER INVESTMENTS

	2019 HK$'000	2018 HK$'000
Unlisted investments		
— Equity securities	**93,471**	56,355

The above unlisted equity investments represents investment in unlisted equity investments issued by private entities incorporated in Germany, USA and England which are denominated in Euro and US dollar respectively. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as the Group intends to hold these unlisted equity investments for long term strategic purposes.

25. INVENTORIES

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

	2019 HK$'000	2018 HK$'000
Raw materials	**1,769,683**	1,664,719
Work in progress	**2,988,405**	3,271,055
Finished goods	**1,533,188**	1,606,165
	6,291,276	6,541,939

26. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables *(Note)*	**4,324,297**	5,497,113
Value added tax recoverable	**198,590**	277,198
Tax reserve certificate recoverable	**3,828**	381,166
Other receivables, deposits and prepayments	**183,455**	169,424
	4,710,170	6,324,901

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:

	2019 HK$'000	2018 HK$'000
Not yet due *(Note)*	**2,947,345**	4,028,545
Overdue within 30 days	**579,536**	658,525
Overdue within 31 to 60 days	**388,540**	327,609
Overdue within 61 to 90 days	**91,654**	147,338
Overdue over 90 days	**317,222**	335,096
	4,324,297	5,497,113

Note: The amount included notes receivables amounting to HK$778,536,000 (2018: HK$1,250,430,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

Rental deposits paid were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 46.

26. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$1,376,952,000 (2018: HK$1,468,568,000) which are past due as at the reporting date. The Group considers the information developed internally or obtained from external sources and considered that the debtor is likely to pay its creditors, including the Group, and the past due balances are therefore, not considered as in default.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Foreign currency forward contracts	**3,482**	**9,295**	1,852	32,697

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$1.1115 to US$1.1736 (2018: US$1.1452 to US$1.2663) per one Euro with future maturity dates ranging from 22 January 2020 to 18 November 2020 (2018: 23 January 2019 to 20 November 2019) at an aggregate notional amount of US$105,400,000, equivalent to approximately HK$820,687,000 (2018: US$168,300,000, equivalent to approximately HK$1,318,109,000).

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

The pledged bank deposits represent bank deposits pledged to a bank as security for issuance of guarantee relating to business operations.

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0% to 8.75% (2018: 0% to 8.75%) per annum during the year ended 31 December 2019.

29. TRADE LIABILITIES AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**1,406,438**	1,329,947
Deferred income *(Note)*	**104,991**	130,944
Accrued salaries and wages	**294,719**	332,172
Other accrued charges	**475,557**	758,990
Accrual for tax-related expense	**—**	168,400
Payables arising from acquisition of property, plant and equipment	**139,421**	151,978
Consideration payable for acquisition *(note 41)*	**—**	28,330
Contingent consideration for acquisitions *(note 41)*	**29,489**	20,036
Other payables	**219,796**	244,681
	2,670,411	3,165,478

Note: The amounts mainly represent the spare credits that grant customers the right to purchase certain amounts of spare parts for free, which are contract liabilities.

Accrued lease payments were adjusted upon initial application of HKFRS 16. Details of the adjustments are set out in note 2.

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

	2019 HK$'000	2018 HK$'000
Not yet due	**1,145,346**	954,686
Overdue within 30 days	**165,684**	194,825
Overdue within 31 to 60 days	**53,644**	100,480
Overdue within 61 to 90 days	**22,238**	47,032
Overdue over 90 days	**19,526**	32,924
	1,406,438	1,329,947

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.

30. ADVANCE PAYMENTS FROM CUSTOMERS

The amounts represent advance payment received from customers in relation to their purchase orders of equipment placed with the Group. At 31 December 2018 and 2019, the advance payments from customers are contract liabilities and the Group does not expect to refund any of the advance payments.

When the Group receives a deposit before the delivery of equipment, this will give rise to contract liabilities at the start of the contract, until the revenue recognized on the relevant contract. The Group typically receives a certain percentage of deposit on acceptance of purchase orders.

31. LEASE LIABILITIES

	At 31 December 2019 HK$'000
Lease liabilities payable:	
Within one year	188,303
Within a period of more than one year but not more than two years	154,531
Within a period of more than two years but not more than five years	372,118
Within a period of more than five years	835,132
	1,550,084
Less: Amount due for settlement within 12 months shown under current liabilities	(188,303)
Amount due for settlement after 12 months shown under non-current liabilities	1,361,781

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Renminbi HK$'000	Singapore dollar HK$'000	South Korean won HK$'000	Others HK$'000
As at 31 December 2019	310,739	14,178	13,158	8,588

32. OBLIGATIONS UNDER FINANCE LEASES

	2019 HK$'000	2018 HK$'000
Analyzed for reporting purposes as:		
Current liabilities	330	410
Non-current liabilities	388	736
	718	1,146

(a) A subsidiary leased certain of its fixtures and equipment under finance leases. The average lease term is 4.5 years (2018: 4.5 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.30% to 6.78% (2018: 3.30% to 6.78%) per annum. These leases have purchase options at the end of the lease terms.

32. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

(b)

	Minimum lease payments		Present value of minimum lease payments	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Obligations under finance leases payable:				
— Within one year	**350**	453	**330**	410
— Within a period of more than one year but not more than two years	**167**	359	**157**	338
— Within a period of more than two years but not more than five years	**237**	414	**231**	398
	754	1,226	**718**	1,146
Less: Future finance charges	**(36)**	(80)	**N/A**	N/A
Present value of lease obligations	**718**	1,146	**718**	1,146
Less: Amount due for settlement within one year (shown under current liabilities)			**(330)**	(410)
Amount due for settlement after one year (shown under non-current liabilities)			**388**	736

33. PROVISIONS

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

	2019 HK$'000	2018 HK$'000
Current	**283,696**	330,933
Non-current	**53,024**	48,528
	336,720	379,461

33. PROVISIONS (CONTINUED)

The Group's provisions mainly comprise warranty provision of HK$251,366,000 (2018: HK$329,783,000). The movement of the warranty provision and restructuring provision are as follows:

	Warranty provision HK$'000	**Restructuring provision HK$'000**
At 1 January 2018	327,048	—
Currency realignment	(13,050)	—
Arising from acquisitions of subsidiaries *(Note 41)*	11,236	—
Additions	210,863	19,067
Utilization	(206,314)	(15,158)
At 31 December 2018	329,783	3,909
Currency realignment	(7,600)	79
Additions	140,240	41,777
Utilization	(211,057)	(10,507)
At 31 December 2019	251,366	35,258

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.

A subsidiary of the Group was involved in a litigation with a third party in relation to the infringement of a patent for which the High Court ruled in favour of the third party. A hearing for the assessment of damages scheduled in the High Court for the second half of May 2020 has been vacated, and new hearing dates will be provided in due course.

During the year ended 31 December 2019, the third party provided its consultant's report calculating what was alleged to be the total net profit that it would have received had it manufactured and sold a certain number of machines during the relevant period. At this stage, the subsidiary's external lawyers have advised that no reasonable assessment of the said consultant report can be made yet.

Based on the directors' estimate of the expenditure required to settle the Group's obligations, a provision of approximately HK$14,600,000 (31 December 2018: HK$14,600,000) was made.

34. 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 of HK$98.21 per share (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). 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, 17 August 2017 and 14 May 2018.

34. 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 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.

None of the convertible bonds was redeemed or converted during the year ended 31 December 2018 and for the period from 1 January 2019 to the Maturity Date. The convertible bonds was fully redeemed on 28 March 2019. The convertible bonds equity reserve of HK$250,249,000 was transferred to retained profits upon redemption.

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 2018	2,133,727	250,249	2,383,976
Interest charge during the year *(note 10)*	147,822	—	147,822
Interest paid	(45,000)	—	(45,000)
At 31 December 2018 and 1 January 2019	2,236,549	250,249	2,486,798
Interest charge during the year *(note 10)*	35,951	—	35,951
Interest paid	(22,500)	—	(22,500)
Redemption on 28 March 2019	(2,250,000)	(250,249)	(2,500,249)
At 31 December 2019	—	—	—

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

	2019 HK$'000	2018 HK$'000
Current liabilities		
Interest payable on convertible bonds (included in trade liabilities and other payables)	–	11,897
Convertible bonds	–	2,224,652
	–	2,236,549

35. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
The carrying amount of the bank borrowings are repayable:		
Within one year	**321,364**	786,021
Within a period of more than one year but not exceeding two years	**221,680**	469,929
Within a period of more than two years but not exceeding five years	**2,500,438**	3,811
	3,043,482	1,259,761
Less: Amounts due within one year shown under current liabilities	**(321,364)**	(786,021)
Amounts shown under non-current liabilities	**2,722,118**	473,740

	2019 HK$'000	2018 HK$'000
Fixed-rate borrowings	**9,404**	15,469
Variable-rate borrowings	**3,034,078**	1,244,292
	3,043,482	1,259,761

The Group's bank borrowings are unsecured.

The Group's variable-rate bank borrowings bear interest at London Interbank Offered Rate ("LIBOR") or Hong Kong Interbank Offered Rate ("HIBOR") plus a margin per annum.

The ranges of effective interest rates on the Group's bank borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate bank borrowings	**2.35% to 2.75%**	2.35% to 2.75%
Variable-rate bank borrowings	**0.80% to 3.77%**	0.80% to 3.81%

36. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2019 '000	2018 '000	**2019 HK$'000**	2018 HK$'000
Issued and fully paid:				
At 1 January	**406,671**	409,083	**40,667**	40,908
Share repurchased and cancelled	**—**	(4,658)	**—**	(465)
Shares issued under the Scheme	**2,224**	2,246	**222**	224
At 31 December	**408,895**	406,671	**40,889**	40,667

The authorized share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each, at 31 December 2019 and 2018 and 1 January 2018.

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of shares of HK$0.10 each	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid HK$'000
January	**947,900**	**110.0**	**107.9**	**104,124**
April	**1,362,700**	**110.0**	**109.5**	**149,872**
May	**500,000**	**103.2**	**102.5**	**51,500**
	2,810,600			**305,496**

During the year ended 31 December 2018, 4,657,600 (2019: nil) 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.

During the year, 2,224,200 (2018: 2,245,900) shares were issued at par to eligible employees and members of management under the Scheme.

37. EMPLOYEE SHARE INCENTIVE SCHEME

Existing Employee Share Incentive Scheme

The Scheme is for the benefit of the Group's employees and members of management and had an initial 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.

The Scheme was further extended for another 10 years up to 23 March 2020 pursuant to an annual general meeting of the Company on 24 April 2009, which allowed 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) was to be subscribed for or purchased pursuant to the Scheme.

On 28 March 2012, and by virtue of the Scheme, a Share Award Scheme ("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 ("Group") under the Scheme ("Award Shares"). The Share Award Scheme is valid and effective until 23 March 2020. 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 in trust for the grantees during the defined qualification periods.

2018

On 23 March 2018, the directors resolved to contribute HK$42.8 million to the Scheme, enabling the Trustee to subscribe or purchase a total of 2,623,200 shares in the Company for the benefit of certain employees and members of the management of the Group who shall remain employment within the Group upon the expirations of the respective defined qualification periods, of which 2,145,300 shares and 477,900 shares relate to qualification periods expired on 14 December 2018 and 16 December 2019 respectively. The directors also resolved to instruct the Trustee to purchase 354,600 shares at the market price as soon as practicable on the Stock Exchange pursuant to the Share Award Scheme.

On 14 December 2018, out of 2,633,500 shares relating to the qualification period which expired on that day (comprising 488,200 shares and 2,145,300 shares as resolved by the Board on 17 March 2017 and 23 March 2018 to be granted pursuant to the Scheme respectively), 2,245,900 shares were issued and 33,000 share entitlements were forfeited and unallocated by the Company. 354,600 Award Shares vested on the same day.

37. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

2019

On 27 March 2019, the directors resolved to contribute HK$53.6 million to the Scheme, enabling the Trustee to subscribe or purchase 1,946,900 shares in the Company for the benefit of certain employees and members of the management of the Group who shall remain employment within the Group upon the expiration of the qualification period on 16 December 2019. On 23 May 2019, the directors also resolved to instruct the Trustee to purchase 386,400 shares at market price as soon as practicable on the Stock Exchange pursuant to the Share Award Scheme.

On 16 December 2019, out of 2,668,700 shares relating to the qualification period which expired on that day (comprising 243,900 shares, 477,900 shares and 1,946,900 shares as resolved by the Board on 17 March 2017, 23 March 2018 and 27 March 2019 to be granted pursuant to the Scheme respectively), 2,224,200 shares were issued, 58,100 share entitlements were forfeited and unallocated by the Company. 384,900 Award Shares vested on the same day. 1,500 shares that were not vested will continue to be held by the Trustee in trust.

New Employee Share Incentive Scheme

Further, a new employee share incentive scheme was approved by the shareholders of the Company at an annual general meeting held on 7 May 2019, which shall replace and supersede the Scheme with effect from 24 March 2020. Details of the new employee incentive scheme were set out in the circular dated 1 April 2019 which was dispatched to shareholders.

Share-based Payments

The fair value of the shares granted pursuant to the Scheme in 2018 and 2019 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 were not entitled to receive dividends paid during the vesting periods.

The Group recognized share-based payments amounting to HK$196,039,000 for the year ended 31 December 2019 (2018: HK$289,031,000) in relation to the shares granted pursuant to the Scheme in 2019 and 2018 by the Company, such an amount being determined by the fair value of the shares granted at the grant date.

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2019 are as follows:

		Number of shares					
Date of grant	Vesting period	At 1 January 2019	Granted on 27 March 2019	Allocated as Award Shares on 27 March 2019	Shares issued on 16 December 2019	Shares entitlement forfeited on 16 December 2019	At 31 December 2019
17 March 2017	17 March 2017 to 16 December 2019	243,900	–	(120,700)	(119,500)	(3,700)	–
23 March 2018	23 March 2018 to 16 December 2019	477,900	–	(249,400)	(221,800)	(6,700)	–
27 March 2019	27 March 2019 to 16 December 2019	–	1,946,900	(16,300)	(1,882,900)	(47,700)	–
		721,800	1,946,900	(386,400)	(2,224,200)	(58,100)	–

37. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

Share-based Payments (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 2018 are as follows:

		Number of shares					
Date of grant	Vesting period	At 1 January 2018	Granted on 23 March 2018	Allocated as Award Shares on 23 March 2018	Shares issued on 14 December 2018	Shares entitlement forfeited on 14 December 2018	At 31 December 2018
17 March 2017	17 March 2017 to 14 December 2018	488,200	—	(232,700)	(255,500)	—	—
17 March 2017	17 March 2017 to 16 December 2019	243,900	—	—	—	—	243,900
23 March 2018	23 March 2018 to 14 December 2018	—	2,145,300	(121,900)	(1,990,400)	(33,000)	—
23 March 2018	23 March 2018 to 16 December 2019	—	477,900	—	—	—	477,900
		732,100	2,623,200	(354,600)	(2,245,900)	(33,000)	721,800

Movement of Award Shares purchased is as follows:

	Number of shares purchased '000	Cost of purchase HK$'000
At 1 January 2018	—	—
Shares purchased from the market during the year	355	40,473
Award Shares vested	(355)	(40,473)
At 31 December 2018 and 1 January 2019	—	—
Shares purchased from the market during the year	386	34,045
Award Shares vested	(385)	(33,913)
At 31 December 2019	1	132

38. 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.

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined contribution plans (Continued)

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

The amount charged to profit or loss of HK$251,676,000 (2018: HK$250,637,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans. For the years ended 31 December 2019 and 2018, there were no forfeitures arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2019 and 2018, 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 group entities operate funded defined benefits pension scheme for all their qualified employees.

Pension benefits provided by these group entities are currently organized primarily through defined benefit pension plans which cover virtually most of the German employees and certain foreign employees of these group entities.

Furthermore, these group 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 these group 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.

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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 2019 by independent qualified actuaries, Aon Hewitt GmbH, a member of the International Actuarial Association.

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

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

	31 December	
	2019	2018
Discount rate	**0.90%**	2.00%
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:

	2019 HK$'000	2018 HK$'000
Principal pension benefit plans *(Note a)*	**235,213**	145,834
Other post-employment benefit plans *(Note b)*	**20,482**	20,873
Other retirement benefit obligations *(Note c)*	**4,856**	4,808
	260,551	171,515

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Fair value of plan assets	**515,564**	452,408
Total present value of DBO		
Defined benefit obligation (funded)	**(744,300)**	(593,157)
Defined benefit obligation (unfunded)	**(6,477)**	(5,085)
Net liability arising from defined benefit obligation	**(235,213)**	(145,834)

The actuarial valuation showed that market value of the plan assets was HK$515,564,000 (2018: HK$452,408,000) and that the actuarial value of these represented 69% (2018: 76%) of the benefits that had accrued to members.

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

	2019 HK$'000	2018 HK$'000
At 1 January	**452,408**	459,069
Currency realignment	**(9,688)**	(19,842)
Interest income	**9,316**	8,252
Return (loss) on plan assets (excluding amounts included in net interest expenses)	**37,293**	(21,484)
Benefits paid	**(1,722)**	—
Employer contribution	**27,957**	26,413
At 31 December	**515,564**	452,408

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

Asset class	2019 HK$'000	2018 HK$'000
Fixed income and corporate bonds	**295,428**	276,557
Equity securities	**139,828**	121,245
Cash and other assets	**80,308**	54,606
	515,564	452,408

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 2019 was a net gain of HK$46,609,000 (2018: net loss of HK$13,232,000).

38. 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:

	2019 HK$'000	2018 HK$'000
At 1 January	598,242	613,886
Currency realignment	(5,657)	(26,400)
Current service cost	29,422	29,283
Interest cost	12,438	10,731
Remeasurement losses (gains)		
Actuarial loss (gain) arising from changes in financial assumptions	106,091	(17,174)
Actuarial loss (gain) arising from experience adjustments	14,108	(10,516)
Actuarial losses arising from changes in demographic assumptions	26	2,519
Benefits paid	(3,893)	(4,087)
At 31 December	750,777	598,242

(b) Other post-employment benefit plans

Employees who joined ASM Assembly Systems GmbH & Co. KG ("ASM AS KG"), a subsidiary of the Company 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:

	2019 HK$'000	2018 HK$'000
Defined benefit obligation (unfunded)	20,482	20,873

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

	2019 HK$'000	2018 HK$'000
At 1 January	20,873	22,151
Currency realignment	(514)	(958)
Current service cost	564	620
Past service cost	—	183
Interest cost	388	366
Remeasurement losses (gains)		
Actuarial loss (gain) arising from changes in financial assumptions	989	(202)
Actuarial gains arising from experience adjustments	(944)	(1,145)
Actuarial gain arising from changes in demographic assumptions	—	(142)
Benefits paid	(874)	—
At 31 December	20,482	20,873

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

(c) Other retirement benefit obligations

As at 31 December 2019, 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$4,856,000 (2018: HK$4,808,000).

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$52,345,000 (increase by HK$60,959,000) (2018: decrease by HK$39,346,000 (increase by HK$45,361,000)).

- If the expected rate of pension progression increases (decreases) by 50 basis points, the defined benefit obligation would increase by HK$39,214,000 (decrease by HK$35,241,000) (2018: increase by HK$28,324,000 (decrease by HK$25,573,000)).

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

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated 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 40% equity instruments and 60% 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 2019 is 15.10 years (2018: 14.00 years).

The Group expects to make a contribution of HK$27,889,000 (2018: HK$28,661,000) to the defined benefit plans during the next financial year.

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

For the year ended 31 December 2019

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Remeasurement losses	**(82,932)**	**(45)**	**(82,977)**
Income tax effect	**27,047**	**14**	**27,061**
	(55,885)	**(31)**	**(55,916)**

For the year ended 31 December 2018

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Remeasurement gains	3,687	1,489	5,176
Income tax effect	(1,287)	(489)	(1,776)
	2,400	1,000	3,400

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

For the year ended 31 December 2019

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	29,422	564	29,986
Net interest expense	3,122	388	3,510
Components of defined benefit costs recognized in profit or loss	32,544	952	33,496
Remeasurement (gains) losses:			
Return on plan assets (excluding amounts included in net interest expense)	(37,293)	—	(37,293)
Actuarial losses arising from changes in financial assumptions	106,091	989	107,080
Actuarial loss (gain) arising from experience adjustments	14,108	(944)	13,164
Actuarial losses arising from change in demographic assumptions	26	—	26
Components of defined benefit costs recognized in other comprehensive (income) expense	82,932	45	82,977
Total	115,476	997	116,473

38. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

For the year ended 31 December 2018

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	29,283	620	29,903
Past service cost	—	183	183
Net interest expense	2,479	366	2,845
Components of defined benefit costs recognized in profit or loss	31,762	1,169	32,931
Remeasurement (gains) losses:			
Loss on plan assets (excluding amounts included in net interest expense)	21,484	—	21,484
Actuarial gains arising from changes in financial assumptions	(17,174)	(202)	(17,376)
Actuarial gains arising from experience adjustments	(10,516)	(1,145)	(11,661)
Actuarial losses (gain) arising from change in demographic assumptions	2,519	(142)	2,377
Components of defined benefit costs recognized in other comprehensive (income) expense	(3,687)	(1,489)	(5,176)
Total	28,075	(320)	27,755

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.

39. 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 2018 (restated)	(29,792)	19,089	109,090	149,595	22,308	37,120	21,919	329,329
Acquisitions of subsidiaries *(note 41)*	(235,791)	5,948	—	(6,298)	(12,349)	2,486	8,259	(237,745)
Credit (charge) to profit or loss for the year	8,702	(12,973)	617	9,494	10,882	5,521	470	22,713
Charge to other comprehensive income for the year	—	—	(1,776)	—	—	—	—	(1,776)
Currency realignment	1,490	(1,397)	(4,653)	(1,572)	(352)	(1,611)	1	(8,094)
At 31 December 2018	(255,391)	10,667	103,278	151,219	20,489	43,516	30,649	104,427
Adjustments due to adopting new standards *(note 2)*	—	—	—	—	—	—	12,342	12,342
At 1 January 2019 (restated)	(255,391)	10,667	103,278	151,219	20,489	43,516	42,991	116,769
Credit (charge) to profit or loss for the year	9,474	11,695	11,668	(12,732)	22,233	(3,488)	(27,874)	10,976
Charge to other comprehensive income for the year	—	—	27,061	—	—	—	—	27,061
Currency realignment	2,320	(547)	(2,590)	(1,659)	(482)	(961)	(51)	(3,970)
At 31 December 2019	(243,597)	21,815	139,417	136,828	42,240	39,067	15,066	150,836

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.

39. DEFERRED TAXATION (CONTINUED)

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**384,624**	355,210
Deferred tax liabilities	**(233,788)**	(250,783)
	150,836	104,427

At 31 December 2019, the Group had unused tax losses of HK$556,312,000 (2018: HK$444,096,000), subject to the approval by the relevant tax authorities, available to offset future taxable profits. At 31 December 2019, a deferred tax asset amounting to HK$21,815,000 (2018: HK$10,667,000) was recognized for tax losses amounting to HK$98,156,000 (2018: HK$47,543,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$458,156,000 (2018: HK$396,553,000) due to the unpredictability of future profit streams. At 31 December 2019, included in the unrecognized tax losses are losses of HK$6,011,000 that would expire during 2020 to 2024 (2018: HK$11,798,000 that will expire during 2020 to 2023). 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$4,435,409,000 (2018: HK$3,746,816,000) 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 be reversed in the foreseeable future.

40. OTHER LIABILITIES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Gross obligation to acquire non-controlling interests *(Note)*	**87,965**	90,179
Contingent consideration for acquisitions *(note 41)*	**—**	33,027
Other payables and accruals	**61,981**	53,653
	149,946	176,859

Note:

On 26 July 2018, the Group entered into a promissory agreement for acquiring the remaining shares of Critical Manufacturing (defined in note 41) in which the Group is obliged to acquire the remaining 22.08% non-controlling interests of Critical Manufacturing from the management shareholders (the "Holders") at the end of third anniversary of this acquisition.

40. OTHER LIABILITIES AND ACCRUALS (CONTINUED)

Note: (Continued)

The consideration payable to the Holders is ranging from EUR6,535,000 (equivalent to approximately HK$58,900,000) to EUR18,670,000 (equivalent to approximately HK$168,286,000) which will be calculated by reference to the accumulated operating performance of Critical Manufacturing (i.e. revenue and earnings before interest, taxes depreciation and amortization ("EBITDA")) during the three years ending 31 December 2020. Multiple scenario analysis of the expected operating performance is adopted to derive the gross obligation based on an appropriate discount rate.

At initial recognition, the consideration payable to the Holders arising from a forward contract to acquire non-controlling interests represents the present value of the obligation to deliver the shares to the Group with discount rate of 1.4% on 1 August 2018 amounting to EUR10,056,000 (equivalent to approximately HK$92,644,000, HK$90,179,000 and HK$87,965,000 on 1 August 2018, 31 December 2018 and 31 December 2019 respectively). This amount has been recognized in the consolidated statement of financial position as a gross obligation with a corresponding debit to the non-controlling interests.

41. ACQUISITIONS OF BUSINESSES

Acquisition of AMICRA Microtechnologies GmbH ("AMICRA") in 2018

On 3 April 2018, the Group entered into a share purchase agreement to acquire 100% equity interest in AMICRA subsequently renamed as ASM AMICRA Microtechnologies GmbH, a technology company based in Regensburg, Germany, at a purchase price of EUR52,000,000 (equivalent to approximately HK$502,325,000), subject to certain adjustments as set out in the share purchase agreement ("AMICRA Acquisition"). The consideration for AMICRA Acquisition is EUR52,047,000 (equivalent to approximately HK$502,647,000). AMICRA is a supplier of ultra-high precision die-attach equipment specialising in submicron placement accuracy. The AMICRA Acquisition was completed on 4 April 2018 and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$5,297,000 had been excluded from the cost of AMICRA Acquisition and had been recognized directly as an expense in the current year and included in the "general and administrative expenses" line item in the consolidated statement of profit or loss.

41. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of AMICRA Microtechnologies GmbH ("AMICRA") in 2018 (Continued)

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

	HK$'000
Property, plant and equipment	48,306
Intangible assets	257,559
Deposits paid for acquisition of property, plant and equipment	348
Inventories	133,256
Trade and other receivables	51,034
Bank balances and cash	1,308
Trade liabilities and other payables	(23,399)
Advance payments from customers	(38,396)
Provisions	(1,294)
Income tax payables	(1,402)
Obligations under finance leases	(1,515)
Bank borrowings	(63,781)
Deferred tax liabilities	(85,668)
	276,356
Net cash outflow arising on acquisition:	
Purchase consideration	502,647
Less: Cash and cash equivalent balances acquired	(1,308)
Contingent consideration *(Note)*	(14,384)
	486,955
Goodwill arising on acquisition:	
Purchase consideration	502,647
Less: Fair value of identified net assets acquired	(276,356)
	226,291

Note: The contingent consideration arrangement required the Group to pay the co-founders of AMICRA additional earn-out payments by reference to the operating performance of AMICRA (i.e. revenue and EBITDA) for the 12-month period ending 31 October 2019 and the 12-month period ending 31 October 2018, respectively ("Relevant Periods") pursuant to the share purchase agreement. At the date of acquisition, the directors consider that the fair value of the contingent consideration was the earn-out payments payable to the co-founders of AMICRA during the Relevant Periods which is estimated to be approximately EUR1,489,000 (equivalent to approximately HK$14,384,000) by reference to the estimated sales performance and profit forecast of AMICRA. The contingent consideration payable of HK$6,828,000 expected to be settled within twelve months from the reporting period is included in "Trade liabilities and other payables" and the remaining amount of HK$7,556,000 expected to be settled more than twelve months after the reporting period is included in "Other liabilities and accruals" under the non-current liabilities.

The trade receivables acquired in this acquisition had a fair value of HK$48,910,000, which was the same as the related gross contractual amount and the best estimate at acquisition date of the contractual cash flows expected to be collected.

Goodwill arose in AMICRA Acquisition because the cost of the combination includes a control premium. In addition, the consideration paid for the combination effectively included an amount in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of AMICRA. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

41. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of Critical Manufacturing, S.A. ("Critical Manufacturing") in 2018

On 26 July 2018, the Group entered into a share purchase agreement to acquire 77.92% equity interest in Critical Manufacturing ("Critical Manufacturing Acquisition"), a software company based in Porto, Portugal at a consideration of EUR35,488,000 (equivalent to approximately HK$326,940,000). Critical Manufacturing is engaging in the development, marketing and sales of manufacturing execution systems software solutions. The Critical Manufacturing Acquisition was completed on 1 August 2018 and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$2,441,000 had been excluded from the cost of Critical Manufacturing Acquisition and had been recognized directly as an expense in current year and included in the "general and administrative expenses" line item in the consolidated statement of profit or loss.

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

	HK$'000
Property, plant and equipment	3,252
Intangible assets	207,034
Deferred tax assets	6,586
Other non-current assets	265
Trade and other receivables	31,892
Income tax recoverable	2,688
Bank deposits with original maturity of more than three months	7,369
Bank balances and cash	16,037
Trade liabilities and other payables	(18,735)
Advance payments from customers	(3,120)
Income tax payables	(581)
Deferred tax liabilities	(42,180)
Other liabilities and accruals	(191)
	210,316
Net cash outflow arising on acquisition:	
Purchase consideration	326,940
Less: Cash and cash equivalent balances acquired	(16,037)
	310,903
Goodwill arising on acquisition:	
Purchase consideration	326,940
Plus: non-controlling interests (22.08% in Critical Manufacturing)	92,644
Less: Fair value of identified net assets acquired	(210,316)
	209,268

The non-controlling interests (22.08%) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to HK$92,644,000. This fair value was estimated by applying an income approach. The key model inputs used in determining the fair value are assumed discount rate of 18% and assumed long-term sustainable growth rate of 3%.

41. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of Critical Manufacturing, S.A. ("Critical Manufacturing") in 2018 (Continued)

The trade receivables acquired in this acquisition had a fair value of HK$28,278,000. The gross contractual amount of those trade receivables acquired amounted to HK$29,546,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows expected to be collected.

Goodwill arose in Critical Manufacturing Acquisition because the cost of the combination includes a control premium. In addition, the consideration paid for the combination effectively included an amount in relation to the benefit of expected sales and products synergies, cost synergies and technological integration of Critical Manufacturing. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

Acquisition of TEL NEXX Business in 2018

On 3 April 2018, the Group entered into a purchase agreement with Tokyo Electron U.S. Holdings, Inc. ("Seller") in relation to acquire 100% equity interest in TEL NEXX Inc. ("NEXX"), subsequently renamed as ASM NEXX Inc., a company based in the USA, at a consideration of US$103,999,000 (equivalent to approximately HK$813,773,000) ("NEXX Acquisition"). NEXX is a supplier of electrochemical deposition and physical vapour deposition equipment for advanced packaging of semiconductor devices. The NEXX Acquisition was completed on 1 October 2018 and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$8,617,000 had been excluded from the cost of NEXX Acquisition and had been recognized directly as an expense in current year and included in the "general and administrative expenses" line item in the consolidated statement of profit or loss.

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

	HK$'000
Property, plant and equipment	73,379
Intangible assets	400,105
Inventories	173,293
Trade and other receivables	175,225
Bank balances and cash	35
Trade liabilities and other payables	(85,218)
Advance payments from customers	(10,407)
Provisions	(9,942)
Other liabilities and accruals	(4,736)
Deferred tax liabilities	(116,483)
	595,251
Net cash outflow arising on acquisition:	
Purchase consideration	813,773
Less: Cash and cash equivalent balances acquired	(35)
Consideration payable	(28,302)
Contingent consideration *(Note)*	(37,233)
	748,203
Goodwill arising on acquisition:	
Purchase consideration	813,773
Less: Fair value of identified net assets acquired	(595,251)
	218,522

41. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of TEL NEXX Business in 2018 (Continued)

During the year ended 31 December 2019, consideration payable of HK$28,302,000 was paid.

Note: The contingent consideration arrangement required the Group to pay the Seller additional earn-out payments by reference to the revenue for the 12-month period ending 31 March 2019 and the 12-month period ending 31 March 2020, respectively ("Relevant Tranches") pursuant to the share purchase agreement. At the date of acquisition, the directors consider that the fair value of the contingent consideration was the earn-out payments payable to the Seller of NEXX during the Relevant Tranches which is estimated to be approximately US$4,758,000 (equivalent to approximately HK$37,233,000) by reference to the estimated sales performance and profit forecast of NEXX. The contingent consideration payable of HK$12,081,000 expected to be settled within twelve months from the reporting period is included in "Trade liabilities and other payables" and the remaining amount of HK$25,152,000 expected to be settled more than twelve months after the reporting period is included in "Other liabilities and accruals" under the non-current liabilities.

The trade receivables acquired in this acquisition had a fair value of HK$174,315,000. The gross contractual amount of those trade receivables acquired amounted to HK$175,841,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows expected to be collected.

Goodwill arose in NEXX Acquisition because the cost of the combination includes a control premium. In addition, the consideration paid for the combination effectively included an amount in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of NEXX. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

Impact of acquisitions on the results of the Group

Included in the profit for the year ended 31 December 2018 was loss of HK$52,000,000 attributable to AMICRA, Critical Manufacturing and NEXX ("Acquired Subsidiaries") which included purchase price allocation effect on these Acquired Subsidiaries. Revenue for the year ended 31 December 2018 includes HK$358,003,000 attributable to the Acquired Subsidiaries.

Had the acquisition of the Acquired Subsidiaries been completed on 1 January 2018, the total amount of revenue of the Group for the year ended 31 December 2018 would have been HK$20,192,507,000 and the amount of the profit for the year ended 31 December 2018 would have been HK$2,176,749,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the Acquired Subsidiaries been acquired at the beginning of the year, the directors of the Company have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

42. CONTINGENT LIABILITIES

As at 31 December 2019, the Group has provided guarantees amounting to HK$2,258,000 (2018: HK$2,905,000) to the Singapore government for work permits of foreign workers in Singapore.

43. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**141,033**	327,531

As at 31 December 2019, the Group also committed to invest HK$615,032,000 (2018: nil) in property, plant and equipment in relation to the purchase of a leasehold land in the PRC which has not contracted for the related additions.

44. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018 HK$'000
Minimum lease payments under operating leases during the year	
— land and buildings	258,740
— motor vehicles and others	14,962
	273,702

44. OPERATING LEASE COMMITMENTS (CONTINUED)

The Group as lessee (Continued)

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:

	2018		
	Land and buildings HK$'000	Motor vehicles and others HK$'000	Total HK$'000
Within one year	234,250	14,410	248,660
In the second to fifth years inclusive	676,001	16,317	692,318
Over five years	1,041,687	—	1,041,687
	1,951,938	30,727	1,982,665

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.

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 are set out in note 12.

Equipment leasing income earned during the year was HK$13,524,000 (2018: HK$59,000). Certain of the Group's equipment held for rental purposes, with a carrying amount of HK$43,749,000 (2018: HK$8,482,000).

Minimum lease payments receivable on leases are as follows:

	At 31 December 2019 HK$'000
Within one year	**44,212**
In the second year	**36,878**
In the third year	**13,455**
In the fourth year	**5,331**
In the fifth year	**5,554**
After five years	**11,473**
	116,903

44. OPERATING LEASE COMMITMENTS (CONTINUED)

The Group as lessor (Continued)

The Group had contracted with lessees for the following future minimum lease payments:

	At 31 December 2018 HK$'000
Within one year	15,012
In the second to fifth year inclusive	45,469
After five years	17,408
	77,889

45. 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.

46. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortized cost	**6,768,374**	7,881,080
Other investments — equity instruments at FVTOCI	**93,471**	56,355
Derivative financial instruments	**3,482**	1,852
Financial liabilities		
Amortized cost	**5,263,760**	5,790,460
Derivative financial instruments	**9,295**	32,697
Gross obligation to acquire non-controlling interests	**87,965**	90,179
Lease liabilities/obligations under finance leases	**1,550,802**	1,146
Contingent consideration for acquisitions	**29,489**	53,063

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's financial instruments include other investments, 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 liabilities and other payables, other liabilities, lease liabilities, contingent consideration for acquisitions and gross obligation to acquire non-controlling interests, obligations under finance leases, 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 41% and 36% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entities making the sales and the purchases.

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

	Currency	Assets		Liabilities	
		2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
The Group					
US dollar *(Note a)*	US$	**2,667,569**	2,605,396	**118,918**	700,789
Euro	EUR	**124,497**	126,541	**138,166**	164,997
Renminbi	RMB	**130,943**	155,076	**688,755**	399,880
Singapore dollar	S$	**90,331**	61,946	**140,813**	118,320
Japanese Yen	JPY	**9,408**	4,406	**112,293**	131,092
Others		**63,034**	98,309	**144,749**	114,030
Inter-company balances					
US dollar *(Note b)*	US$	**3,738,941**	3,966,800	**1,278,217**	1,687,915
Euro	EUR	**124,880**	203,203	**13,470**	6,008
Renminbi	RMB	**861,358**	1,536,318	**582**	2,208
Singapore dollar	S$	**798**	548	**797**	547
Japanese Yen	JPY	**21,502**	429	**—**	1,335
Others		**41,684**	37,234	**110,332**	198,683
Loan to foreign operations that form parts of a net investment					
US dollar *(Note c)*	US$	**819,093**	821,391	**819,093**	821,391
Euro	EUR	**—**	100,557	**—**	66,657
British Pound	GBP	**359,950**	337,515	**—**	—

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Notes:

(a) Included in the balances are US dollar financial assets and financial liabilities of HK$1,035,124,000 and HK$112,567,000 (2018: HK$835,074,000 and HK$65,522,000), 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$507,887,000 and HK$498,378,000 (2018: HK$828,959,000 and HK$1,039,031,000), respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

(c) Included in the balances are US dollar financial liabilities of HK$819,093,000 (2018: HK$821,391,000) 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.

<u>Foreign currency sensitivity analysis</u>

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

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 27).

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 sensitivity analysis also include intra-group balances and loans to foreign operations that form part of a net investment where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. 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 Pound impact (vi)	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
(Decrease) increase in post-tax profit	**(3,045)**	(5,947)	**(37,872)**	(24,419)	**(20,080)**	(64,005)	**3,810**	5,962	**2,056**	2,650	**–**	–
(Decrease) increase in exchange reserve	**–**	(1,693)	**30,364**	30,447	**–**	–	**–**	–	**–**	–	**(15,028)**	(14,091)

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Foreign currency sensitivity analysis (Continued)

(i) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables, trade liabilities and other payables, bank borrowings, obligations under finance leases, 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 liabilities and other payables, obligations under finance leases, 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, other non-current assets, trade liabilities and other payables, obligations under finance leases and inter-company balances denominated in Renminbi at the year end.

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

(v) This is mainly attributable to the exposure on outstanding bank balances, trade and other receivables, other non-current assets, trade liabilities and other payables, obligations under finance leases 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 Pound at the year end.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits, bank borrowings, lease liabilities (see note 31) and convertible bonds (see note 34). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances (see note 28) and bank borrowings (see note 35). 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 LIBOR and HIBOR arising from the Group's variable-rate bank borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at the end of the reporting period. The analyses are prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 5 basis points increase is used for bank deposits and 50 basis points increase and decrease for bank borrowings when reporting interest rate risk internally to key management personnel. If interest rates had been 5 basis points and 50 basis points higher for bank deposits and bank borrowings, respectively, or 50 basis points lower for bank borrowings and all other variables were held constant, post-tax profit for the year ended 31 December 2019 would decrease/increase by HK$12,918,000 (2018: HK$4,379,000) and HK$13,451,000 (2018: HK$4,895,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and certain bank balances.

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk management and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2019 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. The Group does not hold any collateral or other credit enhancement to cover its credit risks associated with its financial assets.

Trade receivables

In order to minimize 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. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed at least once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Collective assessments

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 and 31 December 2018 within lifetime ECL.

Carrying amount

	2019		2018	
Credit rating	**Average loss rate %**	**Trade receivables HK$'000**	Average loss rate %	Trade receivables HK$'000
Strong*	**0.07**	**1,729,157**	0.01	1,768,324
Good	**0.56**	**2,145,204**	0.71	3,102,564
Satisfactory	**1.44**	**55,714**	1.75	159,537
Watch list	**2.25**	**10,473**	2.59	38,744
		3,940,548		5,069,169

* Included notes receivables amounting to HK$778,536,000 (2018: HK$1,250,430,000).

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk management and impairment assessment (Continued)

Individual assessments

As part of the Group's credit risk management, the Group assessed credit risk of its individual customers by reference to external credit rating. The following table provides information about the exposure to credit risk for trade receivables which are assessed individually as at 31 December 2019 and 31 December 2018 within lifetime ECL.

Carrying amount

Credit rating	2019 Average loss rate %	2019 Trade receivables HK$'000	2018 Average loss rate %	2018 Trade receivables HK$'000
Strong	**0.13**	**85,130**	0.14	110,263
Good	**0.79**	**270,451**	0.67	277,449
Satisfactory	**1.84**	**17,356**	1.56	33,104
Watch list	**5.51**	**10,812**	8.79	7,128
		383,749		427,944

Quality classification definitions:

"Strong": The counterparty has low probability of default.

"Good": The counterparty has low default risk.

"Satisfactory": The counterparty has moderate default risk.

"Watch list": Requires varying degrees of special attention and default risk is of greater concern.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

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.

46. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

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.

At 31 December 2019

	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 liabilities and other payables	–	261,092	1,965,851	–	2,226,943	2,226,943
Other non-current liabilities	–	–	–	22,824	22,824	22,824
Lease liabilities/obligations under finance leases	3.572	–	240,390	1,643,883	1,884,273	1,550,802
Bank borrowings	3.612	–	429,539	3,002,012	3,431,551	3,043,482
Gross obligation to acquire non-controlling interests	–	–	–	87,965	87,965	87,965
		261,092	2,635,780	4,756,684	7,653,556	6,932,016
Derivatives — net settlement						
Foreign exchange forward contracts	–	–	9,295	–	9,295	9,295

At 31 December 2018

	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 liabilities and other payables	—	375,261	1,919,903	—	2,295,164	2,295,164
Other non-current liabilities	10.208	—	—	57,362	57,362	52,049
Obligations under finance leases	4.643	—	453	773	1,226	1,146
Bank borrowings	3.321	—	810,683	488,654	1,299,337	1,259,761
Convertible bonds	6.786	—	2,272,500	—	2,272,500	2,236,549
Gross obligation to acquire non-controlling interests	—	—	—	90,179	90,179	90,179
		375,261	5,003,539	636,968	6,015,768	5,934,848
Derivatives — net settlement						
Foreign exchange forward contracts	—	—	32,697	—	32,697	32,697

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

46. 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 2019	Fair value as at 2018	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as derivative instruments on the consolidated statement of financial position *(note 27)*	**Asset — HK$3,482,000 and liability — HK$9,295,000**	Asset — HK$1,852,000 and liability — HK$32,697,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Other investments (classified as equity instruments at FVTOCI) *(note 24)*	**Asset — HK$93,471,000**	Asset — HK$56,355,000	Level 3	Market approach is used by comparing the consideration for share transfer of business ownership interest in similar equity investment interest. Considerations such as time and condition of sale and terms of agreements are analyzed and adjustments are made, where appropriate, to arrive at an estimation of fair value.	The considerations may vary significantly due to difference in timing, condition of sale and terms of agreements, size and nature of similar business to derive the estimated fair value.	The higher the value of similar transactions, the higher the estimation of fair value derived from it, and vice versa.
Contingent considerations for AMICRA Acquisition and NEXX Acquisition *(note 41)*	**Liability — HK$29,489,000**	Liability — HK$53,063,000	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate.	AMICRA and NEXX *(note 41)* would meet the amount of revenue and EBITDA target by reference to the estimated sales performance and profit forecast of AMICRA and NEXX respectively that could achieve.	The higher the amount of revenue and EBITDA, the higher the fair value *(Note)*.

Note: If AMICRA or NEXX met a higher amount of revenue and EBITDA target, this would result in an increase in the fair value of the contingent considerations, and vice versa.

46. 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 (Continued)

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

The investments in unlisted equity securities classified as equity instruments at FVTOCI included in 'Other investments' are subsequently measured at fair value of Level 3 measurement. There was no change in the fair value of such investments and hence no amount is included in other comprehensive income during the year ended 31 December 2018.

Reconciliation of Level 3 fair value measurements

Financial assets (liabilities)

	Other investments — equity instruments at FVTOCI HK$'000	Contingent consideration for AMICRA Acquisition and NEXX Acquisition HK$'000	Total HK$'000
At 1 January 2018	18,502	—	18,502
Purchase	39,224	—	39,224
Arising on acquisitions of subsidiaries	—	(51,617)	(51,617)
Total (losses) gains:			
— in profit or loss	—	(2,220)	(2,220)
— Currency realignment	(1,371)	774	(597)
At 1 January 2019	56,355	(53,063)	3,292
Purchase	28,218	—	28,218
Payment	—	5,328	5,328
Total gains (losses):			
— in profit or loss	—	17,556	17,556
— in other comprehensive income	8,020	—	8,020
— Currency realignment	878	690	1,568
At 31 December 2019	93,471	(29,489)	63,982

The financial assets and liabilities subsequently measured at fair value on Level 3 fair value measurement represent other investments and contingent consideration for acquisitions (see note 41). Of the total gains or losses for the period included in profit or loss, HK$21,621,000 fair value gain (2018: HK$2,220,000 fair value loss) due to adjustment on contingent consideration for acquisitions are included in "other gains and losses".

Included in other comprehensive income is an amount of HK$8,020,000 gain (2018: nil) relating to other investments classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "fair value through other comprehensive income reserve".

46. FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements (Continued)

Financial assets (liabilities) (Continued)

The fair values of the financial assets and liabilities included in the level 2 and level 3 categories above have been determined by market approach or 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.

47. 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$'000	Lease liabilities/ Obligations under finance leases HK$'000	Bank borrowings HK$'000 *(note 35)*	Convertible bonds HK$'000 *(note 34)*	Total HK$'000
At 1 January 2018	—	25,911	11,897	—	117,219	2,121,830	2,276,857
Financing cash flows	(1,051,506)	(305,495)	(27,981)	(264)	1,086,413	(45,000)	(343,833)
Acquisitions of subsidiaries	—	—	—	1,515	63,781	—	65,296
Currency realignment	—	—	—	(105)	(7,652)	—	(7,757)
Finance costs	—	—	29,940	—	—	147,822	177,762
Share repurchased	—	279,584	—	—	—	—	279,584
Dividend declared	1,051,506	—	—	—	—	—	1,051,506
Others	—	—	(1,959)	—	—	—	(1,959)
At 31 December 2018	—	—	11,897	1,146	1,259,761	2,224,652	3,497,456
Adjusted upon application of HKFRS 16	—	—	—	1,653,143	—	—	1,653,143
At 1 January 2019 (restated)	—	—	11,897	1,654,289	1,259,761	2,224,652	5,150,599
Financing cash flows	(1,098,013)	—	(188,898)	(183,581)	1,785,113	(2,250,000)	(1,935,379)
Currency realignment	—	—	—	(21,819)	(1,392)	—	(23,211)
New lease enter/lease modified	—	—	—	106,913	—	—	106,913
Finance costs	—	—	189,774	—	—	25,348	215,122
Dividend declared	1,098,013	—	—	—	—	—	1,098,013
Others	—	—	(12,773)	(5,000)	—	—	(17,773)
At 31 December 2019	—	—	—	1,550,802	3,043,482	—	4,594,284

48. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2019 HK$'000	2018 HK$'000
Short-term benefits	**35,648**	37,224
Post-employment benefits	**1,250**	1,306
Share-based payments	**18,863**	43,804
	55,761	82,334

Certain shares of the Company were issued to key management under the Scheme (see note 37 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 2019 vested within one year. The vesting period for the shares granted during the year ended 31 December 2018 span multiple years with such vesting periods expiring on 14 December 2018 and 16 December 2019, respectively.

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

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2019 and 2018 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	–	100% (2018: 86%) *(Note a)*	Manufacturing of materials
ASM AMICRA Microtechnologies GmbH	Germany	EUR229,771	–	100% *(Note b)*	Trading and manufacture of semiconductor equipment
ASM Assembly Equipment Bangkok Limited	Thailand	Baht7,000,000	–	100%	Marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	MYR10,000	–	100%	Marketing service
ASM Assembly Systems GmbH & Co. KG	Germany	EUR20,200,000	–	100%	Manufacture and sale of surface mount technology equipment and trading of semiconductor equipment

49. 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 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$105,101,731 (2018: S$33,000,001)	100%	—	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 and surface mount technology 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 NEXX, Inc.	United States of America	US$0.0001	—	100% *(Note b)*	Trading and manufacture of semiconductor equipment
ASM Pacific Assembly Products, Inc.	United States of America	US$60,000	—	100%	Trading of semiconductor equipment and materials
ASM Pacific (Holding) Limited	Hong Kong	HK$1,000,000	100%	—	Trading of semiconductor equipment and materials in Taiwan
ASM Pacific (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Trading of semiconductor equipment, surface mount technology equipment and materials in Hong Kong and marketing service in Korea
先進半導體材料(深圳)有限公司 (ASM Materials China Limited)*	PRC	US$47,835,000 (2018: US$86,393,184)	—	100%	Manufacture of semiconductor equipment and materials

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

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Technology 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$114,000,000 (2018: US$108,606,872)	—	100%	Manufacture of semiconductor equipment and surface mount technology equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	MYR281,413,000 (2018: 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
Critical Manufacturing, S.A.	Portugal	EUR496,065	—	77.78% *(Notes b and c)*	Development, marketing and sales of manufacturing execution systems software solutions
進峰貿易(深圳)有限公司 (Edgeward Trading (Shenzhen) Company Limited)*	PRC	US$30,310,000 (2018: 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%	Manufacture of semiconductor equipment and surface mount technology equipment

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

Notes:

(a) On 31 January 2019, the non-controlling shareholder of ASM Advanced Packaging Materials Pte. Ltd. ("AAPM") has transferred all of its share of AAPM to the Group at a consideration of US$739,000 (equivalent to approximately HK$5,801,000). AAPM became a wholly owned subsidiary of the Group effective from 31 January 2019.

(b) These entities have been acquired during the year ended 31 December 2018 through acquisitions (see note 41).

(c) The equity interest in Critical Manufacturing, S.A. held by the Group is 77.92% while the voting power held by the Group is 77.78% as the Group holds 660 non-voting preferred shares issued by Critical Manufacturing, S.A. as at 31 December 2018.

* 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.

50. 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:

	2019 HK$'000	2018 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**4,401,236**	3,581,337
Loans to subsidiaries	**1,179,043**	1,225,608
Right-of-use assets *(Note a)*	**16,698**	—
	5,596,977	4,806,945
Current assets		
Other receivables and prepayments	**6,382**	2,626
Amounts due from subsidiaries	**1,767,026**	2,002,215
Bank balances and cash	**333,741**	575,065
	2,107,149	2,579,906
Current liabilities		
Other payables	**13,522**	62,583
Lease liabilities *(Note a)*	**1,102**	—
Amounts due to subsidiaries	**604,980**	450,190
Loan from a subsidiary	**34,119**	—
Convertible bonds	**—**	2,224,652
Bank borrowings	**—**	708,452
	653,723	3,445,877
Net current assets (liabilities)	**1,453,426**	(865,971)
	7,050,403	3,940,974
Capital and reserves		
Share capital *(note 36)*	**40,889**	40,667
Reserves *(Note b)*	**4,028,801**	3,436,207
	4,069,690	3,476,874
Non-current liabilities		
Lease liabilities *(Note a)*	**16,613**	—
Bank borrowings	**2,964,100**	464,100
	2,980,713	464,100
	7,050,403	3,940,974

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Notes:

(a) The Company has applied HKFRS 16 since 1 January 2019 in accordance with transitional provision stated in note 2. Lease liabilities amounted to HK$18,318,000 were recognized on initial application of HKFRS 16, of which HK$18,000,000 recognized as right-of-use assets for own use.

(b) 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 2018	1,607,620	29,877	–	(198,992)	295	56,143	250,249	621,943	528,175	2,895,310
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,649,099	–	1,649,099
Sub-total	1,607,620	29,877	–	(198,992)	295	56,143	250,249	2,271,042	528,175	4,544,409
Recognition of equity-settled share-based payments	–	289,031	–	–	–	–	–	–	–	289,031
Purchase of shares under the Scheme	–	–	(40,473)	–	–	–	–	–	–	(40,473)
Shares vested under the Scheme	–	(37,150)	40,473	–	–	–	–	(3,323)	–	–
Shares issued under the Scheme	242,745	(242,969)	–	–	–	–	–	–	–	(224)
Shares repurchased and cancelled	(504,022)	–	–	198,992	465	–	–	(465)	–	(305,030)
2017 final dividend paid	–	–	–	–	–	–	–	–	(525,753)	(525,753)
2018 interim dividend paid	–	–	–	–	–	–	–	(523,331)	(2,422)	(525,753)
2018 final dividend proposed	–	–	–	–	–	–	–	(569,340)	569,340	–
At 31 December 2018	1,346,343	38,789	–	–	760	56,143	250,249	1,174,583	569,340	3,436,207
Adjustments due to adopting of new standards	–	–	–	–	–	–	–	(318)	–	(318)
At 1 January 2019 (restated)	1,346,343	38,789	–	–	760	56,143	250,249	1,174,265	569,340	3,435,889
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,529,153	–	1,529,153
Sub-total	1,346,343	38,789	–	–	760	56,143	250,249	2,703,418	569,340	4,965,042
Recognition of equity-settled share-based payments	–	196,039	–	–	–	–	–	–	–	196,039
Purchase of shares under the Scheme	–	–	(34,045)	–	–	–	–	–	–	(34,045)
Shares vested under the Scheme	–	(39,820)	33,913	–	–	–	–	5,907	–	–
Shares issued under the Scheme	194,786	(195,008)	–	–	–	–	–	–	–	(222)
Redemption of convertible bonds	–	–	–	–	–	–	(250,249)	250,249	–	–
2018 final dividend paid	–	–	–	–	–	–	–	–	(569,340)	(569,340)
2019 interim dividend paid	–	–	–	–	–	–	–	(528,673)	–	(528,673)
2019 final dividend proposed	–	–	–	–	–	–	–	(286,227)	286,227	–
At 31 December 2019	1,541,129	–	(132)	–	760	56,143	–	2,144,674	286,227	4,028,801

Five-Year Financial Summary

	For the year ended 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Results					
Revenue	**15,883,042**	19,550,590	17,522,713	14,249,093	12,977,289
Profit before taxation	**975,734**	2,973,156	3,274,280	1,792,949	1,363,376
Income tax expense	**(353,356)**	(761,428)	(478,578)	(354,567)	(410,462)
Profit for the year	**622,378**	2,211,728	2,795,702	1,438,382	952,914
(Profit) loss attributable to non-controlling interests	**(3,129)**	4,334	19,771	25,482	3,277
Profit attributable to owners of the Company	**619,249**	2,216,062	2,815,473	1,463,864	956,191

	At 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Assets and Liabilities					
Non-current assets	**7,464,459**	5,907,439	4,028,660	3,721,076	3,773,749
Current assets	**13,381,128**	15,167,963	14,571,546	11,917,876	10,093,894
Current liabilities	**(4,432,299)**	(7,792,586)	(4,784,132)	(6,237,113)	(3,132,775)
Net current assets	**8,948,829**	7,375,377	9,787,414	5,680,763	6,961,119
Non-current liabilities	**(4,781,596)**	(1,122,161)	(2,438,598)	(375,576)	(2,698,883)
Total equity	**11,631,692**	12,160,655	11,377,476	9,026,263	8,035,985
Non-controlling interests	**(3,376)**	6,893	149	(4,056)	(29,466)
Equity attributable to owners of the Company	**11,628,316**	12,167,548	11,377,625	9,022,207	8,006,519

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